



## **Zanetti Monday Missive 2022.10.17 Central Banks vs Govt Tug of War**

**"And the king declared, 'Cut the living child in two and give half to one and half to the other.'"**

**~ King Solomon as he determined the real mother's identity  
1 Kings 3:25**

**"Ha-Ha, you fool! You fell victim to one of the classic blunders!"  
~ Vizzini (Villain from *The Princess Bride*)**

Good morning, Everyone!

Last week we saw some massive swings, didn't we?

As we've said recently, that was to be expected and we should keep expecting the same swings moving forward.

This week's missive is a continuation on last week's where I wrote about the US breaking a new debt record of: \$31,000,000,000,000

(don't stop counting those zeroes!).

This week, I'm going to highlight something that's been catching my eye. The tug of war between Central Banks and the Governments they typically work with.

In fact, during the pandemic ... (I don't know if all of you have heard - it's now over ;-)) governments and their central banks had the same goal. Keep the economy growing while shutting down the economy.

And for those of you who fail to see the logic in that goal... join the club!

But how did they achieve that goal? By shutting down the economy while printing massive amounts of money to keep financial growth going.

And what did that lead to? That's right...

**INFLATION!**



So, now where do we stand?

In the US we are in the worst inflationary environment in over 40 years. And the rest of the world? Same thing!

What's the solution?

Depends on who you ask.

If you ask the central banks, the solution is to raise rates, which will hurt the economy but will bring down inflation.

But let's look at what that means.

It means the assets that got over "inflated" (e.g. stock market and real estate) needs to be "deflated."

How do governments feel about deflating assets? They don't like it.

Why?

Because governments are run by humans who want to stay in power (either elected office or even despotic rule). And when the folks who helped put leaders into positions of leadership watch their wealth "deflate" they lose patience."

Think about the voter who goes to the polls after watching their 401k shrink. Are they likely to vote for the status quo? Probably not!

And what are we seeing governments doing right now? Well, here in the US we just saw the "Inflation Reduction Act of 2022" become law. What does that mean? It's an "*investment*" into the economy that

*"should"* reduce inflation.

But what does it mean practically? The US government will spend more money than they currently do. And they currently spend more than they make - which is by definition... INFLATIONARY!

Last week we saw a huge bungle in the UK when the new Prime Minister (Liz Truss) announced the Government would help pay energy bills and cut taxes for their citizens - with the goal of putting more money in their citizens' pockets.



(UK Prime Minister, Liz Truss)

Almost immediately the world started dumping British government bonds - investors assumed the British government would not be able to keep up with their debt payments (how could they if they decrease their tax revenue and increase their spending?).

Within days the Prime Minister announced an about face. That helped the British Investment Markets calm down but now she's facing calls for her immediate resignation. What a mess!

It reminds me of a 007 Gamble that didn't pay off!



This type of tug-of-war is part of what is causing the massive swings in the markets. Investors are trying to guess which way the tug-of-war will go and make bets accordingly.

But it's for these reasons that cooler heads will prevail. While Wall Street, Governments, and Central Banks all make their plays, we are continuing to pursue a strategy of safe haven investing (based on supply and demand economics).

Your Maybe-Miss-Moneypenny-Wasn't-Bond's-Assistant-But-A-Codeword-For-The-Future-British-Pound Financial Advisor,

Walt

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