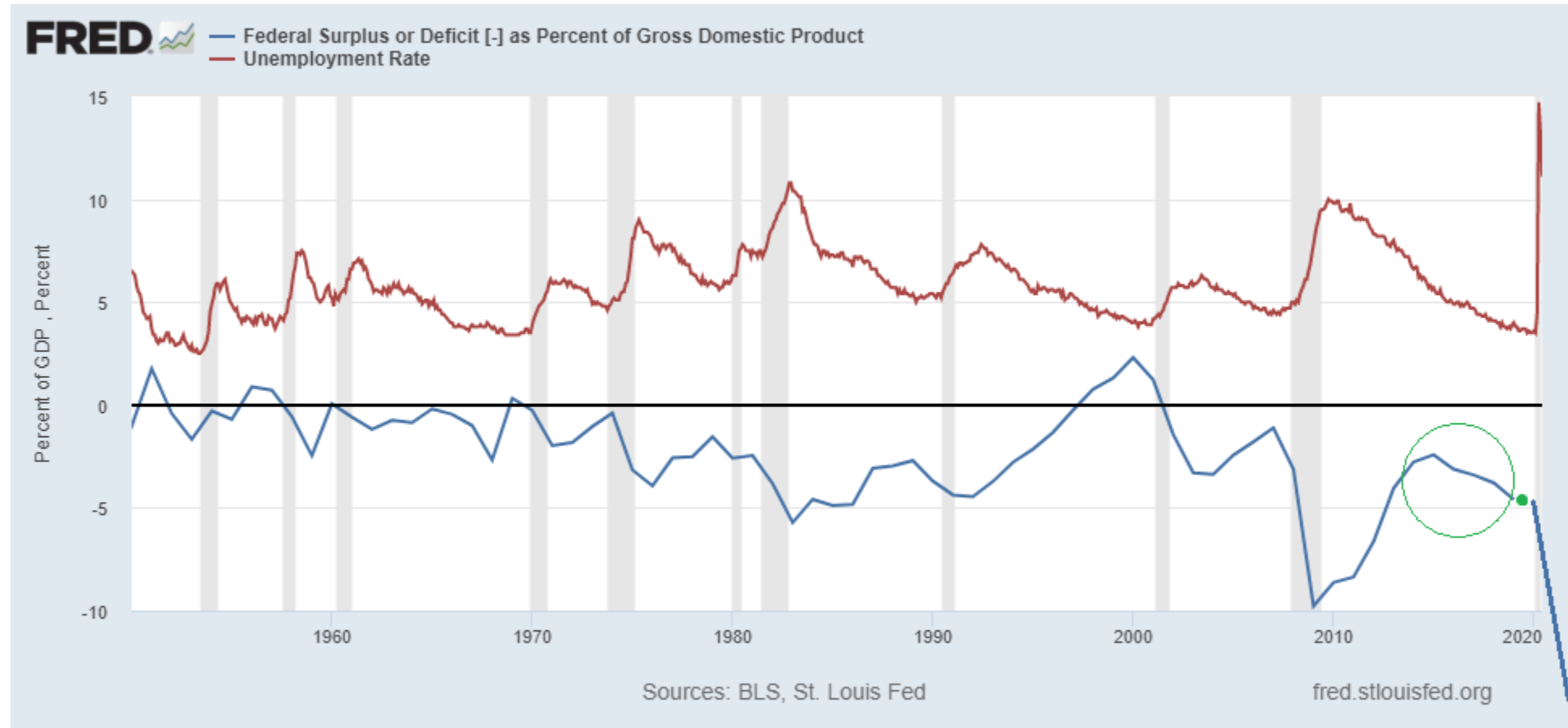


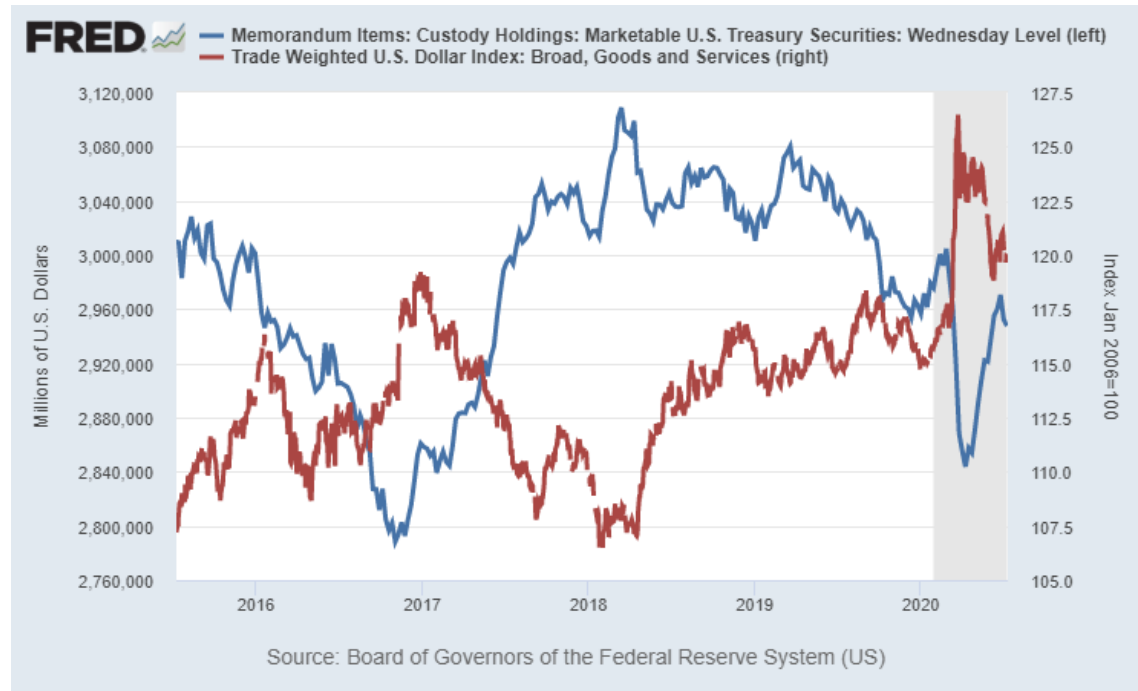
Lyn Alden
@lynaldencontact
MacroVoices Podcast
July 2020

A Structural Shift for U.S. Monetary Policy

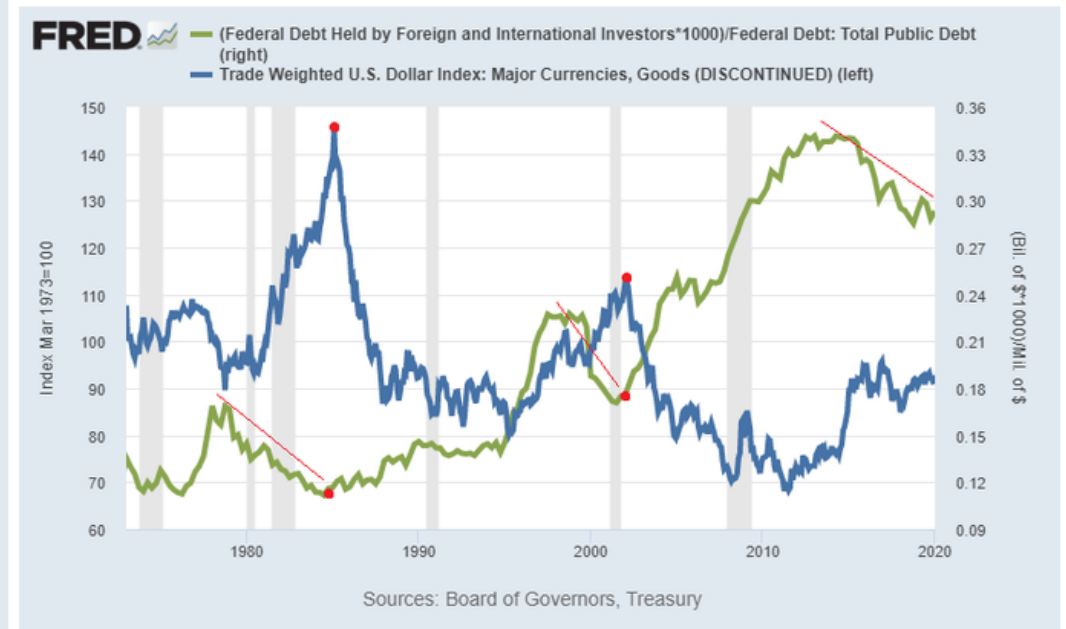
U.S. Deficit Was Growing During Expansion



Dollar Cycles and Foreign Buying of U.S. Debt

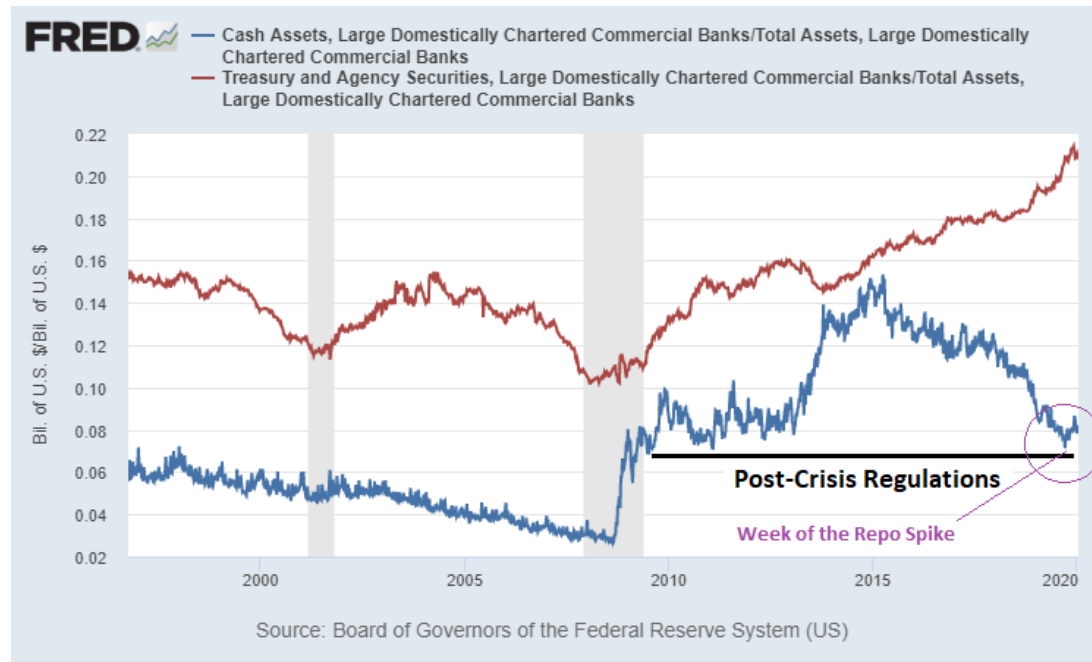


When Trade weighted dollar spikes, foreigners sell Treasuries to get dollars

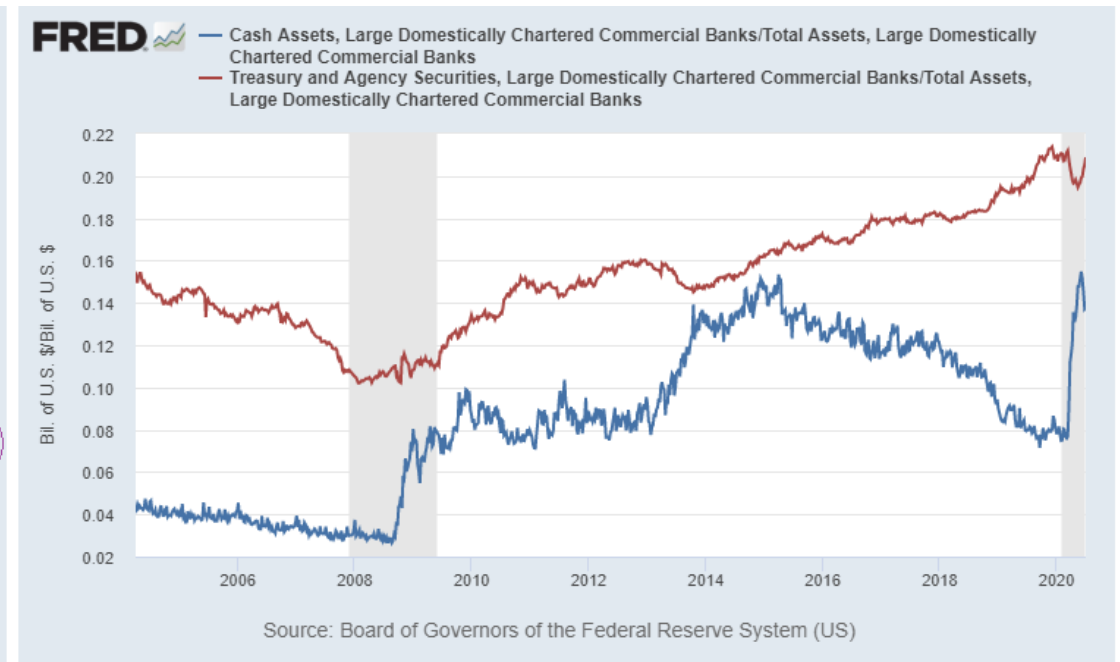


In strong dollar cycles, foreigners buy fewer Treasuries, and the % of outstanding Treasuries held by foreigners decreases, forcing U.S. domestic institutions or the Fed to finance federal deficits.

Large Bank Cash & Treasuries as % of Assets

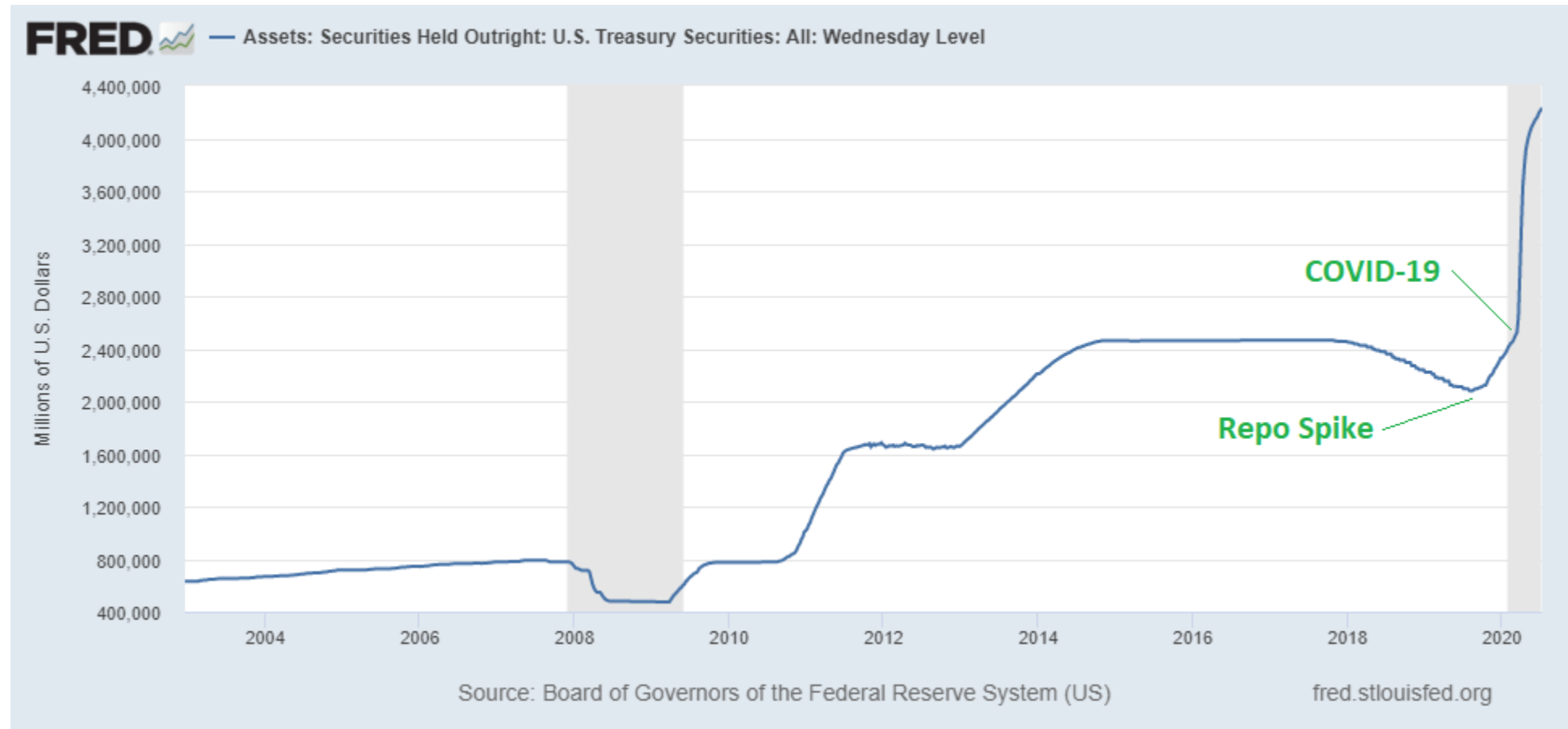


Repo Spike: Cash Levels at Post-GFC Lows

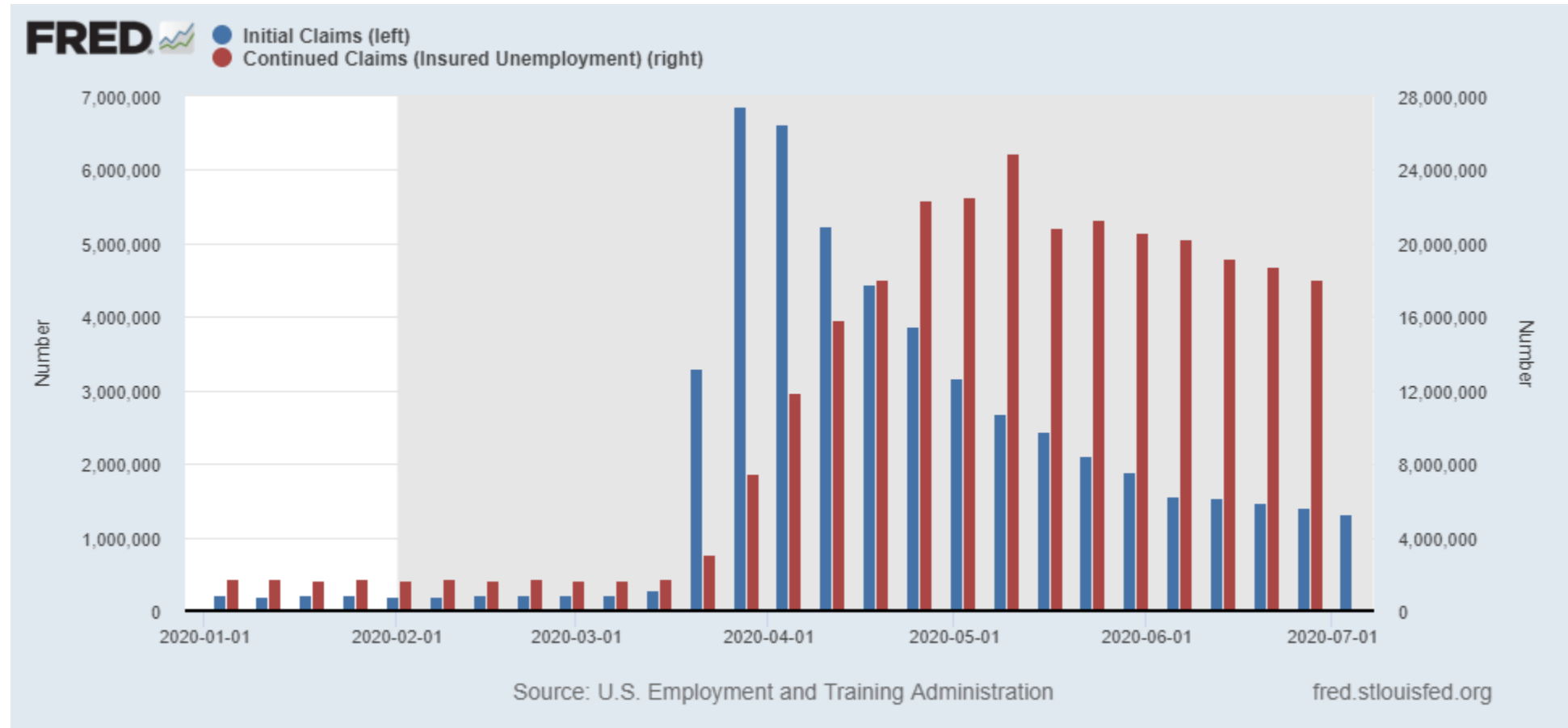


COVID-19 Response: Cash Levels Near All Time Highs

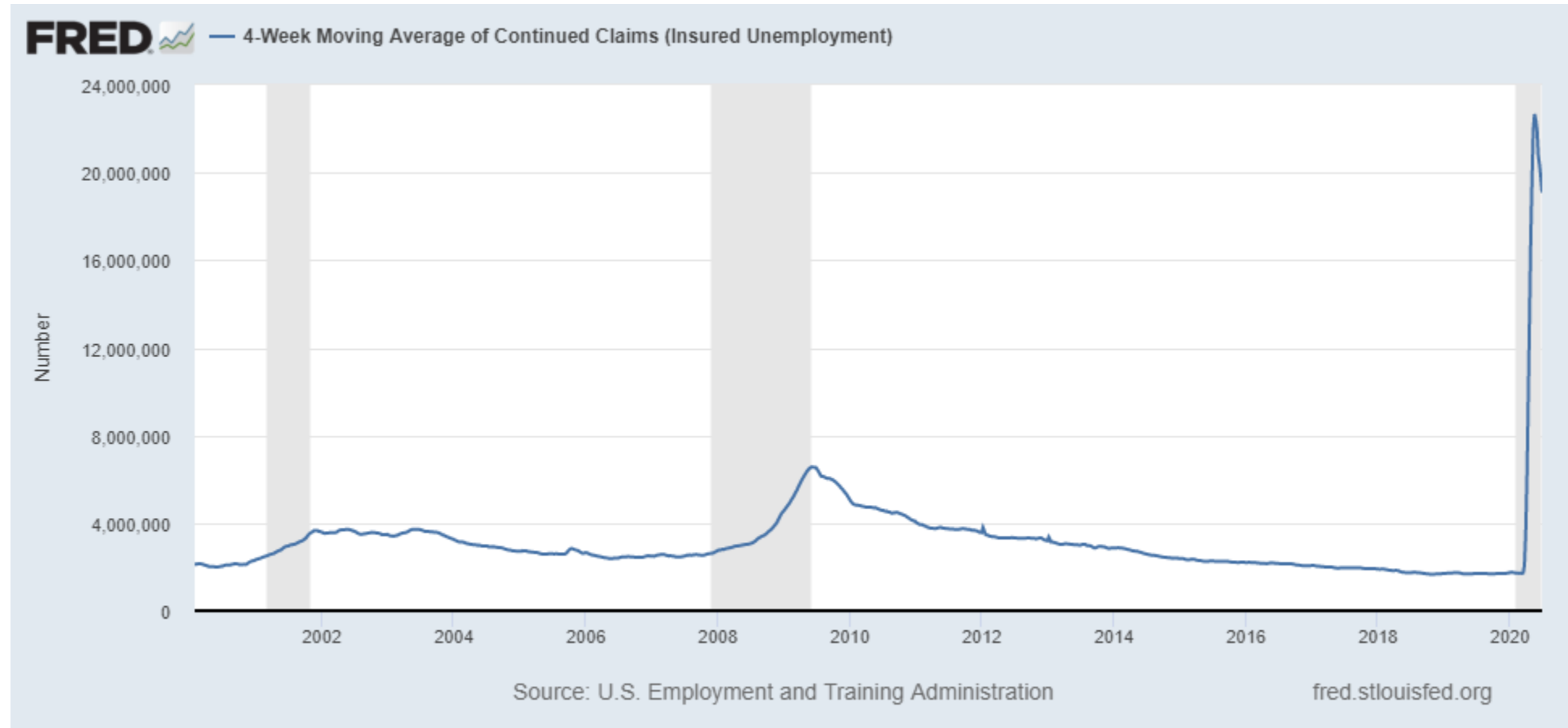
Fed Buys Treasuries for Deficit Monetization



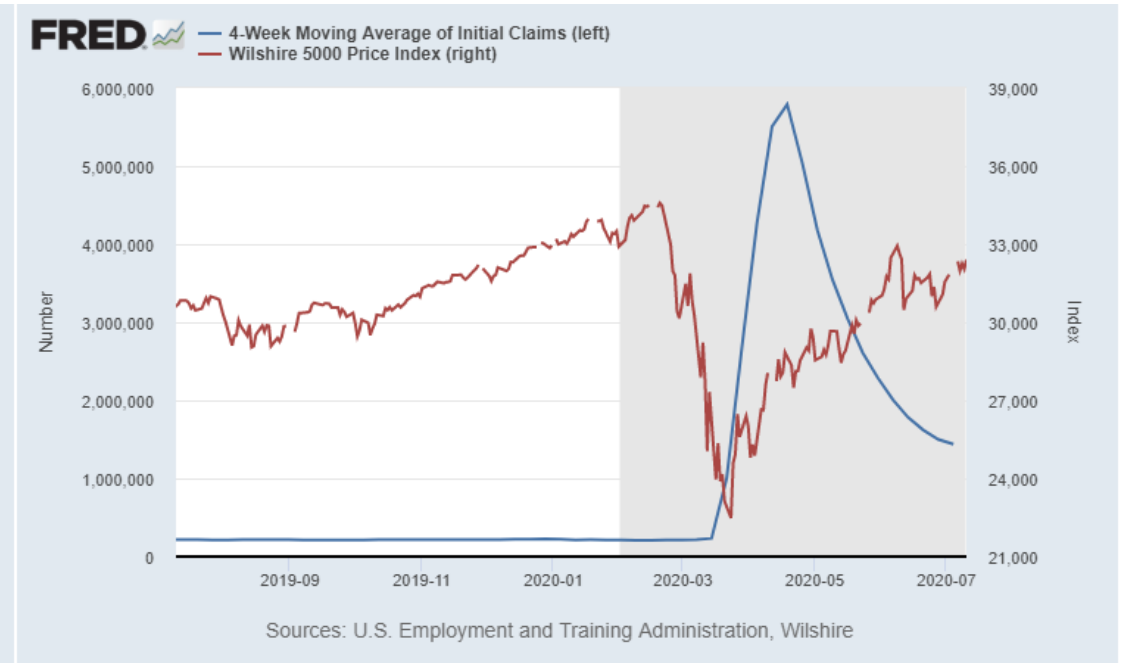
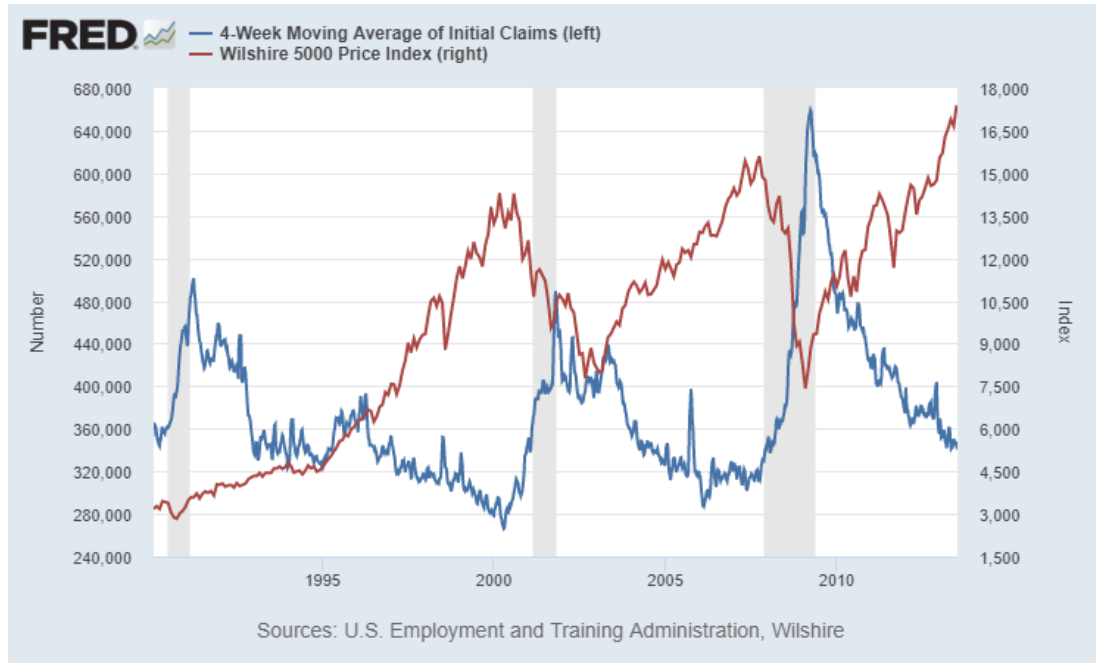
Job Losses in the United States



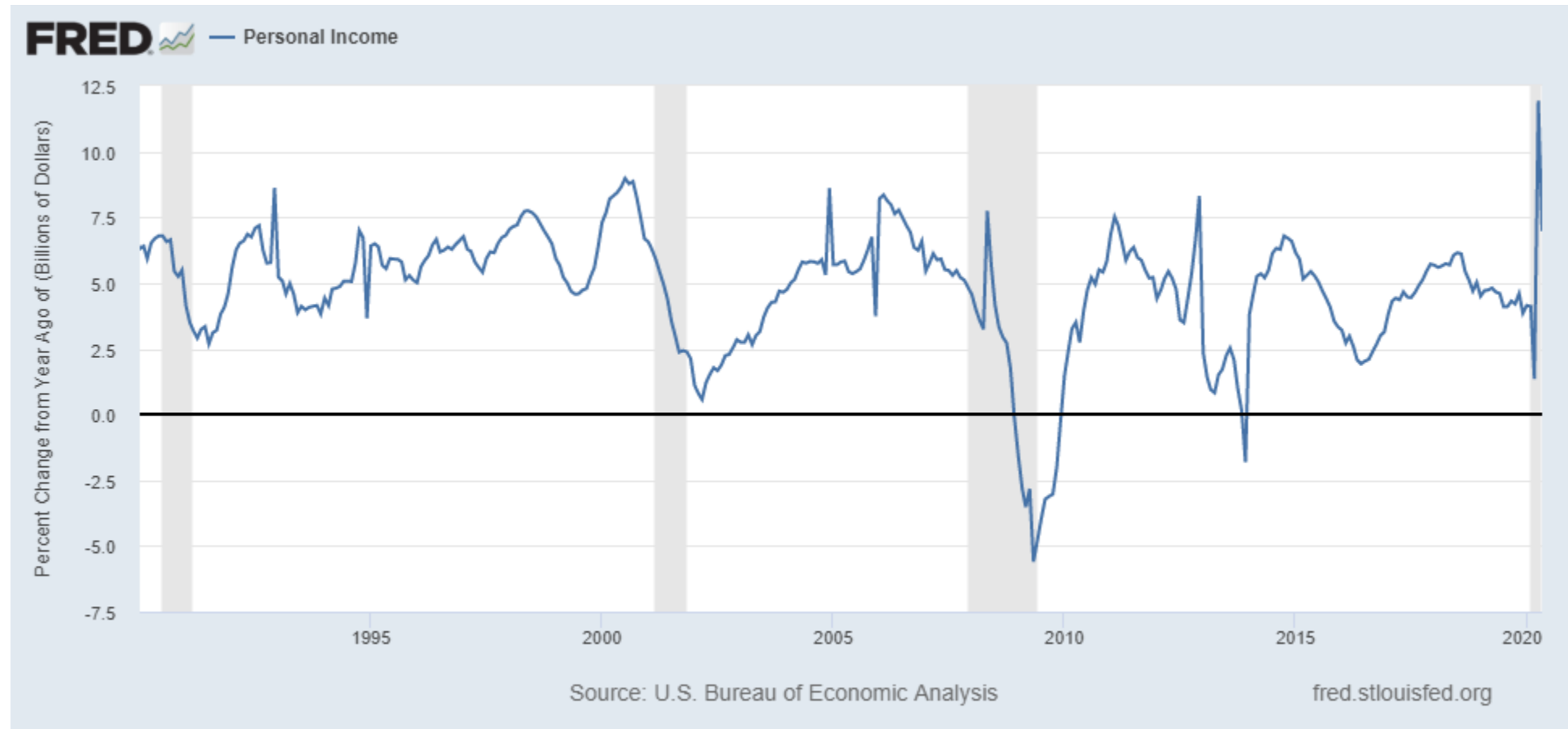
How This Compares to 2009



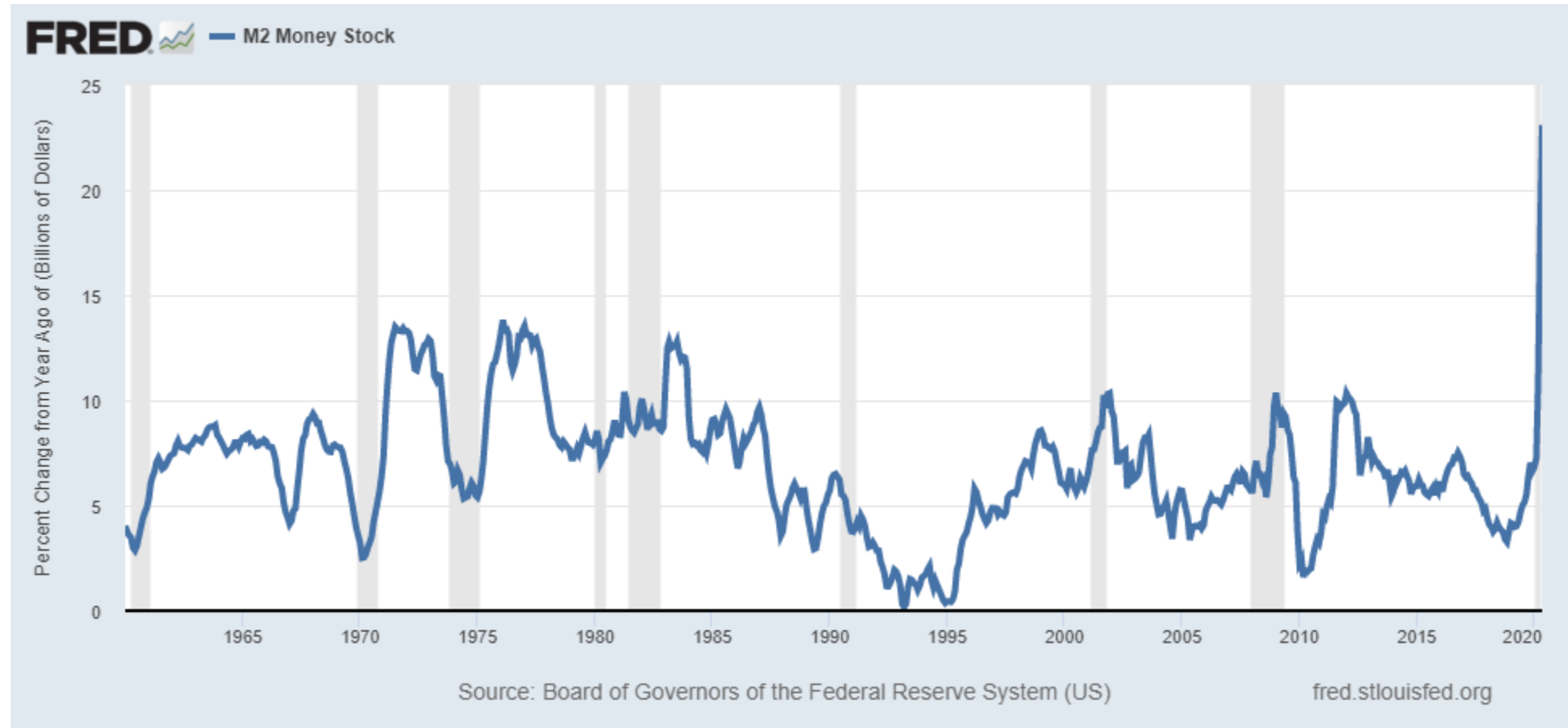
Wilshire Bottoms vs Initial Jobless Claims



Personal Income YoY is... Up in this Recession



U.S. Broad Money Supply YoY % Change



Deflationary Crunch vs Inflationary Policy

- In the 2008 recession, \$11 trillion in U.S. net worth was lost as housing prices and stock prices fell sharply. The Fed's balance sheet rose by \$3.6 trillion over a 6-year period. Most of the QE went to recapitalize banks (bank cash levels started at 3% of assets in 2008 and were brought to 15% of assets by 2014). Not inflationary, other than asset prices.
- In the 2020 recession, \$7 trillion in U.S. net worth was lost in Q1, but quickly rebounded in Q2. The Fed's balance sheet rose by \$3 trillion over a 3-month period, and much of it went to monetize fiscal spending directly for consumers and businesses into the real economy. Potentially inflationary, depending on what's next.

1930s/1940s vs 2010s/2020s in One Chart

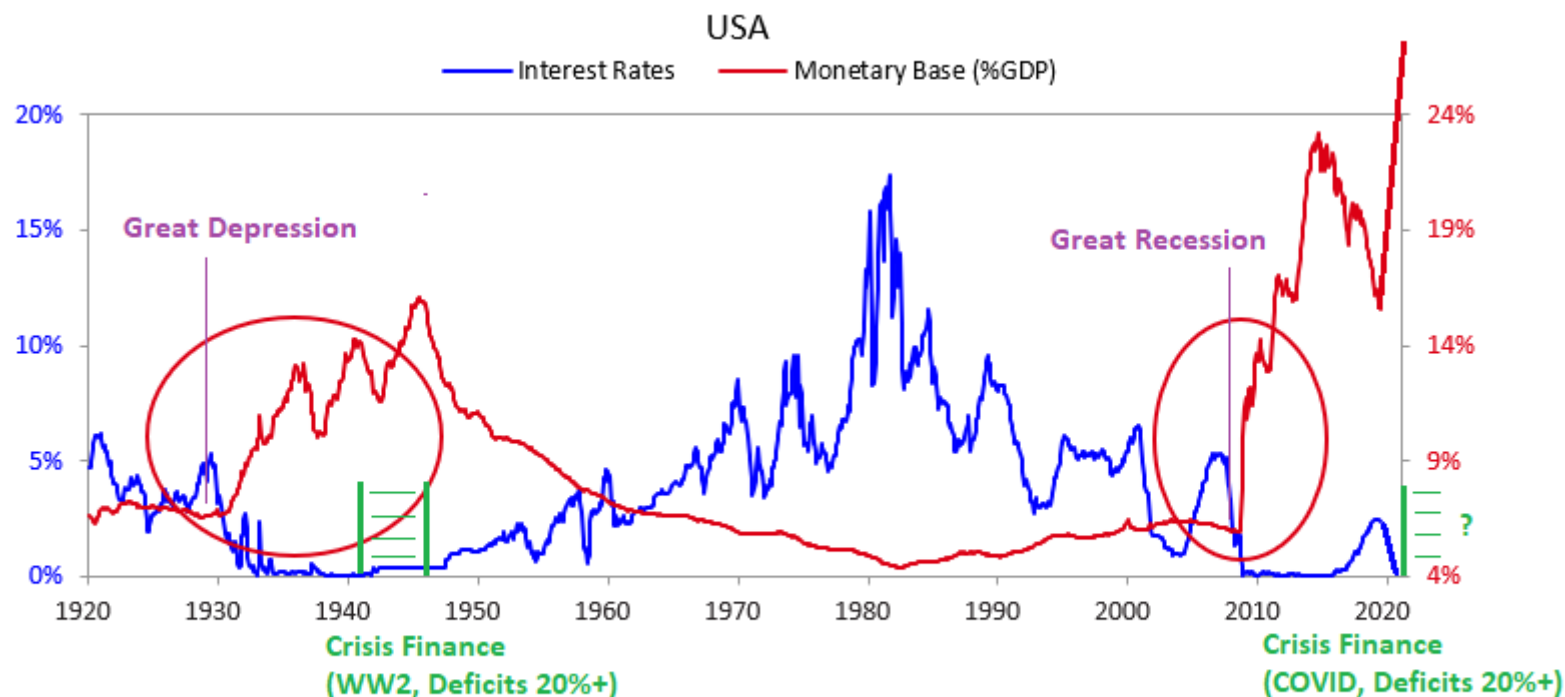
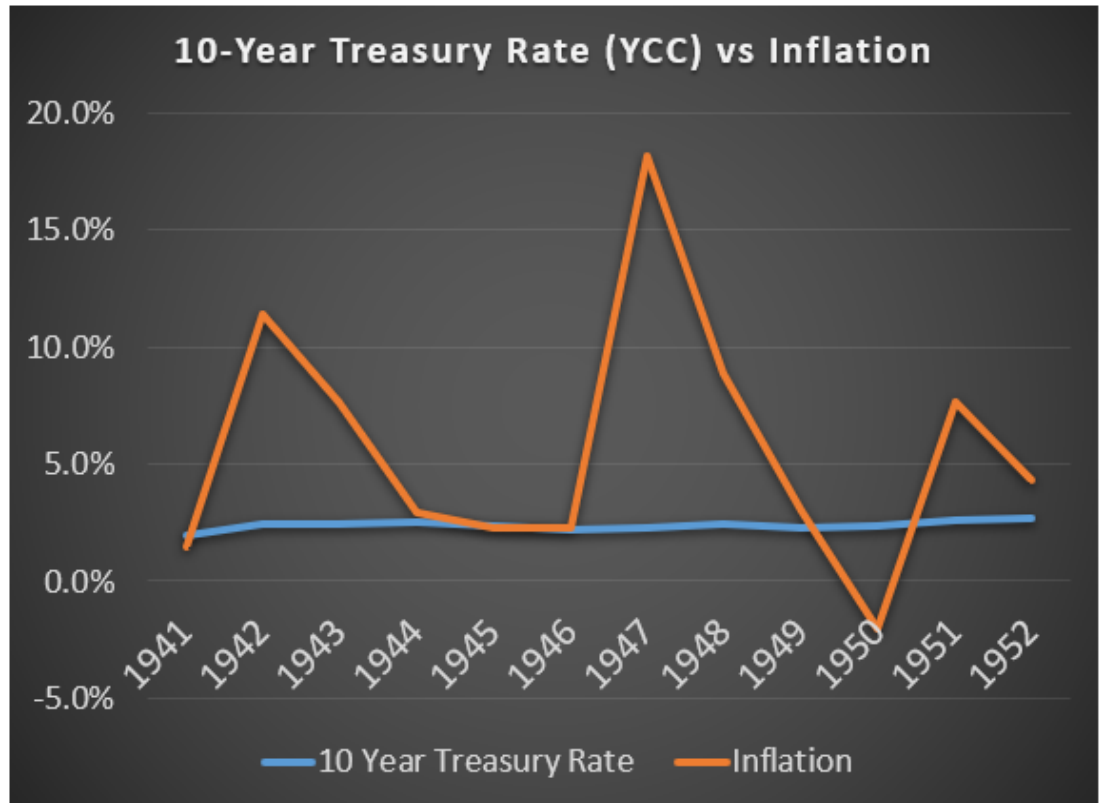
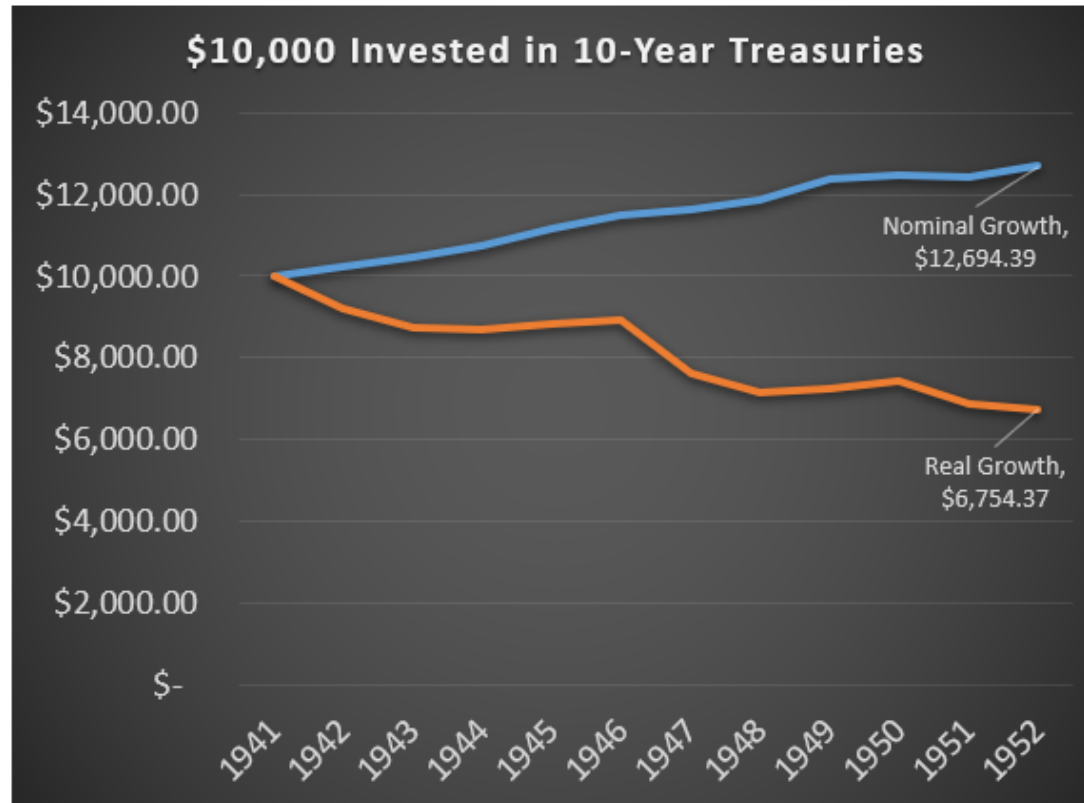


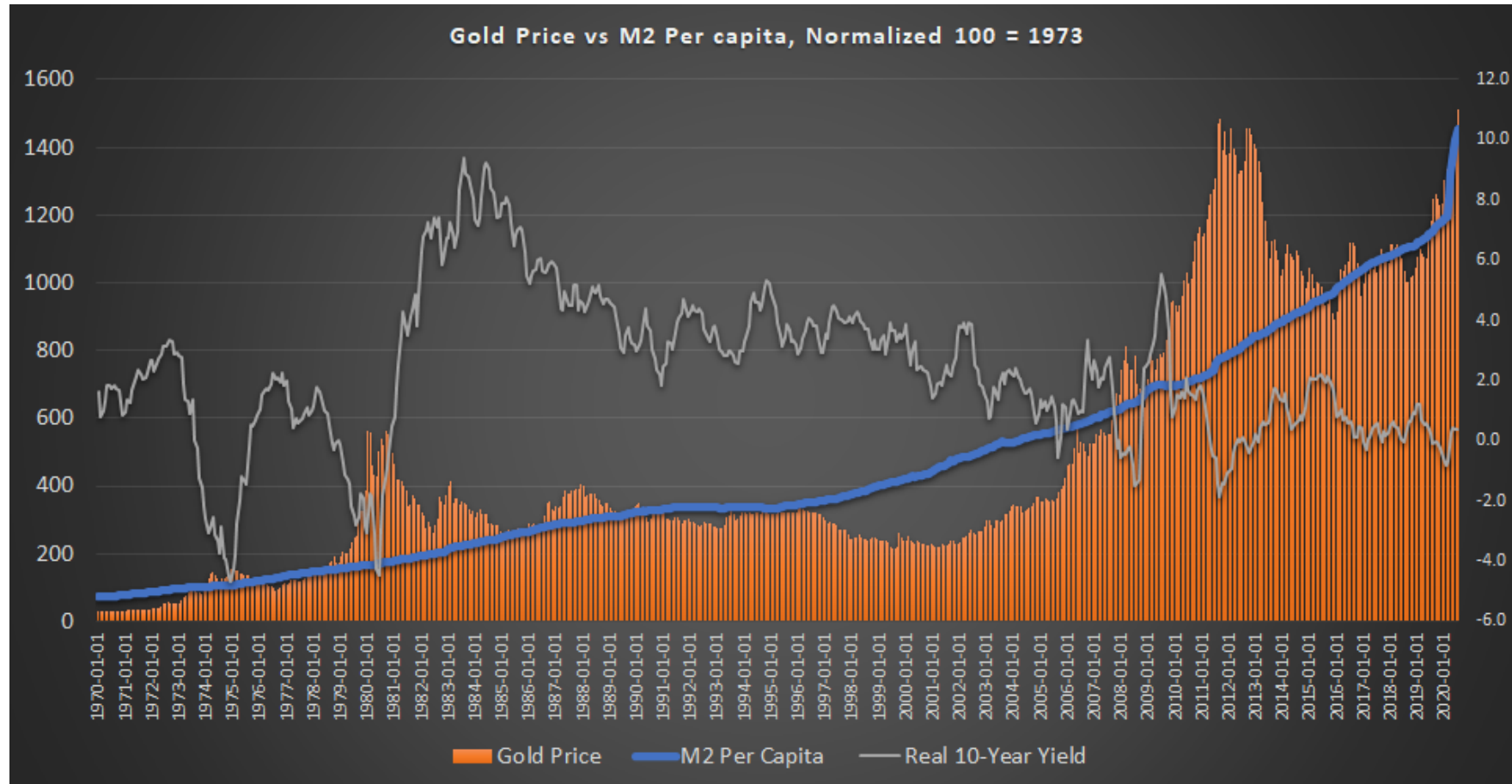
Chart Source: Bridgewater Associates, Updated/Annotated by Lyn Alden

1940's Yield Curve Control

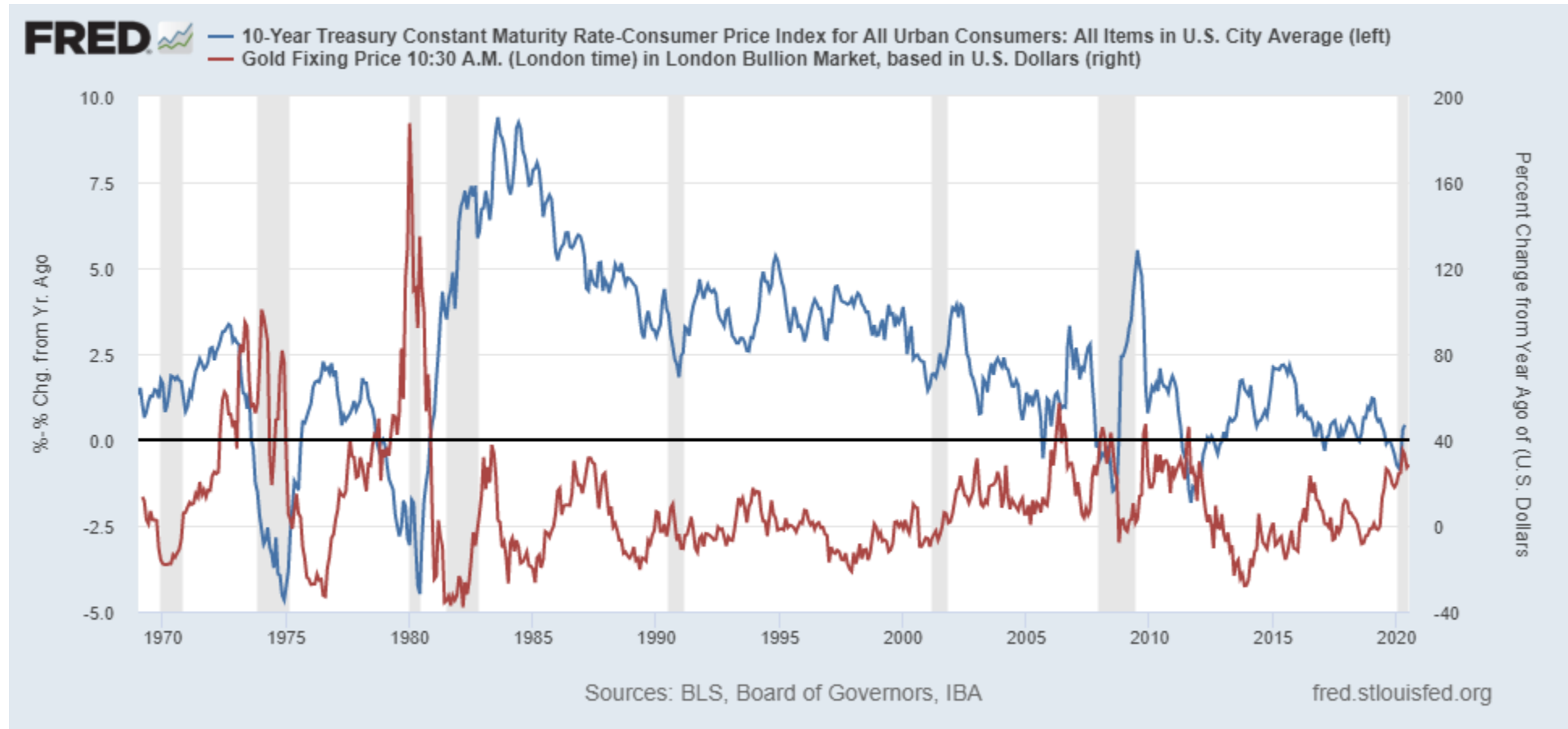


Data Sources: Aswath Damodaran, Robert Shiller

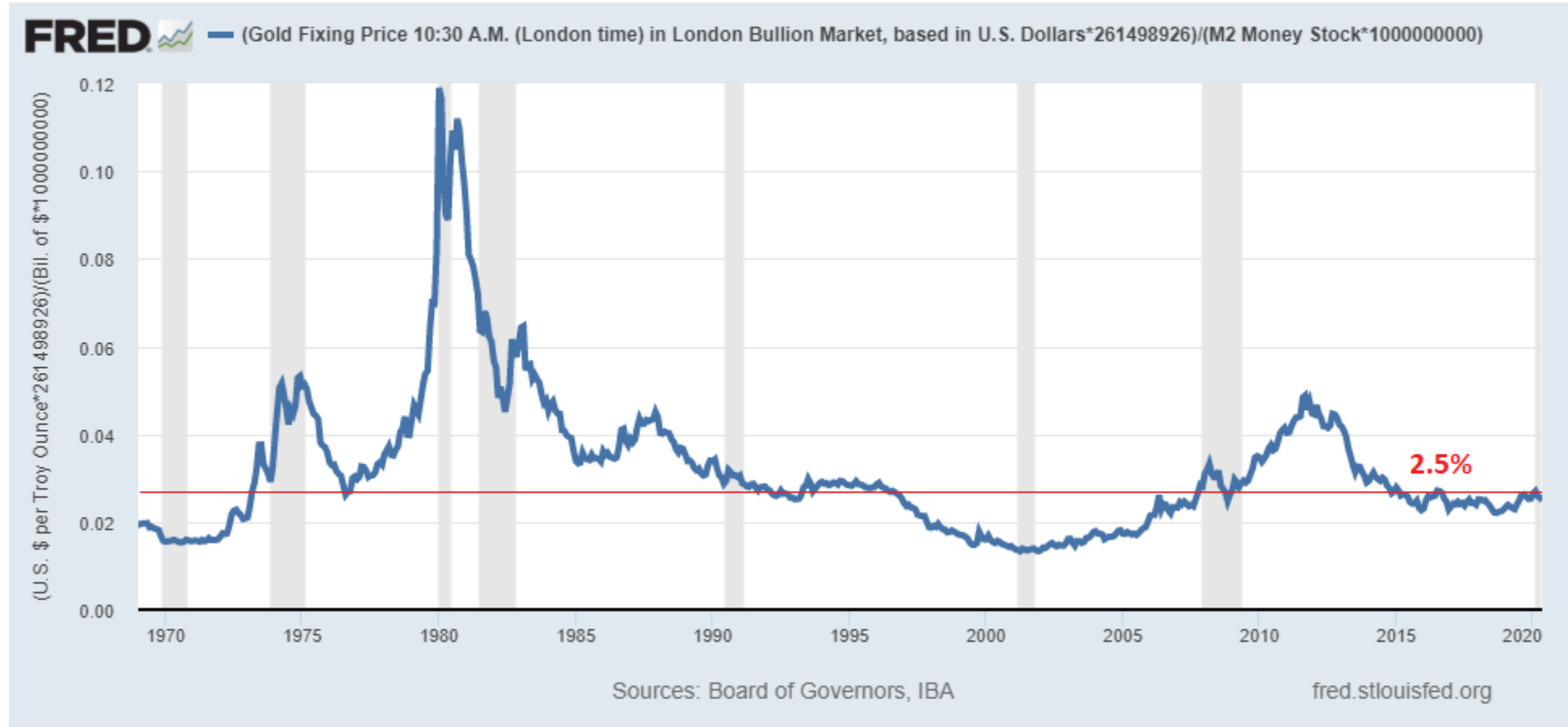
Gold vs Money Supply and Real Interest Rates



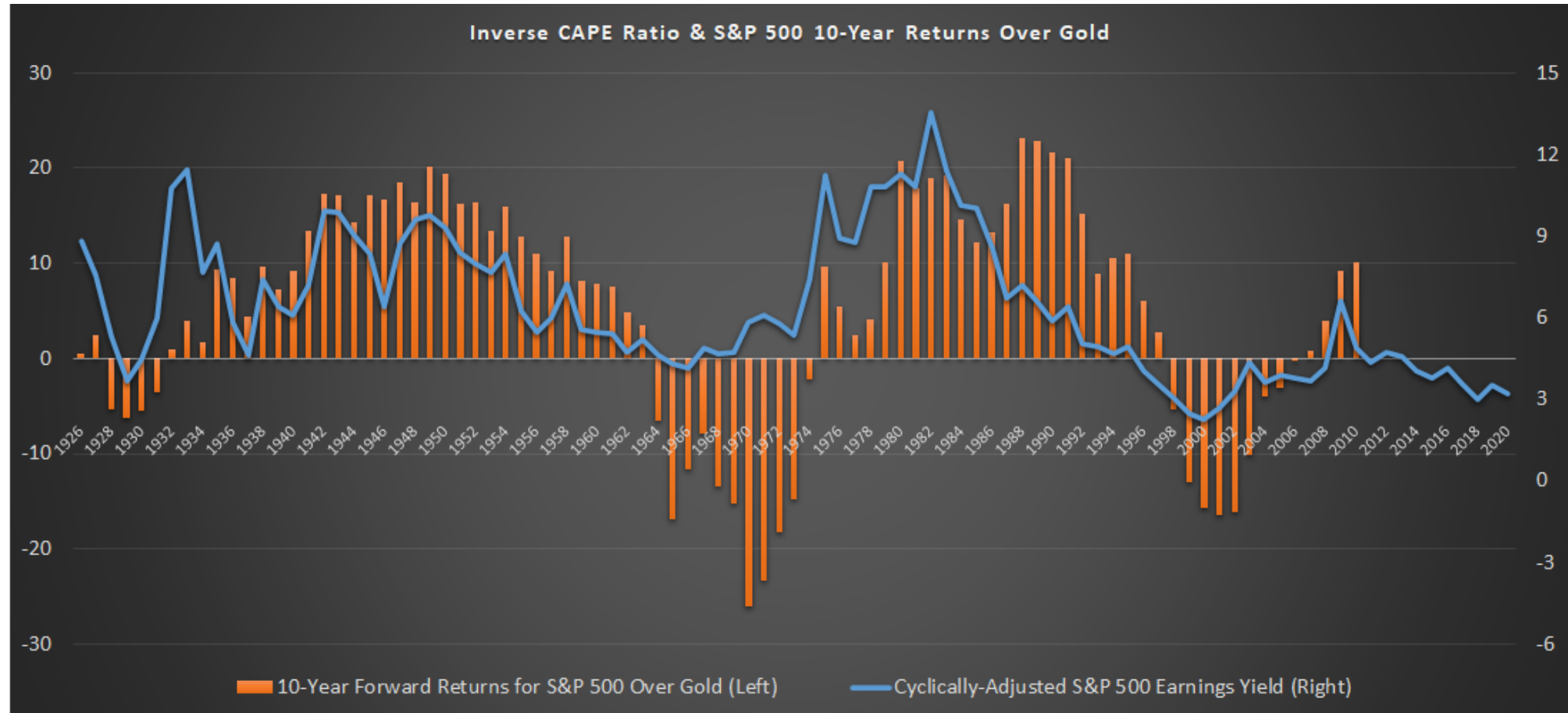
Gold YoY % Change vs Real Interest Rates



U.S. Official Gold Reserve Value as % of M2



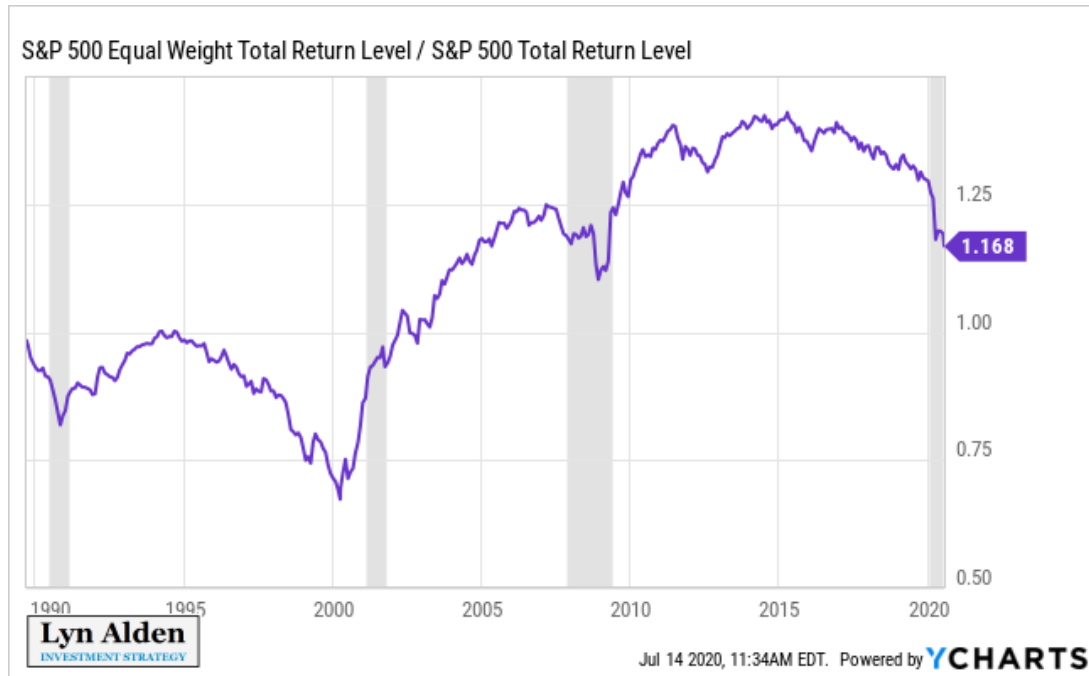
S&P 500 Outperformance vs Gold, and CAPE



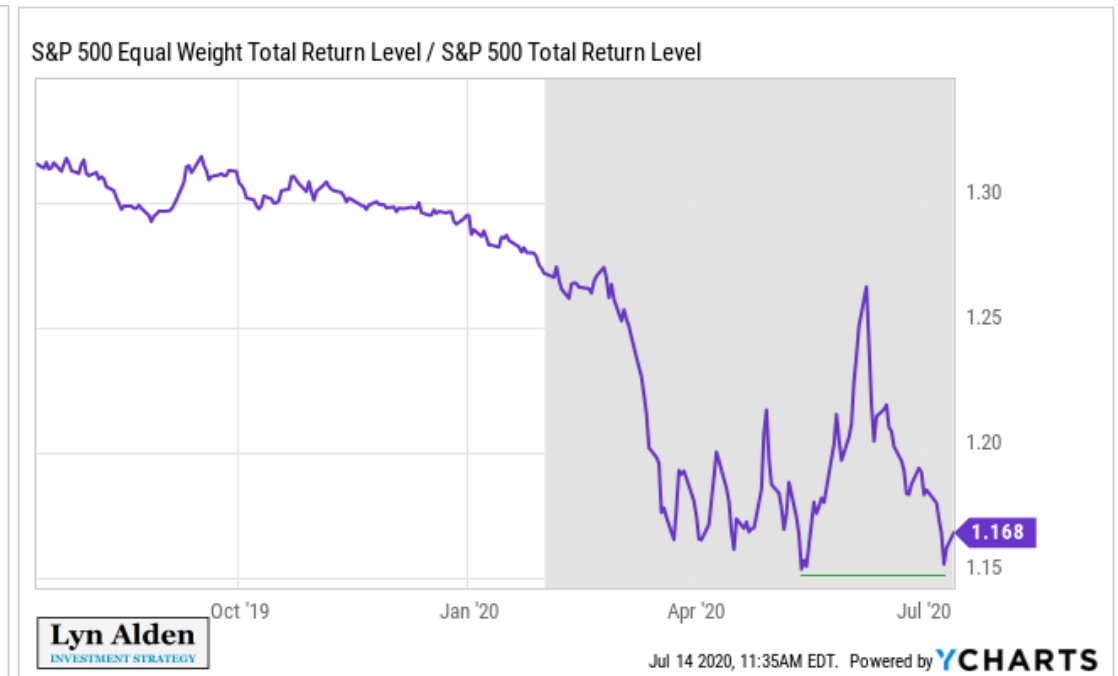
Gold-to-SPX Ratio Breakout: 50-Month MA



Equal Weight vs Market Weight S&P 500 Ratio



Equal weight usually outperforms in the first half of a cycle



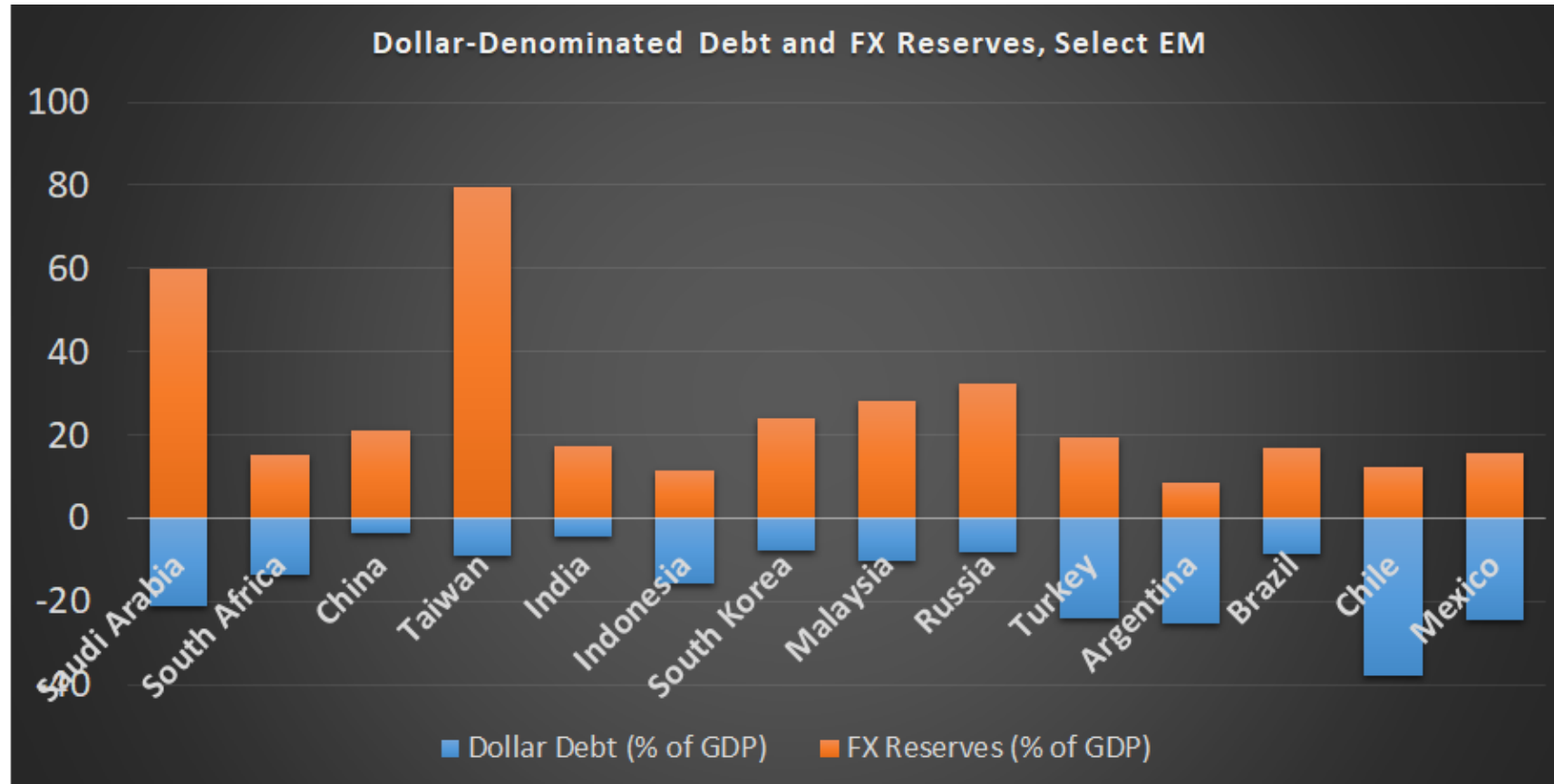
Testing and bouncing off the May lows...

Net International Investment Positions

	NIIP % of GDP		NIIP % of GDP
Argentina	26%	Norway	221%
Australia	-46%	Phillipines	-10%
Brazil	-32%	Poland	-47%
Canada	44%	Russia	22%
Chile	-22%	Singapore	239%
China	15%	South Africa	13%
France	-23%	South Korea	30%
Germany	63%	Spain	-73%
India	-16%	Sweden	22%
Indonesia	-29%	Switzerland	128%
Israel	42%	Taiwan	212%
Italy	-3%	Thailand	-4%
Japan	67%	Turkey	-47%
Malaysia	-5%	United Kingdom	-18%
Mexico	-53%	United States	-52%
Netherlands	84%	Vietnam	-20%

Data Source: IMF

Major EM Reserves and USD Debts (% GDP)



Data Sources: BIS (non-financial corporate and sovereign USD debt), and various central banks (FX reserves)