InFocus
Arrow Insights Market Update

February 18, 2021

Fundamentals & Tactical Portfolios

The last two issues of *InFocus* – Bubble Risks – Monetary Gas & Debt, Parts I and II argue that the experience of the 2020 "Pandemic Year" has set us up for a significant rise in inflation based on this thesis:

> *"Inflation will materialize much faster than it would have absent Covid-19, which is what the markets have expected since May 2020. The central tenant is the marriage of central banks (CBs) with the executive and legislative branches of their governments, which accelerates a rise in government debt.*
>
> *The globe entered an unprecedented phase of a debt explosion in 2008 to save the banks from the Global Financial Crisis (GFC). In 2020, CBs switched from traditional money printing – Quantitative Easing (QE) to Fiscal QE – Modern Monetary Theory (MMT). Today, CBs still perform traditional (QE) – buying distressed debt and securities while also engaging in MMT, printing money for direct/immediate spending on Main Street.*
>
> *In 2020, the U.S. Federal Reserve Bank (Fed) abandoned its traditional role as a BANKER, when it invited in the U.S. Treasury (the executive branch) to buy corporate bonds and Congress (the legislative branch) to implement fiscal intervention. Consequently, it is much harder for the Fed to turn off the printing press after being in the public-political arena. The Fed is now politically engaged in a PUBLIC fight to recover from the pandemic through fiscal stimulus and to monetize government deficits. It is the first clear sign since 1968 that the Fed is on its back foot, with fiscal policy dominating its view of the economic landscape. The Fed was established to be as independent as possible from POLITICAL fiscal matters. Political pressure disarms the Fed (and other CBs) by tainting its voice, making it more prone to monetary policy errors."*

John Serrapere
Arrow Insights, Feb 11, 2021

Topics of the Next Four *InFocus* Issues:
Factor Balanced Tactical Portfolios – Inflation & Deflation Risk

- **An Aggressive Tactical Portfolio – Overweight to Assets that Hedge the Dominant Risk**
  - Primary: Preservation of Future Spending Power – Overweight to Managed Futures & Foreign Assets
  - Secondary: Preservation of Current Dollars – Dynamic Income & DW Balanced

- **A Moderate Tactical Portfolio – Overweight to Assets that Hedge the Dominant Risk**
  - Equal: Preservation of Current Dollars – Overweight to the above plus Halyard Cash Reserve
  - Equal: Preservation of Future Spending Power – Employ the above and add Global Yield

- **A Conservative Tactical Portfolio – Overweight to Assets that Hedge the Dominant Risk**
  - Primary: Preservation of Current Dollars – Overweight to Dynamic Income, Halyard and Balanced
  - Secondary: Preservation of Future Spending Power – – Employ the above and add Global Yield

Balance Risks with a Global and Well Diversified Portfolio

Arrow Insights favors global assets, moderate risk asset allocations, and managed futures. Our investment rationale is based upon sustained weakness in the U.S. dollar ($USD) attributable to yield repression policies enforced by the Fed and excessive money supply growth due to money printing.

independently evaluate investments and strategies. The appropriateness of an investment or strategy will depend on investor circumstances and objectives.

The contents are not an offer to buy or sell any security or to participate in any trading strategy. Arrow Insights and its affiliates or its employees not involved may have investments in securities or derivatives of securities of companies mentioned in this report and may trade them in ways different from those discussed in this report.

Arrow Insights and its affiliate companies conduct business related to securities covered in its research reports, which may include market making and specialized trading, risk arbitrage and other proprietary trading, fund management, and investment services. Arrow Insights makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

Reports prepared by Arrow Insights research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals affiliated with Arrow Insights.

Past performance is not a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.