

WEBINAR: Jan. 2013

Topic 1: The Paradox of US Politics

Topic 2: Five Possible Threats to the US Bond Market



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Topic 1: The US Political Situation

Fundamental Paradox in American Politics

- 70% of the voters have become “socially liberal”
 - 70% of the voters now describe themselves as “fiscally conservative”
 - Neither party represents us
- The Greatest Risk to the US Economy is “Policy Risk”

Topic 2: Five Possible Threats to the US Bond Market

–Why Each of these Is Exaggerated in the Press–

Drivers of Higher Bond Yields

Likelihood 2013-2014

- | | |
|---|-----|
| 1. Demand-Pull Inflation (Vietnam War) | .1 |
| 2. Cost-Push Inflation (Commodities) | .2 |
| 3. Wage-Price Spiral (1970s) | .1 |
| 4. Money-Printing Inflation | .2 |
| 5. Shift away from US Assets by Foreign Investors | .35 |
| 6. Shift away from US Bonds by US Investors | .3 |

A PARADOX

The threat that “disenchanted foreigners will stop funding US deficits” is *false* and has no meaning.

- The nations “net capital inflow” will continue to fund an unchanging US trade deficit.
- Thus the dollar will fall—bond yields will rise little—to attract foreign capital.
- It is when *BOTH* foreign and US investors impose higher risk premia that US bond yields will rise.

Contact Information



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