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Headline: The Big Picture: Back to the Future

Article Link: https://www.bridgewater.com/research-and-insights/the-big-picture-back-to-the-future

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Publication	Bridgewater Associates
Publication Date	January 12, 2024

Tweet: Bridgewater argues we are going "back to the future" entering a regime dominated by higher interest rates, higher inflation, and geopolitical tensions; in this environment cash and "risk free" bonds look more attractive.

Summary: Inflation is no longer a “non-factor.” Even as acute inflation pressures have abated recently, the secular backdrop has shifted from disinflationary to more inflationary. For the first time in over a decade, money isn’t free. Interest rates aren’t zero; real rates aren’t negative. Acute deleveraging is behind us, and household balance sheets are as healthy as they have been in 20 years. For the first time in decades, there is room for households to leverage up in order to finance an expansion more rapid than their income growth. Deleveraging was relatively painless because the government offset it. As a result, the public sector is now as indebted as it has ever been and never so dependent on the Fed to fund it. The US has a kind of “Dutch disease” from its financial assets. US assets are now the lion’s share of global asset markets. That, by default, makes the US a recipient of significant foreign inflows from savers. You can think of American financial assets almost like a “commodity”—one that savers need to park their money in. This leads to a special kind of “Dutch disease” akin to what economies experience when the world purchases their oil or other commodities. The dollar is secularly strong, and US assets have been less vulnerable to poor performance, with ample inflows to finance historically high government borrowing and continue pushing up relative equity valuations. Related: Macro Outlook 2024: The Hard Part Is Over and The Grind Ahead and What Have We Learned About the Neutral Rate?

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Op-Ed/Blog Post, Weekly

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