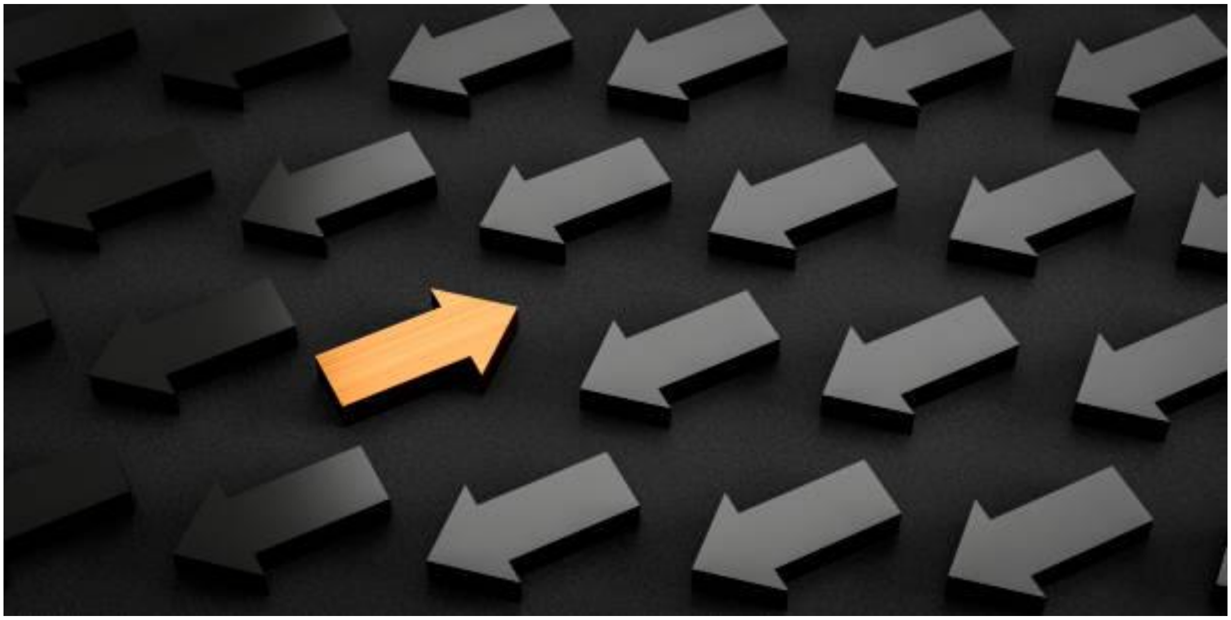

Contrarian Alert

By Bill Gross

January 18, 2022

GDP growth to slow sharply – perhaps close to 0% beginning 2nd quarter. Interest rates approaching near-term peak.

Mathematically GDP growth is a function of the rate of credit creation times the turnover of that credit. The old formula MV = PT or in the case of total U.S. credit creation CV = PT has only a sharp slowdown in credit creation and a decline in "V", or "velocity" (due to tighter monetary policy), to look forward to.

On the credit growth side, while government credit is only 1/3 of outstanding debt, a slowdown from a $3 trillion dollars deficit to perhaps $1 trillion currently creates what is known as fiscal drag. A $1 trillion deficit is <u>contractionary</u> not <u>expansionary</u> in terms of the current year relative to the previous year GDP growth.

On the “V” or velocity side, higher interest rates and the elimination of QE historically tend to reduce the turnover of credit.

In combination, “CV” should flatten considerably and GDP growth should follow. If this scenario takes place, the Fed will limit its interest rate hikes to 75 basis points in 2022 and corporate earnings growth will stagnate.

Investment conclusion: Shorting 10 year Treasury bonds at 2% yields or higher would be a losing proposition. Also stocks may decline based on disappointing <u>earnings growth</u>, <u>not</u> higher interest rates.