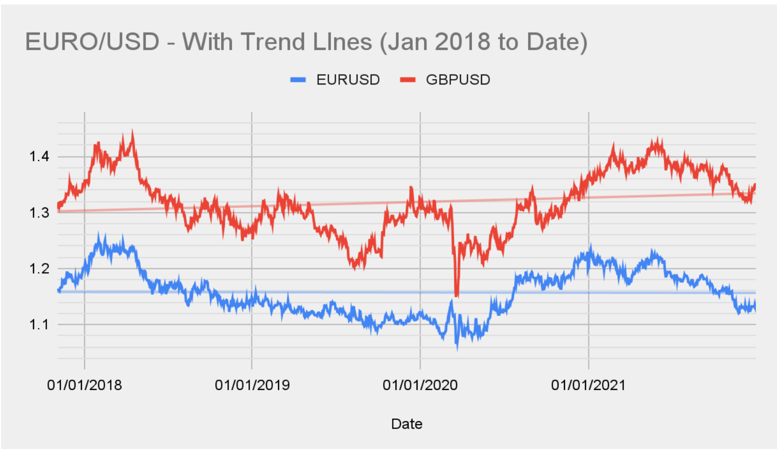
ORTEGA **The Market Wrap** **December 2021**

Introduction - Welcome to our Q4 021 issue of our quarterly summary of the market. We shall give you the price action across asset classes and offer our insights and opinions. We hope these will aid your understanding of markets and the complex system that is the global economy. We shall generally use ETFs in our market appraisals as these are easily accessible and liquid entities that are now in very common use and reflect most facets of the markets. We hope you enjoy and if you have any questions please visit our website: www.toiip.com or contact us at: info@toiip.com - Thank You and enjoy !

Currency

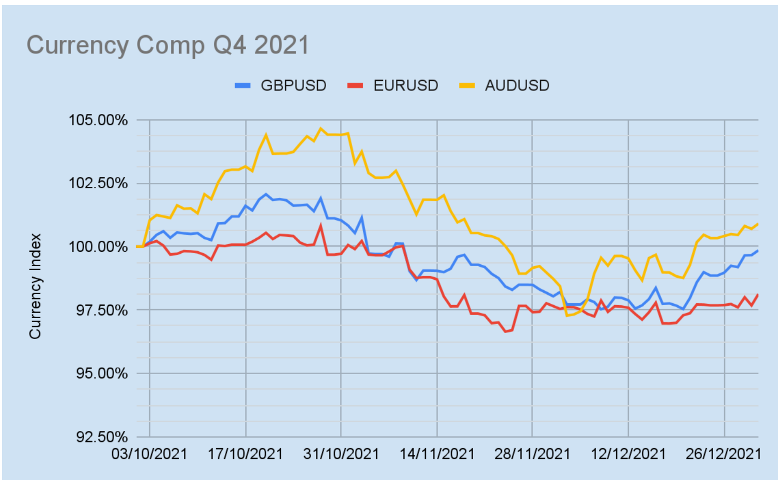
We have seen the USD continue to remain strong against other currencies, as the FED looks to taper and potentially go into a rate tightening cycle while other central banks are further from taking this action. Towards the end of the quarter we have seen the USD via the DXY weaken somewhat and move down to 95.5 level. This may just be an end of year move , we shall need to watch what happens moving into the new year.

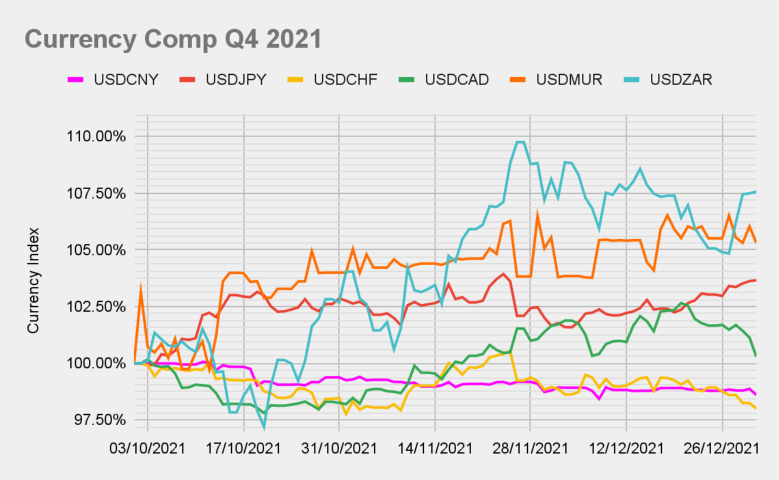
The USD will govern many things this year and further strengthening will be a headwind for equity markets, however at the moment long term US rates are remaining muted and not buying into the inflation narrative, and this may put a ceiling on further USD strength.



The Euro and the GBP have weakened and moved down to their trend line and in the case of the Euro moved through it.Most currencies have been printed in a plentiful supply recently and therefore strength or weakness is very much a relative concept. Against hard assets they have all depreciated , hence the current inflation. Whether this will continue will depend on the politics of the situation moving forward and the appetite of people to accept the proposed political solutions. Inflation will be defining in this facet we feel.

Over the quarter against these currencies only the AUD appreciated against the USD even though the Bank of England started to raise rates only slightly but are further on that path than many of the developed countries. In October as the USD weakened slightly against these currencies we saw the US equity markets rise, we shall need to see further USD weakness to see US equities freely move higher although we can equities rise in a rising USD environment as capital flows into the US as the alternatives may not look that appealing in comparative terms.

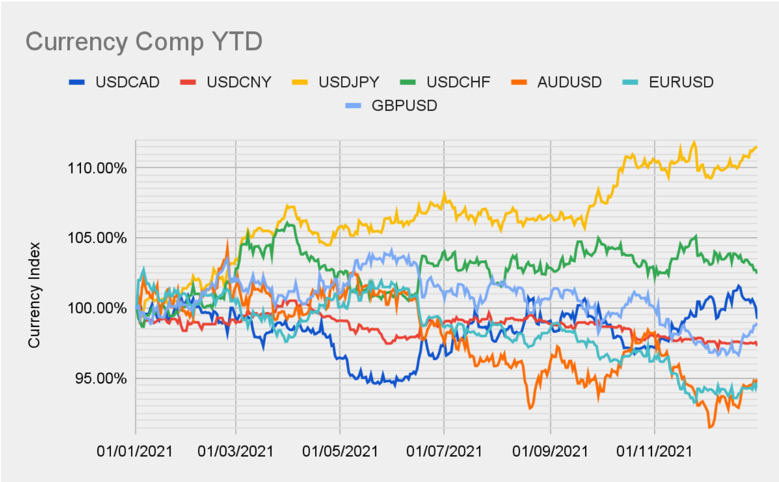


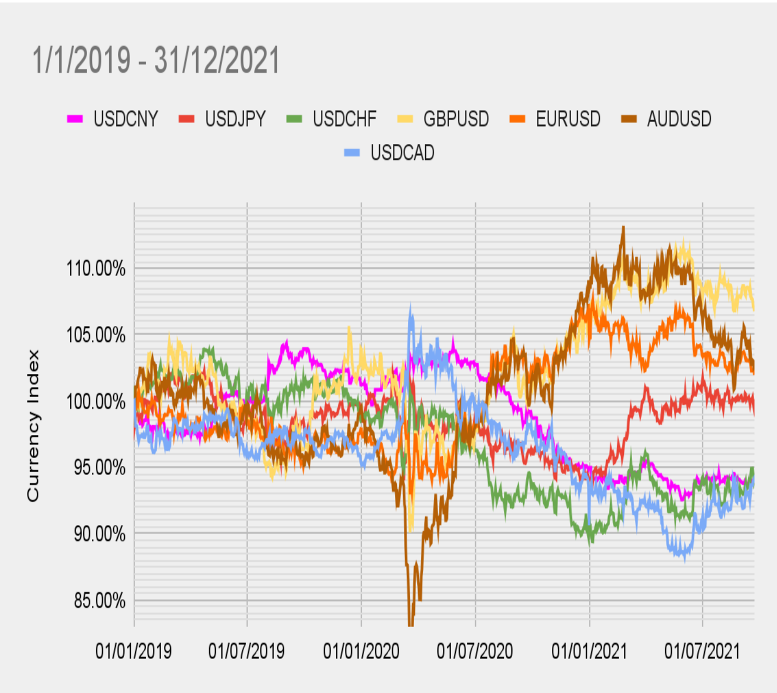


The CHF and the Chinese Yuan have remained strong against the USD this quarter and even slightly appreciated. The South African Rand has been the worst performer falling almost 7% this quarter as they continue to struggle with their on going issues.

We have generally seen the other currencies here depreciate against the USD, this we believe is symbolic of a continuing USD shortage in the Eurodollar markets and this will restrict global growth moving forward. This should play out in the latter half of 2022.

Over the course of this year we have seen the USD strengthening in a general trend with the exception to this being the Chinese Yuan as their response to the global pandemic has certainly not been as expansionary as the other major developed nations. The Yen has been the weakest against the USD this year which has been quite a surprise to the majority of the market which at the beginning of the year held the view that the USD would weaken. As supply chain issues persist we still see a global USD shartiage persisting and this shall be a headwind to continued growth.

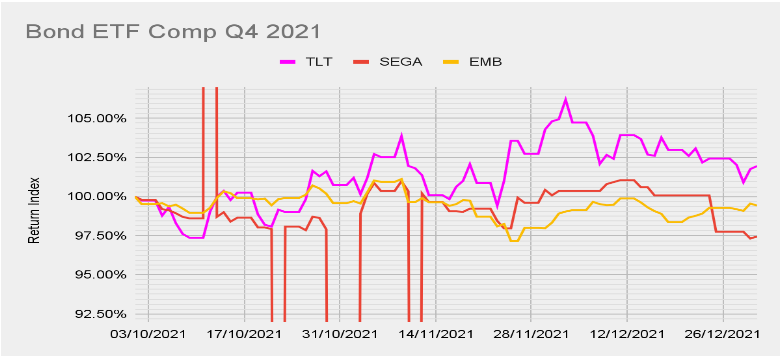




Over the last 4 years we can see here that the Euro, GBP and the AUD have appreciated against the USD over this timeframe as have the CHF,CNY and CAD. The JPY has remained fairly constant over this period. Since the pandemic we have seen the USD continue this trend and then in 2021 turn around and start to strengthen. We feel this represents a continued global demand for USD and the struggle many countries face in fuelling this demand. Some have reduced their treasury holdings to feed this need. If we are to see a recovery then this should slowly ease, however if the global economy struggles to recover further we can see this persist and perhaps worsen. Time will tell but we need to keep an eye on the global Eurodollar markets for information about what is happening in the real world economy.

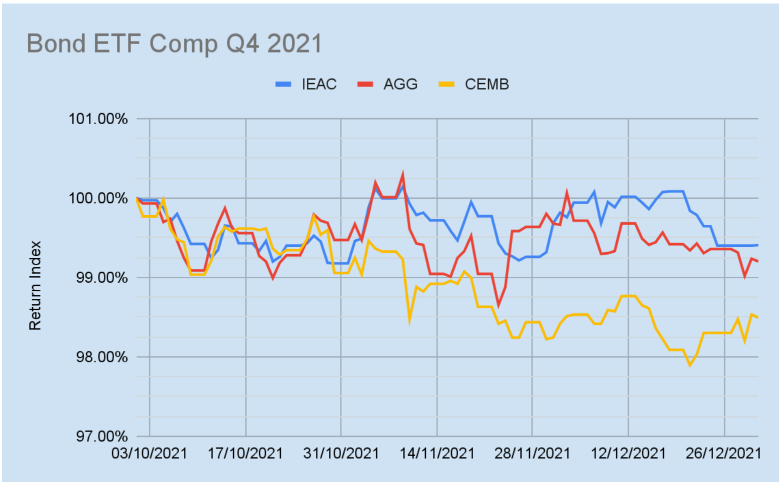
Fixed Income / Bonds

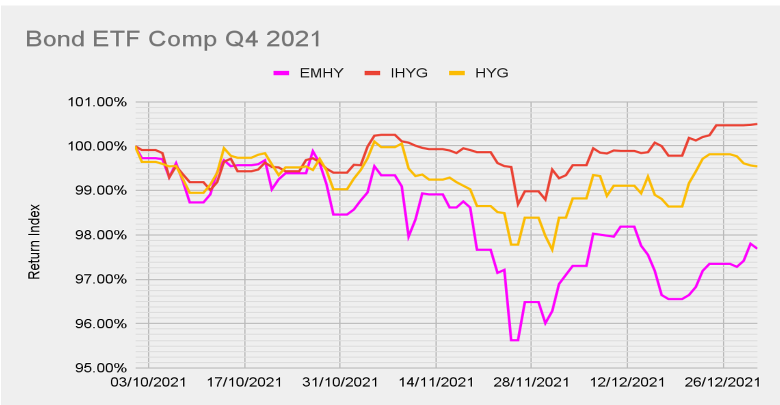
Overall this quarter we have seen muted action in the bond markets, with the exception of Emerging Market High Yield bonds mainly due to the issues in the Chinese property markets. We have started to see some countries around the world begin to raise rates as they become concerned about inflation. There are many countries that are also starting to reign in their fiscal spending thus curtailing the amount of government debt being issued. US long rates will need to be watched carefully moving forward.



Over the course of this quarter we have seen some fluctuations but in absolute terms there has not been much change in the level of rates over the quarter. US long rates have edged up slightly over the quarter but not as much as many market participants would have thought with inflation seemingly running away in the US. That rates have not risen as much as many expected may not bode well for growth.

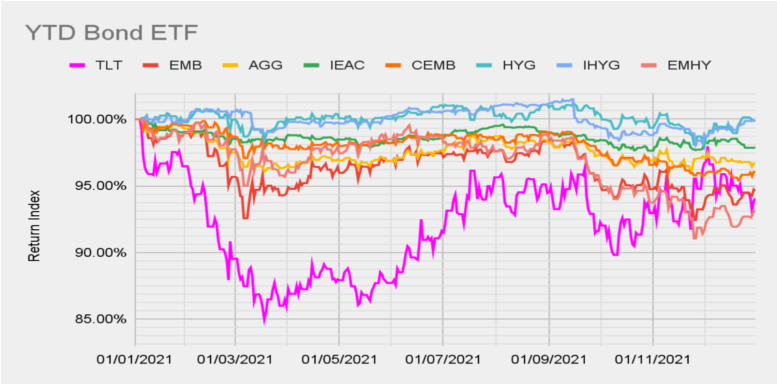
Corporate bonds also have had a very muted quarter, with developed market bonds seeing a very small depreciation. Emerging market corporate bonds have seen a larger depreciation in line with the issues in the Chines property markets and the concerns that these issues are raising. We see these issues in China continuing and are cautious about how this may affect the rest of markets as we consider this to be quite a major issue. Corporate debt levels are extremely high and although not an immediate issue should be born in mind as the economy slows.





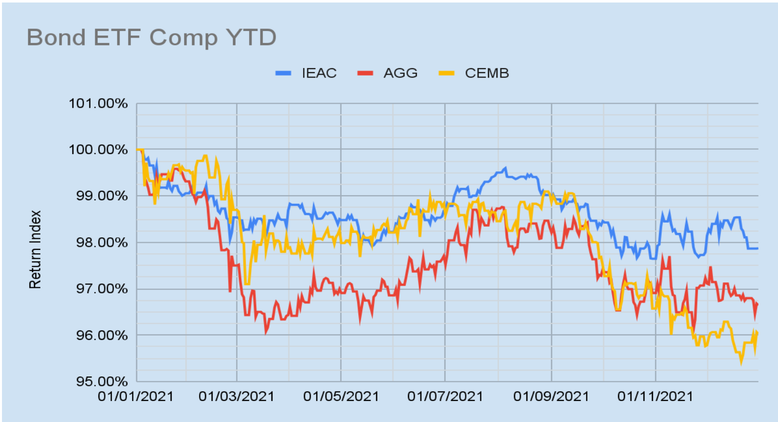
In the high yield markets this quarter we saw the Emerging Markets high yield suffer in comparison to other markets as the Chinese property markets started to exhibit some issues which we feel will continue for sometime to come. European high yield was the best performer but even its growth was very stunted this quarter. We feel the risk to reward in this sector are not very attractive at present and would avoid this sector for the time being. Global rates are likely to rise in the near term.

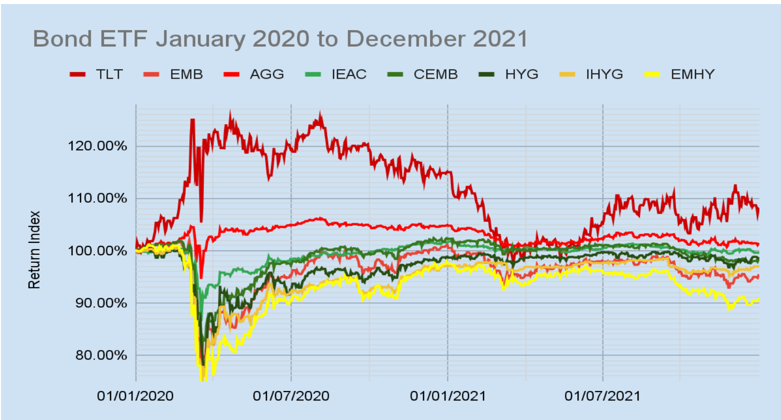
Apologies for glitches in SEGA etf, due to data feed issues, we shall omit this from the following graphs



Over the course of the year we saw ost bond prices remain fairly constant , if all slightly to the downside, with the exception of the TLT which saw a big dip in prices as yields spiked at the beginning of the year and slowly spent the rest of the year with yields coming back down. We expect yields to spike again at the beginning of the year but do see them coming down again in the latter part of the year as it becomes clear the FED has misjudged matters.

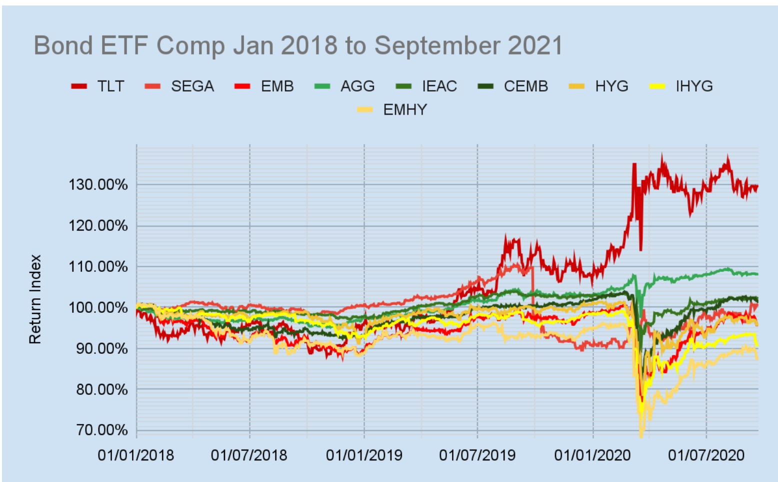
Taking a closer look at the corporate bond market over the duration of last year we see how prices were fairly steady in comparison to Government bonds but with a general downtrend in place. The european corporate sector was the best performer, but still saw a drawdown on the year. Emerging markets were the worst with the problems in the Chinese property markets having an influence on the slice of the bond market. We see further small falls to come and would not be overweight here.





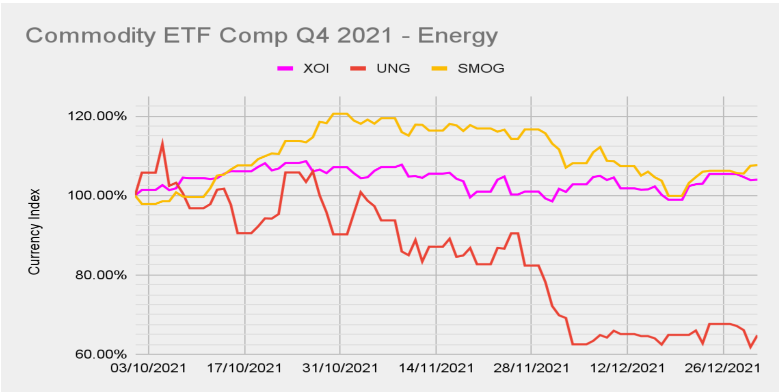
Over the last 2 years it is still very clear where markets deem safety to be, that is the US Government bond market. Although we see rates rising in the US this year and thus TLT prices falling , it is very much a case of how high can rates rise before they cause an issue in markets. We believe that this is far lower than most of the market believe. We shall watch markets carefully but would look to start adding to long duration US government bond holding around the middle of the year, perhaps before.

On an even longer look back we can still see the outperformance of the TLT especially since the middle of 2019 when the global economy started to show signs of slowing and having issues. The rest of the bond markets have not really delivered any return over this time frame with most showing a small drawdown over this period. Again the amount of debt issued over the last 2 years is quite staggering and this shall have an influence on how high rates can rise to in the future. We as stated believe that this is far lower than most think.



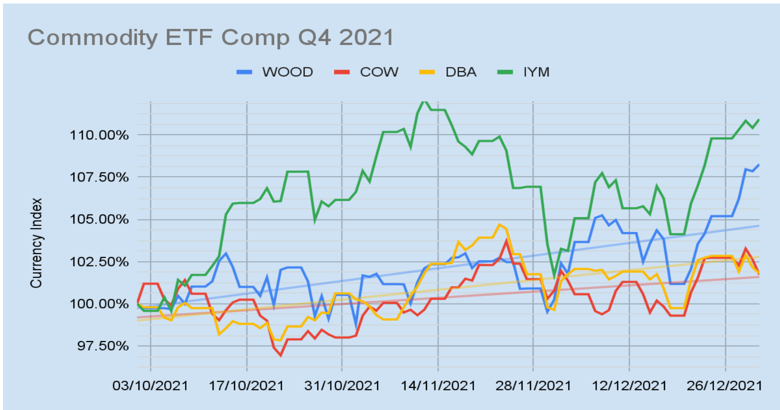
Commodities

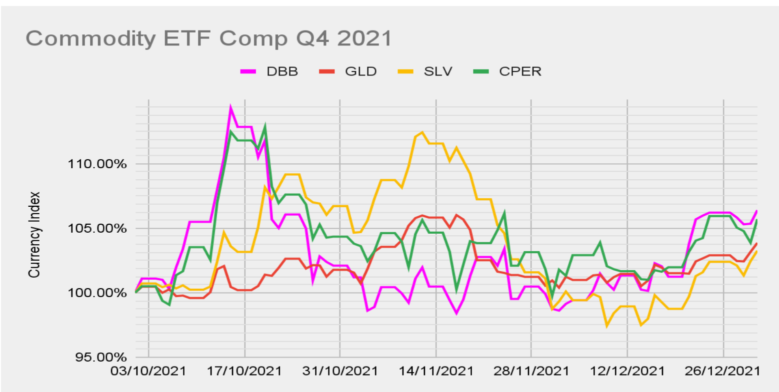
Commodities are the hard assets of the economy, the physical substances that we need to live, build and grow the economy. They are an alternative asset class that have a place in most portfolios and can be a great source of outperformance. With the advent of the new greener economy and the need to preserve our environment we see that there will be fluctuations in this asset class and we can use that to our advantage.



This quarter we saw XOI and SMOG performing well with the latter peaking earlier in the quarter and UNG was very much lagging here, Although gas prices in Europe have exploded this quarter this is more to do with localised supply issues and these will be arbitraged away in the near future as US gas suppliers will take advantage of this price spike. There are longer term issues that Europe needs to sort out with Russia.

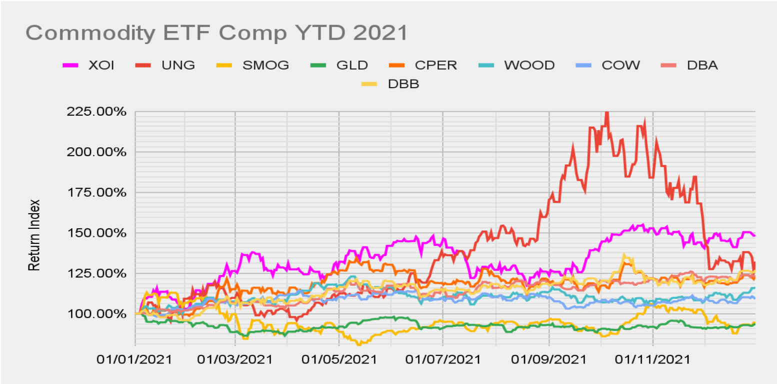
This group of commodity ETFs also saw price appreciation over the quarter. Basic materials lead the way over the quarter with wood following closely. The transitory argument for inflation with respect to wood in th US has now certainly been put to bed. There are big rises in fertilizers occurring and this will have a lasting impact on basic food costs for the foreseeable future. Inflation will place pressure n incumbent governments and we believe this will induce political change.





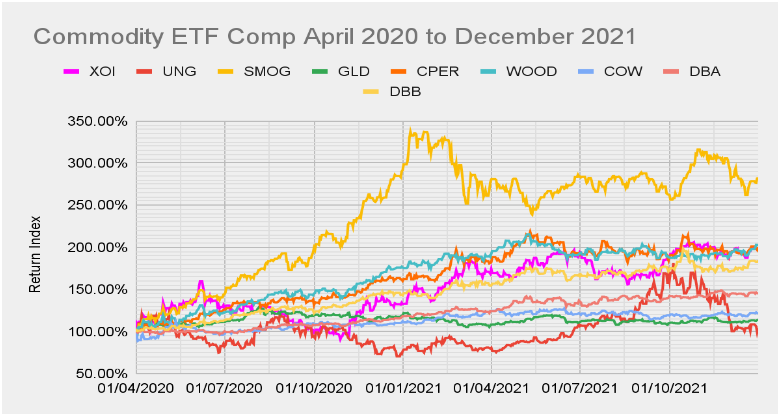
Metals both industrial and precious have been stunted over the course of this quarter but are starting to move up again. Gold faces headwinds from the US rates looking to rise into the new year but we feel that on pullbacks this could represent a good buying opportunity. The same could be said for silver and in the long run silver may have the ability to outperform gold to the upside. Inflation shall be persistent for a while and probably settle at a higher rate.

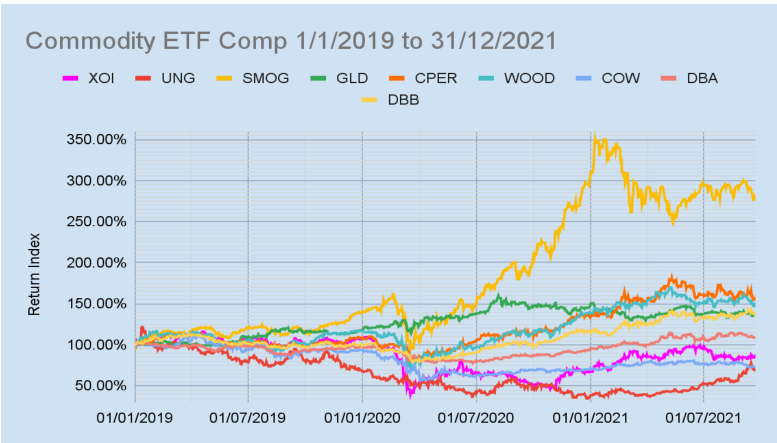
Growth needs the availability of cheap and abundant energy sources, the ESG push at the moment is not at present aiding this requirement. We feel the is further upside in oil prices and energy stocks.



Over the year we can see that SMOG: low carbon and gold have not performed well. SMOG had a great performance out of the pandemic as the narrative was bought into by the markets but this has now flattened and we think could struggle moving forward as the reality of the energy transition hits home for governments and investors. Generally we have seen an uptrend as the inflation situation continues and feel this shall persist for a while longer.

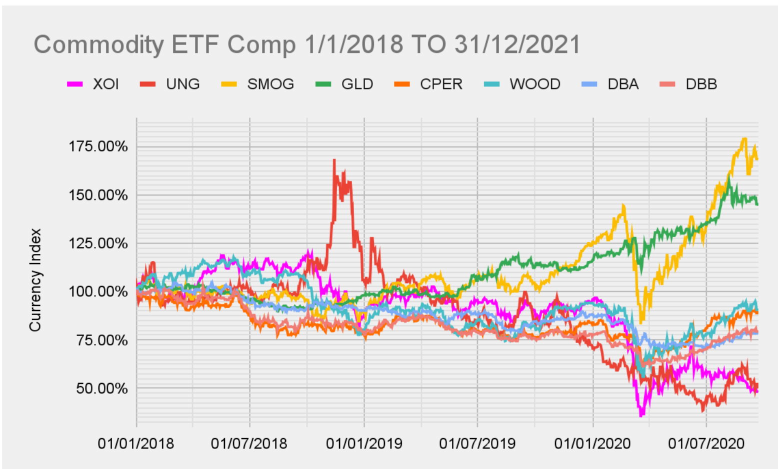
Since the pandemic we can see how the SMOG ETF has had quite a remarkable performance as investors piled into the green narrative.Since about arch this year this has clearly slowed down and levelled out. Most have slowly risen since the start of this period and generally we see this continuing for a while as the money supply expansion reflects in the price of goods. Central banks around the world are now concerned with the inflation issue and many are starting to take action.





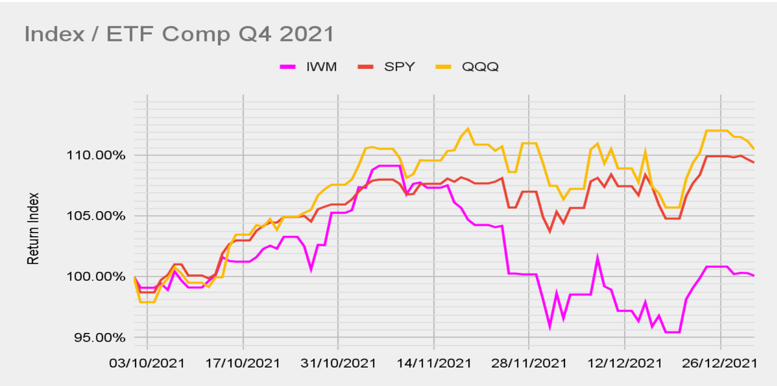
Taking a longer look back to before the pandemic, we can see that over this period performance is less profound and a lot more mixed. SMOG still has very exaggerated outperformance even over this longer time frame. Most prices have risen steepest since the pandemic, which makes sense, but still leaves the question as to whether this is demand led or supply caused, still unanswered. We feel it is a mix of both: the supply constraints will slowly dissipate, and the fiscal and monetary demand are also ceasing. Prices from here ???

Over this longer timeframe Gold has performed better in relation to other commodities. Although there is inflation at present we question as to how long lasting this will be. All the problems that existed before the pandemic are still present. These ETFs are not truly representative of the underlying assets and therefore this should be borne in mind when investing in them as they can vary from the underlying by a fair degree over time. A purer play is the actual commodities via futures. The central banks will need to fight inflation and this is, we feel a policy error. Lighten exposure and hedge equities.



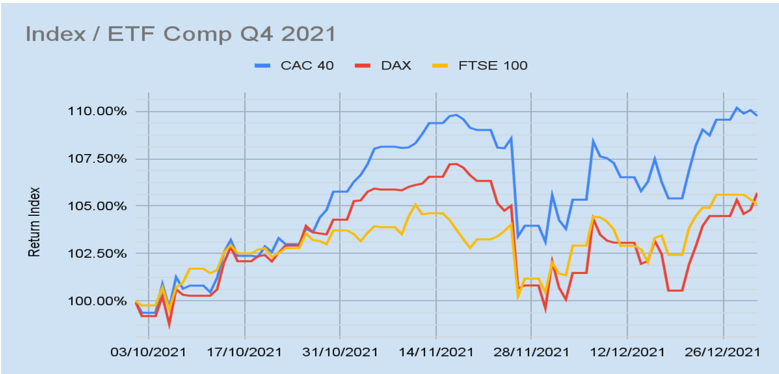
Stock Indexes

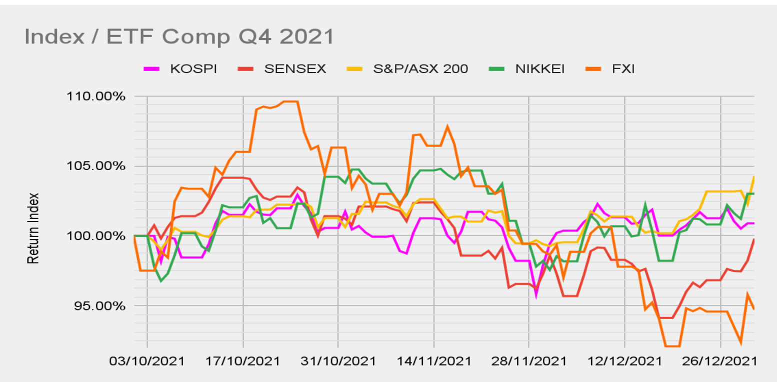
These are the local indexes of varying countries reflecting the value of the companies quoted on them, importantly in their local currency. We must always bear in mind the Index performance and the currency performance against other localities. Investing is a relative game and we like to show comparative charts to identify this and point out the opportunity cost of choosing one investment above another. For risk aspects we prefer developed markets, and prefer to enter smaller markets via investment vehicles that are located in developed markets. Liquidity can be an issue.



In Q4 2021 we saw the US indexes move in unison until the beginning of November then the IWM pulled back a bit and the others basically went sideways. The FED has now shown their hand and we would see further pullbacks to come as we see rates rise. Earnings season and guidance will be important in January. The main question is how far can rates rise before something snaps. In modern markets liquidity is ethereal, due to passive investing…beware!

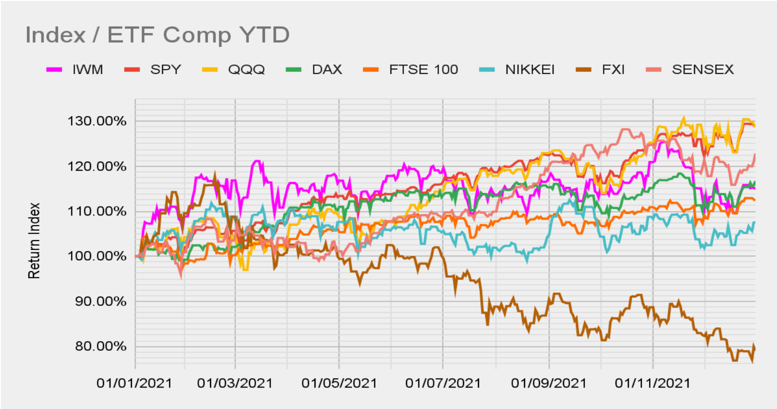
European markets also saw further rises, but again topped out around the beginning/middle of November and since have been sideways again. As mentioned before the stealth way to reduce the debt burden is inflation and the ECB seems less willing to fight inflation at the moment so the is an argument that European equities could be stronger than US in the short term as the US moves to taper and raise rates.





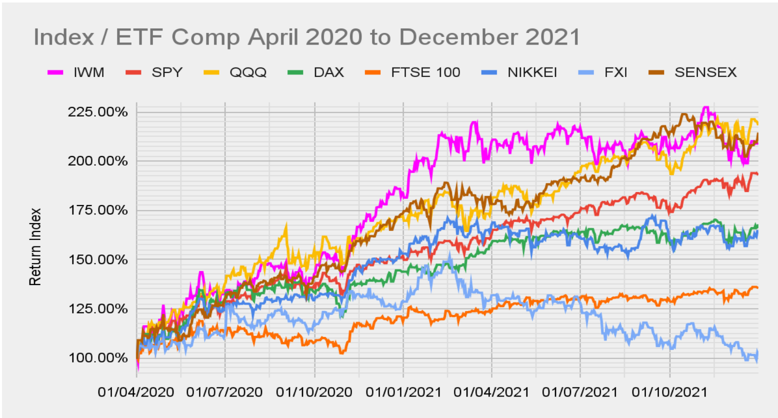
Other global markets have generally been weaker over the quarter than European and US markets, but have started to show a bit more strength towards the end of the year, Many reasons for this, tax loss selling, rotation etc. We do not favour Emerging markets going into 2022 but there could be some pockets of strength. We are looking closely at Russia, as they are very rich in natural resources.

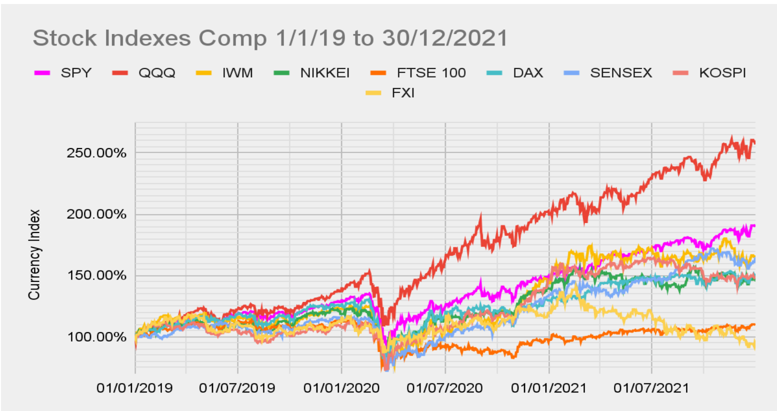
Let us now take a bigger picture look at what has transpired over recent history and also the last few years to gain some perspective.



This year has seen the Chinese markets takes fairly hefty drawdown as they are battling some serious headwinds and these will be a challenge to them for the foreseeable future. US markets once again lead the way, helped by the huge stimulus both fiscal and monetary given to the economy over the last 2 years. This now seems to have come to an end, and this could see some of these gains being reversed as the hot air comes out of the markets.

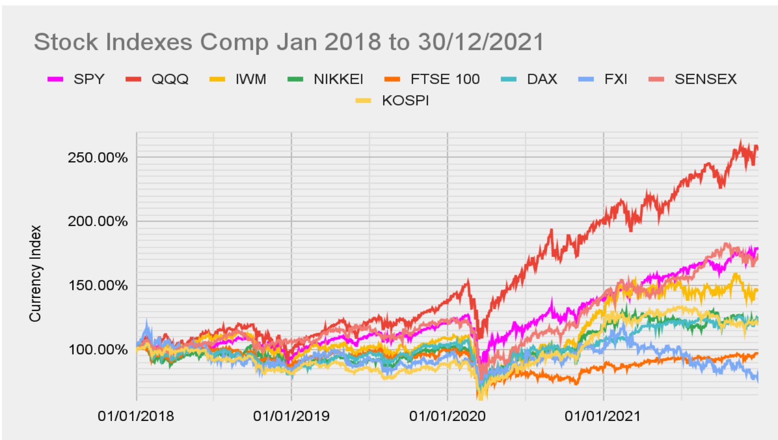
Since the beginning of the pandemic the US markets have led the way, along with the Indian market that has performed equally well over this timeframe. China is still bringing up the rear, although this is mainly due to the performance this year. The UK is also a laggard here and still faces issues moving forward, especially challenges from Brexit and how to transition the economy away from Europe. This is no small challenge and will take a lot of time, they do need to redress their relationship with Eur.



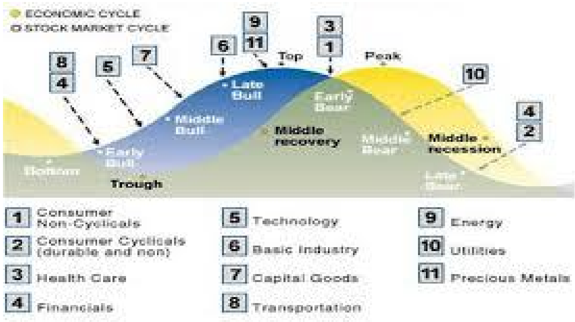


Over the course of the last 3 years we can still clearly see that the US tech sector is by far the best performer, and by quite some margin. The UK markets are bringing up the rear which is a reflection of the varying headwinds that they have created for themselves and will probably hinder their progress moving into the future, although there is some value to be found in those markets just not in the index. The rest of the indexes are clumped into a group with no particular stand outs.

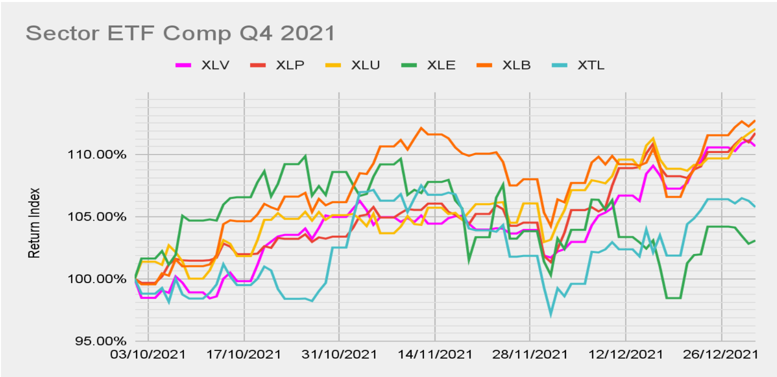
Over a longer period we see that the trends have remained intact, but have become more exaggerated than before the pandemic. This can be both investor preference and also the nature of passive index investing which will have an effect. India has been the best country performer behind the US. The country has good demographics and we feel it is a good long term play. Probably better than China as we start to see the bifurcation of Chinese markets from others.



Sectors

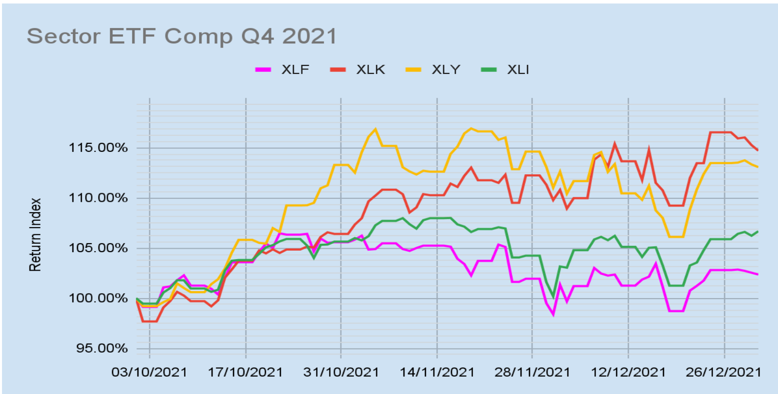


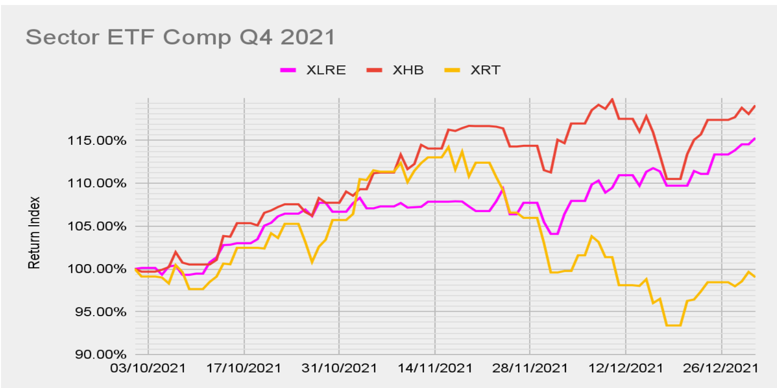
We use sectors to place stocks and other investments into categories such as technology, healthcare, energy, utilities and telecommunications. The different sectors have diverse risk profiles and perform at varying degrees throughout the business cycle. Here we shall contrast and compare the performance of the different sectors over time to help our understanding of their relative virtues with the target of augmenting our investment returns over time. We generally use US markets as these are the largest and most liquid.



In Q4 of 2021 we saw the top performers as Healthcare, Consumer staples, Utilities and Materials. Energy and communications were the laggards in this quarter but still delivered a positive return. The market started to book profits and lessen their exposure going into the end of the year. Inflation is still high but may be peaking out, but the Fed has still decided to act, if somewhat belatedly. Energy we feel will be a good performer moving forward into next year.

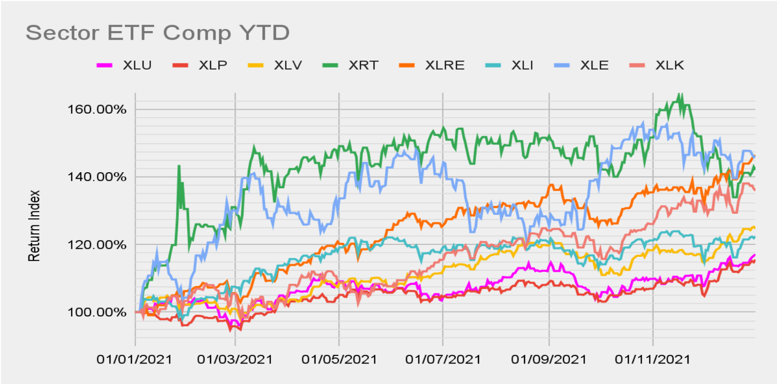
Financials were the laggard here as we saw no real upwards movement in rates over the quarter. Consumer discretionary and technology led the way this quarter with strong gains. Industrials had a steady month and should continue to perform reasonably well with inflation elevated. Once rates start to rise we shall see technology come under pressure, and the Fed are hinting this will happen earlier than most thought. They are behind the curve and looking to catch up.





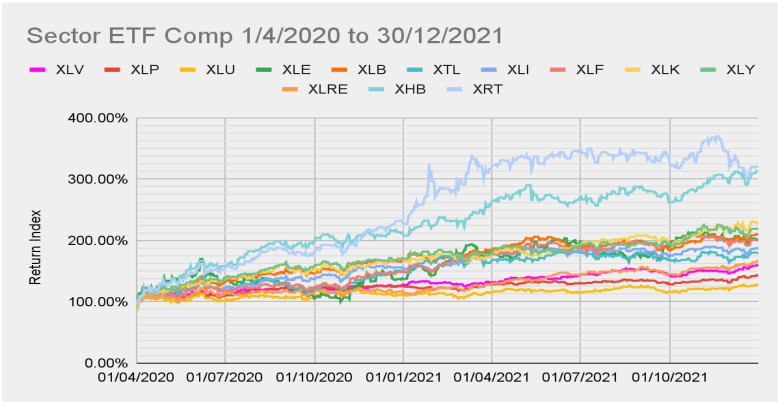
Retail was the trailing performer this quarter and was basically flat on the quarter. Home Builders and Real Estate had strong performances this quarter, however with rates looking to rise in the near future this could be a last hooray before we see some drawdowns in these sectors. There is still a housing shortage in the US but it is not very profitable for builders to construct small family homes due to regulations etc. So this shortage may persist for some time.

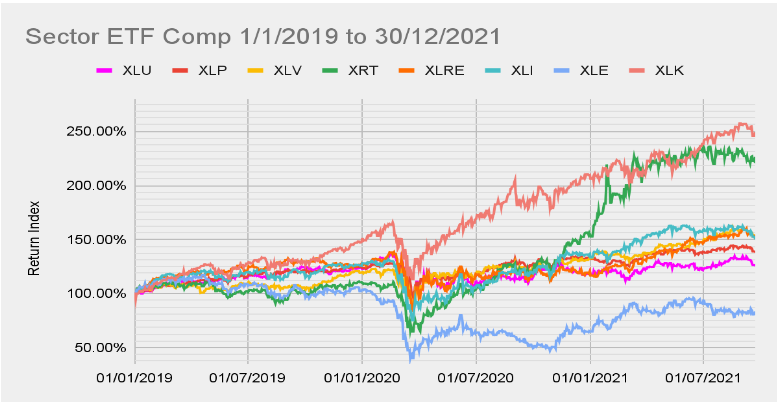
Let’s now take a look back over the pandemic period and before to get further perspective on the markets and where we may go from here.



Over the course of last year all sectors are positive with Retail, Real Estate, Energy Industrials and technology leading the way. The more defensive sectors of Utilities and consumer staples bringing up the rear. Generally it has been a risk on year with continued stimulus aiding the march upwards. As we move into 2022 and we see conditions tighten this will change and look for a more risk off environment to prevail during the course of this year.

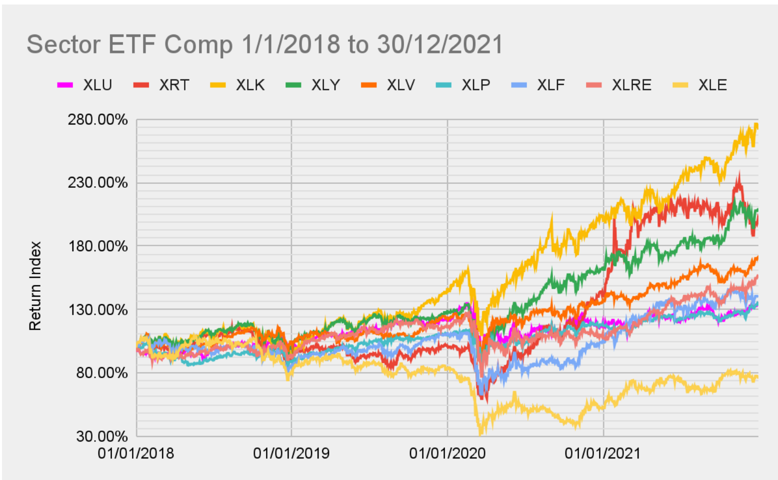
Since April of 2020 retail and homebuilders have been the sectors that have had a huge outperformance in comparison to the other sectors. As we see rates rise this year and inflation persist these 2 sectors can see a reversion back down as conditions will not be that favourable. Lots will depend on the economy and its ability to cope with rising rates, Risk assets will be vulnerable as rates rise, but if the private sector credit creation picks up it could be time to BTD.





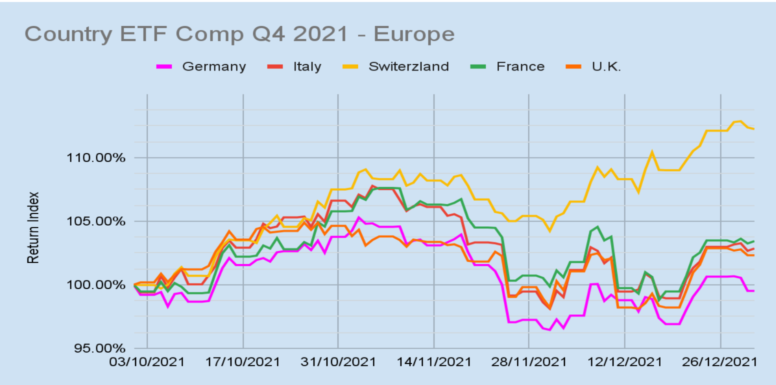
Technology and Retail are the top performers over this timeframe, with retail being the best performer since the pandemic. The stimulus both fiscal and monetary have greatly aided this risk asset performance and now that this has stopped we should see some air come out of equities as valuations look to retreat and consumer demand comes under some pressure and so do margins for companies. Energy still has good free cashflow.

Over a even longer look back we can see how Technology and Energy are at different ends of the performance spectrum. As climate change is to the forefront and the world looks to find solutions to energy needs that are ever increasing but not carbon based, We should see energy sector improve this performance whether from government support for greener solutions or from rising prices as investment into traditional carbon energy solutions becomes less freely available. The renewable energy revolution will initially spike energy prices and this may last for a while.



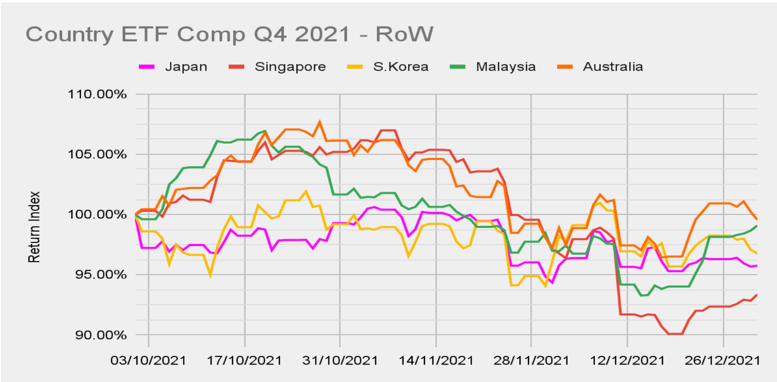
Geographic

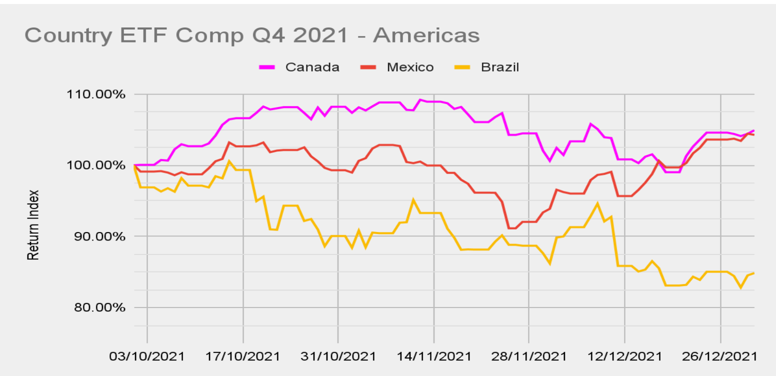
Certain countries or regions around the world will be experiencing different economic circumstances at any given time, usually. Therefore it is important to access these differences and utilise them in order to create greater returns on your capital. In this section we shall look at a range of ETFs, all quoted in USD covering varying countries around the world and look to analyse their differing performances and where they are in the economic cycle so that we may look to add value to our investment decisions



Q4 of 2021 in Europe saw a generally muted performance with the exception of Switzerland, which has constantly been a strong performer. The ECB continues to offer support to markets and there was not as much fiscal stimulus given by governments as in the US. They are also very reliant on China which at present is experiencing some headwinds and are trying to increase the credit impulse as their property woos continue.

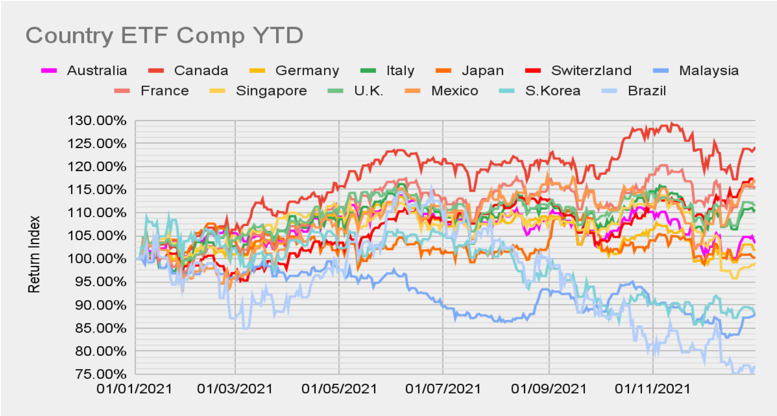
Around the rest of the world over the 4th quarter performance was again very muted and generally slightly down, as Omicron threatened the recovery mainly due to its transmissibility and requirements to self isolate by governments. Hopefully Omicron will herald in the endemic phase of this virus and therefore create conditions where some kind of return to normality can take place. Inflation is still an issue around the world but not to the extent in the US, at present.





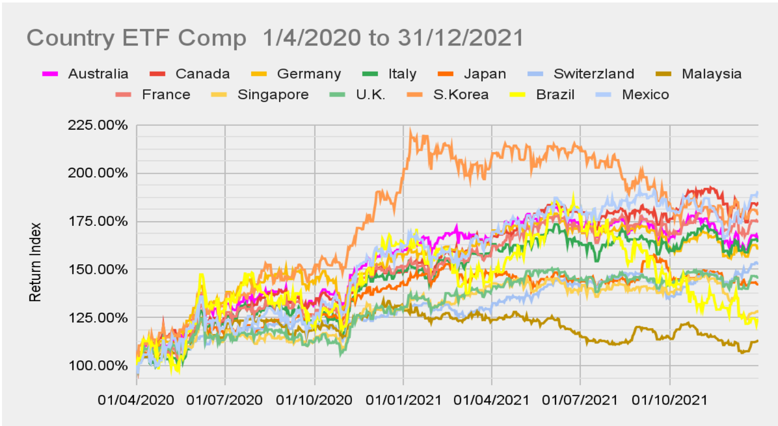
Brazil is still lagging its neighbours in the last quarter of 2021, but potentially could see a good or better performance this year as the virus becomes endemic and some form of normalcy returns this year. Mexico and Canada saw mild growth in their ETFs. Again Inflation is an issue and we are seeing rate rises starting to happen around the world as governments look to try and fight this issue. Growth is the main issue to watch around the world.

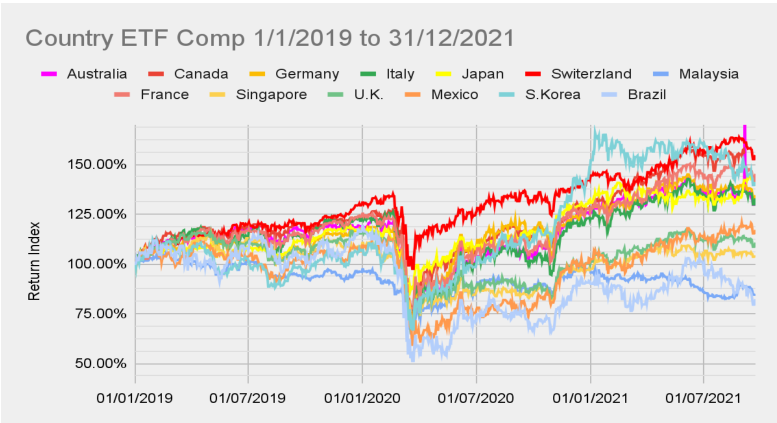
Let's step back and take a bigger picture look at the performance of the various regions leading up to and after the start of the pandemic, to see if we can gain some insight as to the possible trends moving forward.



Over the course of 2021 the laggards have been Brazil, Malaysia and quite surprising South Korea. Leading the way were Canada,Switzerland and France. For 2022 we would look to Brazil as a speculative bet to have a good performance, as in relative terms it is very cheap at present and think it warrants a small allocation this year. The UK still has many headwinds and the outlook for their economy is not that rosy in the near term.

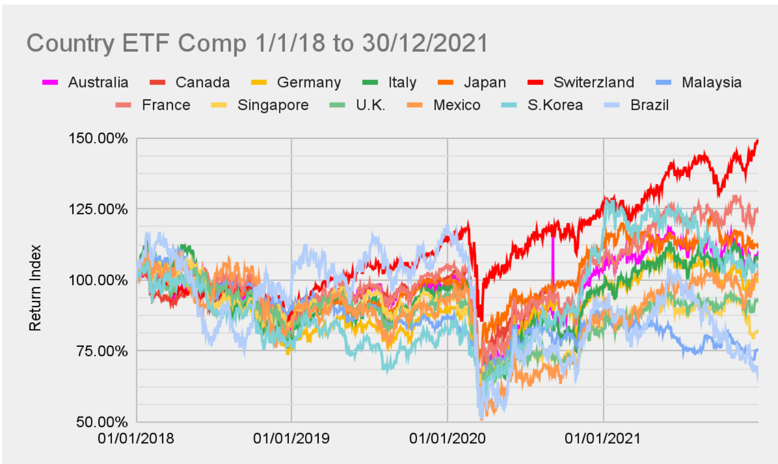
Since the pandemic all listed ETFs have seen appreciation, initially the french ETF was the best performer but has since seen some pullback throughout the course of 2021. Malaysia and Brazil have been the worst reformers over this timeframe, but we think that Brazil now represents a good source of alpha moving forward. The financial markets or the products in the have become detached further from real economic performance and in the future this disparity probably will be redressed.





Over this timeframe we can see that Switzerland has been a consistently strong performer and that South Korea was faring well until the start of 2021 since when it has gone sideways and started to fall. This is important as it is often a leading indicator for the global economy. Inflation is now the main concern globally and shall see interest rising around the world, how will growth hold up in this climate? We believe that it shall not hold up, as we see the US yield curve flattening.

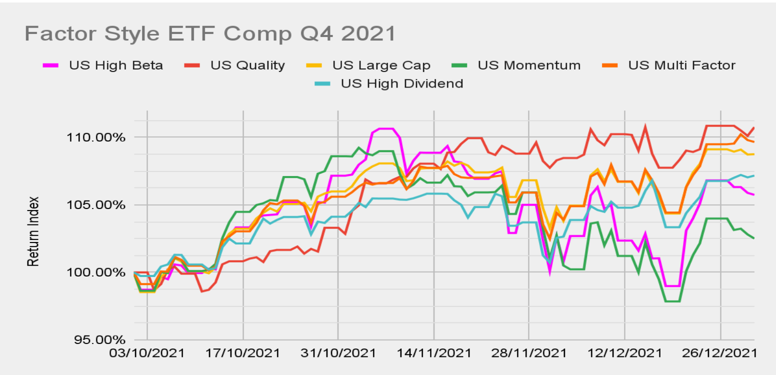
Over an even longer timeframe look back we still see that Switzerland has maintained its strength and reinforces the concept of a safe haven and quality. We do still like Brazil for some outperformance in 2022. But moving forward equities face stronger headwinds as rates around the world start to rise, and we see demand slowing through inflation and the lapsing of the fiscal stimulus. How far we see equities retrace will depend on central bank appetite to see falling asset values, where will the central bank put be? We wait to see.



RTEGA **The Market Wrap** **December 2021**

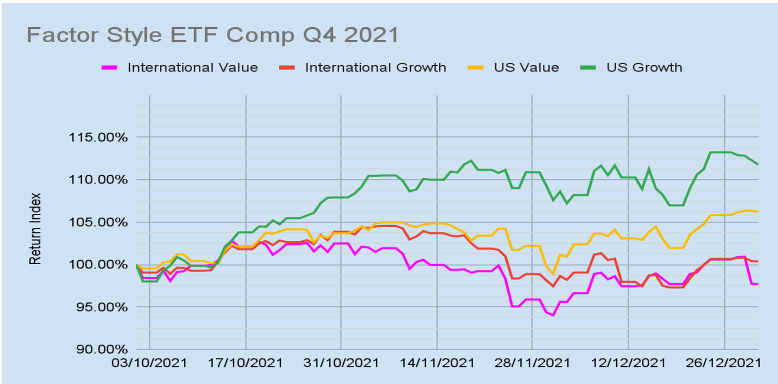
Factor Styles

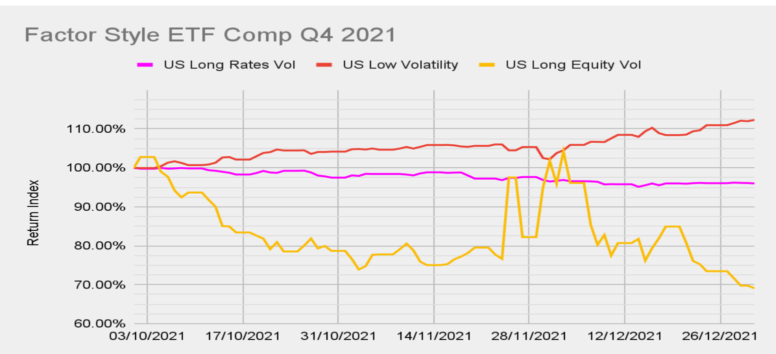
Factor investing is a strategy that chooses securities on attributes that are associated with higher returns. There are two main types of factors that have driven returns of stocks, bonds, and other factors: macroeconomic factors and style factors. The former captures broad risks across asset classes while the latter aims to explain returns and risks within asset classes. Macroeconomic factors include: the rate of inflation; GDP growth; and the unemployment rate. Microeconomic factors include: a company's credit; its share liquidity; and stock price volatility. Style factors encompass growth versus value stocks; market capitalization; and industry sector.



In the last quarter of 2021 we can see that quality and large cap started to rise to the top of the performance comparisons. High Beta was leading the wary until early November when it topped out, signifying the market becoming more defensive as we went into year end. Both High Beta and momentum tailed off and ended up being the worst performers of this group for the quarter. This probably also reflects the market booking profits for year end.

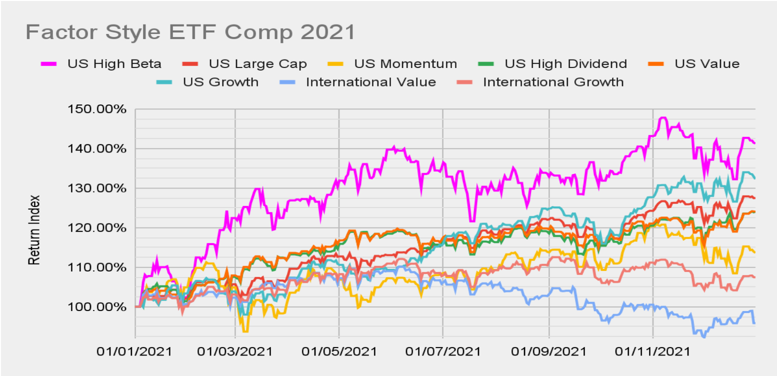
Here we still see that the US markets , both Growth and re outperforming their counterparts. Growth was the top performer again, but this is likely to change in the near future as we head into a FED tightening cycle which will be a headwind to growth stocks. Valuations are still extended in the US more so than in other parts of the world and this may proffer a case for international value allocation moving forward from here in a tightening cycle.





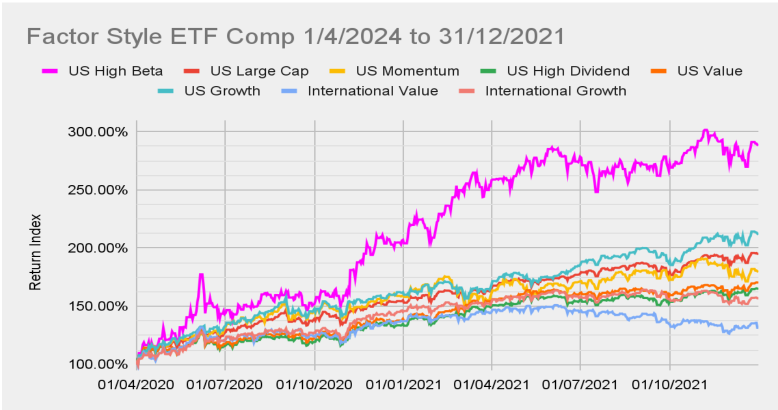
US low volatility has been the best performer here despite some spikes in equity volatility. This bears out our warning before, to tightening exposures and taking down beta of portfolios going into year end. Rates volatility has been on a steady downtrend in performance terms this quarter. We shall look to add duration to our fixed income allocation in the near future and the short end of the curve is rising quite quickly at present, may be overdone.

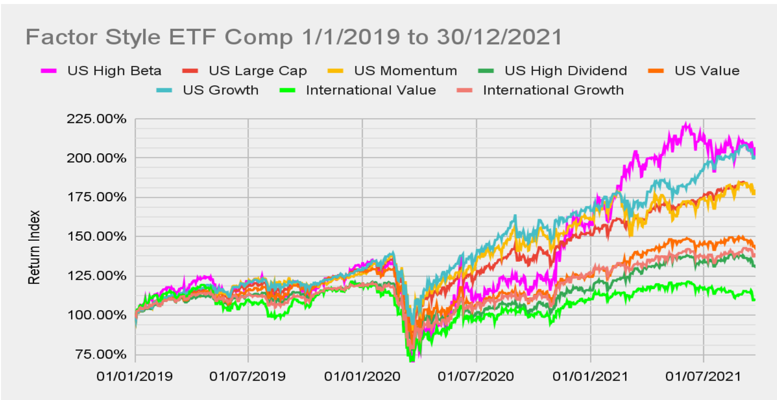
Let us now take a look over the longer time frames and see how we can look to utilise volatility as a hedge. Fundamentally there are just 2 asset classes, short volatility and long volatility.



Over the course of 2021 US high beta was the best performer , however it topped out in early November, and since has struggled to recover those highs. In fact all are looking to rollover at the end of the year with only US value on an uptick at the end of the year. The global tightening cycle of 2022 will be a headwind to equities and how far central banks go to fight inflation may depend on when equity markets crack, and by what magnitude they crack.

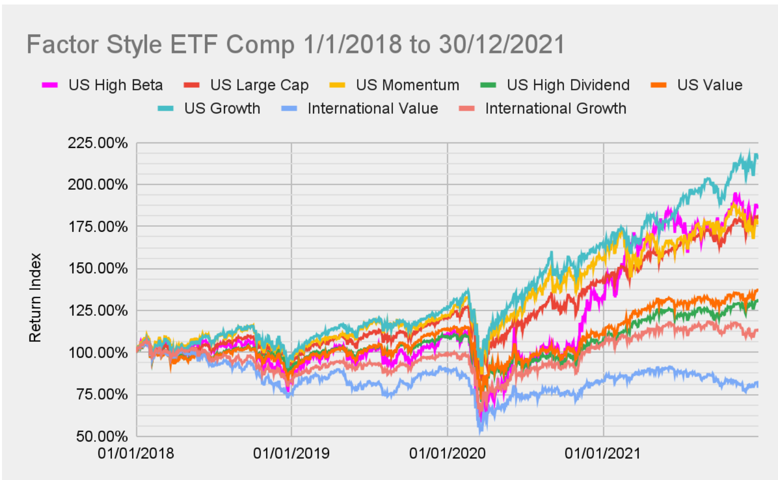
Since the start of the pandemic it is perfectly clear to see where the alpha has been in these markets. But moving forward we shall need to reassess our allocations as inflation at present is rampant and demands action from central banks. How far and how fast they tighten monetary policy will be of paramount importance. Also when they stop quantitative easing and start to reduce their balance sheets this will create pressures on the equity markets and may put strain on the whole financial system.

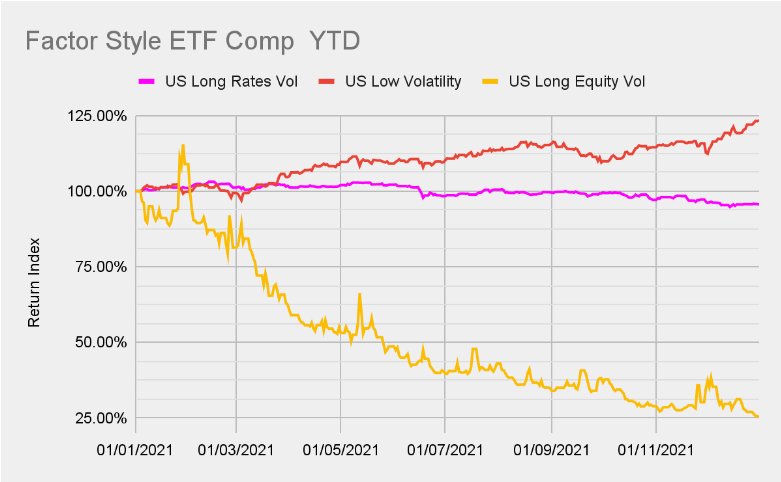




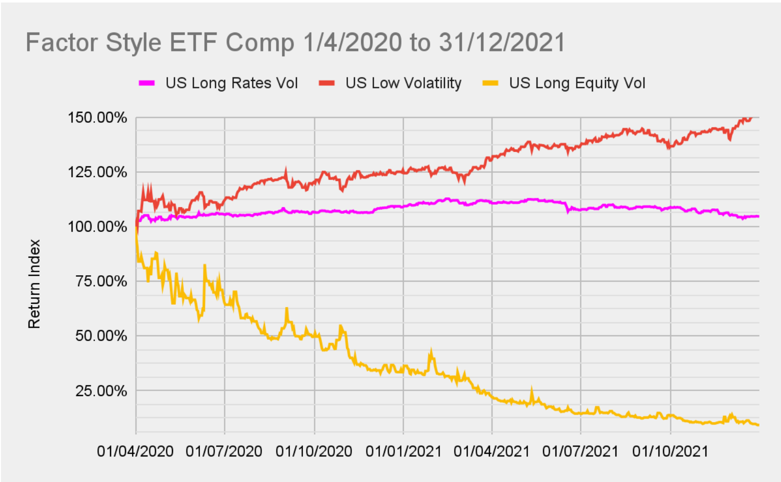
Taking a look back over the last 3 years, it is again clear that the best performers have been US markets, namely high beta and growth. International value is the laggard over this timeframe. As we enter a tightening cycle there are arguments that this may well reverse over the course of the coming year and we should consider this possibility seriously. As liquidity is withdrawn from markets and monetary policy tightens, valuations do matter as well as fundamentals.

Over the last 4 years the trends are even more obvious, with US growth leading the way. These trends have been fairly consistent, in a backdrop where monetary policy has been accommodative and in recent years the fiscal policy has been immense. These are both changing this year and we need to reconsider our allocations accordingly. Growth we believe shall slow this year along with inflation. However we feel inflation will be slow to fall, and if the policy response is too aggressive we could see a recession late in the year or early next year.





US low volatility has performed dell over the course of last year, and long equity volatility expressed via VIX etf has due to its structure drawdown heavily. However it still remains a good hedge for short term equity drawdowns. Long rates volatility has been consistent with a slight drawdown over the duration of last year. Rates are likely heading higher in 2022 , how much is the real question and as they do will this cause a selloff in the equity markets. Investors should be cautious and reduce their overall beta especially fro the second quarter forwards.



Over the last year we have seen volatility generally edge lower, the nature of the VIX product means that holding it over a long period of time will generally result in losses = Explanation
Since the start of the pandemic we see that Low volatility has performed reasonably well especially on a risk adjusted basis. This should continue to work reasonably well moving forward as investors look to reduce their beta. However if there is a significant drawdown all equities will be hit and therefore we should look to uncorrelated assets to hide out in, for this occasion.

Summary : This quarter saw a peaking of markets and a general shift in sentiment, as markets came to the realisation that inflation was not going to be as transitory as was hoped, and would need action on the monetary front to fight it. This instigated the markets to reassess valuations and fundamentals looking into the future. Omicron variant of Covid 19 became the predominant variant, and hopefully this shall start the shift of the pandemic into the endemic stage and with the pathogenicity of the variant being much less we can anticipate some return to a form of normalcy.
What is the new normal ? is the question. At present we are in a situation where we have inflation at 40 year highs, rates near zero and central banks still executing quantitative easing. To say that central banks are behind the curve, would be somewhat of an understatement. They have now painted themselves into a corner that really has no good exits: 1. They do nothing and potentially increase the odds of hyperinflation. 2. They move cautiously and slowly that will increase the likelihood of Stagflation, or 3. They move aggressively which could bring on a recession. None of these are ideal outcomes, but they only have themselves to blame.
With the midterm elections coming in November in the US the FED will find themselves under political pressure to go for Option 3 as Inflation is now the predominant issue concerning the electorate. Fiscal policy it now seems is dead in the water , without much hope of being able to revive any stimulus. So now we face a fiscal cliff, rising rates and a potential attempt to try and reduce the balance sheet of the FED. These are not ideal circumstances for risk assets and we do expect to see a pullback in these over the course of the year. The economic reopening may provide an initial burst to activity initially but we feel that this will be short lived.
We shall look to add fixed income duration incrementally as we move from Q1 into Q2 and reduce equity exposure.

Market Insights

Inflationary Is Transitory: But how long will the transition last ?

With the pandemic we have seen an unprecedented response from governments and Central banks. This has seen debt levels increase and balance sheets of Central banks expand. Demographics have not changed and continue to worsen. China's change of policy with regard to children has not moved the needle really and will take decades to do so if at all. The cost of having children in modern society is expensive.

The debt and demographic along with technology are structural effects that would point to deflation or disinflation being the likely outcome in the long term. However the extraordinary response from authorities has disrupted this for the time being. But they actions have increased the drag on economic growth moving forward. The debt is a real issue. How can they solve this ?

1. Austerity: this option will just not work at present and could cause a huge social response of tried.
2. Default; again not a preferred option as it would put the nail in the coffin of the current fiat monetary system
3. Inflation: This is their preferred course of action to reduce the debt burden

Since the GFC authorities have instigated several Quantitative easing programs but have not produced any inflation, except in financial assets. Also growth has been sluggish under these programs due to the debt burden and the other structural issues. The authorities know that in order to reduce the debt burden and place the economy in circumstances to grow they need to have inflation and their failure to get the required inflation is a sad indictment on their understanding of the modern monetary system. After the pandemic they also used fiscal stimulus to avoid a great recession and this has resulted in them creating the inflation that was so elusive to them previously. However it has got away from them as they overstimulated the economy and now find themselves so far behind the curve it is almost laughable.

The inflation rate is now causing serious issues in the economy and markets and there is a public outcry that action needs to be taken, not least from the incumbent president, who is slowly seeing his re-election chances fade away. However secretly the FED we feel and certain other authorities are content that there is now inflation as this will alleviate the debt burden which is necessary for growth to flourish. This begs the question: How aggressively will they fight the inflation that they so desperately want ?

The FED is a privately owned entity that is the regulator of the banking system and is very much concerned with the continuity of the current fiat monetary system, They understand that the debt burden at these levels is a treat to that system and growth in the future so we would tend to think that although they will make noises to appease the public they will want to keep real rates negative for quite some time to come. They see that the banks which are the creators of money needed for growth to expand are struggling to lend in these conditions as they cannot price the risk premium. We have provided a link below to a presentation by Dr. Lacy Hunt, who we feel is one of the smartest of the smart money bond analysts - https://www.youtube.com/watch?v=kHZzsCEymKs

This is around 30 mins long and we think will provide valuable insight into the current circumstances.

We do think that inflation will be persistent and be with us at lower levels than present and higher levels than the FED advertises their target rate for the foreseeable future. We believe the FED wants inflation around the 3% level and will be loathed to fight inflation aggressively to force it below this level. If they are too aggressive the likelihood of a recession is high and this would not suit their long term plans. They are in a difficult position but privately they have achieved what they wanted: Inflation. Now however they must appease the masses and politicians. This means that they will raise rates but we feel they will not be as aggressive as the market thinks. There is also a likely hood that the yield curve will invert in the coming months.

For 2022 we see the FED raising rates slowly and consistently for the first half of the year which will be a head wind for risk assets. At present there are GeoPolitical risks with Russia and the Ukraine that are also headwinds. The only 2 central banks that are not tightening policy at the moment are China PBOC and Japan Bank of Japan.

Something to watch carefully is the Bank of Japan , if they stop yield curve control we shall see global rates explode higher and equities fall through the floor. Watch them carefully as this is very important what they do.

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Once again thank you for your time and see you again next Quarter.

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