The Long-Term Pillars of Inflation

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Current Inflation

Inflation has been the most widely talked about development in post Covid-19 markets and for good reason. We've seen year-over-year changes in inflation hit 40+ year highs, almost touching 9% here in the US in 2022, with varying degrees of inflation experienced across most countries of the world, squeezing the consumer everywhere. (1)(Pickert, 2022) However, although both the Federal Reserve (Fed) Chairman Powell and Treasury Secretary Yellen were saying that inflation was "transitory", even as late as November 2021, (Cox, 2021) it is not entirely surprising that the global economy has continued to experience soaring inflation throughout 2022, into 2023. The entire world has emerged out of a public health crisis like no other over the past century, which has both directly and indirectly contributed to the high inflation that we've seen; directly through supply-chain constraints and shortages of labor and indirectly from higher rents and an enormous amount of capital created in response to Covid through both monetary (Central Bank action) and fiscal (Government action) policy expansion.

Long-Term Inflation

It is incredibly important, however, to understand that although some of the inflationary factors from Covid have and will continue to dissipate, many other factors were either already in place, latent within the system, or having evolved over the past year that appear to establish a much longer lasting inflationary period beyond Covid's impacts.

Cycles

Inflation year-over-year growth has already peaked for this short-term cycle and it is possible that we may not even see another figure of almost 9% inflation for the remainder of the next decade, but even if that were the case (it also may not be), that does not negate the fact that it appears that we've just begun a long-term inflationary cycle. Any long-term cycle ebbs and flows and follows this similar pattern from a psychological perspective from the general public:

Doubt the Reality, Accept the Reality, Embrace the Reality, Then, Believe that it Will Never Change…, Just Before it Does.

Right now, it appears as though we are about ½ way through the second stage of this new long-term cycle of inflation, which has taken us about 2 ½ years to get to, so if that were the case, we have a very **LONG** ways to go. The bottom line is that there are strong Pillars in place at this point that make a strong case for inflation's natural rate to be above the Fed's ideal 2% target over much of the coming decade.

The Five Pillars of Inflation

1. **Monetary & Fiscal Stimulus Policy**: Monetary and fiscal policy have joined together to create approximately $25 Trillion worth of money that has been printed over the past 15 years, starting well before Covid, but having accelerated since then as well. (Major, 2021) Whether it's the M2 (Money Supply) growth or the Velocity of Money going forward, the authorities are going to have a challenge containing inflation after such a massive amount of capital was unleased by the central banks and governments of the world over the past few decades, even as the Fed and other central banks raise rates, having begun to shrink their massively bloated balance sheets.
2. **Globalization/De-Globalization**: Globalization has deeply contributed to low and stable prices for goods and services over the past 4 decades, keeping inflation contained, but within the past few years, the world has begun to de-globalize in response to the pandemic along with the rising political tensions between countries centralized around the Russia/Ukraine conflict with the West's, China's and other countries' response to it.
3. **Commodity Supply/Demand Deficits**: Commodity prices collapsed during Covid, but between policy, the Renewable Energy revolution, the Ukraine war, and other long-term factors, commodity supply/demand deficits look to be part of our future over the coming years.
4. **Wage Push Inflation**: Covid created a labor shortage that has yet to fully abate for a variety of reasons, but there has also been hope for over a decade from the middle class as well as those within the US Government that wage inflation would actually occur, to help bridge the wealth gap between the rich and the rest of the

public for many years now. Now, it seems as though we are finally getting our wish.

5. **Fundamentals of the Global Economy**: The global debt levels and global currency system directly impact the confidence level of all worldwide citizens and with the current structure of these appearing to be at critical inflection points, we'll most likely see an important impact upon inflation as policy evolves to deal with the upcoming challenges facing us.

Pillar #1: Monetary & Fiscal Stimulus Policy

Pre-2008 Federal Reserve Policies

Perhaps the most prominent pillar of the United States' long-term inflation predicament is the policies of the Federal Reserve and other central banks across the world. The U.S. Central Banking system is the most powerful economic force in the world and the most important driver of liquidity for the U.S. Dollar, the world's reserve currency. Prior to the 2008 financial crisis, the Fed was able to curb economic weakness by simply lowering interest rates to sufficiently lower levels, which then stimulated the economy and thus created a new upward expansionary cycle. Just lowering rates used to be enough, but then along came 2008 and that policy alone wasn't able to dig the economy out of the quagmire that it was in, so a new policy, a new type of stimulus was needed and so "easy money" was born.

Post 2008, Quantitative Easing (QE)

"Easy Money", a program officially dubbed Quantitative Easing by the Federal Reserve was ushered in post, the 2008 financial crisis. QE worked like this: The Fed announces that they will print a set amount of capital per month, they then digitally create that amount, then go into the open market to purchase bonds; either Treasury securities, Mortgage-Backed bonds, or High Yield bonds at prevailing market prices, thereby injecting the newly printed money into the system. This has had many direct and indirect impacts upon the financial system and while many of those are positive, there are negative ramifications to such a policy as well, with "moral hazard" at the center of all of them, with the recent surge in inflation being a component of that.

Moral Hazard is defined as the risk that an individual or organization will behave recklessly or immorally when protected from the consequences.

So, as the Fed and the government pursued dramatic stimulus programs over the past almost 15 years, saving the market from any economic weakness, geopolitical problems, or earnings slumps with additional stimulus in the form of QE amongst other variations by central banks across the world, authorities have created the essence of a moral hazard situation that have helped created unsustainably high levels of debt, irrational expectations from investors, and a misallocation of capital by the world's investors.

Many of the issues found throughout the pillars of this paper are a result of the Moral Hazard that was created as a result of the easy money policies by the central banks of the world, which we now have to deal with over the coming years.

Quantifiable Impacts from Easy Money

However, there are also more quantifiable issues directly related to the expansion of easy money. The money supply (M2) in the United States, which includes all cash, checking deposits, savings deposits, CDs, and money market funds in circulation, increased nearly three-fold since 2008 going from $7.5 trillion at the end of 2007 to $22 trillion in 2022, skyrocketing over $7.5 trillion just since Covid alone, (Vanjani, 2023) with both the Fed and the government contributing with massively expansive monetary and fiscal policies before the Fed started draining some liquidity last summer.

The Arrival of Easy Money's Moral Hazards

Central banks and governments, both here in the US and abroad have had the luxury of not seeing many negative ramifications from the massively expansive monetary or fiscal policies that started in 2008 up until when inflation began showing up in late 2020, so now the cat is out of the bag, so to speak, in terms of the beginning of moral hazard risks as a direct result of the easy money policies. We'll see how things evolve, but pillar #5 will most likely be impacted the most by the moral hazard consequences of easy money, so we'll dig into that a bit later. The bottom line here is that with the central bank's balance sheets not being able to shrink nearly as quickly as they expanded along with the level of M2 being what it is along with the future Velocity of Money being difficult to directly manage, easy money has created a situation where inflation may not be so easily contained on the capital front.

Fiscal Stimulus

The governments of the world, in tandem with central bank easy money, have embarked upon a massive amount of fiscal stimulus, some in the form of "Universal Income" (free money) in the wake of Covid, having a direct impact on inflation as well. Whether it is handing out cash to every citizen just because they are a citizen or because they have kids or because their heating bill was too high, governments have executed multiple versions of free money handed out for not doing anything for that capital. Even once the risk of Covid had dissipated, fiscal stimulus programs continued and then Yellen and the rest of our government officials wondered why we had sticky, high inflation…, interesting. However, this goes far beyond the response to Covid…, the government, under both Republican and Democratic leadership has run fiscal deficits seemingly forever (except under President Bill Clinton in the late 1990s), so whether the economy has grown fast or grown slowly, fiscal deficits, which are essentially an additional stimulus to the economy has been a staple over the past 20+ years. Fiscal stimulus (fiscal deficits) is set to continue for years to come and will honestly, only increase as the rise in short-term interest rates (because of inflation) will ensure that governments across the world will have to pay more and more of their annual budgets toward debt service (more on this in Pillar #5 as well). This is a vicious cycle, where high inflation creates greater stress upon government finances, which then forces them to spend even more to see their economy grow and therefore, contains no easy solution to resolve fiscal mismanagement exacerbated by easy money…, ultimately creating higher annual fiscal deficits, which again, points towards higher inflation as well. Indeed…, a vicious cycle.

Pillar #2: Globalization/De-Globalization

Globalization has Historically Curbed Inflation

Globalization has long contributed to low inflation in the United States by driving down the cost of labor for production while increasing the supply of cheap goods as the US and other Western corporations sent manufacturing & services offshore in search of higher profits. Globalization has been much more than that, of course, it has been the fall of the Berlin wall, the expansion of NATO, the positive relationships that have been developed between the West & China, India, Russia, and the rest of the Emerging world that enables the corporations to be comfortable enough with the risks to open up factories in China or outsource services in India or elsewhere. Still, Globalization is much more than this as well, but for the purpose of this paper, we'll focus on Globalization's beneficial impact on driving down the cost of inflation.

Unfortunately, now, because of Covid and the glaring risks associated with supply chains sourced abroad along with the onset of the Ukraine war, Globalization has, at best stalled, but at worst, gone into reverse now and either way, this will have a profound impact upon inflation for years to come.

To try and put this into proper context; almost every major industry in the United States has taken part in globalizing its business. The semiconductor industry is the perfect example: The semiconductor industry is one of the most important industries in the world and the backbone of innovation across Western Civilization. Semiconductor production within the U.S. has gone from 37% in 1990 to 12% in 2022. A majority of semiconductor production has since moved to China and Taiwan over the past decade, with almost 90% of global semiconductor production being conducted outside of the U.S., with approximately 60% of the world's semiconductor production taking place on the tiny island of Taiwan alone. (Varas, Goodrich, Varadarajan, & Yinug, 2020)

Semiconductor Industry De-globalization and The CHIPS Act

Covid exposed the risk to the global supply chain (Globalization) and combined with the rising political tensions between China, Taiwan, and the US (more on this later), the White House approved the CHIPS Act in August of 2022. The act is primarily aimed at bringing chip production back into the U.S. and aims at doing so by allocating $52 billion to incentivizing domestic production along with R&D and workforce development. Two of the world's largest chip makers, Micron and Intel, have already pledged to focus on domestic production. The $50 billion is broken up into $39 billion to accelerate and drive domestic semiconductor production, and $11 billion for R&D. The additional $2 billion from the CHIPS Act is allocated towards funding microelectronics research. (Commerce, 2022)

If the US goes on to produce more of the world's chips from this point forth, that alone would drive up the cost of the chips and the end-products that they are utilized in, impacting overall inflation to the upside. Now imagine that manufacturing comes back to the US or away from China on a larger basis and what that might do to input costs on a large basis. The reality is that whatever amount of manufacturing comes back to America or other friendly countries, away from China, the prices of those products will, in fact, rise! American-made products, although very high in quality, simply cost more because labor cost more in the US while regulations of corporations are greater and more costly and taxes are more expensive here as well…, all of which, in turn, drive input costs higher.

The Russia and Ukraine Conflict

The ongoing War between Russia and Ukraine, which started in February 2022, is a massive blow to Globalization. It is not only the Russian mindset that has divided the world, with China and other countries maintaining friendly or what one might even describe as an alignment with Russia, the West's response to the Ukrainian conflict has been equally as divisive to globalization.

The West's Response

Immediately after the war started, the West, led by the US, immediately confiscated not only Russian state assets, where able, but also confiscated Russian private citizens' assets, which is unprecedented. In addition, the West also kicked Russia out of the global transactional system, SWIFT to remove Russia's ability to trade with other countries using the established US Dollar Reserve system. Lastly, Treasury Secretary Janet Yellen has stated that even if the war were to end today Russia would still see economic sanctions which still leave a major rift for Globalization, though this is a moot point because the war appears far from over at this point.

De-Globalization at a Whole New Level

As a matter of fact, these events have impacted Globalization at a level that has not been reported on much yet or fully recognized but is extremely impactful to the world's US Dollar international trading levels and essentially draws a line in the sand against Russia, with China, Iraq, India, Iran, and many other countries forced to then choose sides. Unfortunately, countries have now engaged with Russia in direct trade to suit their own needs and this has already reduced the importance of the US Dollar for international trade and this appears to be just the beginning. More on this topic in Pillar #5, but the bottom line here is that the war between Russia and Ukraine has created a massive De-Globalization event, with divisions now growing within the global financial system, which is inflationary. This is especially true since the US Strategic Petroleum Reserve is about to hit 40-year lows in volume, just as we enter into perhaps the highest geopolitical risk we've since in the past 40 years. (Rapier, 2022)

Ukraine's and Russia's Contribution to Global Markets

Ukraine and Russia are solely responsible for about 30% of the world's wheat production. (Saul, 2022) Russia produces approximately 20% of the world's fertilizer as well. As a result of these facts, higher food prices and shortages have been created across the world, which has obviously helped create inflation. Fertilizer accounts for 36% of the operating costs of U.S. corn farmers and 35% of those of wheat farmers. Much of the world's Oil & gas production is also tied heavily to Russia, with Europe receiving a disproportionate amount of their energy needs directly from Russia. (USDA Foreign Agricultural Service, 2022) As of November 2022, the U.S. had seen energy costs rise 17.6% YoY and even though energy prices have come down dramatically from the Ukraine war peaks, both in the US and Europe, with an unseasonably warm winter, we are not out of the woods longer term. (Iacurci, 2022)

China and Its Perspective Toward the United States

Positive international relationships are the cornerstone of Globalization and China just released a report last week on "US Hegemony and Its Perils", which should tell everyone that Globalization has just experienced a major setback. They state, and I quote,

"This report…, seeks to expose the US abuse of hegemony in the political, military, economic, financial, technological, and cultural fields, and to draw greater international attention to the perils of the US practices to world peace and stability and the well-being of all peoples" (Xinhua, 2023)

Hegemony: The predominance of one state or social group over others (Wiktionary, 2007)

This report is the first of its kind and captures the current relationship between China and the US in a nutshell. The US is also quite critical of China as well on many fronts, De-Globalization is, quite simply, a very real risk and is certainly an inflationary event, just as Globalization was deflationary and, unfortunately, this appears as though it is just beginning to take root.

Pillar #3: Commodity Supply Constraints

More Conflict Inflation

As previously mentioned, the energy, wheat, & fertilizer markets are all directly impacted by the Russia-Ukraine war, but there is much more to the commodity supply constraints story than just that geopolitical event, despite its significance. That being said, on top of being the world's largest producer of sunflower seed, Ukraine plays a key part in exporting rapeseed, barley, and vegetable oil. Russian blockades and interventions of sea lanes have contributed to other higher commodity prices and in turn higher food prices for consumers across the globe. The proof of higher food prices can be seen in CPI readings for the U.S., the recent October report showing a 12.4% (US Bureau of Labor Statistics, 2022)jump in food at home, and the 27 EU countries have seen a combined 13.1% increase in the price of food. (Broom, 2022) In July 2022, the EU banned imports of Russian polypropylene and other polymer products – the main compounds from which plastic is made. Russia accounted for more than 40% of EU market imports for these products prior to the sanctions. (London Globe Editor, 2022) Now, the EU is faced with producing polymer domestically which is costing both producers and consumers more when they shop. More than half of the EU countries recorded double-digit inflation rates through September including Hungary (20.7%), Netherlands (17.1%), Italy (12.8%), and Germany (10.9%). (Eurostat, 2022)

Energy Policies and the Shift Away from Carbon Energy

The first act that President Biden did when he came into office was to shut down the Keystone Pipeline, thereby setting the tone of reducing traditional energy production here in the US for years to come. (Whitehouse.gov briefing room, 2021) Other green policies, both domestically and internationally have been geared toward increasing the shift of global energy usage away from carbon to renewable energy with solar, wind, and other methods to produce energy. This has manifested in a lack of investment in the oil and gas sector, driving prices higher with a limited incentive for companies to invest heavily in very expensive, long-term infrastructure projects that would otherwise help keep traditional energy prices low. Combined, this lack of commitment and investment into carbon energy over the next decade looks poised to influence prices higher outside of geopolitics in stand-alone analysis and as the world looks to transition to more renewable sources. In addition, government has also threatened to impose windfall profit taxes on carbon energy companies, further reducing the incentives to make further investment to increase production.

The Shift to Metals

The cultural mindset combined with government policy has also accelerated the adoption of hybrid and pure electric vehicles (EV) within the renewable energy revolution and although this entire clean-energy shift is highly encouraging in many ways, it is a massive undertaking that will take decades and little do most people realize, but it will take a tremendous amount of other commodities, primarily metals to make this a reality.

Copper & Other Metal Shortages

Lithium, nickel, silver, copper, and many more, including rare-earth metals are all utilized for the renewable energy transition. Let's focus on copper for a moment; Copper is used across a vast array of industries and is a vital component in most of its applications. Furthermore, it is one of the main commodities in powering Net-Zero emissions by 2050 and is referred to as the "Metal of Electrification." It is stated that global copper demand from solar and wind energy will reach 852,000 tons by the end of 2022. (Barrera, 2022) Copper demand is expected to grow from 25 million tons in 2022 to about 50 million tons by 2035 and eventually well over 50 million tons by 2050. (S&P Global, 2022) Copper supply will have difficulty keeping up with rising demand because it takes years for a new mine to become operational and when combined with all the environmental regulations of new mines, it is anticipated by many analysts that copper shortages will arise over the next few years and possibly last for up to a decade, according to some forecasts. Therefore, even though we'll be utilizing less carbon-based energy, the need to build out alternative sources will most likely result in shortages, not only in copper but anticipated in other metals in the years ahead as well, all adding to the inflationary story over the next 10 years.

Commodities Overall Representation of U.S. CPI

It is very important to note that commodities represent nearly 40% of the CPI, followed by food and energy representing 14% and 7.5% of the index respectively. (U.S. Bank Asset Managment Group, 2023) Moreover, all of these percentages are tied together, so if wheat and fertilizer supply are constrained then not only will commodity prices rise, but so will food prices also rise, the same can be said for oil and gas. If copper, amongst other commodities, experience supply shortfalls in the years ahead, it will impact every single component that it is used in, unlike oil & gas output, which there has been a fair amount of spare capacity or strategic reserves that can be released to reduce the price, copper & other metal's supply is not as easy as simply deciding to mine and produce more and instantly seeing that impact. So, supply shocks appear in store for copper and other metals going forward, before the supply is able to keep up with increasing demand.

Pillar #4: Wage Push Inflation

It's About Time…

For years, politicians have complained that wage growth has not kept pace with the advancement of asset prices, causing the wealth gap between the rich and the rest of the country to widen to unacceptable levels. The U.S. middle class has continued to shrink throughout the 21st century. Median U.S. middle-class income has only risen from $81,700 in 2000 to $86,600 in 2018. In addition, from 1970 to 2018 middle-class income as a share of U.S. aggregate income has fallen from 62% to 43%. The opposite has occurred in upper-income households which made up only 29% of aggregate income in 1970 compared to 48% in 2018. (Horowitz, Igielnik, & Kochhar, 2020) Income inequality and skyrocketing wealth of the 1% have obviously created social and cultural problems for the country, thus necessitating income growth for the lower and middle classes to help stem this crisis.

Therefore, there is much celebration about the rising price of labor in many camps throughout the country. This is certainly the case for all of the individuals, who themselves, have received a wage increase recently, but it is well known within economic circles that once wage inflation begins, it is difficult to turn that spigot off, especially when the powers that be want it to stay on! The other important factor here is that despite the Fed raising rates dramatically faster than at any time over the past 40 years, there are still over 10 million job openings in the marketplace here in the US while the number of people looking for a job is only 5.7 million, (Ferguson, 2023) so we appear to be in for a protracted period of worker shortages, that was set in motion during Covid by people who were not interested in working or unable to work at that time. Wage growth is also a strong component when calculating the inflation data, so wage inflation will hold long-term significance in the data.

Minimum Wage Increases Throughout the U.S.

Many states have continued to raise minimum wages over the past few years with more increases on the horizon rendering an indirect increase in the cost of inputs for producing goods and services. As positive as a development as this may be, creating more fairness for low-income earners, it does also come with a cost. Taking a look at the U.S., by state, Nebraska increases the minimum wage incrementally by $1.50 each year until 2026 while CT will also raise the minimum wage again this year by another dollar after having raised it each of the past 3 years by the same amount. (Economic Policy Institute, 2023) Maine, Montana, Ohio, Vermont, and the District of Columbia increase wages based on CPI readings which can drive inflation up further, creating a catch-22 for inflation. For example, September's reading came in at 8.2% causing the latter states to increase their wage assumptions, but they may not be accounting for inflation reports coming in above expectations like October's 7.7% reading. (Wile, 2022) (US Bureau of Labor Statistics, 2022) Vermont has a unique approach to increasing the minimum wage for the following years it will raise wages by 5% or the CPI percentage, whichever is smaller. Jerome Powell has stated that "We want wages to go up. We just want them to go up at a level that's sustainable and consistent with 2% inflation". (Ngo, 2023) You know what they say, "be careful what you wish for" and "you can't always get what you want", especially after over 20 years of practically non-existent wage growth that has dramatically unleashed higher wages with no let-up in sight.

Wage Inflation in the EU

Wage Inflation has also hit a majority of regions outside of the U.S. including the EU and Japan. EU prices rose to an all-time high of 10.7% in October with wages increasing 5.7% from a year earlier, the Eurozone will likely continue to see higher inflation due to rising wages. (Amaro, 2022) Furthermore, many European companies have been negotiating wages and, in some cases, seeing walkouts. In one EU country, Bulgaria, thousands of protestors are demanding higher salaries in line with the sharp price increases the country is seeing. In the U.K., regular pay rose at the fastest rate since 2000 excluding the pandemic where workers saw pay raises returning to work from furlough. In addition to regular pay increases, the country's pension funds nearly collapsed due to unfunded tax cuts, rate hikes, and bond selling…, but these issues are a topic for another day.

Pillar #5: Fundamentals of the Global Economy

Global Debt Levels & the Global Currency System

The U.S. dollar has been the world's reserve currency since the mid-1930s, but officially since post-WWII, when the Bretton Woods agreement was established. Almost 70% of all global trade has been done in US Dollars in recent years, on the back of establishing the Petro-Dollar in the 1970s. There is a major benefit to the United States for having our currency utilized as the world's Reserve Currency (WRC). US Dollars are in high demand throughout the world because of it and that keeps the US Dollar valued strongly. This also keeps rates low as there is a high demand for US Treasuries and that keeps money flowing into the US from international sources, finding its way into other US assets as well, including stocks and real estate. However, as I mentioned earlier, with the consequences of Russia being kicked out of SWIFT, there is a risk that our actions have accelerated the demise of the US Dollar as the WRC in the years ahead and therefore, is a major negative development on many fronts.

US Dollar Strength Recently

In the short term, the US Dollar has been quite strong and could continue to see strength as Europe itself is more vulnerable to higher debt levels than the US and an expanding Ukrainian crisis with energy & other risks, impacting Europe more so than the US. In and of itself, large currency moves, either up or down for the US Dollar, have the potential to destabilize markets and sometimes, those events can be quite profound. For example, when the Pound and the Yen were collapsing in the fall of 2022, when the US Dollar was hitting its highs, the Gilt market (British bonds) crashed, so if it had not been for the British authorities stepping in with more stimulus to stem the crisis in conjunction with Japanese authorities intervening to also support the crashing Yen, things would have gotten ugly for global markets. The bottom line is that what happens within the global currency markets matters a great deal to the world's bond, stock, & commodity markets.

Debt/GDP Ratios Are Very High

Global debt levels are also very high amongst many of the largest, most developed nations in the world, having come off the worst period of economic growth coming out of a recession in history post-2008, thereby forcing countries to run large, perpetual deficits to create some economic growth. There are now very large debt/GDP ratios across most of the G8 nations, which has helped to create an environment where inflation has now driven up short-term interest rates to levels that will endanger some countries' ability to service their debt annually. This is another one of those vicious cycles that markets find themselves in, for how they will be able to manage this appropriately? Think about it like this: If Japan or another country like Spain or Italy falls into crisis because of its debt/GDP level, its rates rise, which then puts more pressure on its fiscal deficits, thereby causing its debt/GDP to rise even further, thus exasperating the vicious cycle, how will they respond?

Greece's Debt/GDP Crisis

When Greece hit a debt/GDP ratio of 125% in 2010, (Reuters, 2023) the market began to revolt against Greece because of their high debt levels, which started driving Grecian bonds down in value, with the tandem result of higher interest rates. This ultimately resulted in three bailouts for the country over the next decade, with printed money as the solution…, but the problem today, is that Greece stands at a debt/GDP ratio of almost 200% or about 50% higher/worse than it was when it first entered into crises over a decade ago. (World Bank, n.d.)

More Easy Money as the Solution?

We have a lot of recent history to provide us some insight into how countries will deal with future crises surrounding meager economic growth and high debt/GDP ratios, given what I've already shared above, but let's just revisit the events from late 2022: Amid the massive inflation in Britain and growing inflation in Japan, both Britain and Japan decided to print money as the solution to solve their crisis of a crashing Pound (& bond market) and a crashing Yen (& bond market) respectively when push came to shove. This is a very important factor to understand for our markets going forward because even with inflation running rampant in late 2022, the financial authorities in those respective nations chose to **PRINT MONEY** as their solution to solve their problems and it DID work…, for now, just like it has worked for over 15 years when authorities printed money. However, coming back to the point that M2 has skyrocketed since 2008 because of the monetary & fiscal policies implemented, which have ultimately resulted in skyrocketing inflation across the world, those very same policies are **STILL BEING USED** to solve the very problems that they have created, creating another feedback loop of Moral Hazard, pushed out into the future once again.

The US Dollar and its Impact Upon Commodities

When, in due time, the US Dollar also comes under similar scrutiny of markets because of the United States' own high debt/GDP levels in the years ahead and the US Dollar begins to fall, that decline will then begin to put additional upward pressure on all commodities thereafter as well. The reason that commodities rise when the US Dollar falls is that the US Dollar is the WRC and with that, all commodities are priced in US Dollars therefore when the US Dollar rises, it puts downward pressure on all commodities, but the opposite is also true when the US Dollar begins to fall; that causes upward pricing pressure on all commodities in addition to upward pressure on all imported goods into the US. Over the past year, we've been very fortunate to have the US Dollar sky-rocket in value, putting downward pressure on commodities, and keeping them more contained, but imagine what inflation would have been without US Dollar Strength?

So, in addition to the issues of forecasted supply constraints in commodities based upon simple demand issues or geopolitics problems along with the risks from De-Globalization potentially impacting the availability of supply in the years ahead, a falling US Dollar would create a potentially explosive upside overlay upon the already bullish environment being forecasted for commodity prices in the decade ahead.

Conclusion

Confidence…?

Jimmy Carter once talked about a lack of confidence being the primary reason for the great inflation occurring in the late 1970s, but since then, academics and economists across the world have come to the belief that their own abilities to manage monetary and fiscal policies are the primary reasons why inflation occurs or doesn't occur. In other words, they believe that they have the power to control inflation by making some simple financial adjustments, and then inflation will be defeated, then leading to a new cycle of economics without inflation in the years that follow. Is this correct?

A Different Environment Today vs Back in 1980

Just because Paul Volker raised rates to break the back of inflation in 1980 and that started the long cycle of inflation moderation, doesn't necessarily mean that history will repeat right now, with the circumstances that we are currently faced with. Think about it, weren't there countless factors involved in breaking the back of inflation back in the early 1980s as opposed to simple adjustments to monetary policy? There was Reagon's economic plan and all that it entailed, the fact that within the decade, the Berlin Wall fell and the US was crowned the sole superpower of the world thereafter, Globalization was set to ramp up dramatically in the years ahead driving down costs, there were major technological advancements that literally changed the way that everyone functions, and the world debt/GDP levels were relatively low back then as well. In addition, the commodity boom had already occurred and was ready to pop, Mortgage rates had already sky-rocketed to 15%, and there was a 15-year bear market in the stock market that had already occurred, with all of this having combined to already remove the excesses of the prior the bull-market cycles from stocks and bonds. We didn't have the central banks of the world printing money and the hostages were freed in Iran after the US beat the Soviets in Hockey at the Olympics, which was also very significant to culture.

In other words, the pillars of inflation in 1980, had a much more favorable setup and outlook for the following decade than we currently have staring us in the face.

Wrong Assumptions?

Now, I certainly could be wrong about where the pillars of inflation stand today and perhaps some new technology will change the way that we live in a dramatic way imminently, thereby potentially creating a new growth cycle without inflation, but this entire analysis comes from 20,000 + hours of research into global economics and markets over my 29 years of experience in this business and it simply doesn't appear as though we'll be able to bypass even one of these Pillars without challenges, if not major challenges. (Strata Wealth Partners, 2016)

The Facts are the Facts

Aldous Huxley once said, "facts do not cease to exist because they are ignored." (Huxley, 2000) Unfortunately, just as Fed Chairman Powell and Treasury Secretary Yellen were dead wrong about inflation being transitory in late 2021, they are most likely wrong once again about being able to completely defeat the inflation monster by simply raising short-term interest rates to high levels for a while. It simply does not appear that they will be able to repeat what was done back in 1980 and expect the same results beyond a short-term period because so much about the environment is completely different and now, we are living in a much more globalized world than we were back then as well. Think about it, could the US control what the British and Japanese authorities did in late 2022, when they decided to print more money to stem their own market crisis, even with inflation surging in their own economies? To date, Japan is still printing vast amounts of money to hold interest rates down and support the Yen. Amazing!

There are many reasons to believe that the inflationary genie is now out of the bottle after experiencing a protracted 40+ year cycle whereby inflation was stagnant or at the desired trend. If this theory is correct, it does mean that either the markets will have to live with higher inflation going forward that what is currently anticipated or that the economy would have to endure a long period of below-trend growth while inflation averages are kept around 2% by the authorities.

Ramifications for Future Policy Responses

The problem with the latter choice cited above is that would create, yet another vicious cycle, allowing for multiple Moral hazard conditions to manifest more quickly and strongly in global markets creating meager economic growth, which in and of itself, has an uncanny way of exposing more hidden problems, latent within the system and quite honestly, creating unacceptable outcomes for the authorities who feel they are in control.

Given the path that has already been chosen, Policy's easiest option will be to try and grow their way out of the difficult fundamentals underlying this global economy, with…, you guessed it, printed money once again, thereby exacerbating the already strong Pillars in this inflationary vicious cycle.

But, There is ALWAYS HOPE!

I know that the conclusions above sound rather daunting in many ways, but when one breaks all of this down to its most simple form, it's only **JUST ANOTHER CYCLE** that we can prepare for…, so no undue stress is needed. It is my strong belief that one can not only protect oneself in this rising inflationary cycle but also thrive as it continues to unfold if positioned appropriately in one's portfolio.

Sincerely, with Unwavering Hope and Conviction,

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