FEATURE

The week in seven charts

The problem with US debt: money is no longer "free"

Annual US debt interest spending is surging sharply, while Japan faces increasing inflation expectations alongside a persistent decline in the yen's value. Each week, the Syz investment team takes you through the last seven days in seven charts.

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Chart #1

Disappointing Q1 US GDP figures

The wind of stagflation is blowing through the US GDP figures for Q1. Real GDP grew at a rate of 1.6% in Q1, below all forecasts. The main driver of growth - personal spending - grew at a slower-than-expected pace of 2.5%. But a much-watched measure of underlying inflation rose at a faster pace than forecast (+3.7% vs. +3.4%). These figures displeased equity and bond markets.

Indicator	Actual	Estimate
GDP	+1.6%	+2.5%
Personal consumption	+2.5%	+3.0%
PCE price index, excl. food, energy	+3.7%	+3.4%

Source: Bloomberg

Chart #2

Financial gravity

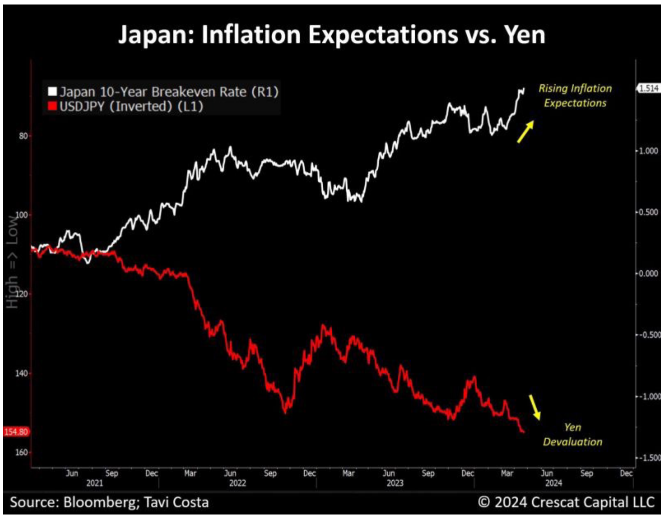
If we divide the S&P 500's performance by the Fed's balance sheet since the great financial crisis of 2008, we see a virtually flat curve. This indicates that stock price growth since 2008 has been virtually non-existent, with the exception of the increase attributable to monetary expansion. The correlation coefficient between central bank quantitative easing and stock index prices is close to 1...

Source: Bloomberg

Chart #3

The Bank of Japan is trapped

Japan is experiencing rising inflationary expectations, while at the same time suffering from a continued devaluation of the yen. This reflects the dilemma of an economy weighed down by excessive debt, requiring constant accommodative monetary policies in the face of structural inflationary pressures. Although this phenomenon is more pronounced in Japan, it illustrates a global trend towards depreciation of fiat currencies.



Source: Crescat Capital, Tavi Costa

Chart #4

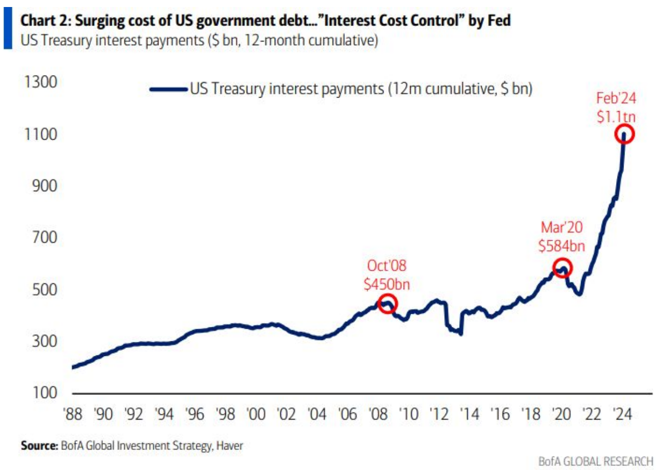
The alarming climb in interest on US debt

Annual spending on US debt interest is rising almost parabolically, now reaching $1.1 trillion. To put this in perspective, less than three years ago, this annual expenditure amounted to $450 billion. That's a 144% increase while total U.S. debt has jumped by more than $11 trillion since 2020.

Even in 2008, at the height of the financial crisis, annual interest expenditure was "only" $450 billion.

With interest rates rising and debt levels reaching record highs, the U.S. is paying the price for decades of budget deficits and rising debt.

Problem: Money is no longer "free"...

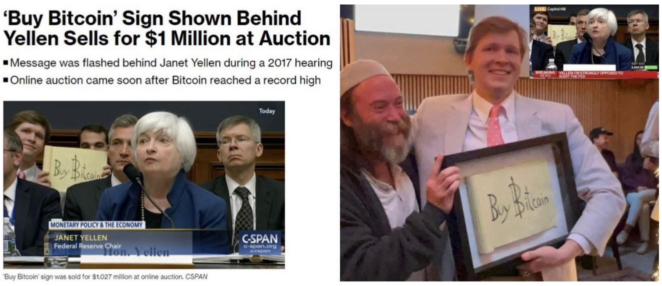


Source: BofA, The Kobeissi Letter

Chart #5

The "Bitcoin Sign Guy"

In July 2017, one man gained notoriety by "photobombing" Janet Yellen, U.S. Treasury Secretary, with a "Buy Bitcoin" sign. Recently, he sold that same notepad for 16 bitcoins, equivalent to more than $1 million, to a buyer known by the pseudonym Justin, or "Squirrekkywrath".



Source: Neil Jacobs, Bloomberg

Chart #6

Ferrari's unbelievable profitability

How many cars do the different brands need to sell in order to generate the same profit from the sale of a single Ferrari? Tesla needs to sell an average of 27 cars, Renault 106. Incredible, isn't it? No wonder Ferrari's share price has soared since its IPO.

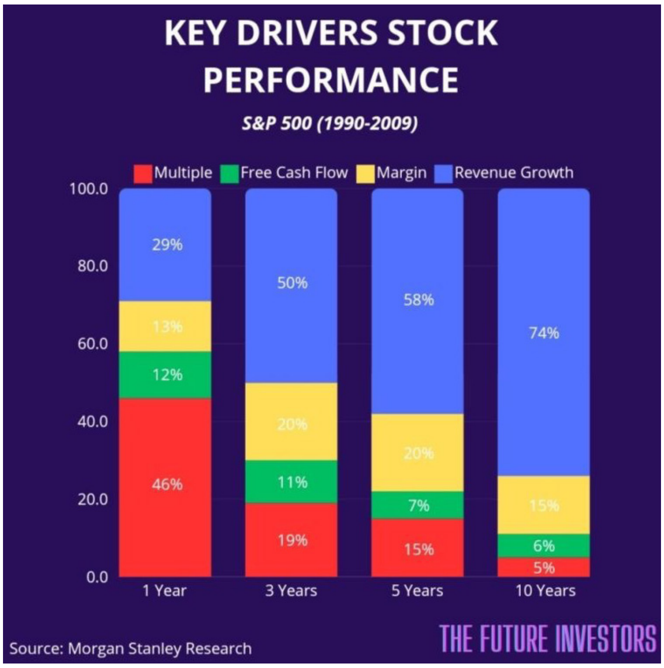
Source: Michel A.Arouet

Chart #7

Drivers of long-term stock market performance

What is the main driver of long-term stock market performance? Let's look at 4 periods: 1 year, 3 years, 5 years and 10 years.

In the short term, the valuation multiple is crucial. Over longer periods, the importance of the multiple diminishes, while revenue growth and margins gain in importance.



Source: The Future Investors, Morgan Stanley

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