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The week in review

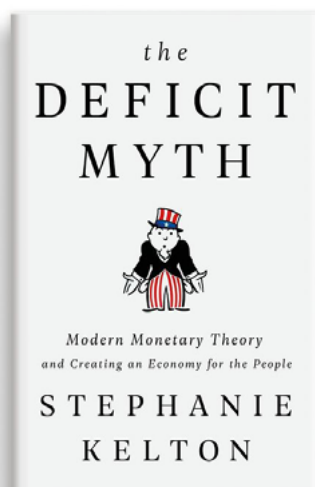
# MMT or TNT?

LATEST

This week, stock markets are up a little whilst bonds yields are flat.

Regarding the coronavirus, investors have seen good and bad news this week. The good news is Moderna's drug trial yielded positive results as neutralizing antibodies were observed in all participants. The bad news is that there has been no improvement in the Optimus Capital ICU Severity Index nor in the rate of change of deaths in the US Sunbelt states.

However, the topic of this week's update is not the virus. Recently, the authors of this piece started reading two books on their summer reading list: Meditations by Marcus Aurelius (the Roman emperor) and The Deficit Myth by Stephanie Kelton, which discusses Modern Monetary Theory, or 'MMT'.



Modern Monetary Theory, or 'MMT'

How much is too much

Biden announces green plan

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MMT has become even more important for investors to understand given the significant shift in polls towards Biden and a Democratic clean sweep in the US elections. In a nutshell, MMT argues that the US economy has operated most of the time below potential output. This means there is lots of room for the government to launch new fiscal programmes to raise people's welfare without inflation sharply increasing or the debt burden becoming too onerous. A veritable 'free lunch'! Importantly, politicians would be in charge of increasing or decreasing the size of these programmes depending how low or high inflation is.

### How much is too much

In reality, MMT means that a partisan government, not the independent Fed, will choose the correct inflation measure to follow (as there are several), decide how much is 'too much' inflation (is it 2%, 3%, 4%?) and decide which programmes to cut or who to tax more.

### Biden announces green plan

Many people think that MMT is akin to economic dynamite, with the potential to cause inflation and government deficits to explode with no chance of controlling them. The concern for investors is that as Biden looks to capture the Democratic left, he may be forced to include aspects of MMT in his economic policy. At the very least, his rhetoric suggests he will pursue an expansive fiscal policy as MMT calls for. For example, on Tuesday Biden announced a \$2tn green energy and infrastructure plan.

If MMT does become economic policy, what 'safe' assets could investors look to own? Considering the large amounts of debt needed to finance MMT and the sheer number of dollars that will be printed as this debt is issued, perhaps US government bonds and the USD will be less of a 'safe haven'.

Instead, gold, inflation linked bonds and other safe haven currencies, such as Japanese Yen, could become the new 'safe' assets of choice. As things stand, investors should look to keep their portfolios diversified, ensuring they own a variety of risk-off assets to complement their equity investments.



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