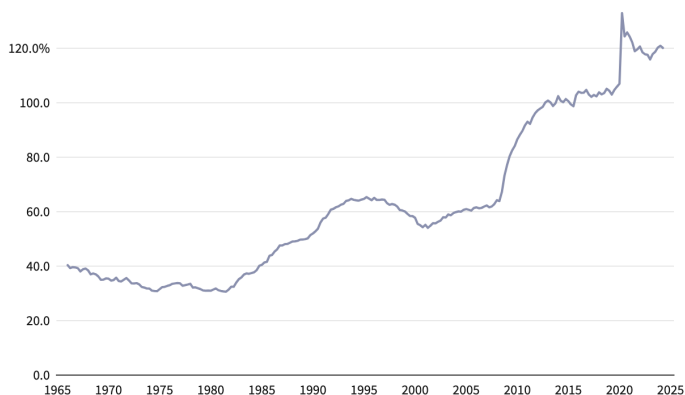


Total Public Debt as Percentage of Gross Domestic Product

Percent of GDP, Seasonally Adjusted



Source: [Federal Reserve Economic Data](#)

Investopedia

Fig. 3, Source: Federal Reserve Economic Data

If there is any market participant that is going to recoil at long-term inflation, it's long-term bond buyers. They are loaning money, getting coupon payments that account for current interest rate expectations, and getting the par value (amount lent) back at the end of the term. For example, if I buy a \$1,000 10-year bond from a company, paying 5%, I'm loaning them \$1,000, and I'm getting \$50 of interest payments every year until year 10, where I get the \$1,000 back, assuming they don't default. If inflation is 5% a year, then the \$1,000 I get back in 10 years is only going to have an equivalent purchasing power (EPP) of \$613.91. Inflation will drag the value of that par payment by nearly 40%. If inflation is 10%, then that \$1,000 will have an EPP of only \$385.54, or a 62% discount.