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Governments are printing money, where should you invest?

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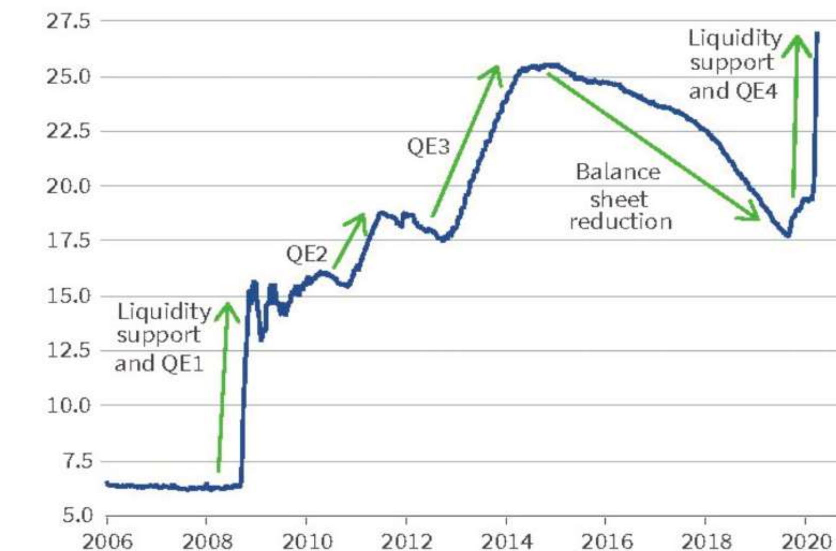
As all of you are well aware the US economy is treading in uncharted waters. The coronavirus has negatively impacted the economic activity of the country deeper and more quickly than anything in recent history. While the great recession of 2007 took months to manifest the current pandemic ground the economy to a halt almost overnight. Stay at home orders caused unemployment numbers to skyrocket and even as some states begin to relax restrictions getting people back to work in the new ‘normal’ will prove to be much

In the midst of such an extreme impediment the federal reserve has been left with virtually no option but to start printing money, figuratively and literally in the form of a $2 trillion dispersal of $1200 checks to every American earning less than $75,000 per year. This is just one piece of the huge stimulus package aimed at preventing a total collapse of the economy which will amount to +$4 trillion before the end of the year. In the days since the true toll the pandemic would exert on the USA became apparent, the federal reserve has announced a policy of unlimited quantitative easing. They have been buying up government treasury bills, bonds and guaranteeing business loans, increasing the debt to levels never seen before.



In traditional economic theory the idea of a country printing money would lead to inflation. This may be true in most countries where an increase in supply will invariably lead to a decrease in the value of the currency. We only have to look at the economic crisis of Argentina and Zimbabwe to see the effects of a runaway monetary policy. The greenback is different. Global trade is conducted in US dollars to such an extent that while the government is printing money at a much faster rate than it is earning through taxes the demand is only increasing as the world seeks a safe haven currency to conduct trade. At the moment deflation is a much more concerning potential outcome, the effects of which are much harder to reverse than inflation. An oil price war which started early in 2020 coupled with the drastic reduction in demand is intensifying deflationary pressure. When deflation takes hold and prices start to decrease it can lead to consumers putting off spending and waiting for lower prices and this cycle can be hard to uproot.

This is not to say that inflation caused by excessive government spending is not possible in the future, only that it is not the most pressing concern in the present. The target of 2%

spending due to low inflation levels.

Headlines of rallies and then subsequent falls in the stock market have become intricately linked to government stimulus announcements and any sign of the opening up of the economy. If we look to the 2007-2009 recession, then these short-lived rallies will continue for an extended period but ultimately continue to manifest as further drops in the overall economy. It may take years before we see another strong bull market as we had in 2019. The current levels of uncertainty will remain and the strategies to profit from swings in the market will swing almost as widely. Volatility will create short-lived opportunity to profit from these swings, the problem is these opportunities can quickly turn into huge losses. The strategy now should be to protect your money and invest in assets which are negatively correlated to cyclical downturns in the market. These are called ‘real assets’ and include such things as real estate, commodities, farmland and means of production. Below is a summary of real assets and the sensitive of each class to different adverse economic scenarios.

Asset	Growth Sensitivity	Inflation Sensitivity	Accessibility	Data Availability & Quality	Specific Risks	Sector Differences
Real Estate Core	mid	mid	high	high	mid	mid
Real Estate Value-Add	high	mid	mid	mid	mid	mid
Real Estate Opportunistic	high	mid	mid	mid	mid	mid
Real Estate Debt	low	low	mid	low	low	mid
REIT	high	mid	high	high	low	high
Natural Resource	high	high	mid	mid	high	high
Energy Equity	high	high	high	high	low	high
Infrastructure Brownfield	mid	mid	mid	low	mid	mid
Infrastructure Greenfield	mid	low	low	low	high	high
MLP	high	mid	mid	mid	low	low
Timberland	mid	mid	mid	mid	high	mid
Farmland Annual Crops	mid	high	mid	mid	mid	mid
Farmland Permanent Crops	low	mid	low	mid	high	high
TIPS	low	high	high	high	low	low
Commodity	high	high	high	high	low	high
Gold	low	high	high	high	low	low
Currency	low	mid	high	high	mid	mid

Note: Accessibility implies ease of investment and availability of open-end funds. Specific risks imply risks associated with the asset such as geography, legal, etc. Sector differences imply how varied the performance and macroeconomic sensitivities can be within the asset class. Assets in bold are private assets with limited liquidity.
Source: FRED

As uncertainty and economic hardship seem to be the only thing guaranteed through the remainder of 2020 it is worth looking at the hard assets which will always be needed. People will need to eat, and farmland actually tends to increase in value in times of recession as food prices increase. If the recession is prolonged and leads to a large number of mortgage defaults demand for rental properties will increase as people need shelter. If huge government stimulus spending does eventually lead to an erosion in the value of the US dollar gold will surely increase as well. Real assets will provide a significant hedge to the hardship that is to come in the US economy. Strategic undervalued purchases within this class is likely to provide the best opportunity to protect and grow your investment with the least downside.

LEADING ECONOMIC INDICATORS

2	Organization for Economic Cooperation & Development ("OECD")	99.95	96.00	97.50	YOY % < 0.7%	↓	95%
3	Chicago Federal National Activity Index ("CFNAI")	0.17	5.33	1.18	< -0.7	⇔	90%
4	Dodge Momentum Index (MHC)	169.8	120.5	124.7	> 100	⇔	90%
5	Starpoint Strategic Investment Indication Model ("SSIM")	-	90	90	> 100	↓	90%
6	Debt as a percent of Gross Domestic Product ("GDP")	105%	136%	136%	< 90%	↓ ↓	85%
7	Inverted Yield Curve Ratio	0.86	0.50	0.46	No Inversion	⇔	80%
8	NFIB US Small Business Optimism Index	107.9	100.6	98.8	> 95	↓	80%
9	Architecture Billing Index (ABI)	51.1	40.0	40.0	> 50	↓	75%
10	Institute for Supply Management-Manufacturing Report on Business ("PMI")	59.8%	52.6%	54.2%	> 50%	⇔	70%
11	University of Michigan Consumer Sentiment Index	100.1%	78.1%	72.5%	> 80	↓ ↓	70%
12	Crude oil price per barrel	$60.73	$41.71	$44.15	< 10% increase	↑	70%
13	Consumer Price Index ("CPI")	252.4	257.8	259.1	NA	⇔	NA
14	U.S. unemployment rate	4.0%	11.1%	10.2%	< 5%	↓ ↓	NA
15	Conference Board's Leading Economic Index (LEI)	111.8	102	104.4	> 100	⇔	
16	"Fed" Funds Rate versus Neutral Rate	2.25% vs 2.75%	.08% vs 2.5%	0.1% vs 2.5%		↑	

Notes:

1. ECRI Index is one of the most historically accurate forecasts available.
2. OECD Index is another historically accurate measure. When index has a year over year decrease greater than 0.7% it has signaled a recession 100% of the time.
3. When Index falls below negative -0.70 it has signaled a recession 92% of the time over the last 40 years.
4. A 12-month leading indicator for construction spending for non-residential buildings issued monthly.
5. Starpoint proprietary model for economic forecasts and strategic investment modeling. Figures below 100 signal recession and defensive posture. Above 100 indicate growth and aggressive posture.
6. Reinhart and Rogoff International study on correlation of impact on GDP with sovereign debt levels. Above 90% has strong negative impact on economy.
7. Very reliable indicator of past recessions based on investor yield expectations.
8. The level indicates optimism relative to 1986 (baseline of 100). A positive % change indicates improvement while a negative % change suggests a decline in optimism.
9. ABI reflects survey of architectural firms measuring the percentage of firms reporting significant increase/decrease in activity.
10. Supply side demand index that is an average forecast. Figures above 50% indicate demand and expansion.
11. Consumer Sentiment Index is another average indicator of retail demand. Figures above 80 are positive.
12. Increases in crude oil prices greater than 10% have a broad negative impact on economy.
13. Looking to indexes as indicators of demand and broad fundamentals to imply expansion/growth.
14. General rule that unemployment above 5% is a negative indicator.
15. LEI captures the pulse of the business cycle and has been a strong indicator of economic health.
16. When Fed Funds rate are below neutral, the economy has room to expand. When the Fed Funds rate exceeds neutral, then this restrictive stance will likely slow growth and eventually trigger a recession.

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