

The First Tee...

Inflation Pandemic...the virus fallout has created fears of a deflation shock, but the global trend of historic monetary financing is raising the specter of an inflation surge:

- **Governments are having to finance the economic relief effort from the COVID-19 impact:**
 - The stimulus programs are resulting in the largest budget deficits in history (in developed and emerging economies):
 - To fund these spending programs, governments are increasingly borrowing directly from their own central bank.
- **Debt monetizing**...in modern day economies, there has typically been a barrier placed between government borrowing and central bank money creation activity (*separation of cash and state!*):
 - The government would oversee budgets and meet shortfalls by selling sovereign debt in the bond market, while the central bank controlled the money printing capabilities (*cash on command!*):
 - Starting with the financial crisis, and expanding in the current pandemic, policy makers are blurring the lines between borrowing money and creating it...some believe this trend is a segue into modern monetary theory adoption.
 - As central banks were tasked to stimulate economies, they initially resorted to lowering interest rates...as rates moved towards 0% (or negative) new tools began to be utilized that gradually eroded the separation of monetary and fiscal policy:
 - Quantitative Easing bond buying became the popular monetary mechanism that saw central banks purchasing government securities in the secondary market...the initial strategy was to sell the securities back to the private sector after the crisis, but most have stayed on balance sheet.
 - Monetizing the debt differs from QE as central banks purchase debt directly from the government:
 - The central bank covers budget gaps in funding government spending through direct bond purchased or offering an over-draft, where no bonds are issued...this basically turns what would have been debt into money instead.
 - This borrowing is evolving into securities with no maturity date and debt with no intent to repay...**helicopter money**
- **The Federal Reserve is projected to purchase \$3.5 trillion of bonds this year, covering a projected fiscal shortfall of \$3.7 trillion** (this will increase bond holdings on the Fed's balance sheet to over \$7 trillion):
 - Always before, it was primarily advanced economies whose central banks were purchasing their government's debt:
 - There is a new trend of emerging countries using their central banks to buy their debt...(13 have started since February):
 - Since the pandemic's start, over 100 of the International Monetary Fund's 189 member countries have asked for assistance:
 - The IMF has doubled the size of its quick-release loan program to \$100 billion but says 25 times that amount is needed.
- **What inflation**...so what does all this debt monetization have to do with increasing the price of goods and services?:
 - The lack of inflation has been a larger issue than concerns over price growth the past 30 years:
 - After peaking at 14.8% in March of 1980, the Consumer Price Index has averaged an annual increase of 2.2% since 2000 and 1.8% since 2010...below the Fed's targeted rate of 2.0% (year-over-year CPI rose by just .3% in April):
 - The principal of central bank independence was developed during the high inflation decades of the 1970s and 1980s.
 - History is rife with episodes where politicians seized control of money creation and spread too much cash through the economy, causing prices to increase sharply and asset values to erode:
 - The loss of monetary discipline can have disastrous consequences, especially in emerging market economies:
 - Emerging market countries typically are reliant on short-term foreign capital that can be in jeopardy if the government floods the market with money, causing the value of their currency to devalue and prices to surge:
 - **Developing countries have already seen capital outflows topping 2008 levels**...this is especially evident in Latin America.
 - Brazil and Mexico have seen the value of their currencies fall 20% so far this year, while Argentina and Venezuela are truly poster children with Argentina's inflation rate projected at 40% this year, and Venezuela posting a 10,000% price increase in 2019.
 - Developed countries have not seen a substantial increase of inflation as they have moved towards monetization:
 - Japan has been pegging its 10-year government debt at 0% for over a decade (the Bank of Japan currently purchases about 90% of all the sovereign debt issued by the Japanese government)...but, as a majority of advanced economies continue to move closer to government control of money creation to finance expanding budget deficits, the odds price pressures intensify accelerate.
- **Opposing forces**...huge public debt burdens will make it more difficult to enact fiscal austerity in the future:
 - The post coronavirus economy could still see the job market a long way from full employment, it will be painful for politicians (*at least those who want to get reelected*) to raise taxes and reduce spending in this type of economic environment:
 - The fiscal situation would increase pressure for even more monetary stimulus, intensifying inflationary prospects.

At the turn...

The Back Nine...

Job Jamboree...the coronavirus has created historical job losses, but the pandemic is also creating new opportunities for employment (many of these positions will be permanent as the work environment adjusts):

- Companies are focused on getting back to business...new positions are being established designed to keep employees and customers safe (industries are looking for workers to help prevent virus spread):
 - Some of these new jobs include thermal scanners, contact tracers, decontamination technicians, social-distancing monitors, entrance watchers, plexiglass installers, elevator operators (Push the button Max)
 - Contract tracing alone could generate as many as 250k new jobs in the U.S. if the ratio utilized in Wuhan, China, of 81 tracers per 100k residents, is followed...the job entails tracking down everyone who has been in contact with a COVID-19 patient:
 - Even undercover positions are popping-up in the new anti-virus environment...a throw-back to the “secret shoppers”:
 - Firms who employ independent contractors, to be mystery shoppers that rate customer services and competitive pricing, are now looking for workers to visit hotels, restaurants and stores to review coronavirus safety measures (such as social distancing and face masks).
- The new virus-related jobs will fall-short of replacing all that are lost due to the economy closing:
 - It is too early to see how many of the 38 million positions idled during the pandemic lock-down will not be revived, but any new job opportunities will be a positive step towards reducing the unemployment gap:
 - Filling some of the new jobs created by the pandemic could be difficult, especially when unemployed workers can make more money from supplemental and state unemployment...there is also the current concern by some workers about still contracting the virus.

State of Mind...worker mental health issues have spiked due to the pandemic:

- There has been a surge in the rates of anxiety, depression, drug abuse and suicides:
 - Health insurance claims show just under 20% of a company’s employees have mental health issues:
 - Over the past few weeks, this number has increased about 65%...the added numbers, combined with the number of individuals being treated for the virus, has restricted the healthcare’s ability to address the mental health issues:
 - Virtual mental healthcare is seeing rising demand...there has been a 30% to 50% jump in various mental health site pings.
 - Larger companies in Europe are obligated to ensure mental and social well-being for employees:
 - The European Union occupational safety legislation requires regular evaluation of these issues and correction of shortfalls.
 - U.S. companies typically do not take a direct approach to mental health...with screening falling to HR Dept.:
 - Most employers offer workers access to treatment through insurance benefits and employee assistance programs:
 - Depression alone is costing U.S. firms over \$100 billion a year, mostly from missed work and low productivity:
 - Many companies have expanded their employee assistant programs, but only a fraction of eligible workers use them.
- The stigma around mental health remains prevalent in the U.S. (inside and out of the workforce).

19th Hole...

To many, total abstinence is easier than perfect moderation.

St. Augustine of Hippo

Ross Elford, First Vice President

Direct: 314.746.3679 | Mobile: 314.223.9739 | Fax: 314.746.8737



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