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Below is the latest Market Comment from Ian Williams: (24/07/2017)

"Paper money eventually returns to its intrinsic value – zero." (Voltaire, 1694-1778)

It is now nine years since the US Federal Reserve Bank introduced Quantative Easing (QE) in response to the 2007/2008 global financial crisis. At the time this produced a near unanimous opinion that all this "money printing " would be highly inflationary, prompting a flood of investor money into gold & silver that led to the price of gold rising from $800 an ounce to nearly $2,000 an ounce, a gain of 150%. Silver was even more spectacular, rising from $10 an ounce to $50 an ounce - a rise of 400%.

However, the predicted inflation never really appeared (as Ben Bernanke, the Fed's then chairman, to be fair predicted at the time) due to a variety of reasons. The absence of inflationary pressures continues to puzzle economists and financial market pundits, yet economic theory provides some answers and pointers to the risk of faster inflation ahead as the short term outlook is being played down by many forecasters at present.

All economic students are aware of the Irving Fisher equation MV=PT where M is money supply V is velocity of circulation and P & T are the price & output level. What has happened since 2008 is that M (mainly narrow M) has risen very sharply whilst V has fallen very sharply resulting in not much change in either Growth or Inflation. So the key to future Inflation lies as much with V as it does with M. Most analysts attribute the fall in Velocity to the 2008 crash and its negative effect on the banking system, which limits the banks' ability to lend money. This explanation is questionable, however, as US Velocity actually peaked in 1999 around the dot com boom so the crash in 2008 does not adequately explain the fall in Velocity as the conditions for banks in the years 2000 to 2008 were exactly the opposite (banks were lending money like drunken sailors) to the post-crash years .

A far better and more plausible correlation is with Velocity and the decline in the US labour participation rate, which reflects the mass (early?) retirement of the baby boomer generation born after the second world war (see chart 1). This makes perfect sense as once people stop earning a salary and become retirees their spending habits change as most invariably have less to spend. In short, as tens of millions of middle-aged and pensionable workers withdrew from the labour market (chart 2).

However, labour participation in the US now looks like it is bottoming out and starting to rise which means that going forward V should start to exert an upward effect on inflation (or possibly growth but more likely inflation) after having a dampening effect for almost two decades. Meanwhile the trillions of money printed in the QE program still exists mostly on deposit at the various central banks - only reverse QE can make that money disappear – instead of being loaned by high street banks to drive economic growth.

So we are now approaching an important inflection point that will determine the likely future path of inflation and potential risks it poses for investors. If Velocity picks up without any corresponding reverse QE then inflation will start to rise. It is at that point that the inflation predicted after the crash will finally start to appear. Printing remains an inflationary factor but its effects were delayed by even more powerful deflationary demographic factors, which now look to be playing out.

This is the backdrop for a new surge in gold and silver both of which experienced a sharp correction after peaking in 2011.

If inflation starts to rise then gold and silver will flourish whilst bonds will suffer. We expect to see renewed interest in precious metals similar to that seen post-crash between 2008 and 2011.

If you would like any more information on any of the newly launched or existing funds, please contact myself or the team.

Ian Williams, Charteris CEO and the team.