



# Investing in Flation:

## Surviving Financial Instability

MOI Latticework: The Yale Club, NYC

December 13, 2022

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President and Chief Investment Officer



# Important Disclosure

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## Credit

- Total, Corporate, Household, Federal Debt
- Fiscal and Monetary Policy
- Central Banks and Money

## Inflation, Rates and Stock Prices

- Activist and Reactive Central Banks
- Stocks In the 1970s
- Deflation to Inflation to Hyperinflation

## End Game

- Weimar Germany
- Hyperinflation
- Stock Market Reaction

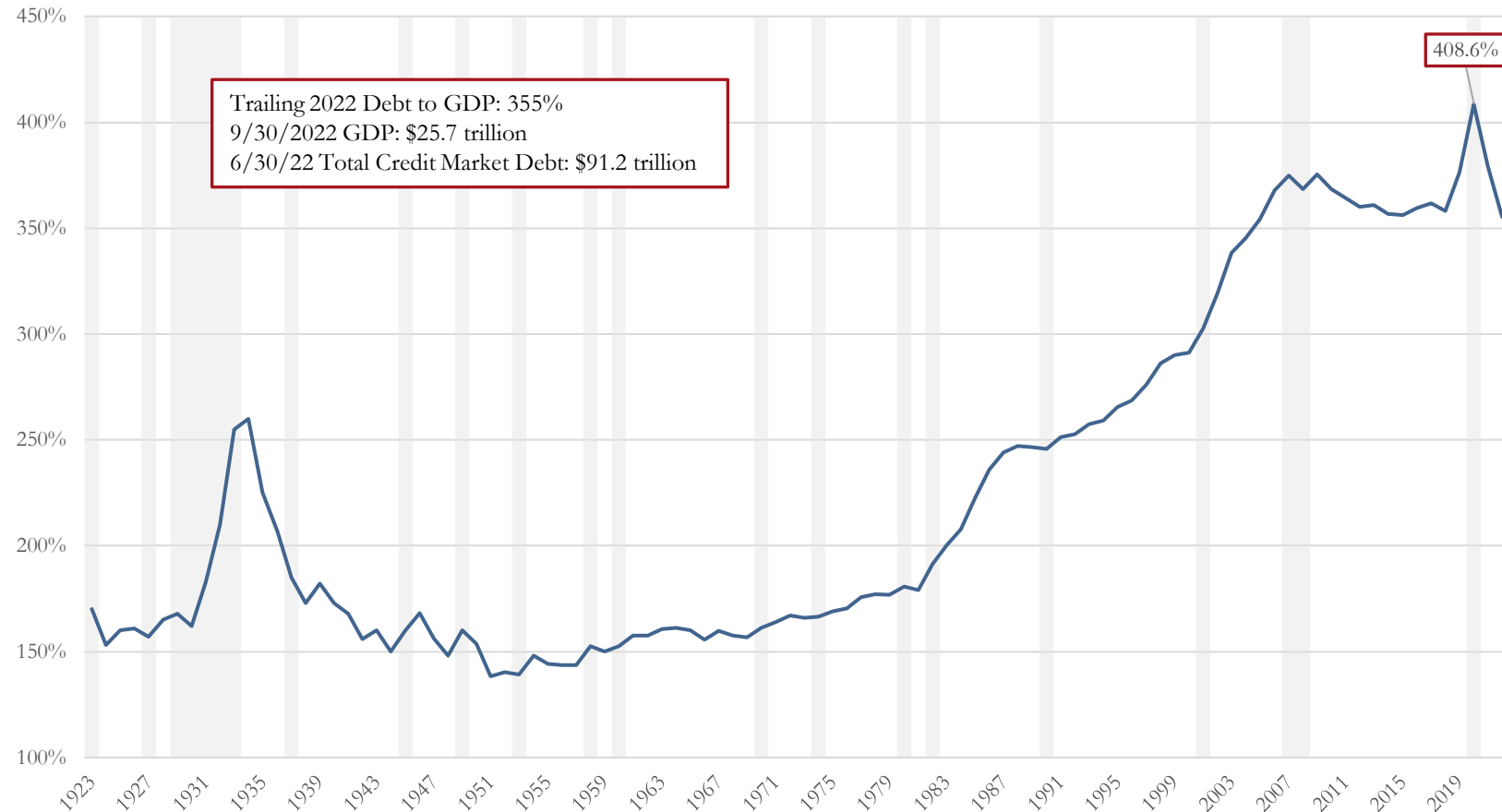


# Total US Credit Market Debt to GDP

Credit

Inflation, Rates and  
Stock Prices

End Game



1923-1944: Annual interpolated GDP (including estimates prior to 1929) used prior to 1946. Domestic nonfinancial Debt used prior to 1946. As of December 1946, Domestic Nonfinancial Debt represented 99.4% of Total Credit Market Data  
1945 to 2022: St. Louis Federal Reserve; FRED

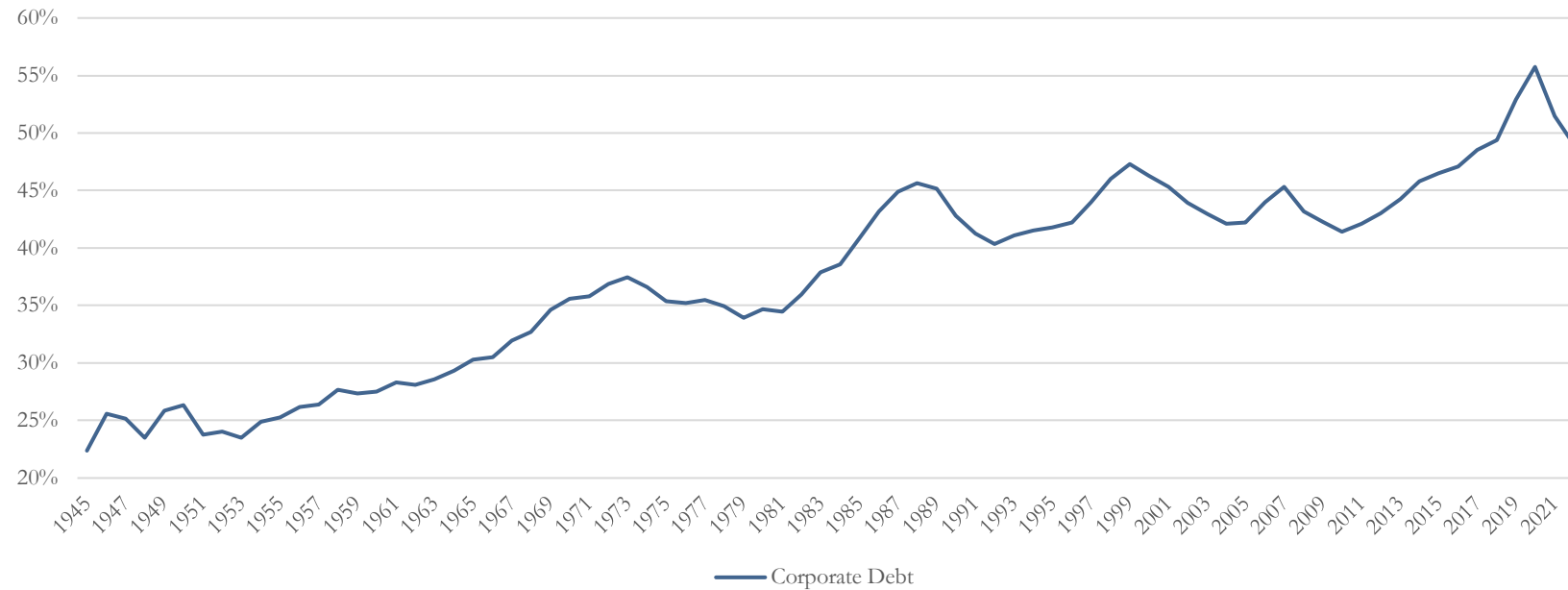


Credit

Inflation, Rates and  
Stock Prices

End Game

# US Corporate Debt to GDP



Source: St. Louis Federal Reserve; FRED. Nonfinancial Corporate Business; Debt Securities and Loans; Liability

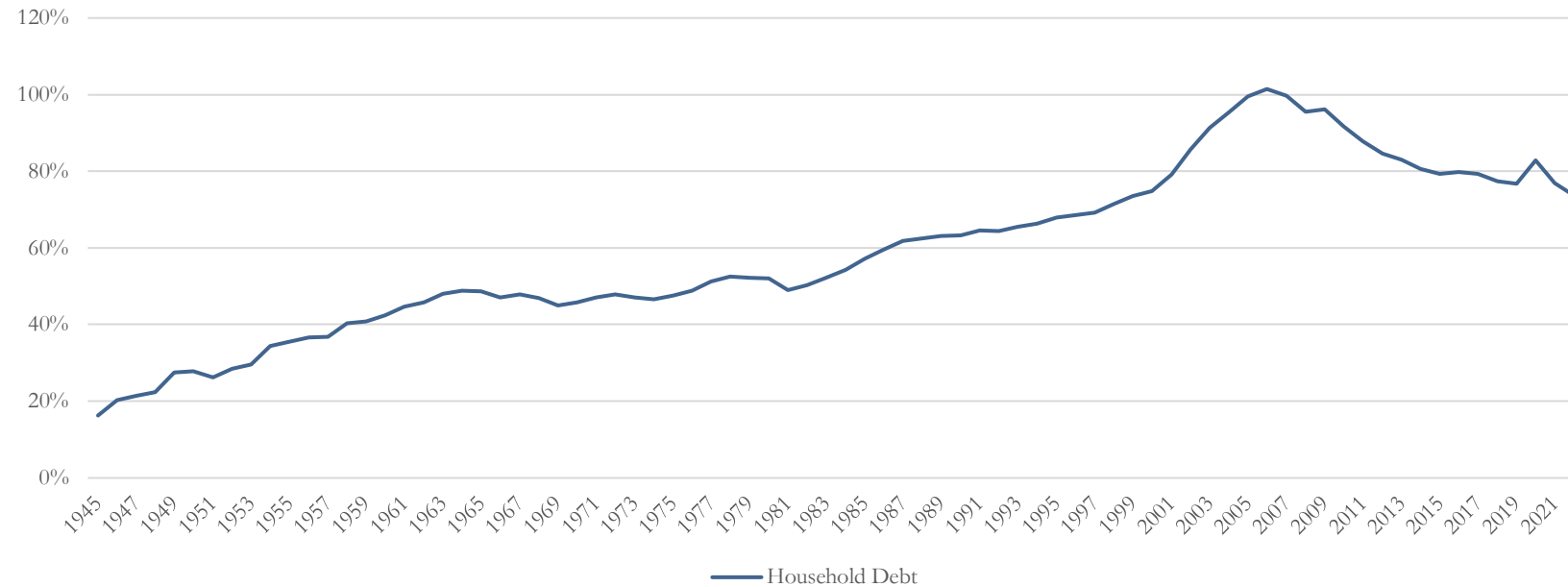


Credit

Inflation, Rates and  
Stock Prices

End Game

# US Household Debt to GDP



Source: St. Louis Federal Reserve; FRED. Households and Nonprofit Organizations; Consumer Credit; Liability

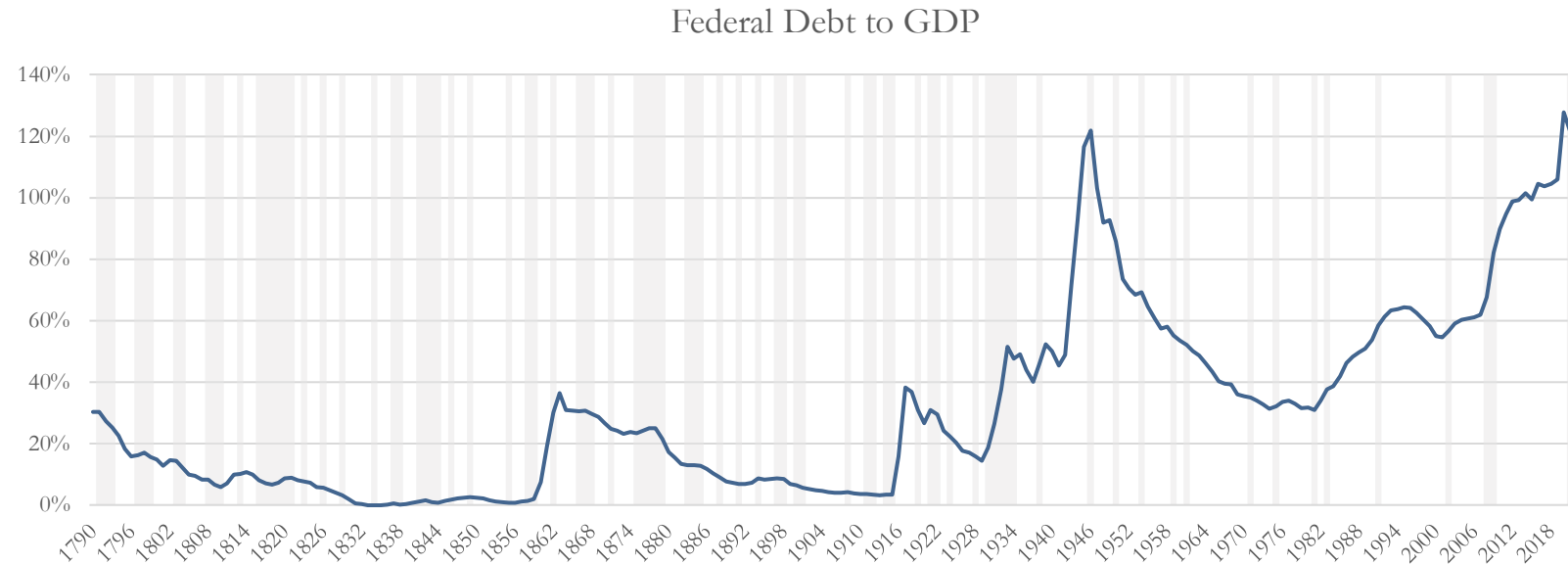


# Federal Debt to GDP

Credit

Inflation, Rates and  
Stock Prices

End Game



Public Debt 1790-1938: Congressional Budget Office: Historical Data on Federal Debt Held by the Public (July 2010). 1939 to 2022: St. Louis Federal Reserve; FRED Gross Debt GDP 1790-1947: Congressional Budget Office. 1947-2022: St. Louis Federal Reserve; FRED

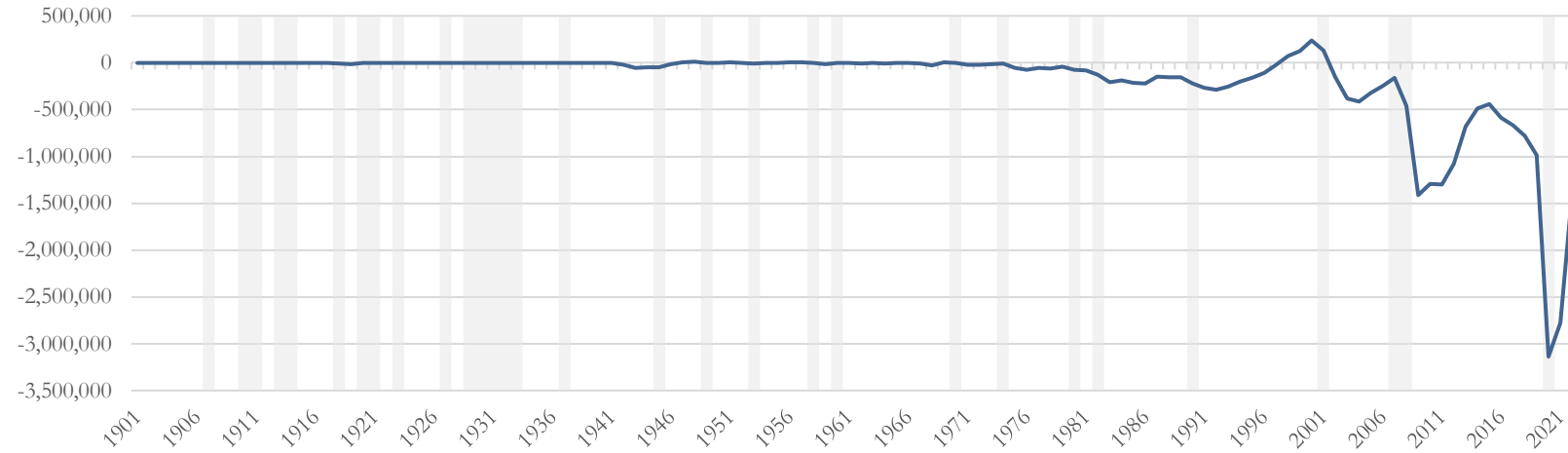


Credit

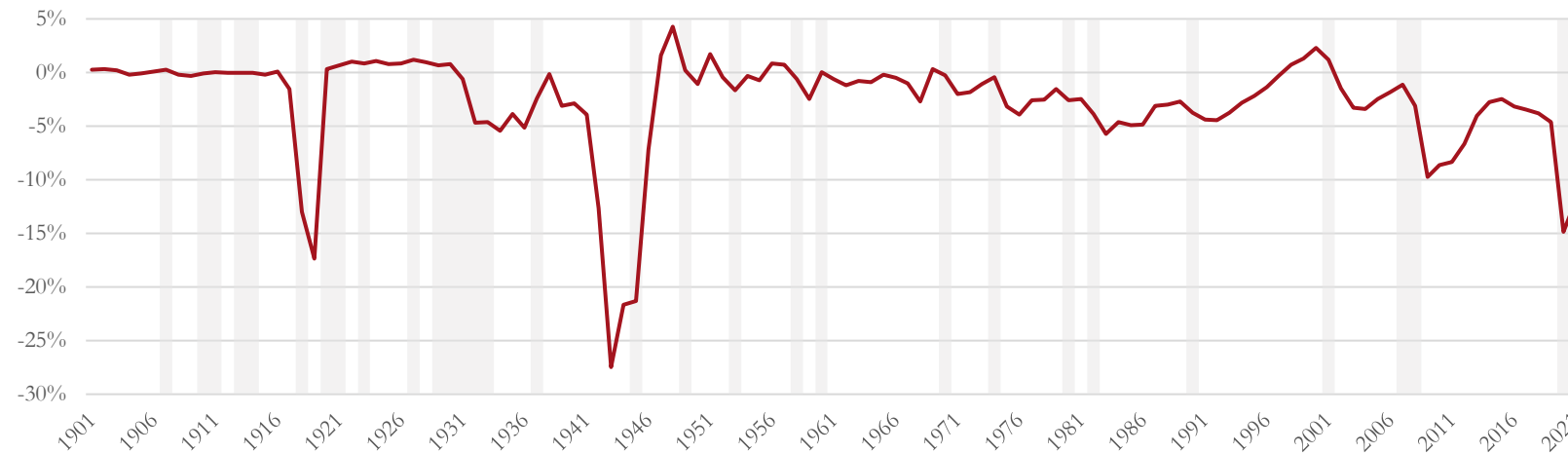
Inflation, Rates and  
Stock Prices

End Game

US Fiscal Deficit



Fiscal Deficit to GDP



Source: St. Louis Federal Reserve; FRED





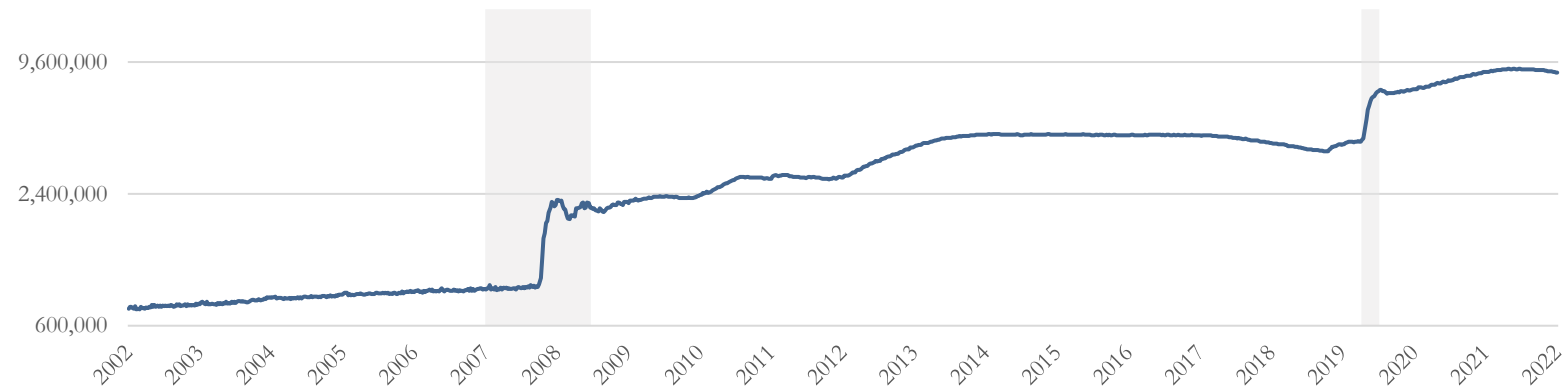
# When You Own the Printing Press

Credit

Inflation, Rates and  
Stock Prices

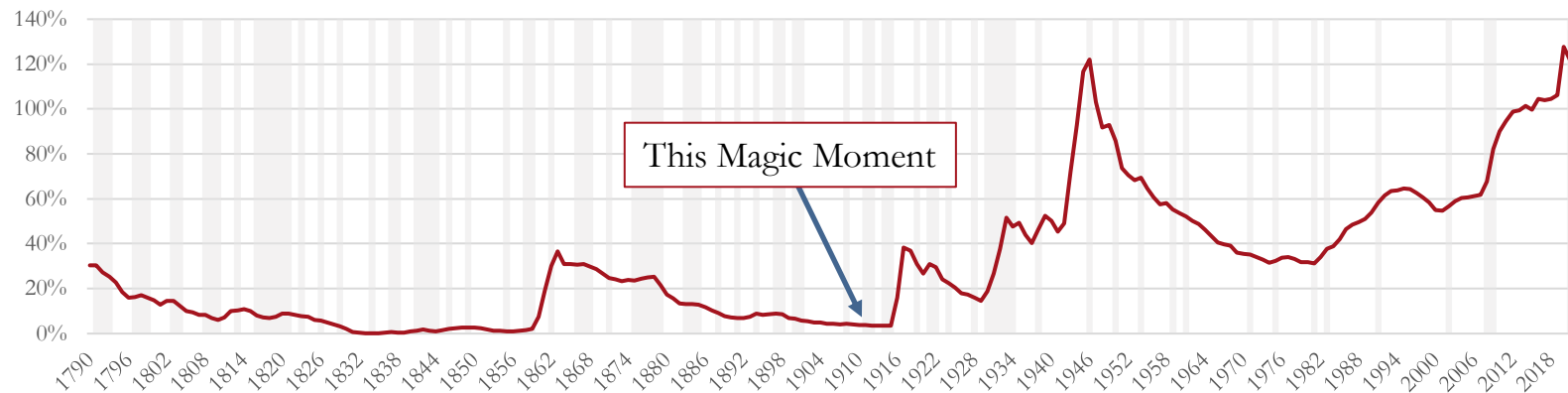
End Game

Federal Reserve Balance Sheet (Millions of USD)



Source: St. Louis Federal Reserve; FRED

Federal Debt to GDP



US Federal Debt 1790-1938: Congressional Budget Office: Historical Data on Federal Debt Held by the Public (July 2010). 1939 to 2022: St. Louis Federal Reserve; FRED Gross Debt  
US GDP 1790-1947: Congressional Budget Office. 1947-2022: St. Louis Federal Reserve; FRED



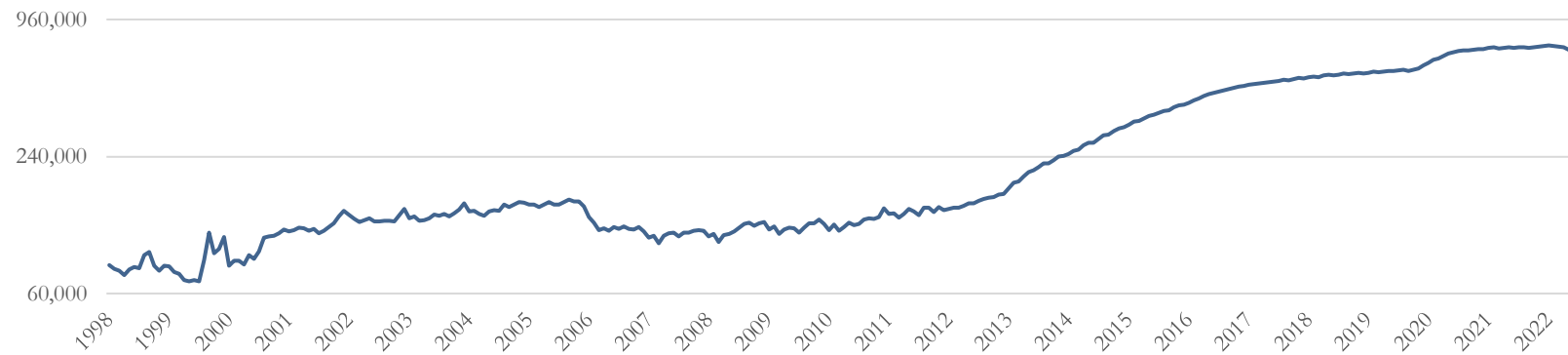
# Japan

Credit

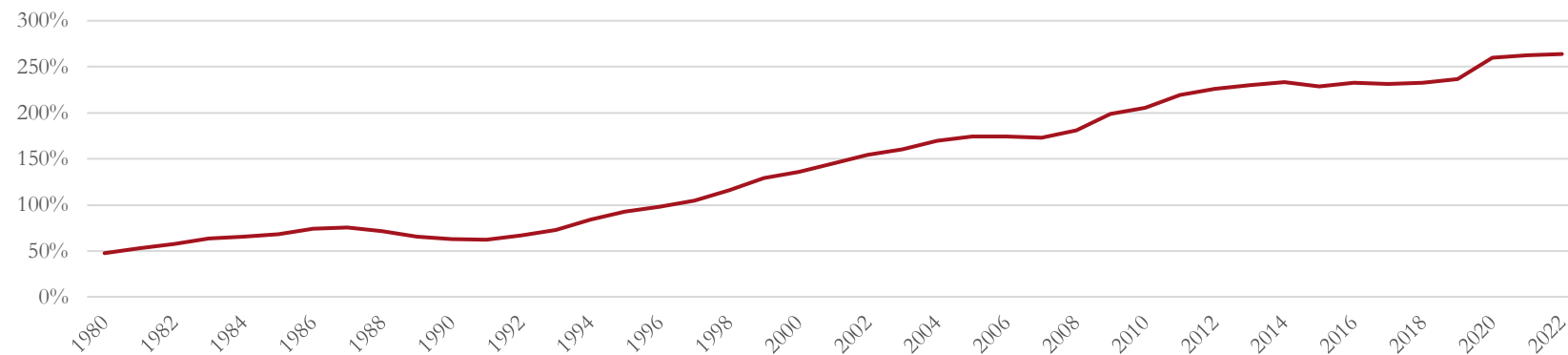
Inflation, Rates and  
Stock Prices

End Game

BOJ Balance Sheet (Billions of JPY)



Government Debt to GDP



BOJ Balance Sheet: St. Louis Federal Reserve; FRED  
Japanese Government Debt: St. Louis Federal Reserve; FRED  
Japanese GDP: World Bank



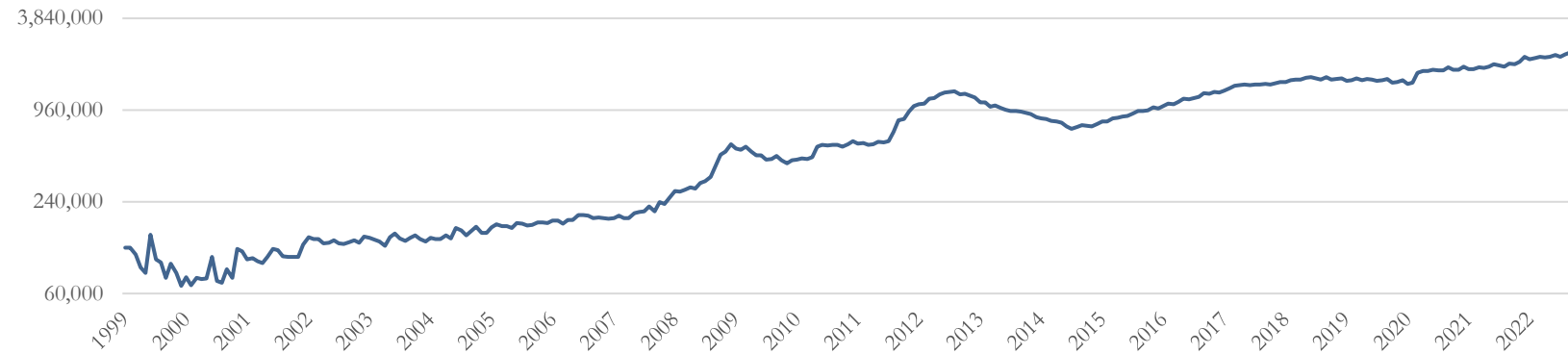
# Europe

Credit

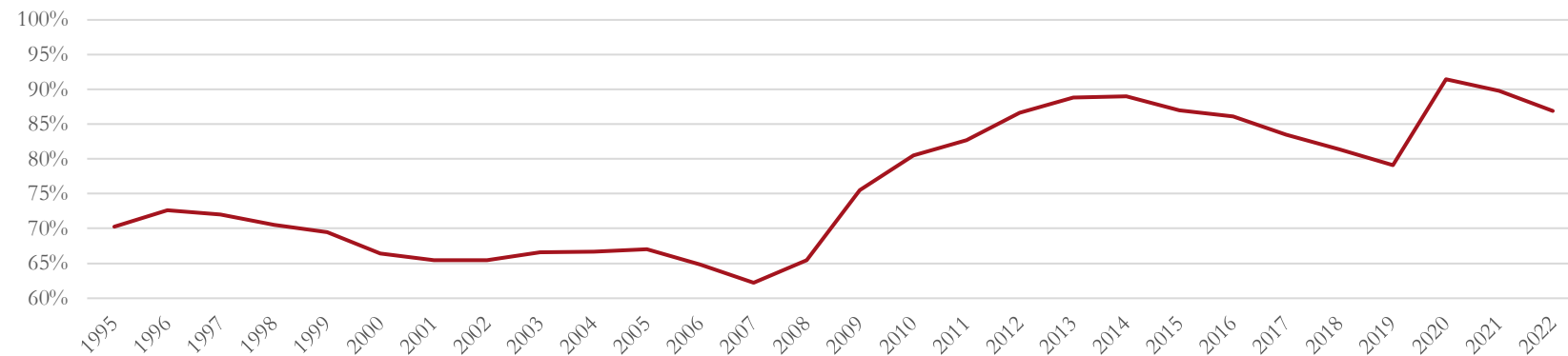
Inflation, Rates and  
Stock Prices

End Game

ECB Balance Sheet (Millions of EUR)



EU Government Debt to GDP



ECB Balance Sheet: ECB Statistical Data Warehouse  
EU Government Debt and GDP: IMF DataMapper



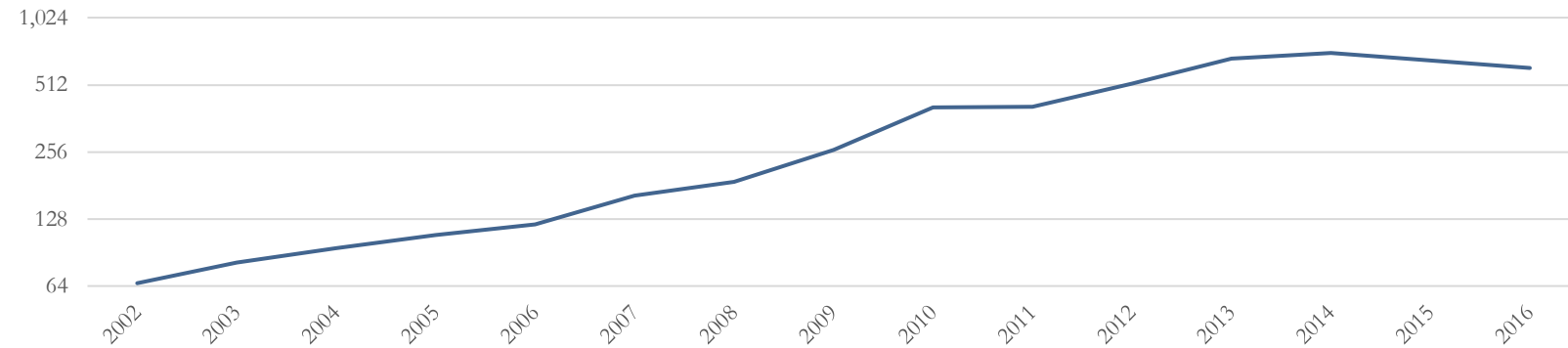
# Great Britain

Credit

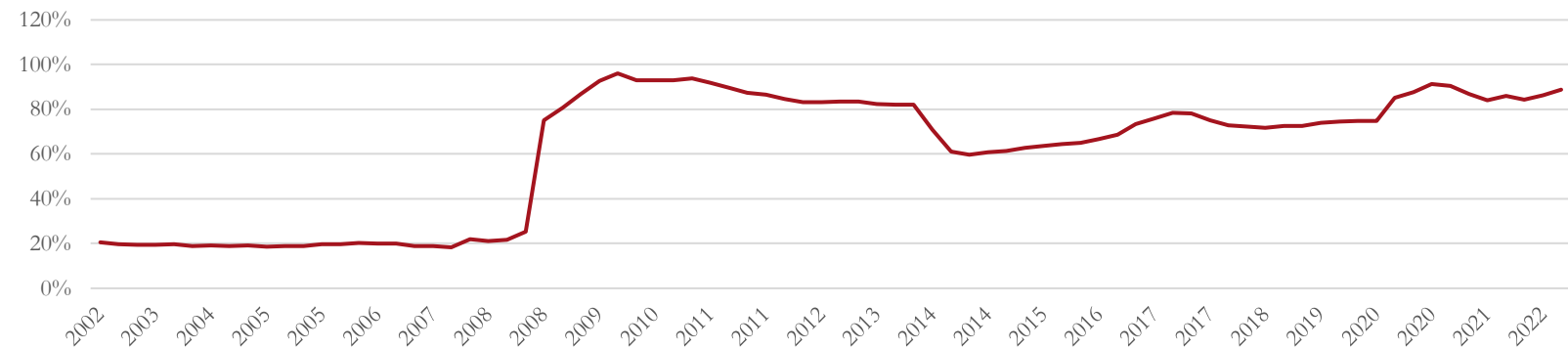
Inflation, Rates and  
Stock Prices

End Game

Bank of England Assets (Billions of GBP)



UK Government Debt to GDP



BOE Balance Sheet: St. Louis Federal Reserve; FRED  
UK Government Debt and GDP: Bloomberg



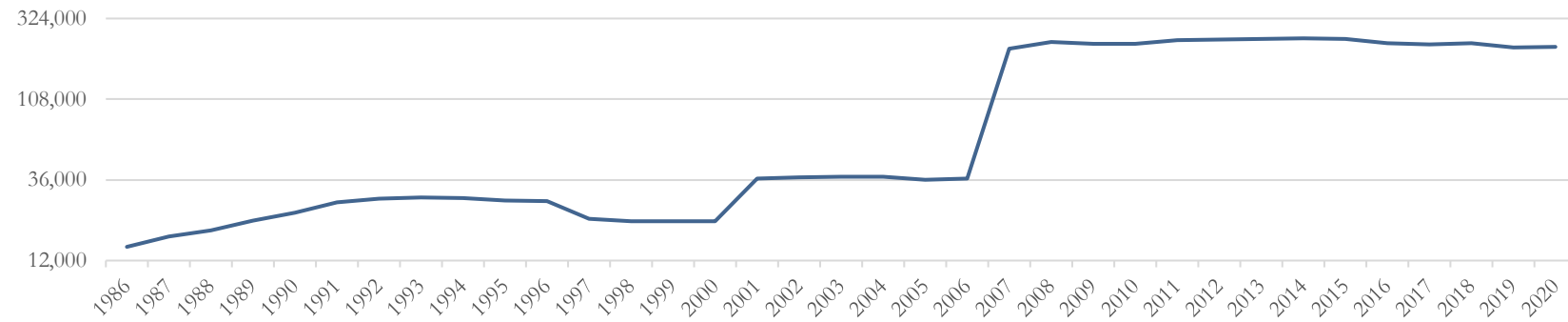
# China

Credit

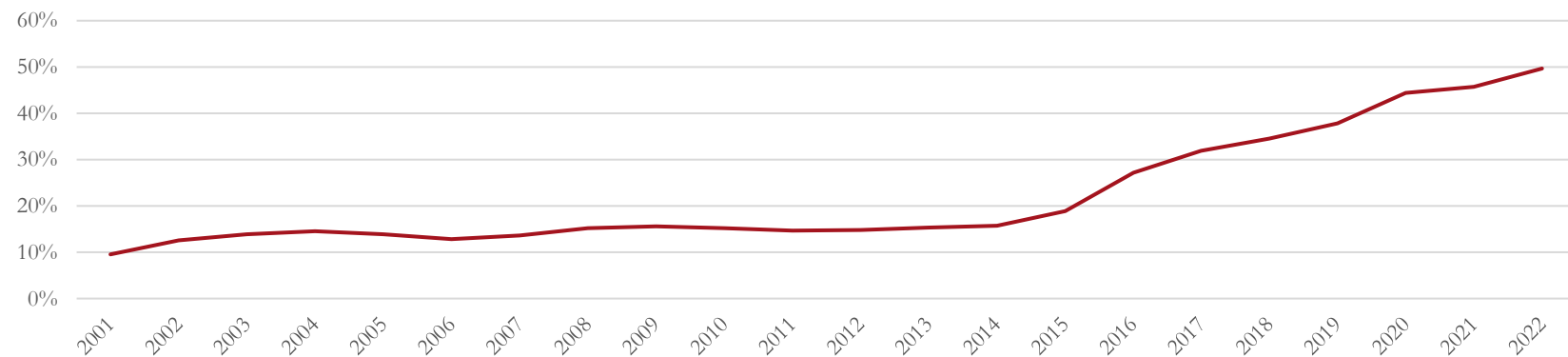
Inflation, Rates and  
Stock Prices

End Game

PBOC Balance Sheet (Millions of USD)



China Government Debt to GDP



Source: St. Louis Federal Reserve; FRED

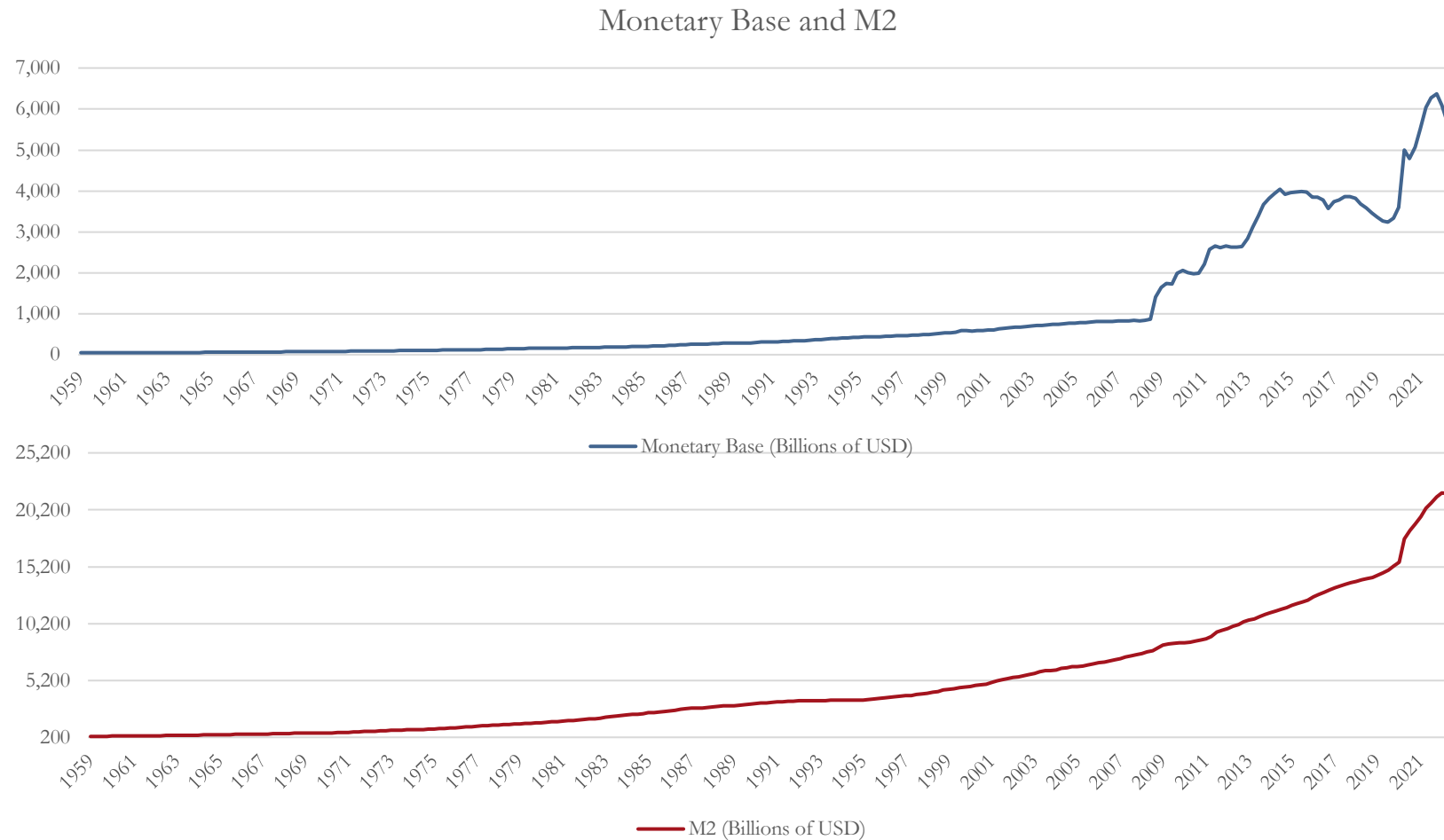


# Monetary Base vs. M2

Credit

Inflation, Rates and  
Stock Prices

End Game



Source: St. Louis Federal Reserve; FRED



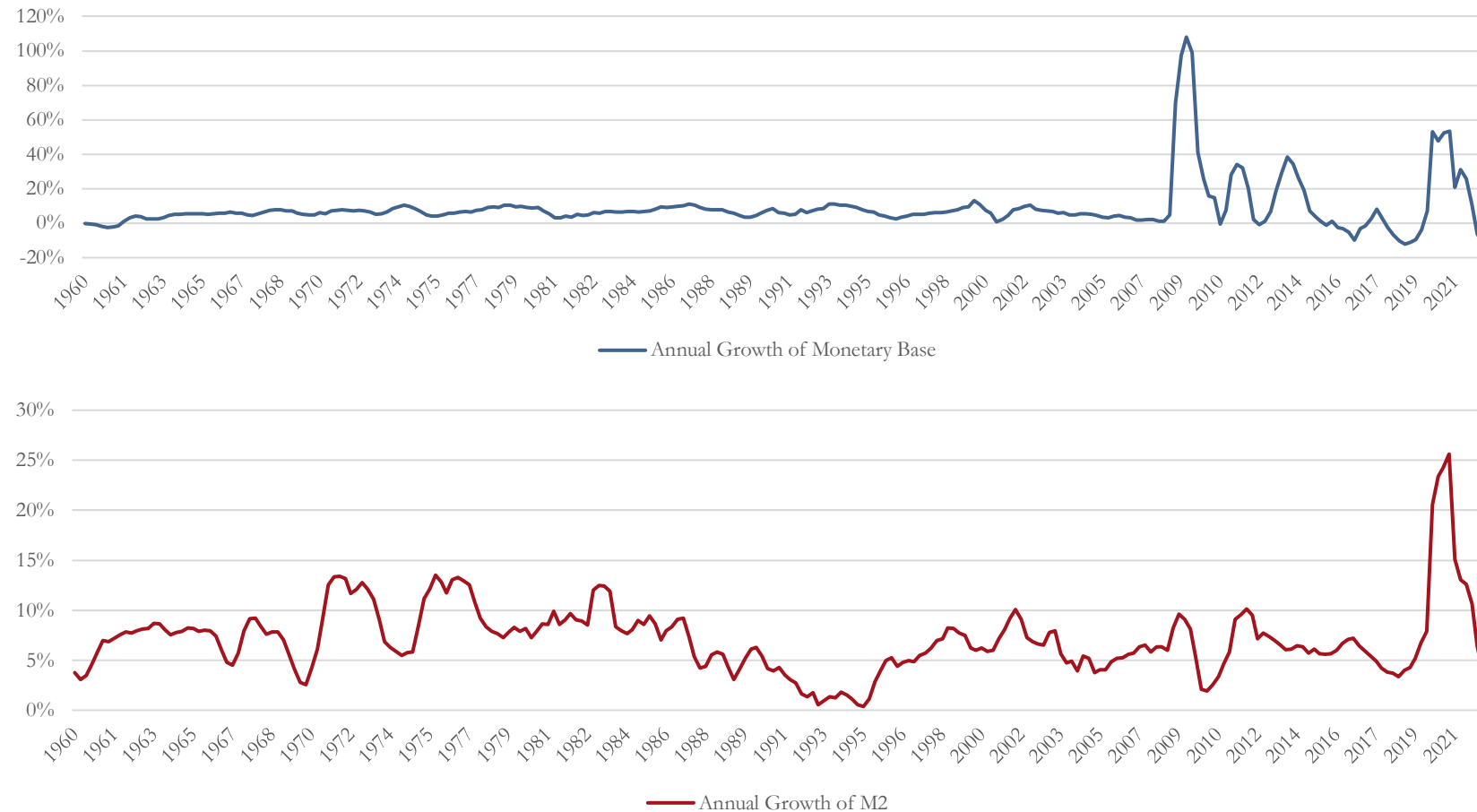
# Monetary Base vs. M2

Credit

Inflation, Rates and  
Stock Prices

End Game

Annual Growth of Monetary Base and M2



Source: St. Louis Federal Reserve; FRED

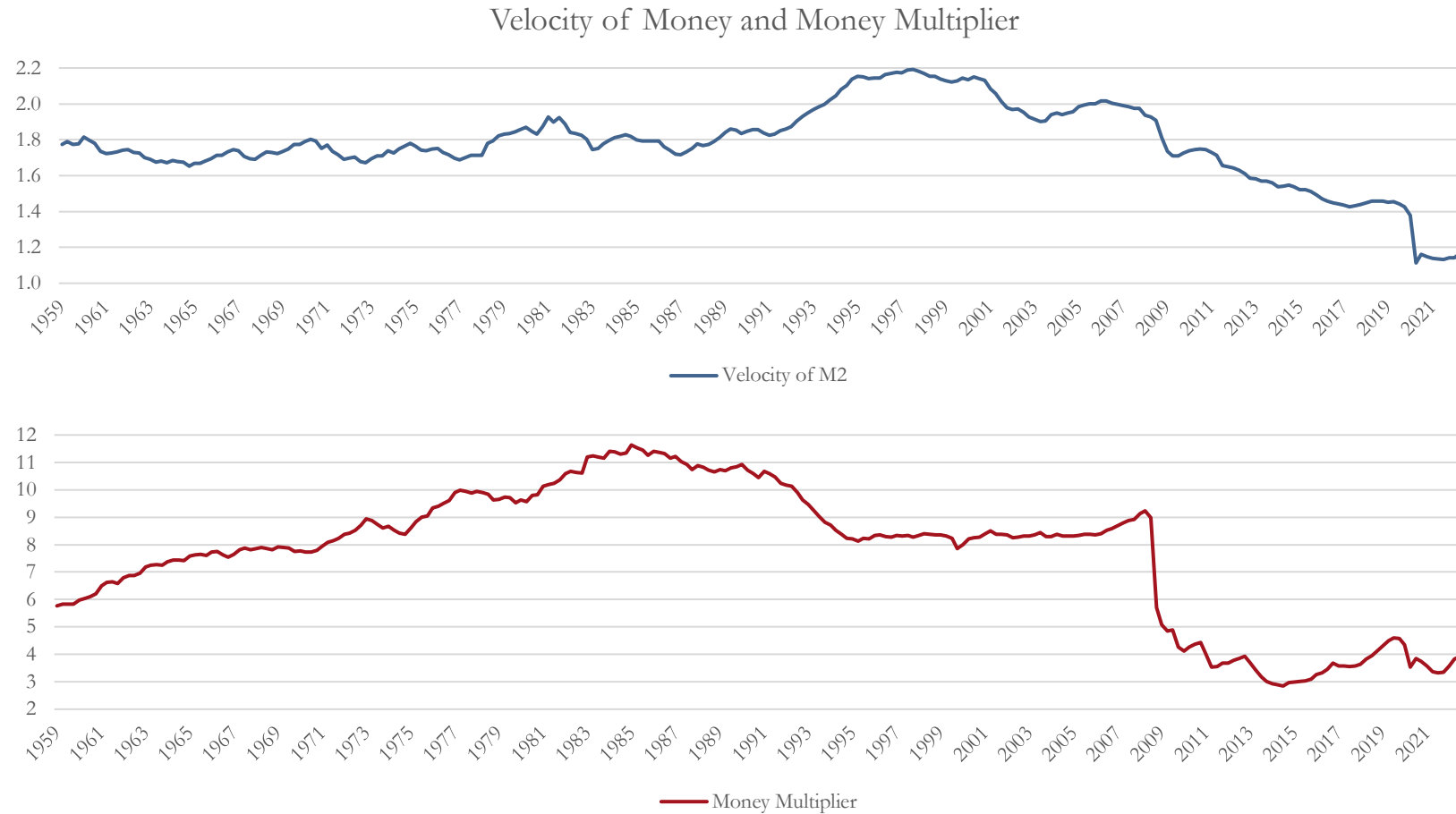


# Diminishing Effects of Monetary Policy

Credit

Inflation, Rates and  
Stock Prices

End Game



Source: St. Louis Federal Reserve; FRED





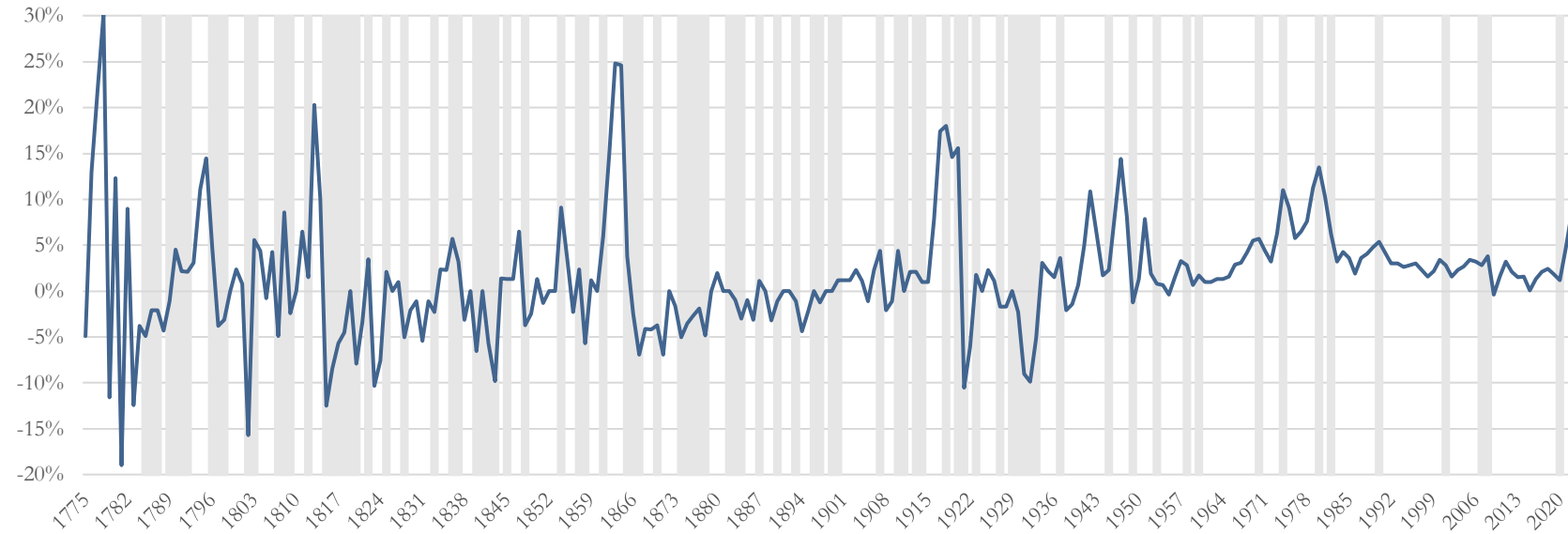
# Abnormal Times?

Credit

Inflation, Rates  
and Stock Prices

End Game

Historical CPI-U Growth



1775-2018 CPI-U: Inflation Conversion Factors for Years 1774 to Estimated 2024 by Robert Sahr at Oregon State  
2018-2022 CPI-U: St. Louis Federal Reserve; FRED



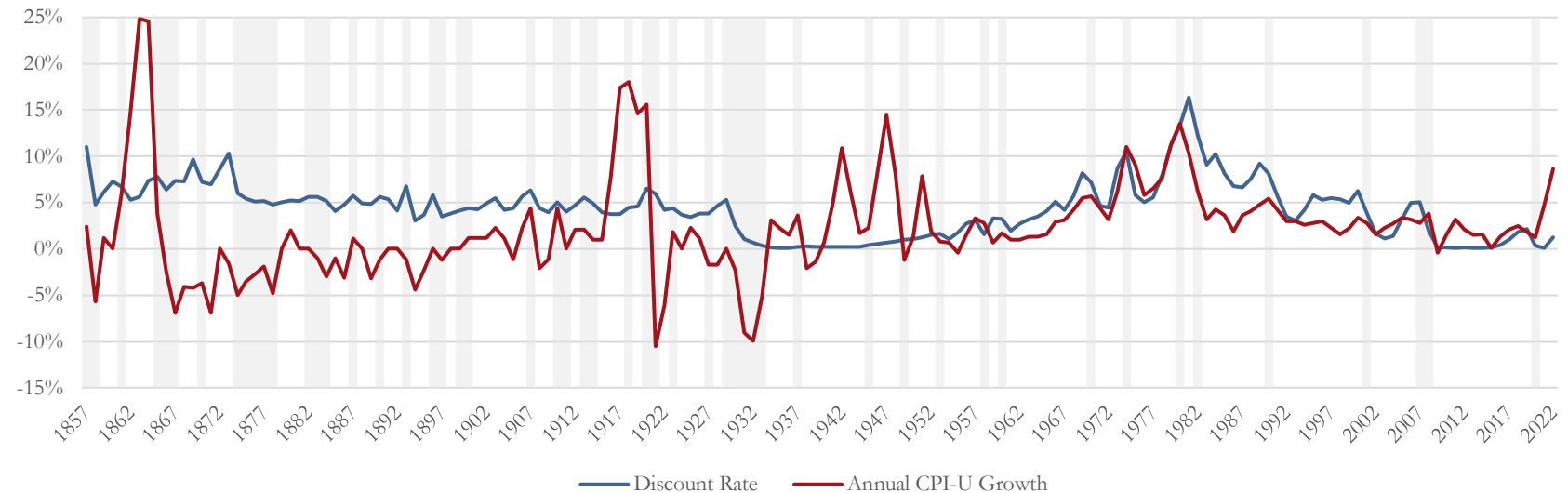
# Real Yields?

Credit

Inflation, Rates  
and Stock Prices

End Game

Inflation vs. Interest Rates



1/1/1857 to 10/1/1914 US commercial paper rate: <https://data.nber.org/databases/macrohistory/rectdata/13/m13002.dat>

11/1/14 to 3/1/28 NY Fed Funds: <https://data.nber.org/databases/macrohistory/rectdata/13/m13009.dat>

4/1/28 to 5/1/32 upper bound Fed Funds: New York Herald-Tribune

6/1/32 to 6/1/54 upper bound Fed Funds: Wall Street Journal

7/1/54 to 10/1/22 Fed Funds Rate: St. Louis Federal Reserve; FRED

1775-2018 CPI-U: Inflation Conversion Factors for Years 1774 to Estimated 2024 by Robert Sahr at Oregon State



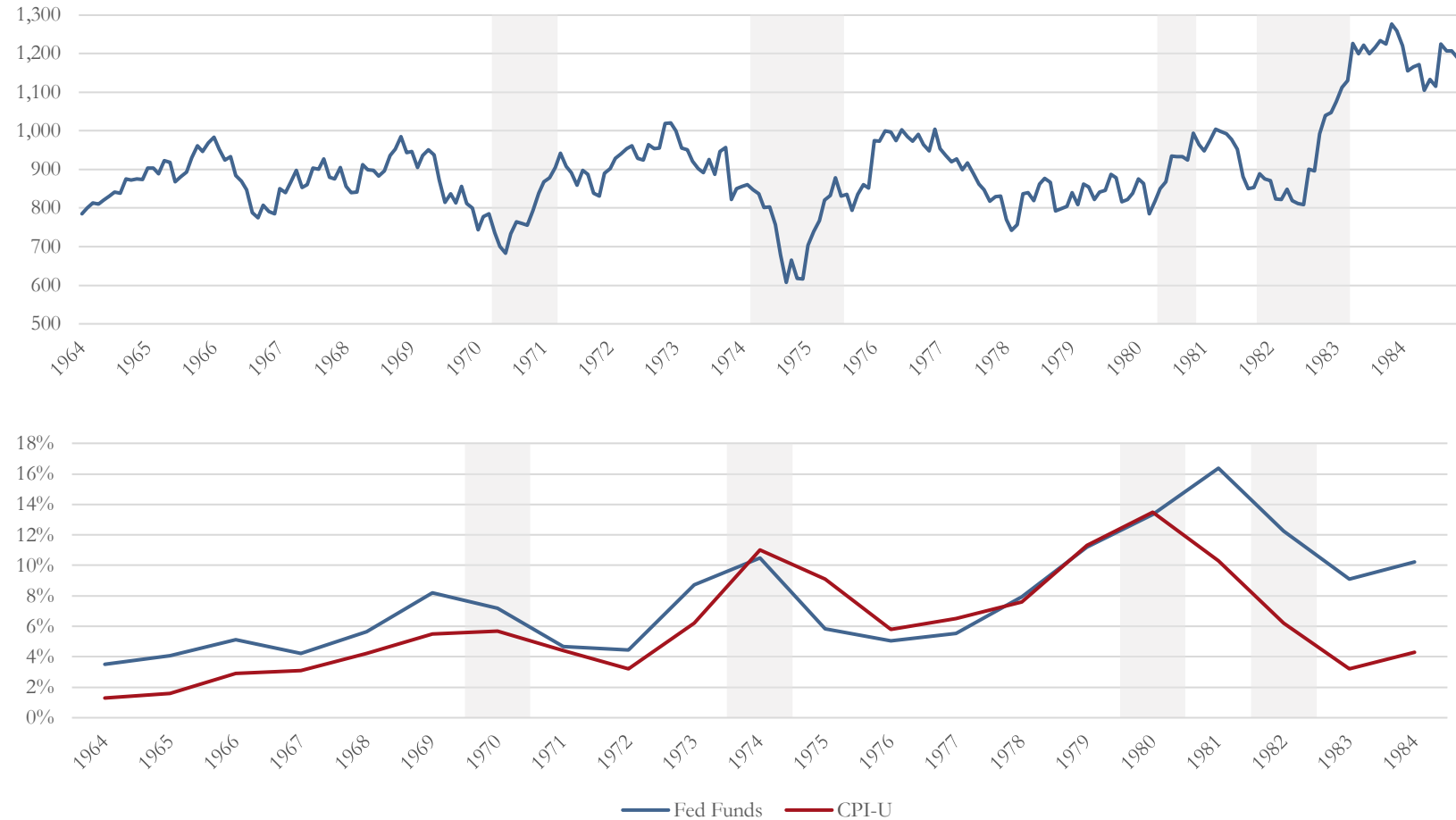
# Who's Driving This Bus?

Credit

Inflation, Rates  
and Stock Prices

End Game

DJIA, Inflation and Rates



1775-2018 CPI-U: Inflation Conversion Factors for Years 1774 to Estimated 2024 by Robert Sahr at Oregon State. 2018-2022: St. Louis Federal Reserve; FRED  
Fed Funds: St. Louis Federal Reserve; FRED  
DJIA: Dow Jones



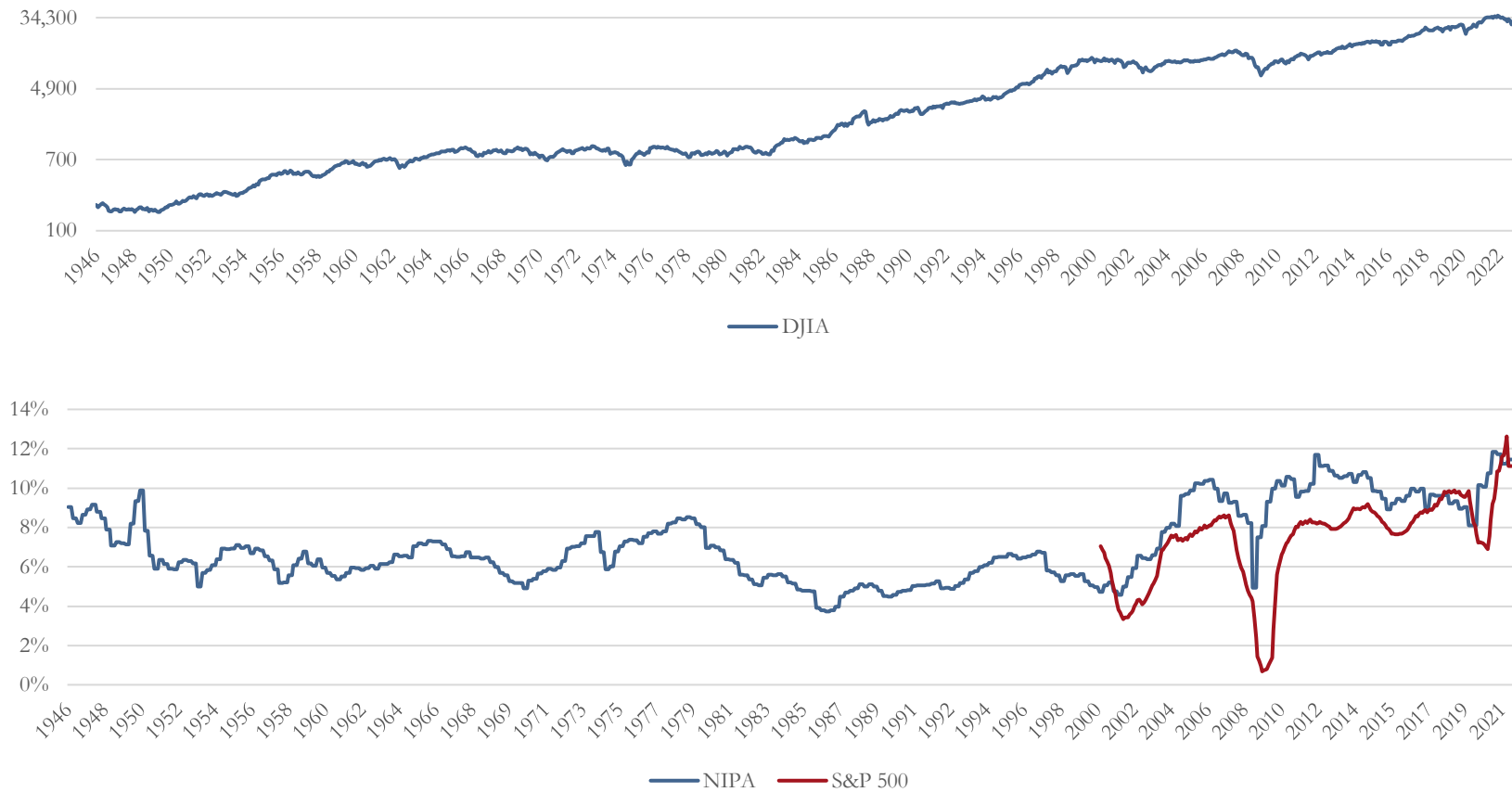
# Margin and Price

Credit

Inflation, Rates  
and Stock Prices

End Game

DJIA and Margins



DJIA: Dow Jones

Margins: St. Louis Federal Reserve; FRED, S&P



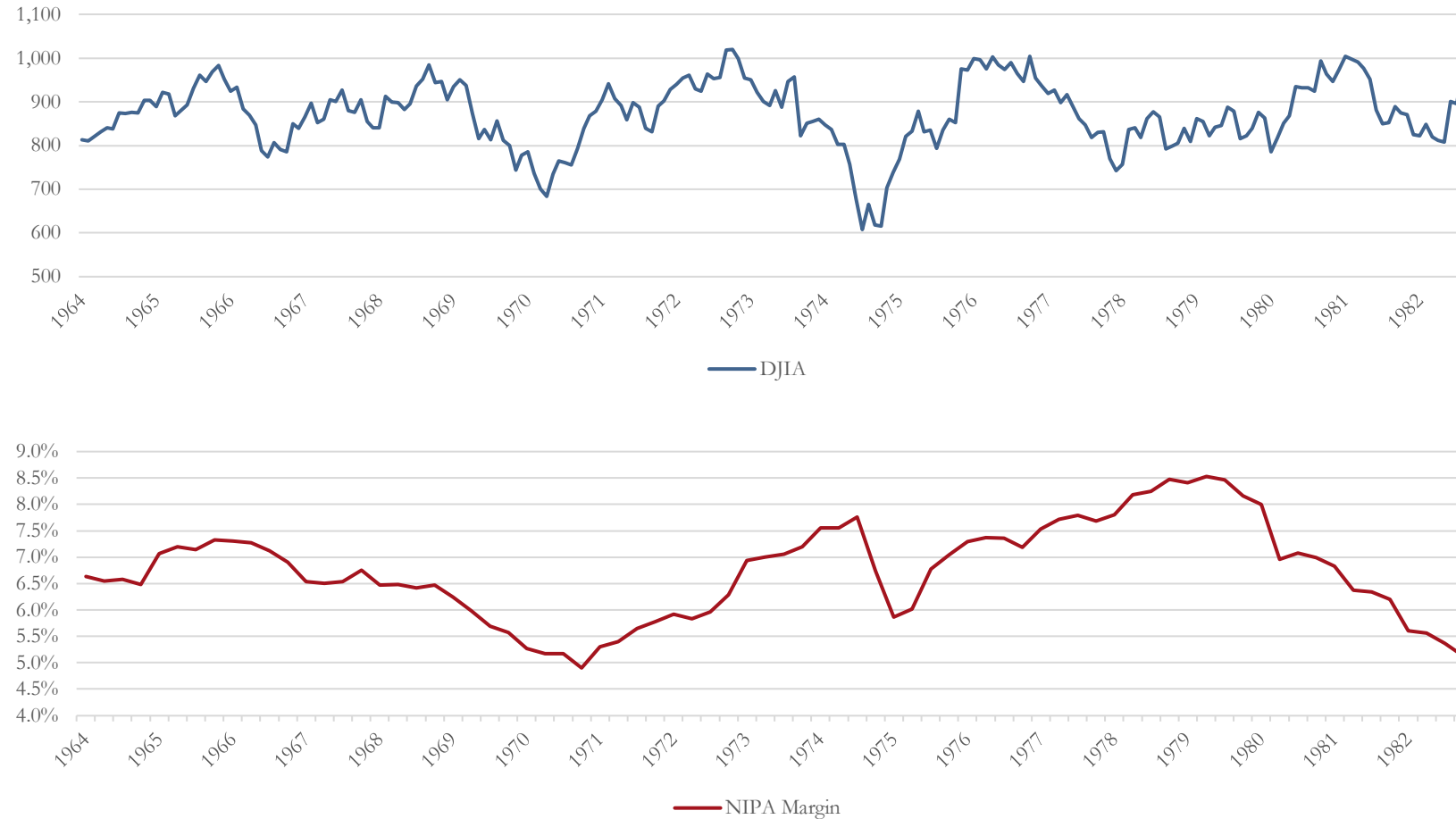
# Margin and Price

Credit

Inflation, Rates  
and Stock Prices

End Game

DJIA and NIPA Margin



DJIA: Dow Jones  
NIPA Margin: St. Louis Federal Reserve; FRED

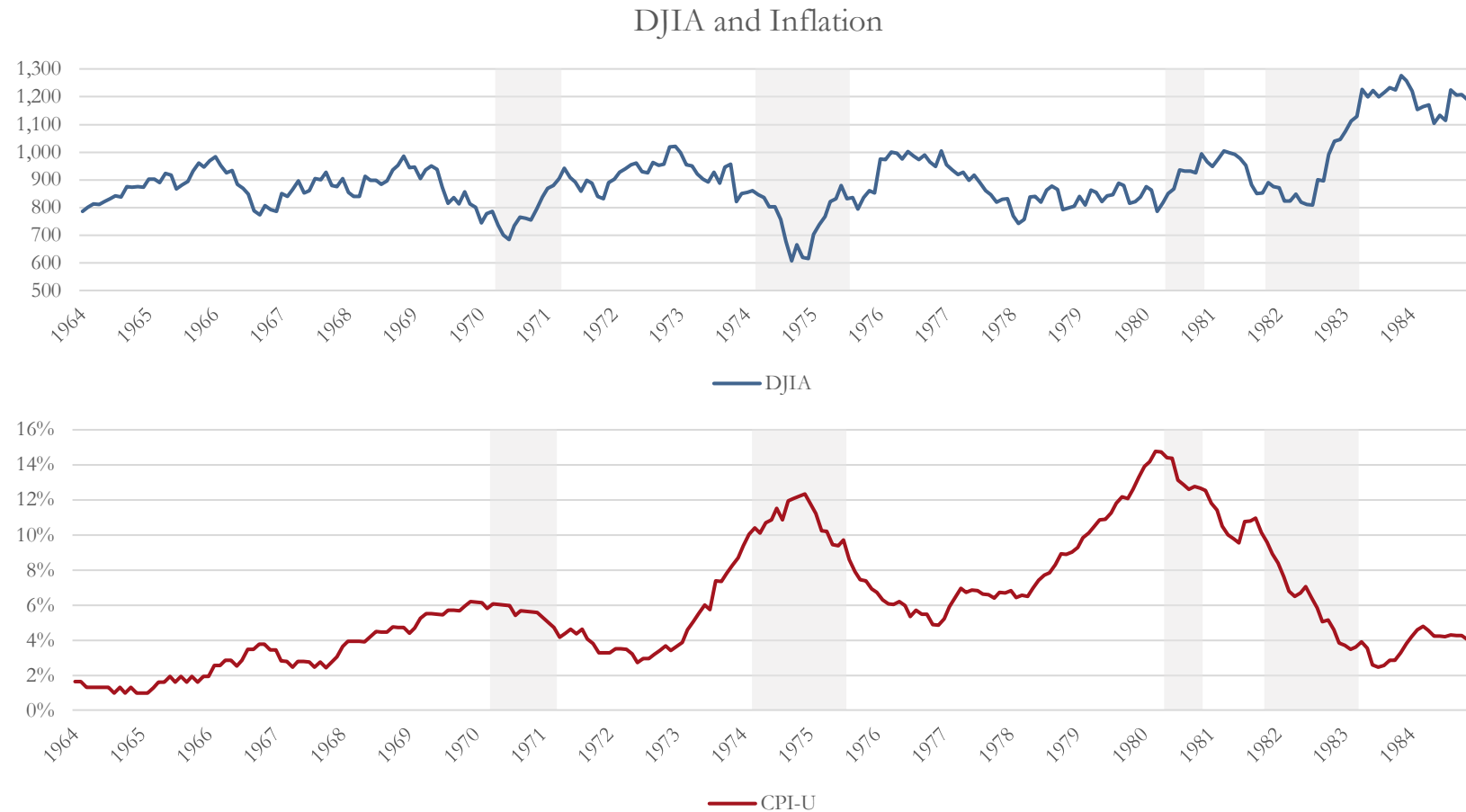


# Inflation is Not a Friend to Equities

Credit

Inflation, Rates  
and Stock Prices

End Game



DJIA: Dow Jones  
Fed Funds: St. Louis Federal Reserve; FRED

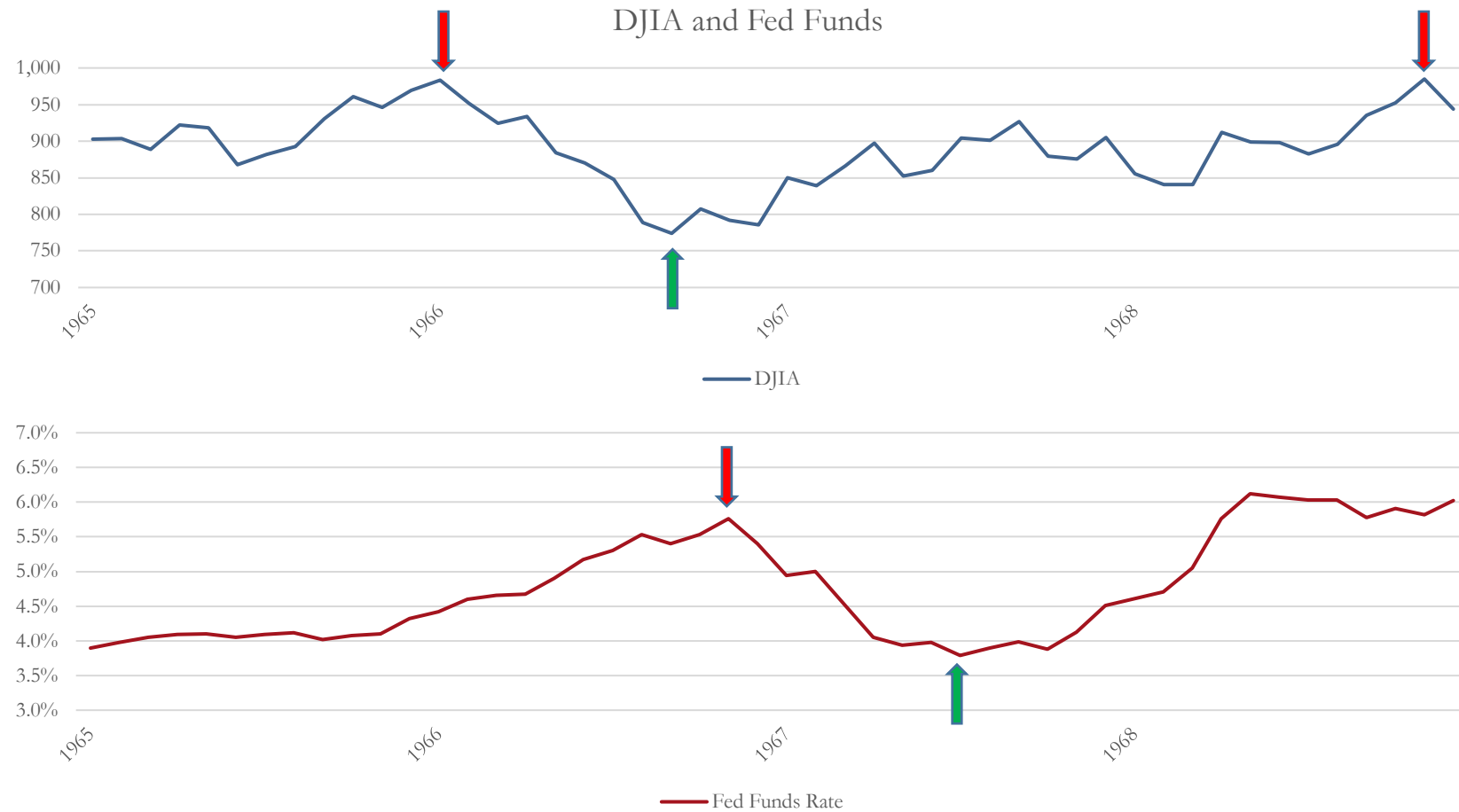


# Fed Pivots in the Late 60s

Credit

Inflation, Rates  
and Stock Prices

End Game



DJIA: Dow Jones  
Fed Funds: St. Louis Federal Reserve; FRED

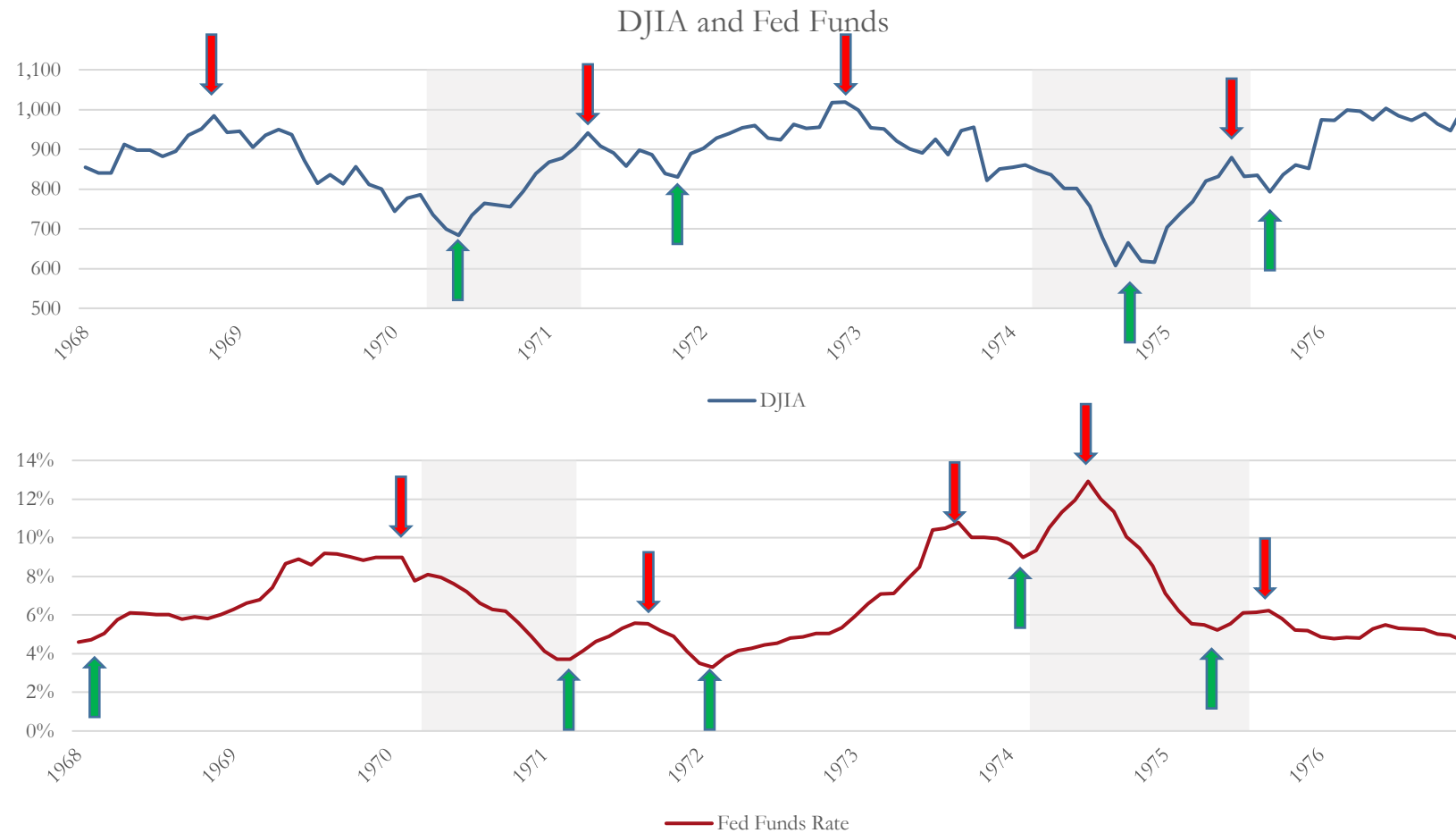


# Major Moves in the 70s

Credit

Inflation, Rates  
and Stock Prices

End Game



DJIA: Dow Jones  
Fed Funds: St. Louis Federal Reserve; FRED



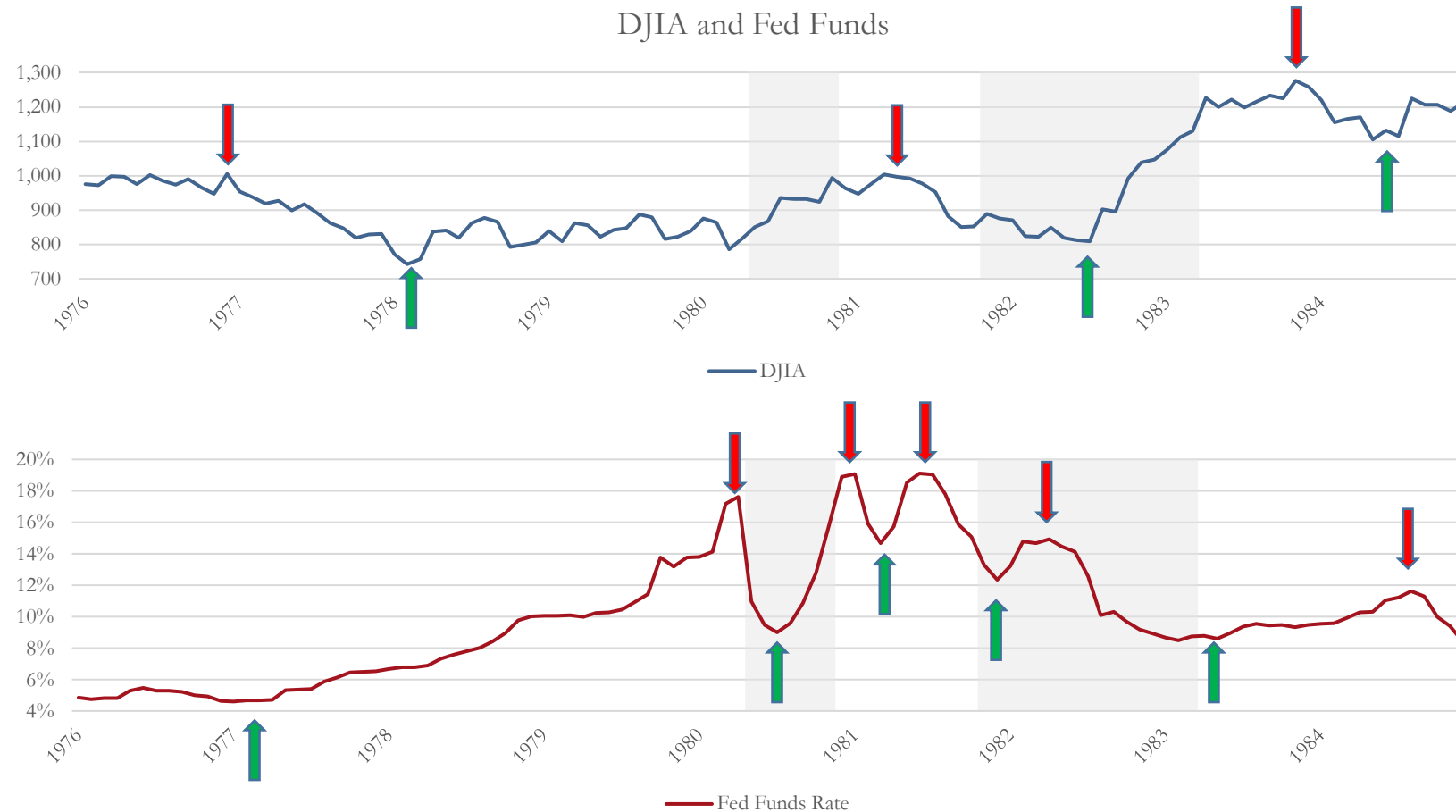


# Taming Inflation isn't Easy

Credit

Inflation, Rates  
and Stock Prices

End Game



DJIA: Dow Jones  
Fed Funds: St. Louis Federal Reserve; FRED

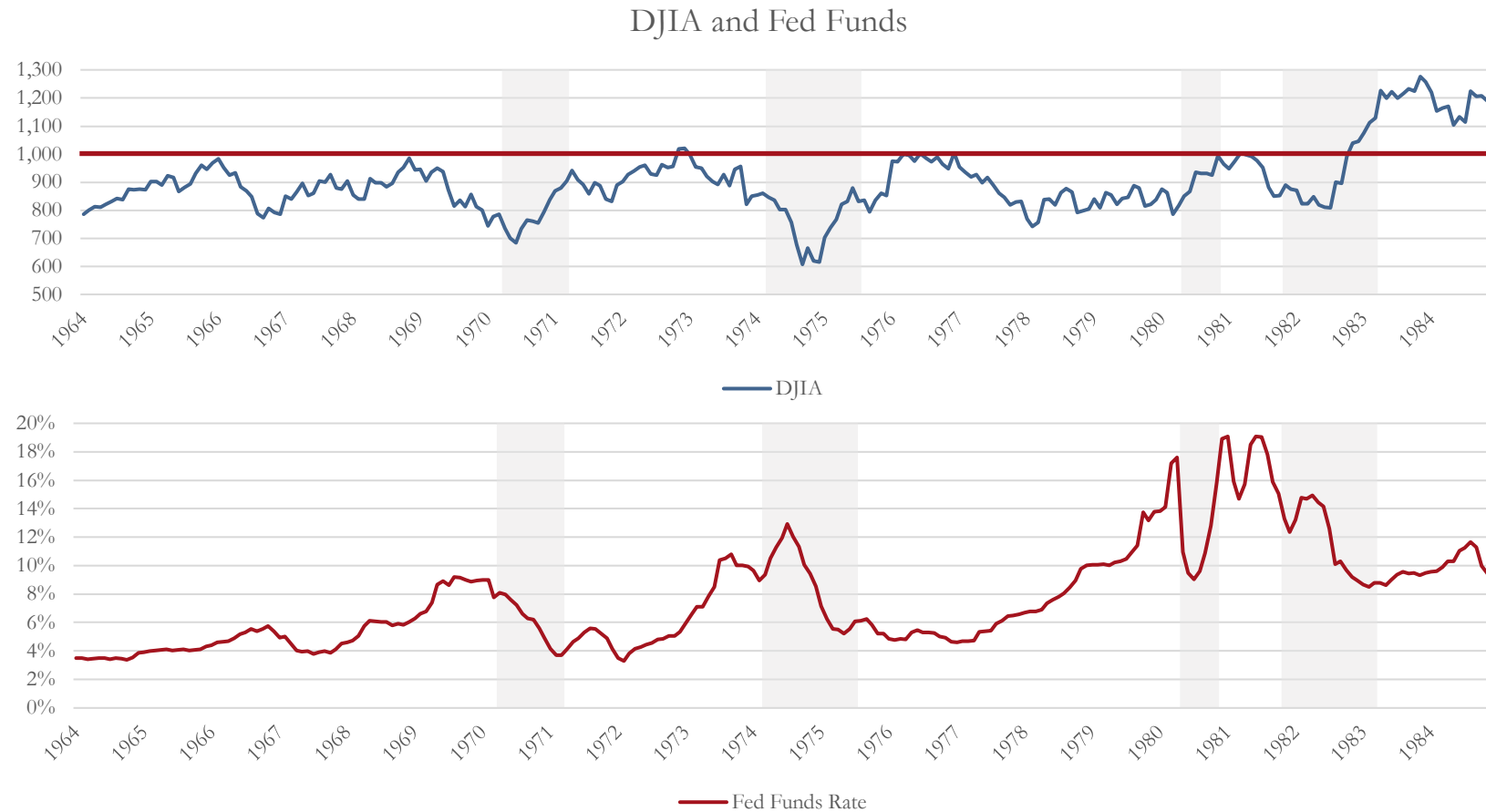


# Rangebound Market until '83

Credit

Inflation, Rates  
and Stock Prices

End Game



DJIA: Dow Jones  
Fed Funds: St. Louis Federal Reserve; FRED

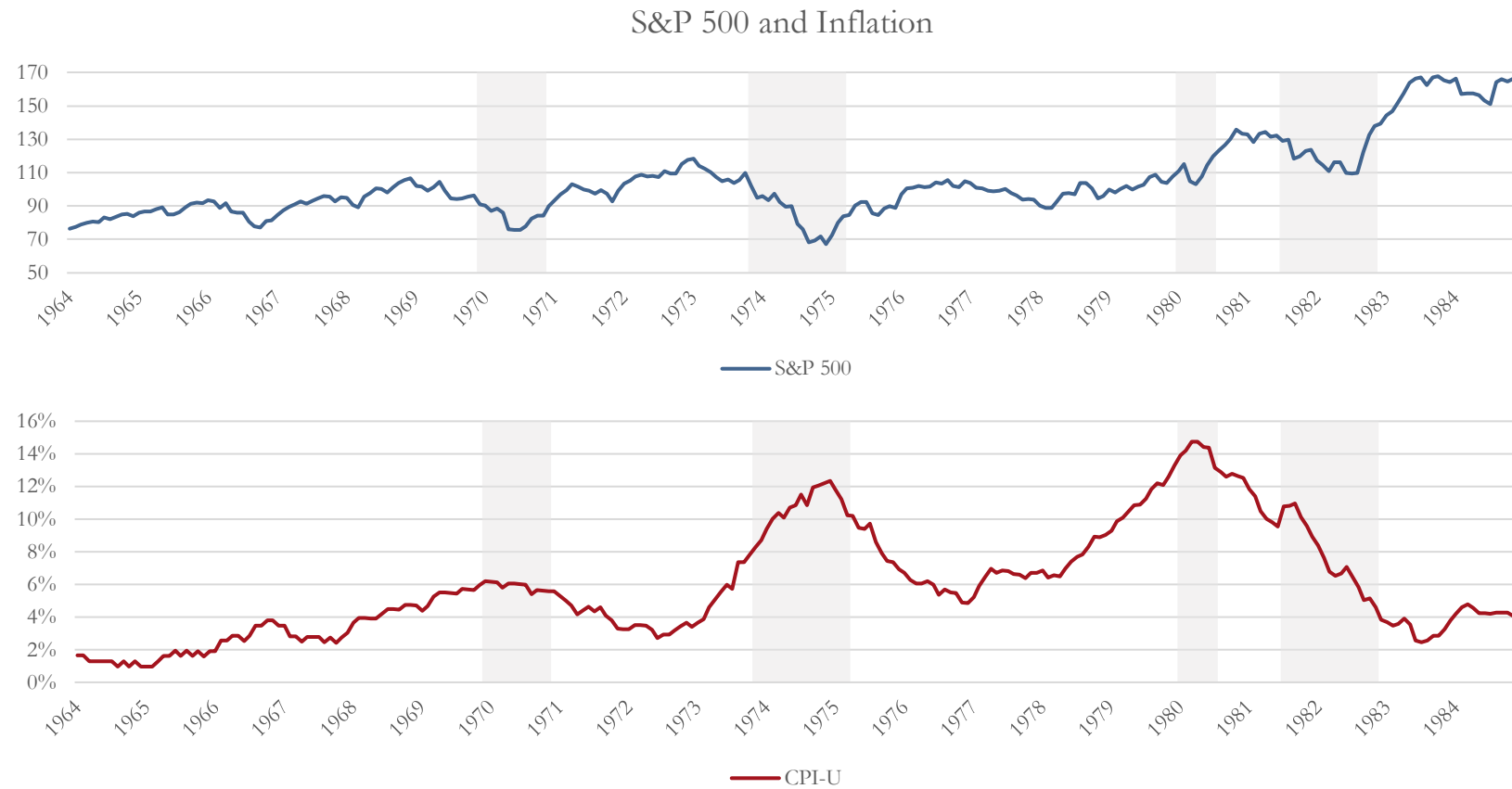


# Same for the S&P

Credit

Inflation, Rates  
and Stock Prices

End Game



S&P 500: Robert Shiller Online Data  
CPI-U: St. Louis Federal Reserve; FRED



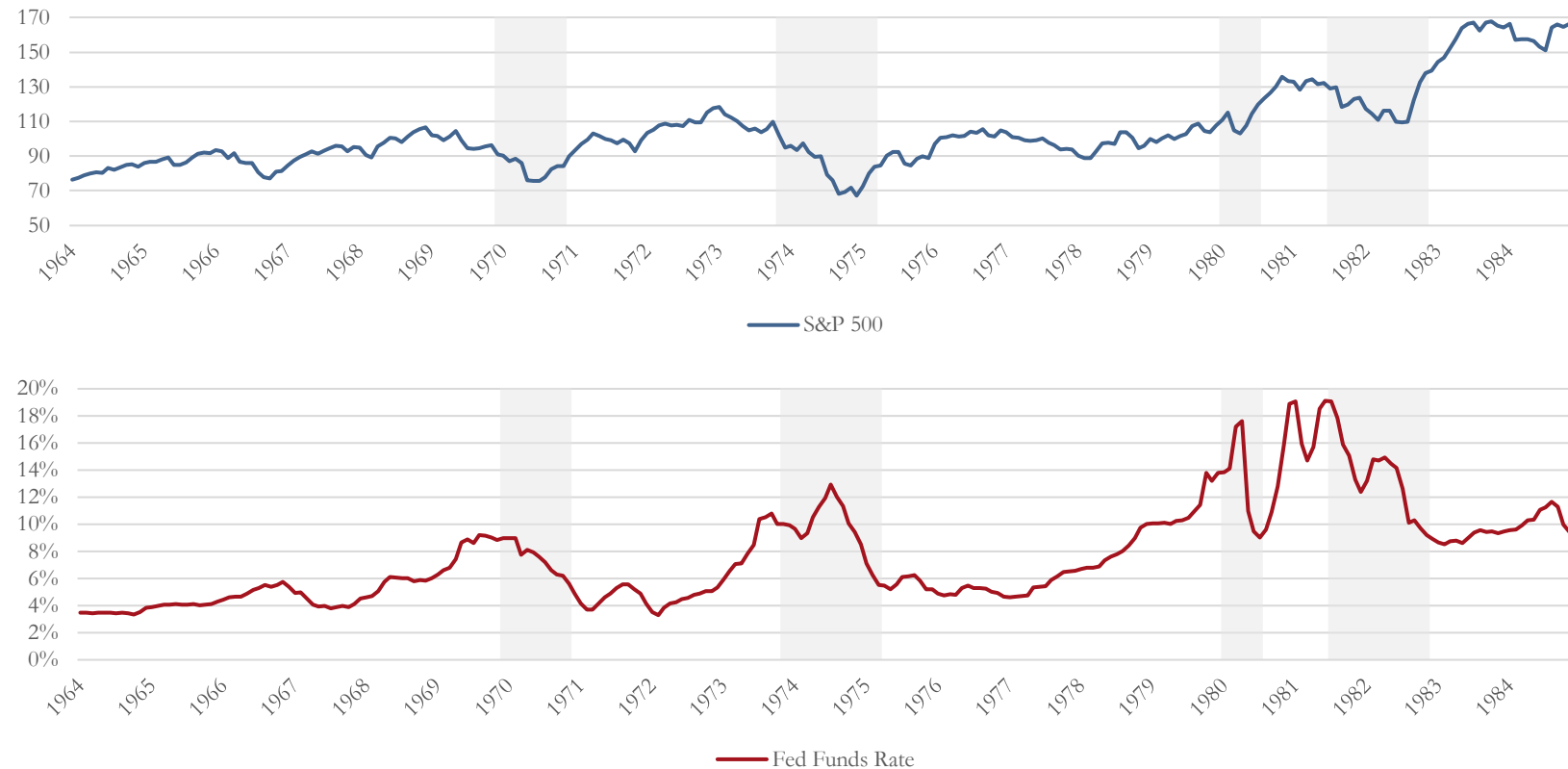
# Same for the S&P

Credit

Inflation, Rates  
and Stock Prices

End Game

S&P 500 and Fed Funds



S&P 500: Robert Shiller Online Data  
Fed Funds: St. Louis Federal Reserve; FRED

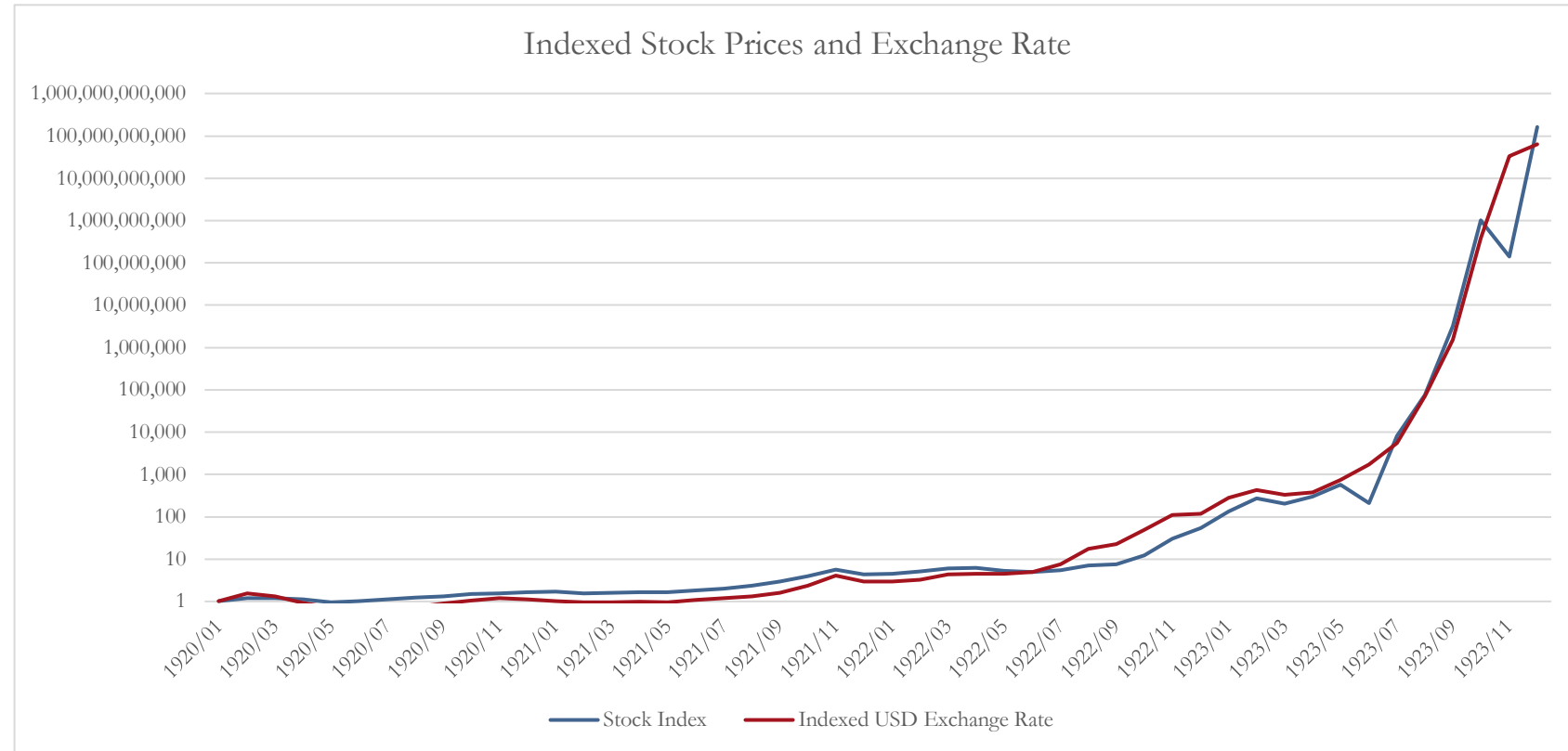


# What happened in Weimar Germany...

Credit

Inflation, Rates and  
Stock Prices

End Game



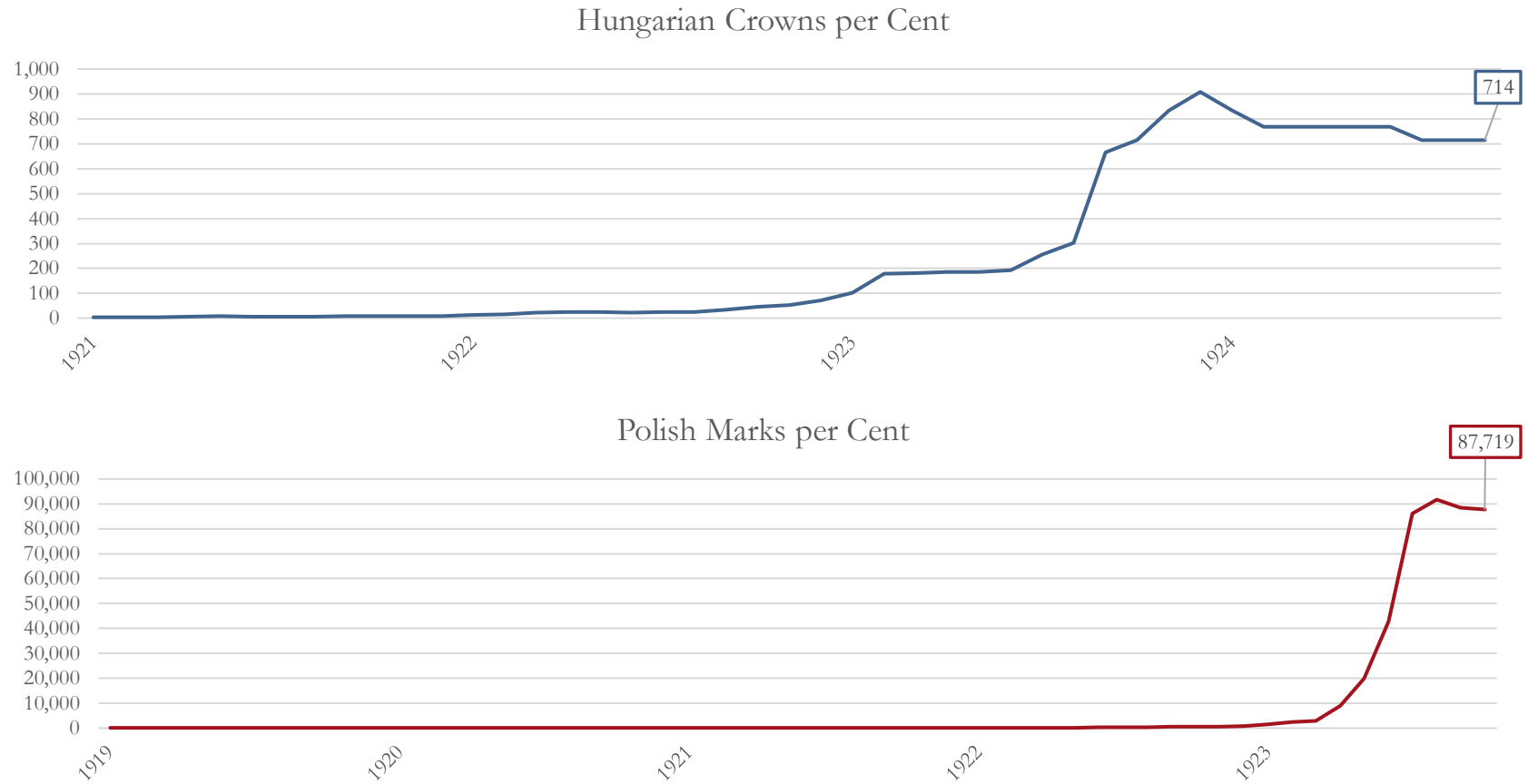


# Other WWI Fallout

Credit

Inflation, Rates and  
Stock Prices

End Game



The Ends of Four Big Inflations: Thomas J. Sargent;



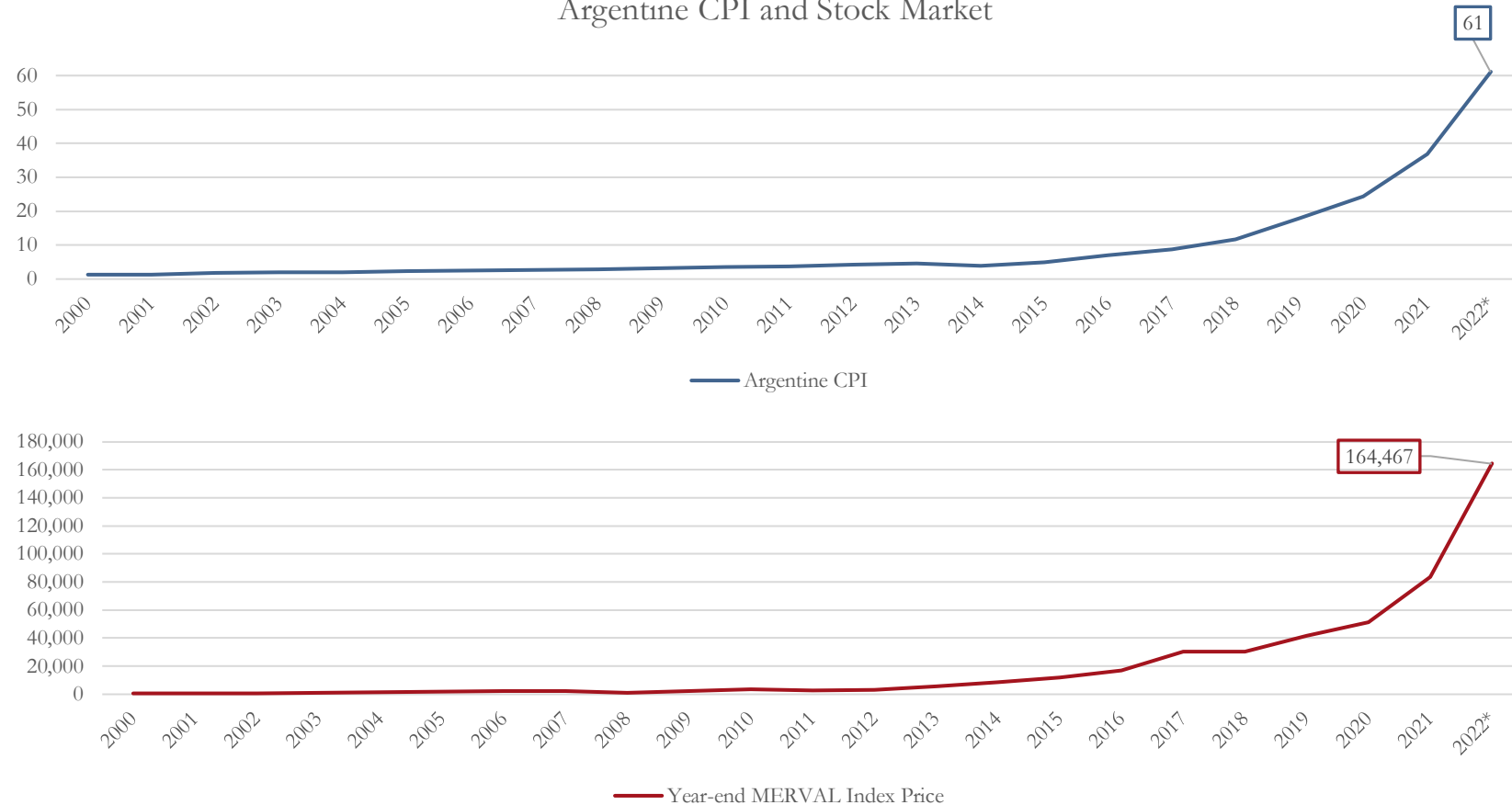
# Argentina

Credit

Inflation, Rates and  
Stock Prices

End Game

Argentine CPI and Stock Market



Inflation: 2022, 2021, 2020 and 2017: <https://data.imf.org/regular.aspx?key=61015892>

2015, 2016, 2018, 2019: <https://www.worlddata.info/america/argentina/inflation-rates.php>

1961-2014: <https://fred.stlouisfed.org/series/DDOE01ARA086NWDB>

Merval Price: Stock Price Source: <https://en.wikipedia.org/wiki/MERVAL>. 2022 price is 12/5/22 close.

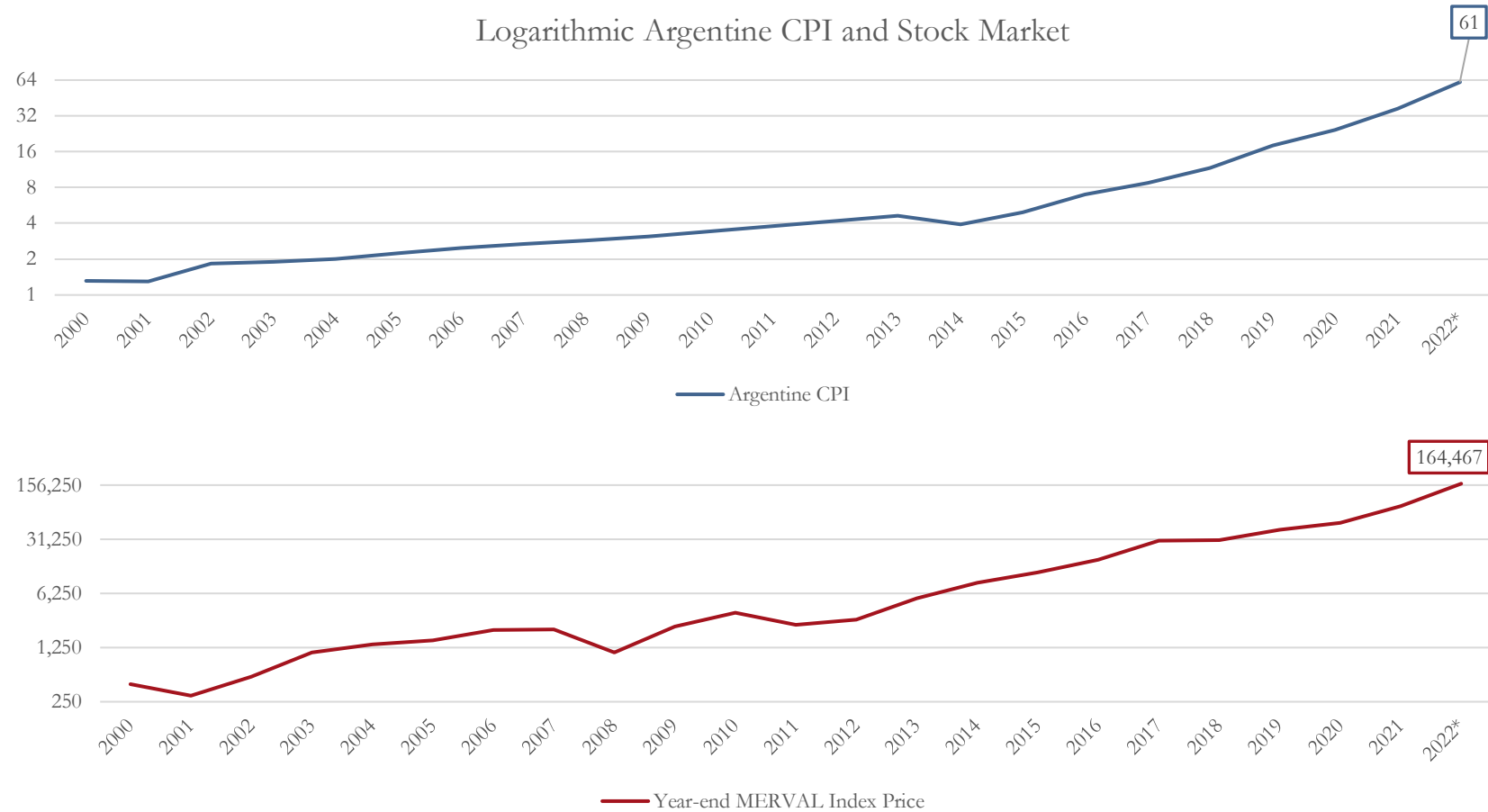


# Argentina

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Inflation, Rates and  
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End Game



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Merval Price: Stock Price Source: <https://en.wikipedia.org/wiki/MERVAL>. 2022 price is 12/5/22 close.



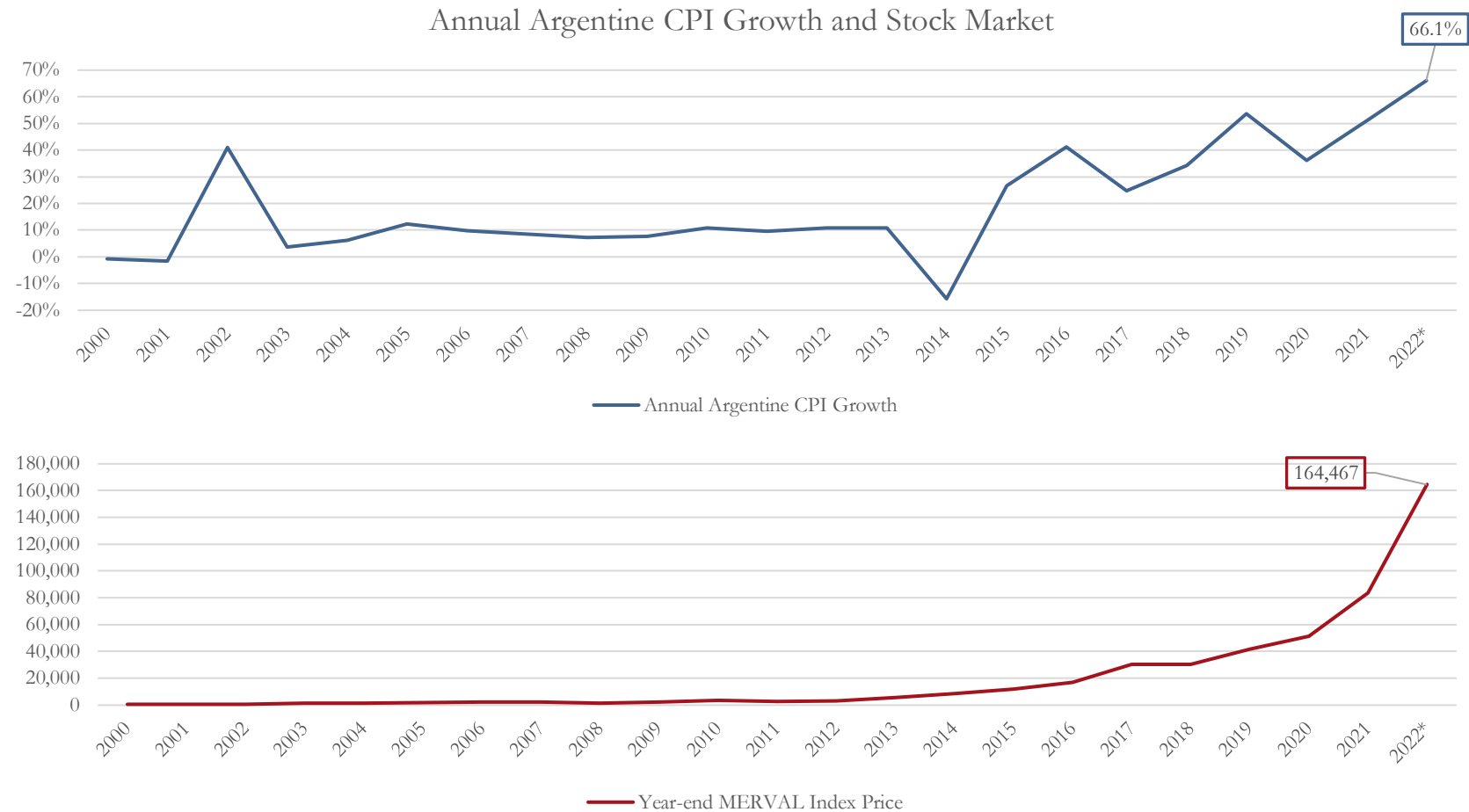


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Inflation, Rates and  
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End Game



Inflation: 2022, 2021, 2020 and 2017: <https://data.imf.org/regular.aspx?key=61015892>  
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Merval Price: Stock Price Source: <https://en.wikipedia.org/wiki/MERVAL>. 2022 price is 12/5/22 close.



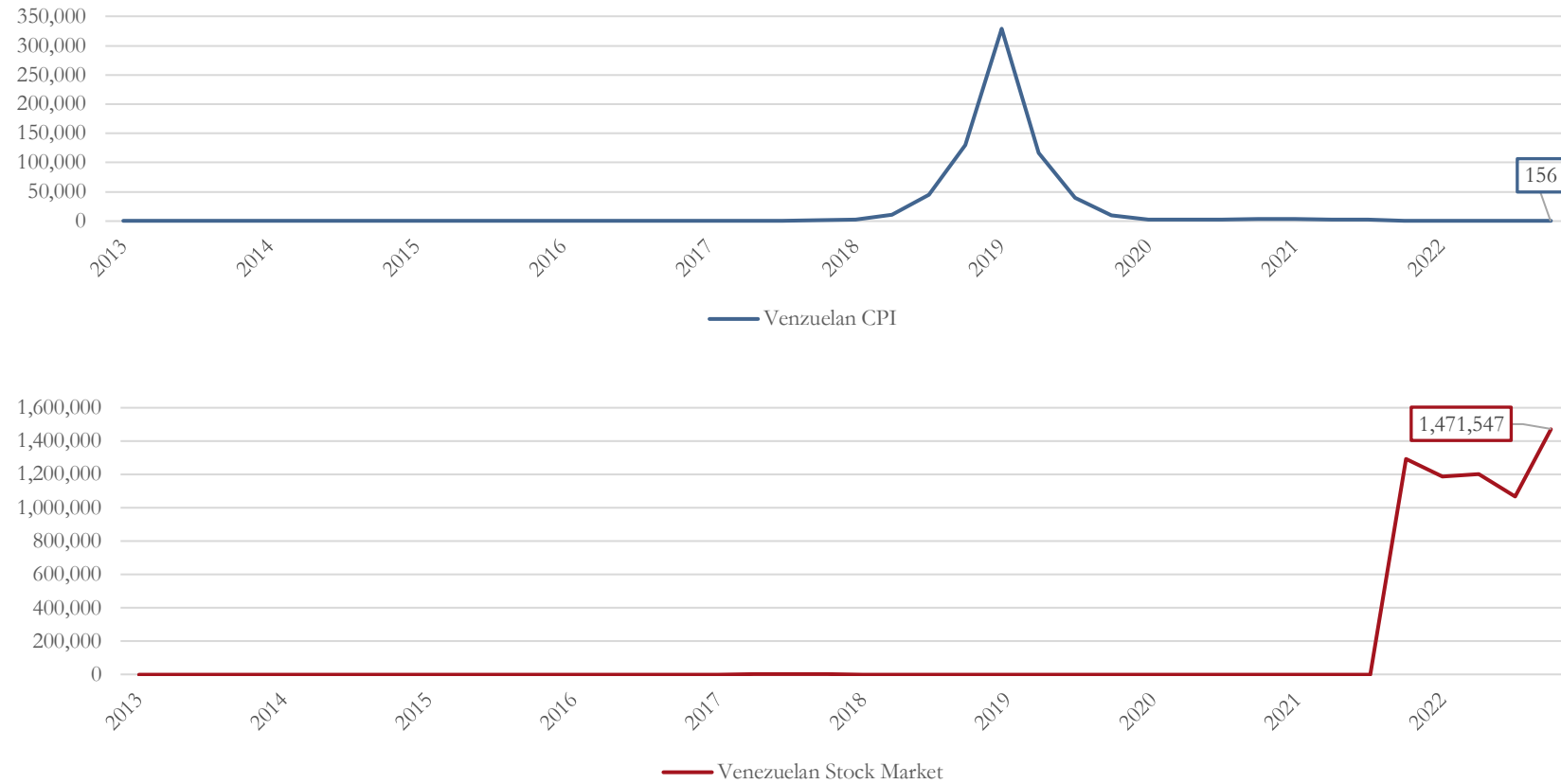
# Venezuela

Credit

Inflation, Rates and  
Stock Prices

End Game

Venezuelan CPI and Stock Market



Source: Bloomberg



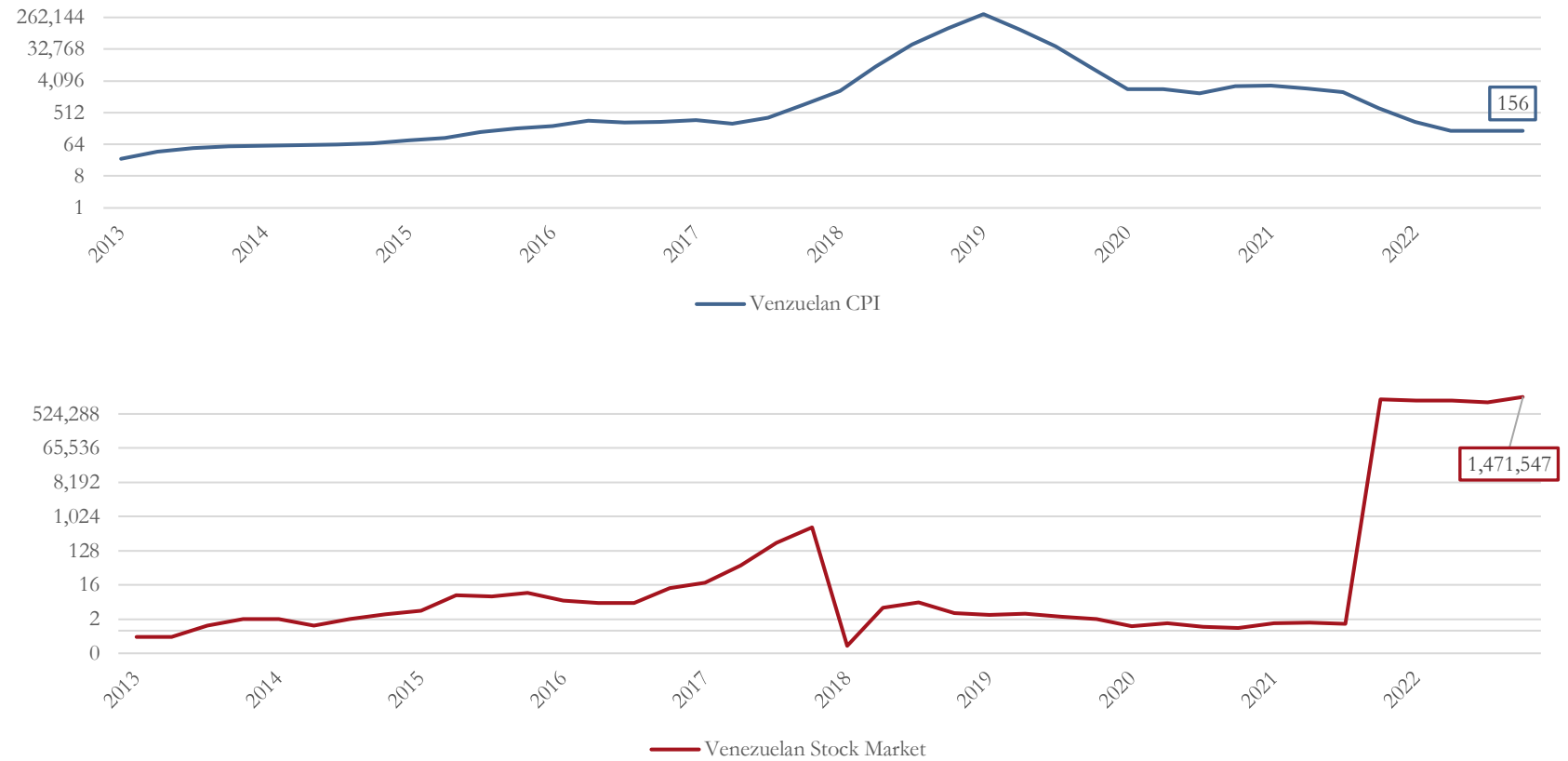
# Venezuela

Credit

Inflation, Rates and  
Stock Prices

End Game

Logarithmic Venezuelan CPI and Stock Market



Source: Bloomberg



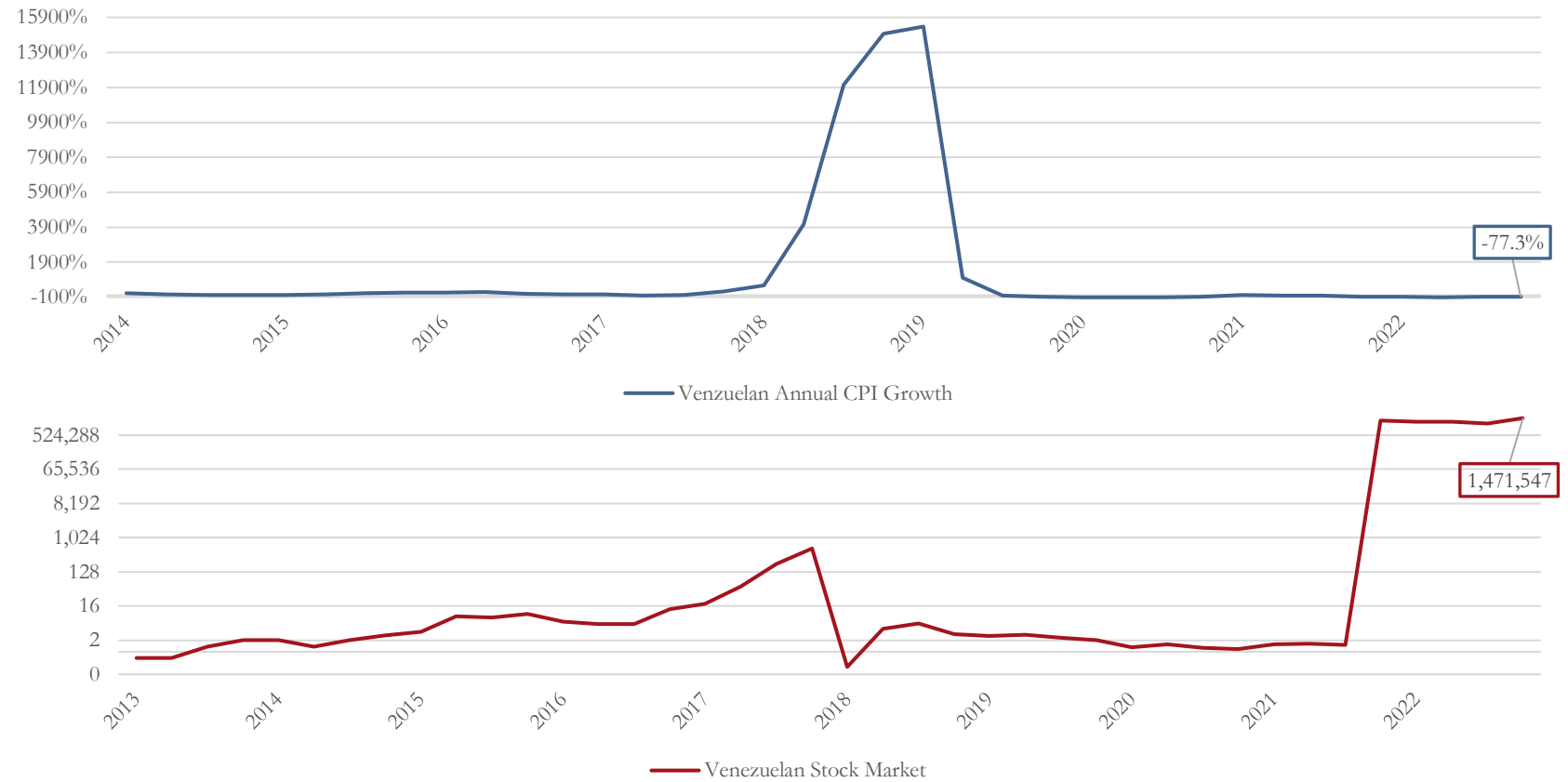
# Venezuela

Credit

Inflation, Rates and  
Stock Prices

End Game

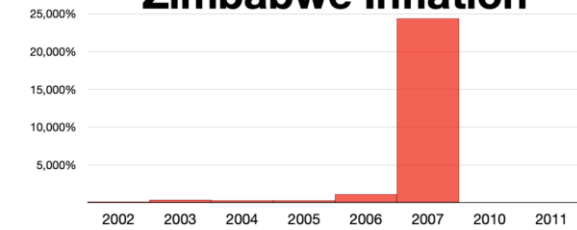
Venezuelan Annual CPI Growth and Stock Market



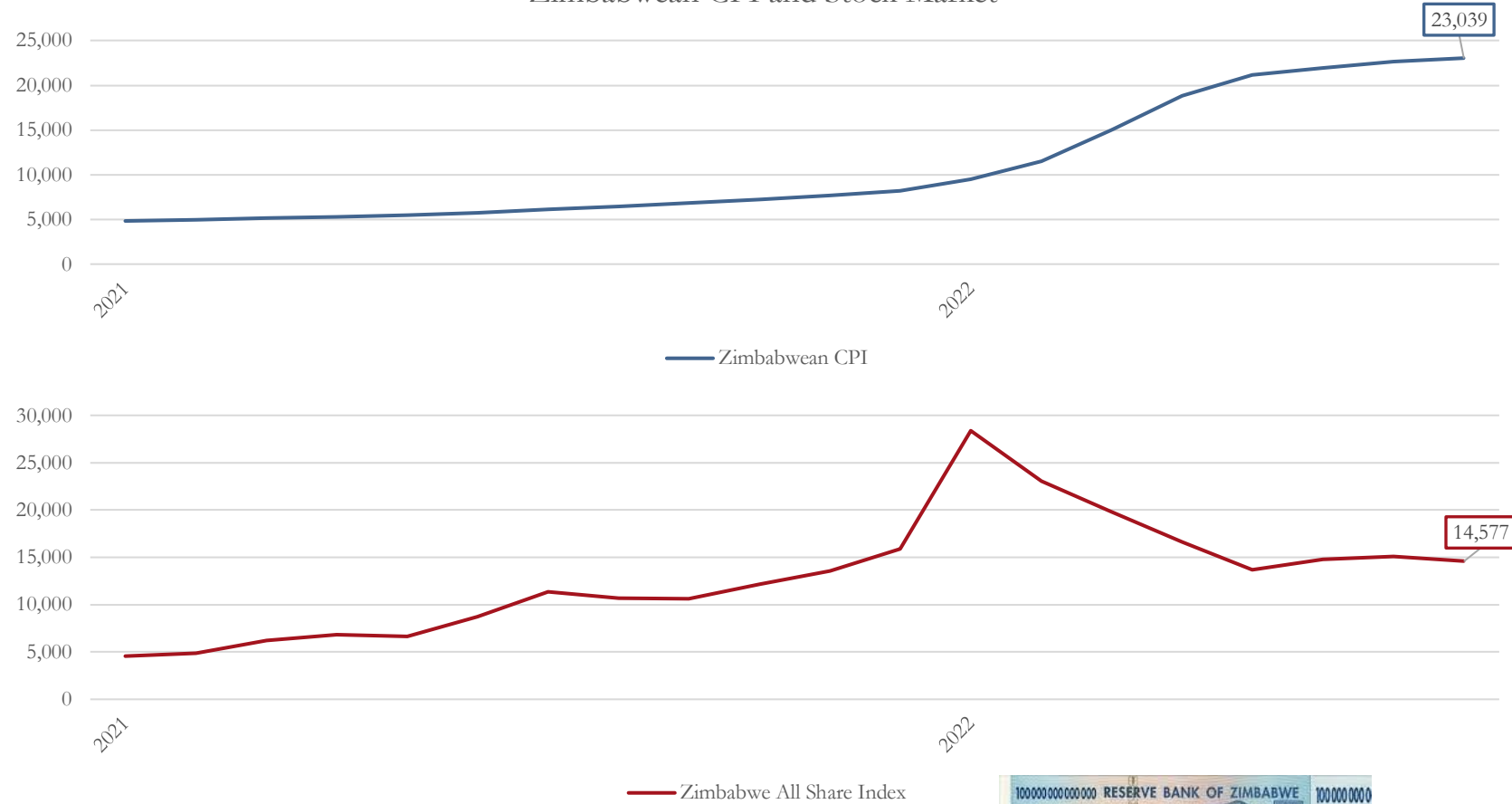
Source: Bloomberg

# Zimbabwe

## Zimbabwe Inflation



Zimbabwean CPI and Stock Market



Source: Bloomberg



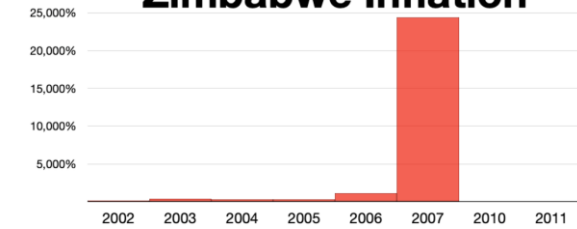
Credit

Inflation, Rates and  
Stock Prices

End Game

# Zimbabwe

## Zimbabwe Inflation

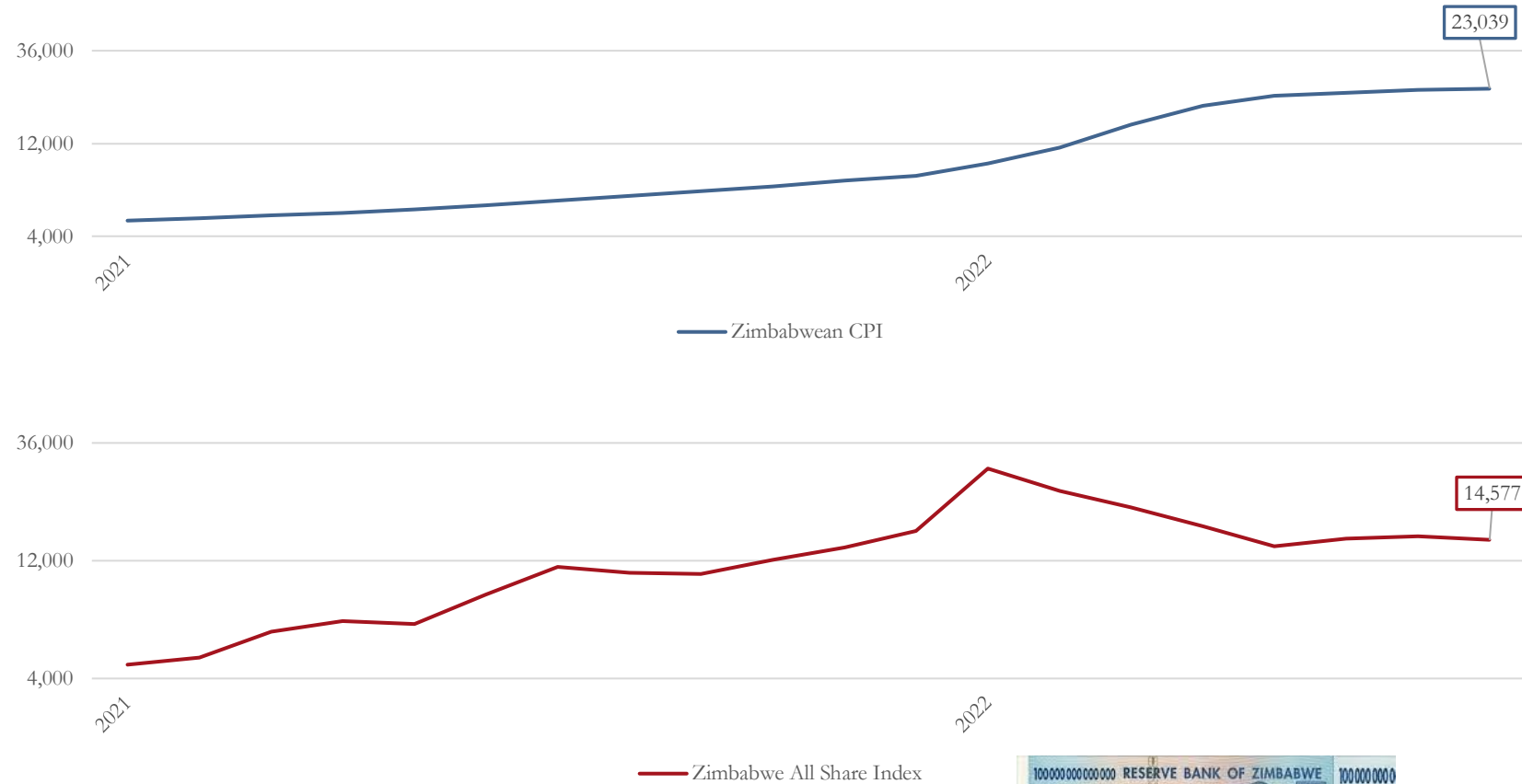


Credit

Inflation, Rates and  
Stock Prices

End Game

Logarithmic Zimbabwean CPI and Stock Market

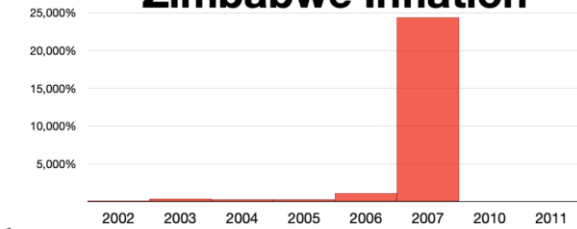


Source: Bloomberg Wikipedia

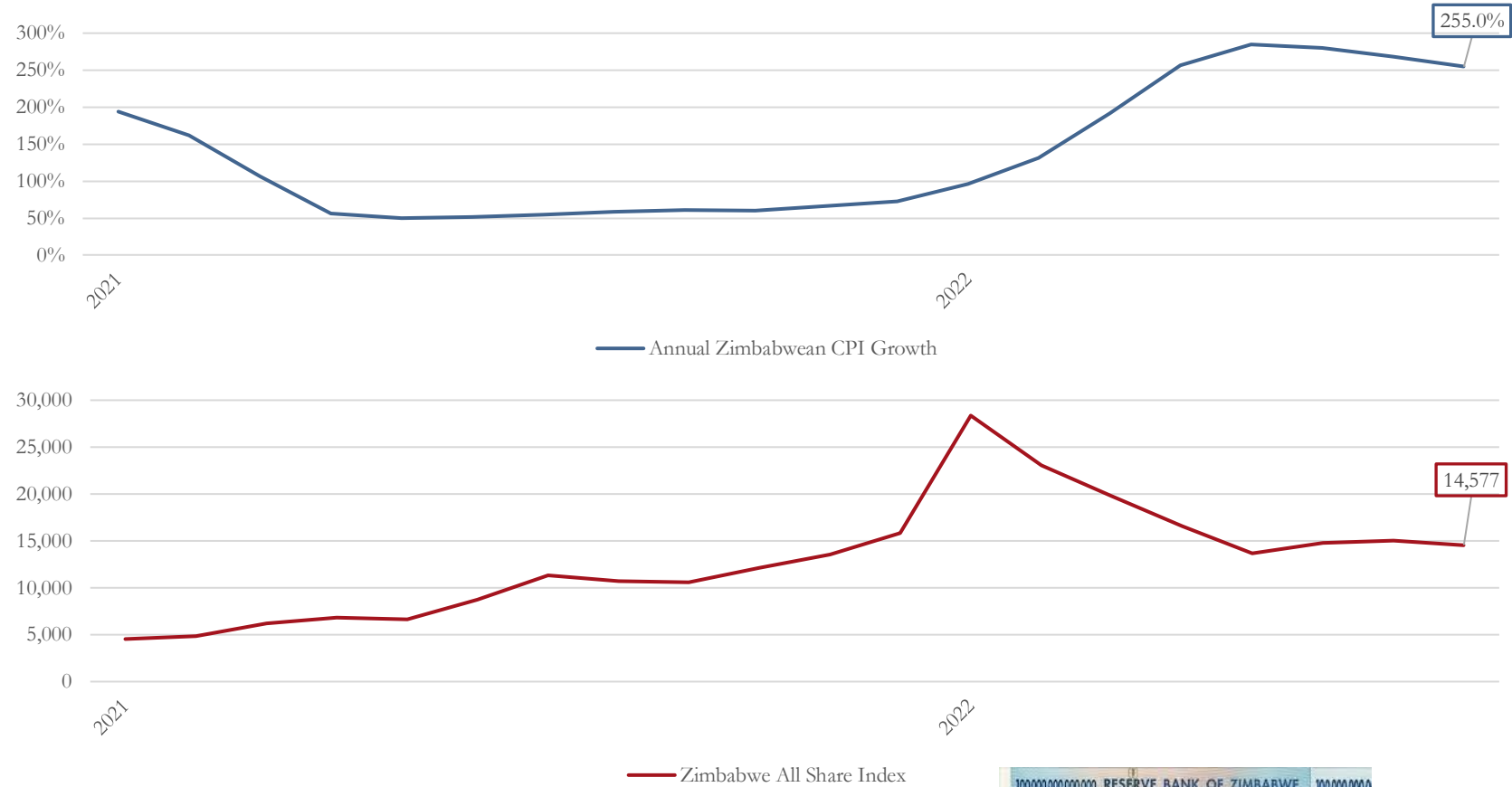


# Zimbabwe

## Zimbabwe Inflation



Annual Zimbabwean CPI Growth and Stock Market



Source: Bloomberg



Credit

Inflation, Rates and  
Stock Prices

End Game



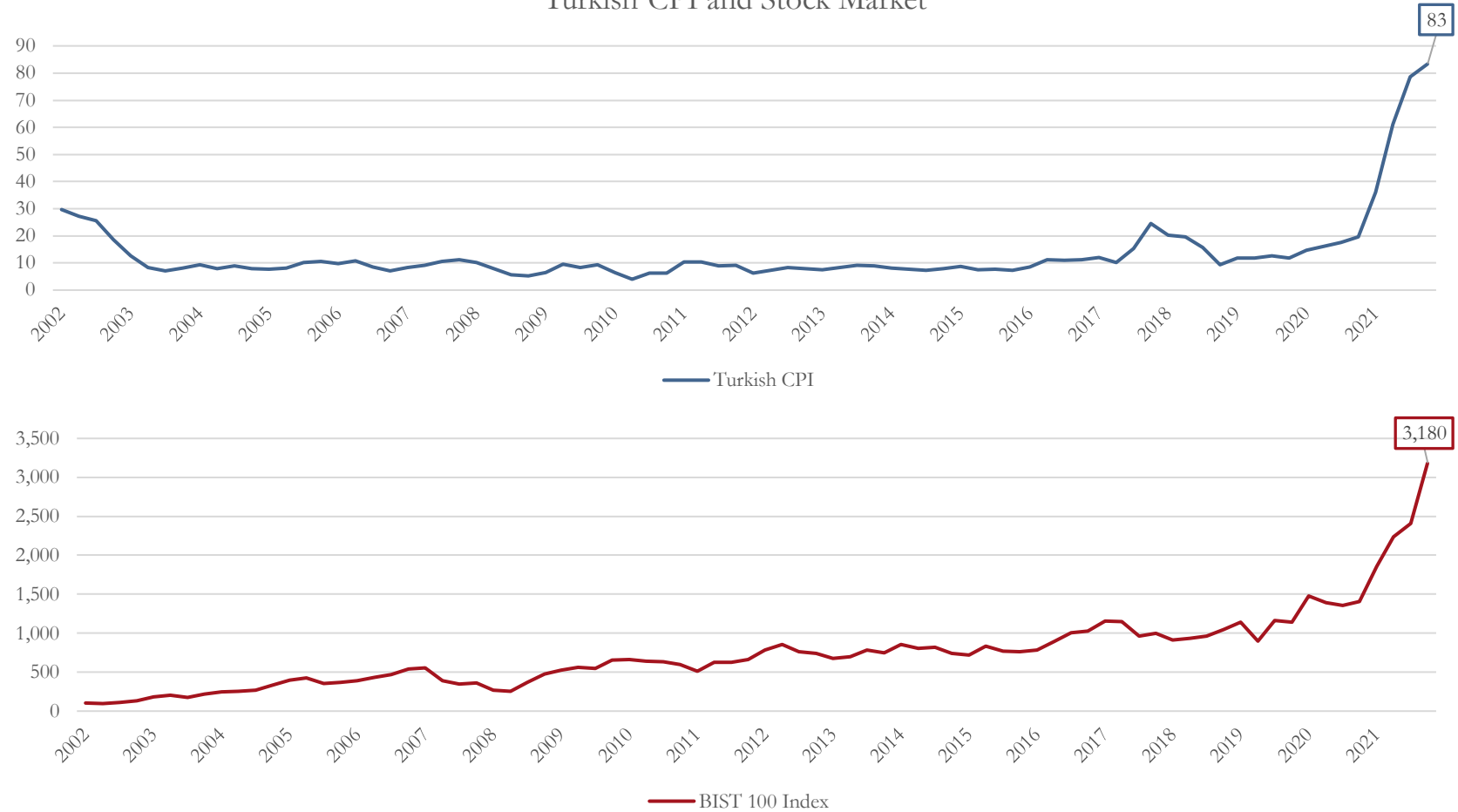
# Turkey

Credit

Inflation, Rates and  
Stock Prices

End Game

Turkish CPI and Stock Market



Source: Bloomberg





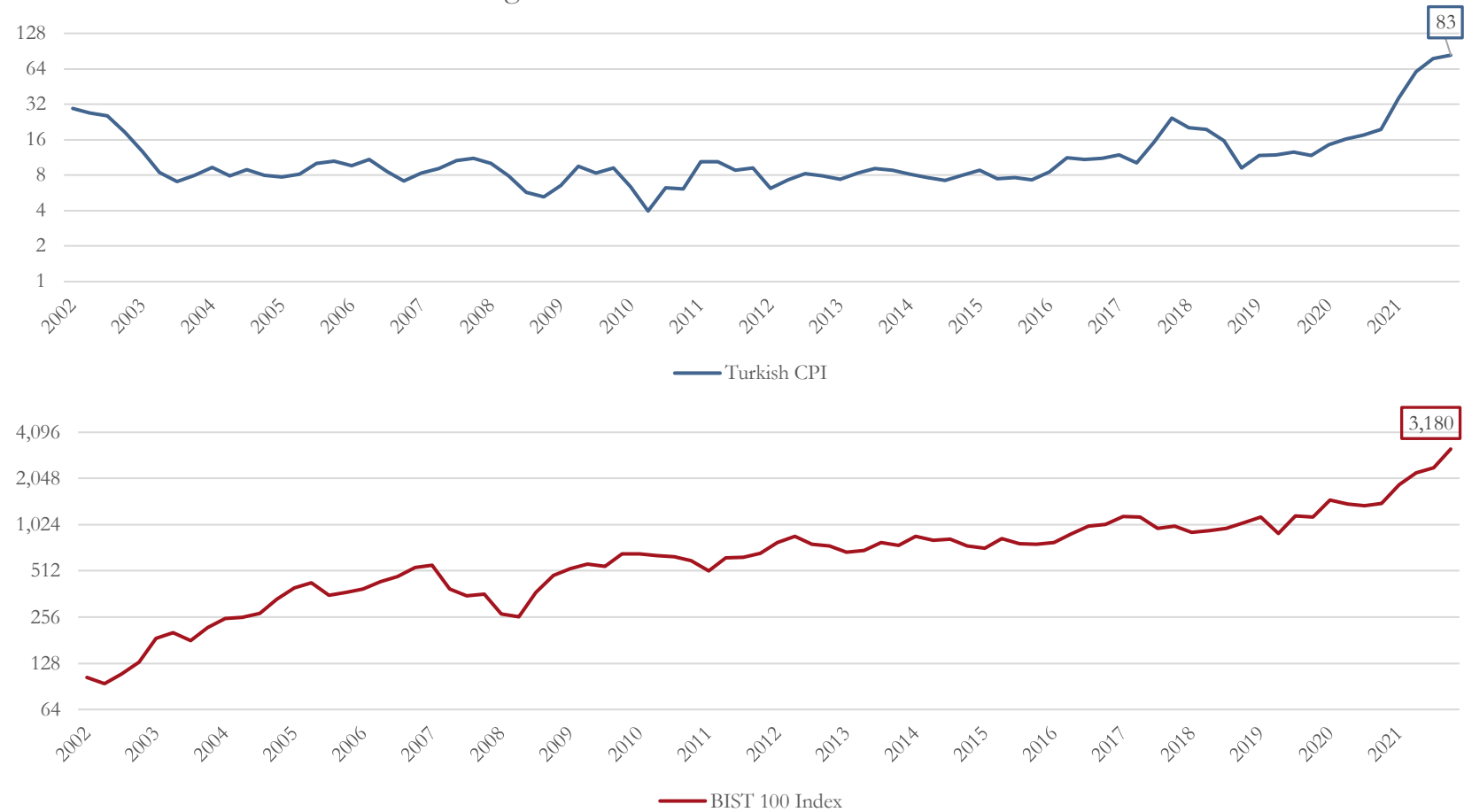
# Turkey

Credit

Inflation, Rates and  
Stock Prices

End Game

Logarithmic Turkish CPI and Stock Market



Source: Bloomberg



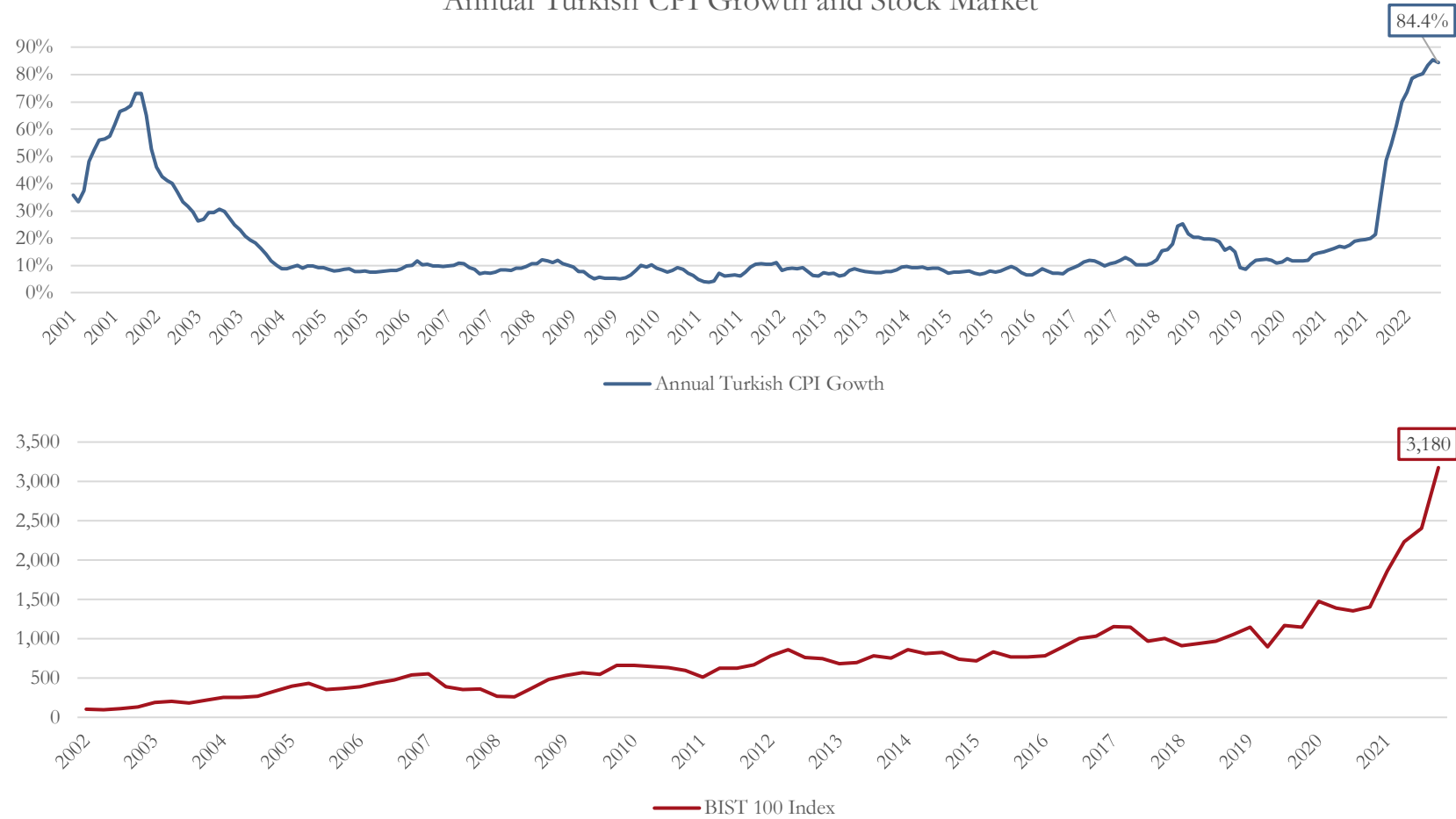
# Turkey

Credit

Inflation, Rates and  
Stock Prices

End Game

Annual Turkish CPI Growth and Stock Market



Source: Bloomberg

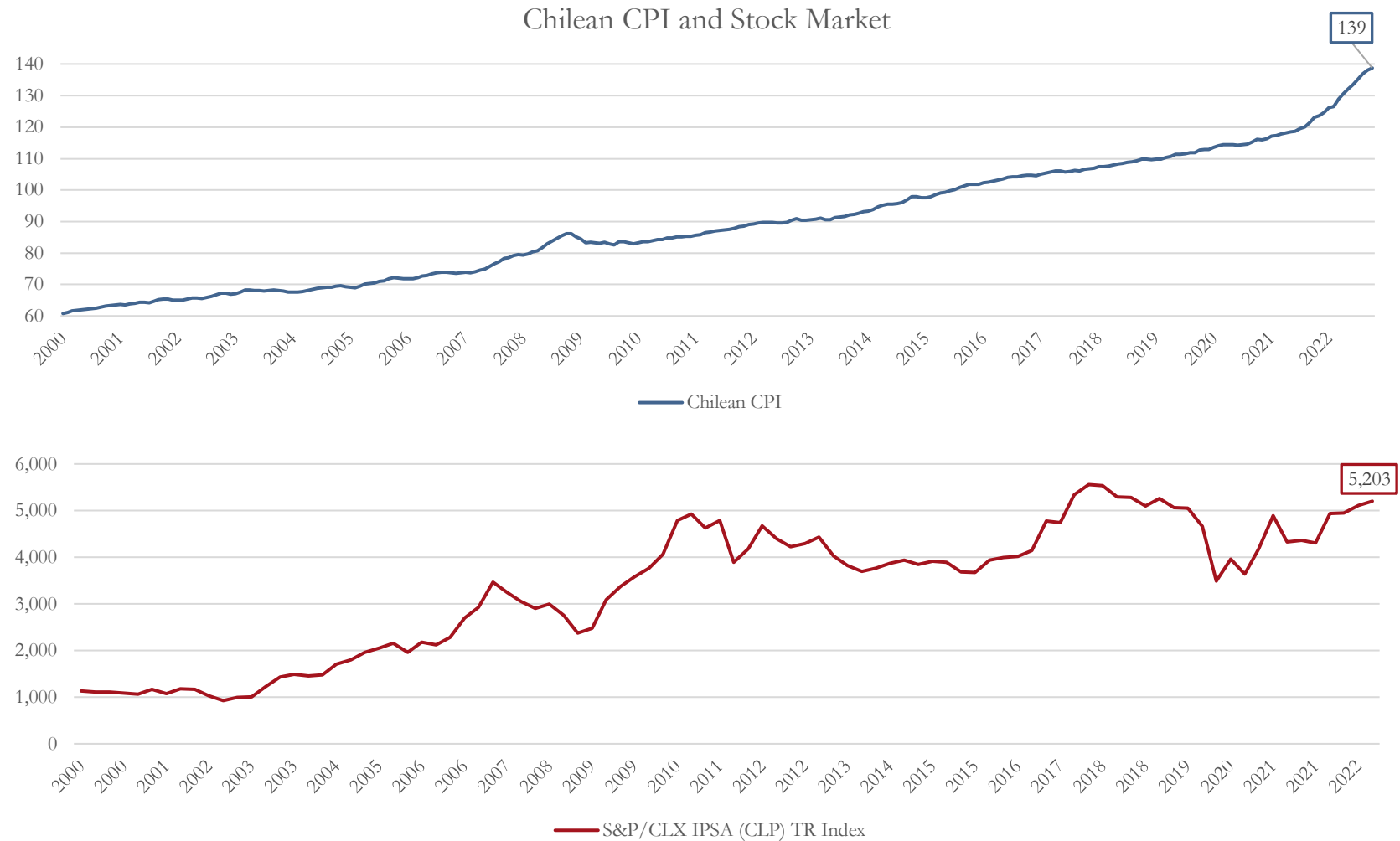


# Chile

Credit

Inflation, Rates and  
Stock Prices

End Game



CPI: St. Louis Federal Reserve; FRED  
Stock Index: Bloomberg



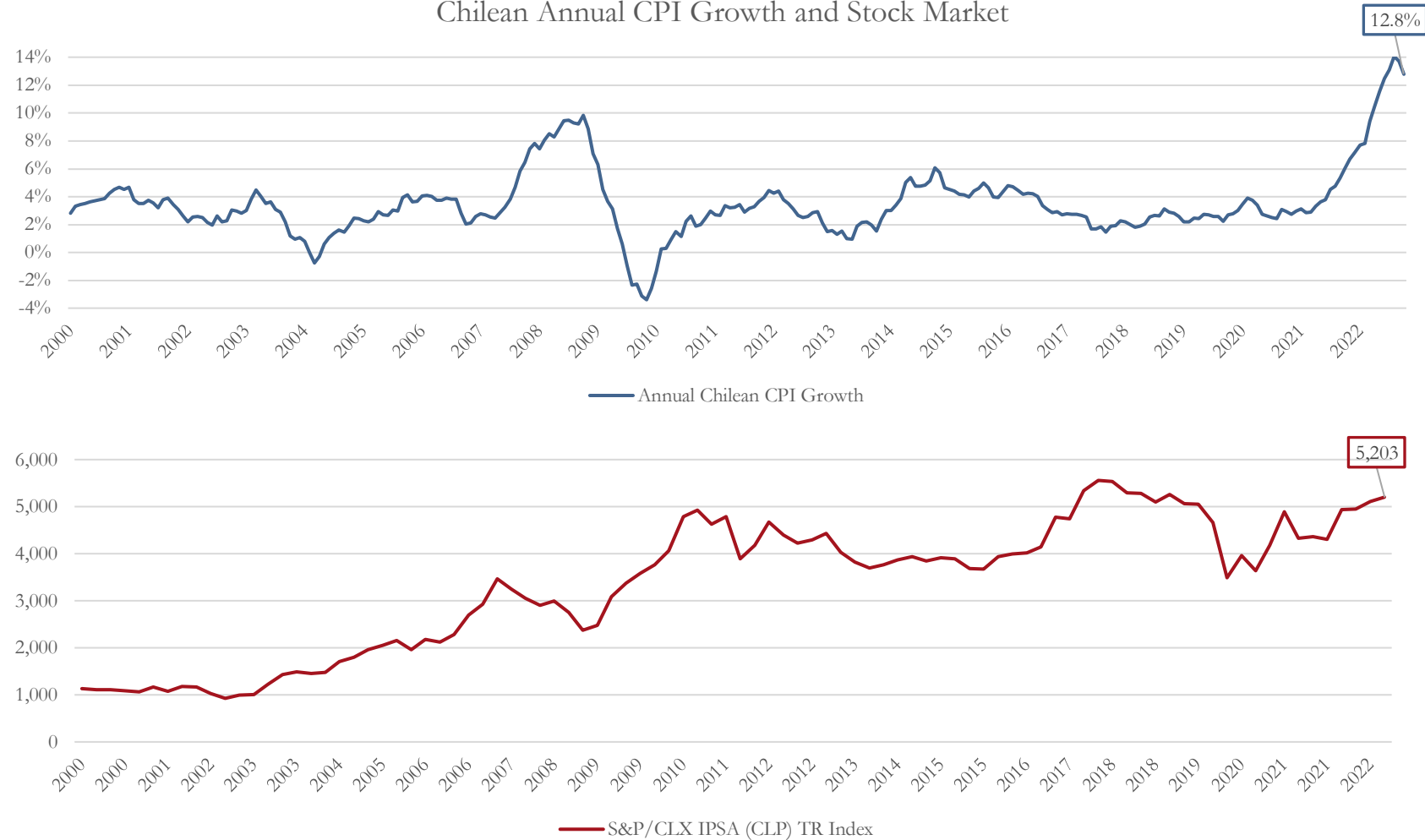
# Chile

Credit

Inflation, Rates and  
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End Game

Chilean Annual CPI Growth and Stock Market



CPI: St. Louis Federal Reserve; FRED  
Stock Index: Bloomberg

# Q&A





# Biography

- **Christopher P. Bloomstran, CFA**, is the President and Chief Investment Officer of Semper Augustus Investments Group. Chris has more than three decades of professional investment experience with a value-driven approach to fundamental equity and industry research. Semper Augustus manages concentrated, all-cap portfolios with typically long holding periods and a general benchmark and geographical agnosticism. The investment process maintains business quality at a high level and stresses the importance of price below intrinsic value. The approach is eclectic, resulting in ownership in some businesses ideally held forever, now fashionably compounders. They own some things cyclically, will own the long side of merger arbitrage, and occasionally have the chance to opportunistically put money to work in oddball special situations with extremely low risk and high upside.
- Chris received his Bachelor of Science in Finance from the University of Colorado at Boulder, where he also played football. He served as President of the Board of Directors for the CFA Society of St. Louis and has been a Director on the Board since 2001. Chris has judged the local CFA Institute's Global Investment Challenge as well as the Regional and the Global Finals for many years. A member of the CFA Institute, he earned his Chartered Financial Analyst (CFA) designation in 1994.
- Chris writes extensively on Berkshire Hathaway, and more broadly on thematic topics related to the stock market and the economy. His annual year-end letter is widely read among the value investing community. He very much enjoys giving back through mentorship and loves speaking regularly at colleges and universities.



## Contact Us...

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[www.semperaugustus.com](http://www.semperaugustus.com)