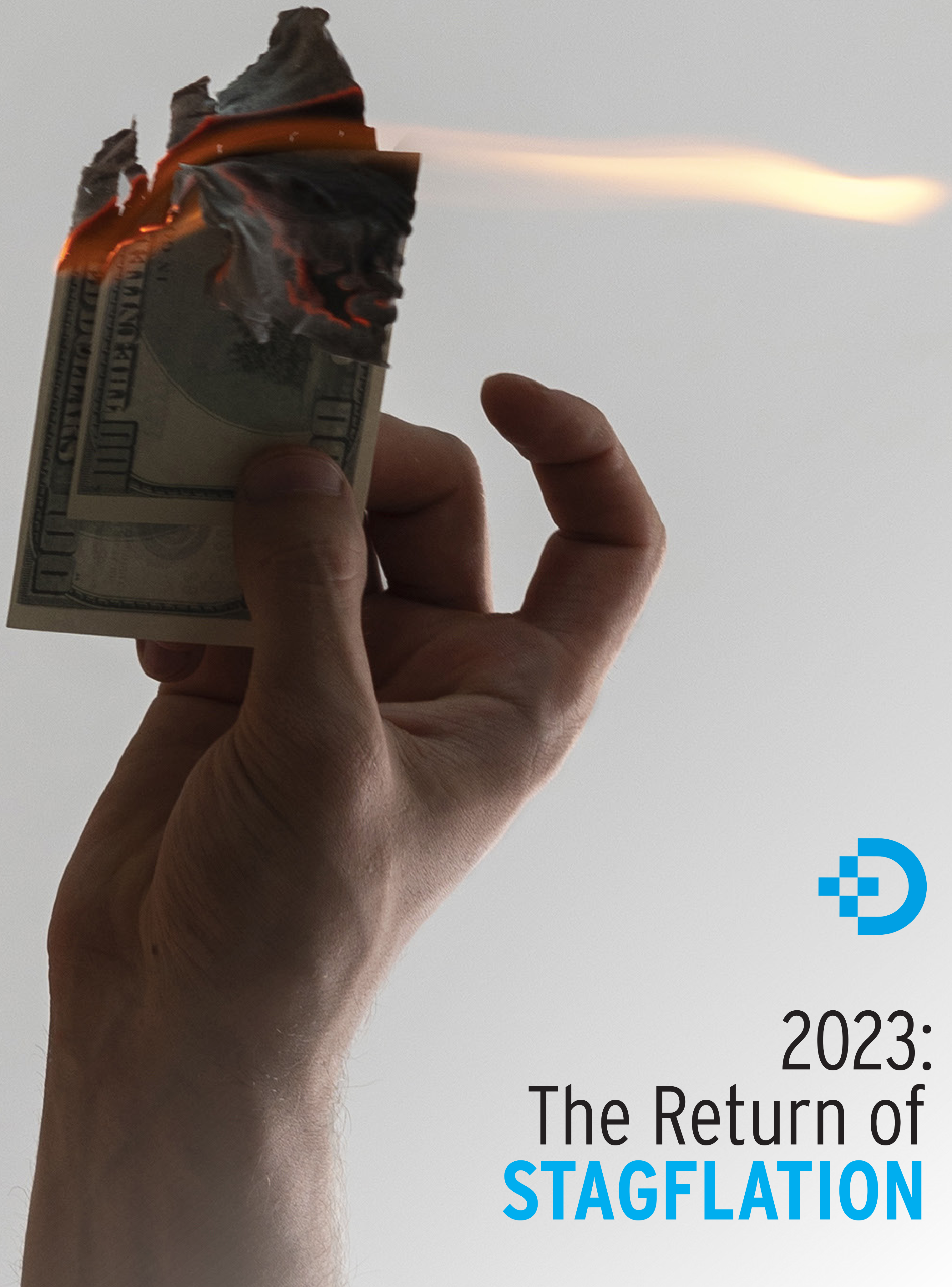


2023: The Return of STAGFLATION

In the 1970's the United States went through five consecutive quarters of negative GDP growth brought about by the skyrocketing of oil prices globally, leading to an economic recession, inflation, and high unemployment rates. The economic disease that came to be known as "stagflation" is **a combination of stagnation with inflation that slowly eats away at a country's economic growth** while proving difficult to transition out of, due to its two-pronged effects. Unfortunately, many leading economists are predicting the return of stagflation at some point in 2023, with inflation in the US has reached the highest in decades during June of 2022 and now stubbornly at a 7.1% during the last quarterly report the prevailing winds seem to blow in a downward spiral.

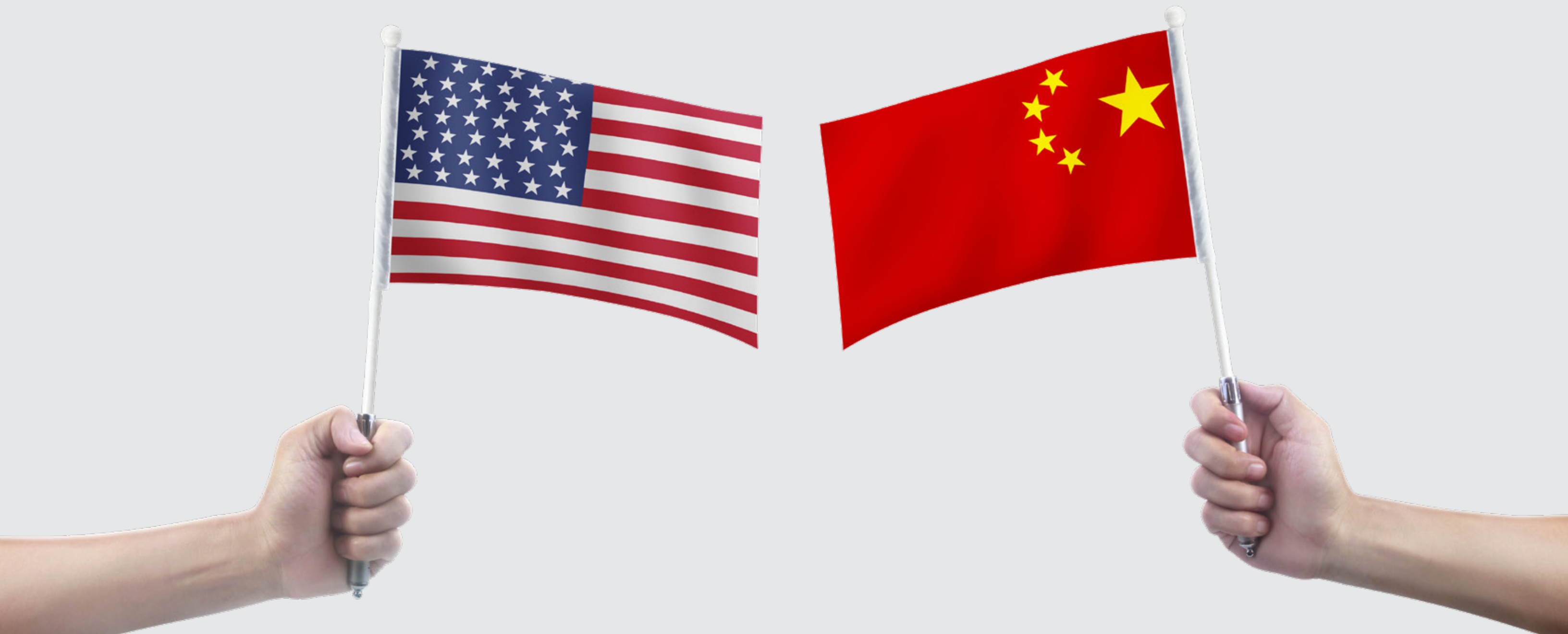
"We expect one-third of the world economy to be in recession,"

Kristalina Georgieva, managing director of the International Monetary Fund, said in an interview Sunday with the CBS television network's "Face the Nation." [AP NEWS]

2023 is shaping up to be a year of a high level of uncertainty, pessimism, and fear over the world markets, the S&P 500 fell by a tremendous 19.4% by the end of 2022 making it the worst year in the stock market since 2008, when the S&P 500 reached a rock bottom of 38.49% loss. Inflation and stagnation are not economic periods that the United States has much experience in, but the Biden administration's policy has been focused on reducing and preventing these periods at any cost possible, even if it may mean a coming recession. To this aim the U.S Federal Reserve has been doing its best to tame and control inflation throughout the year, hoping for a soft-landing approach to glide the economy through 2023, the expectation that it may come to pass is quickly diminishing as the continuous interest rate hikes have been edging the country closer and closer to a reduction in GDP and making the purchasing power of average consumers far weaker.

While many economic indicators are pointing towards a rough road ahead, **there are other economic factors to this period that give the possibility for a resurgence in the world economy.** The US consumer balance sheet is healthy, and companies have seemingly learned their lesson from the pandemic on savings and spending through times of uncertainties, as today the largest corporations have amassed trillions of dollars in reserve and are extremely frugal in their spending. While these are good signs to note concerning the strength of the US economy, inflation is slowly eroding its power, as consumers and companies try to keep afloat through currency devaluation and rising interest rates, the question of when "enough is enough" is becoming ever more present. This economic slump is not limited to the US.

Emerging markets like China, India, and Botswana are facing the worst of the global economic situation as protectionist policies in the US and other large economies are creating a set of exporting challenges that further threaten their growth potential. A decrease in consumer purchasing power and corporate spending in the United States lead to commodity-reliant markets having a negative spiral. Higher inflation rates, lower economic growth, and protectionist laws may disintegrate many global market gains over the last decade. Globalization itself is facing serious opposition in 2023 as **nationalist policies are taking priority over global growth,** geopolitical uncertainties brought about by the Russian invasion of Ukraine has drawn new lines across global markets through the implementation of the largest sanctions packages on a G7 nation inevitably leading to a decoupling of a scale the world has never felt. With a



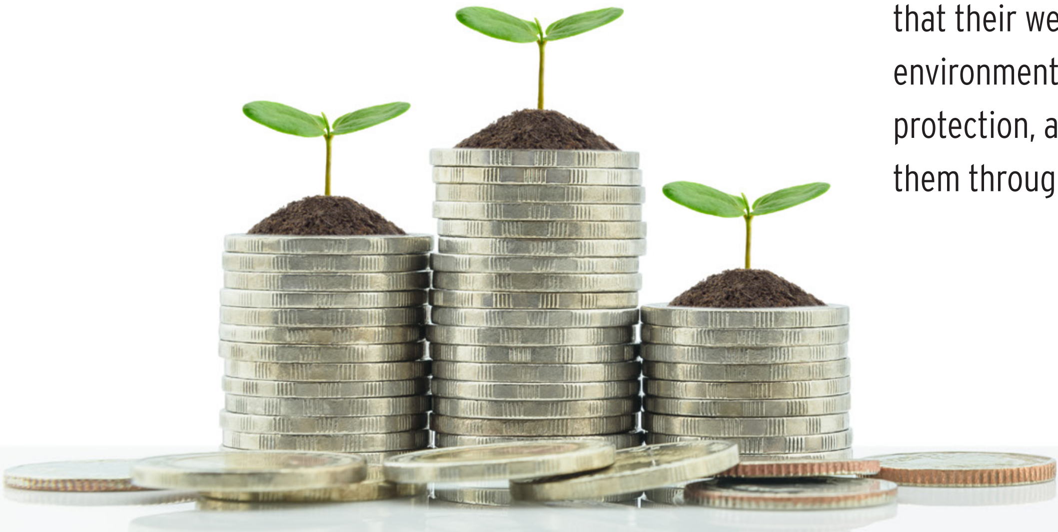
drastic increase in commodity prices, protectionist policies at home and abroad, as well as a stagnant increase in both GDP and salaries the best way forward seems to take three steps back.

To do this individuals and companies need to reevaluate and carefully plan their financial strategy for 2023, with **one main objective in mind: saving.** While inflation and stagnation may be fast upon us one certainty remains true, banks will be far more generous in their interests for long-term savings and trusts. The climate is especially fruitful for a savings surge to prop up our national and international economies with I-bonds (inflationary bonds) which guarantee savings up to $10,000 with a 7% fixed interest rate higher than most high-yield savings accounts. Banks are also providing far more lucrative interest rates for their 12-month certificate of deposits with some offering 4.5%, a dramatic rise from the average of 1.5% rates. This is all to incentivize more savings, banking, and deposits to protect our wealth for the future beyond the stagnant and inflated economy.

The world is facing this crisis together, however, certain countries have been better positioned with far more recession and inflation-resistant fiscal policies to help them weather the storm. The United States has historically been a safe space for parking money, wealth, and business in these times, and with growing investment and repositioning of global assets into American treasuries, currency, and bonds at an unforeseen scale, it seems that the naysayers of American fiscal supremacy are having to eat their words.

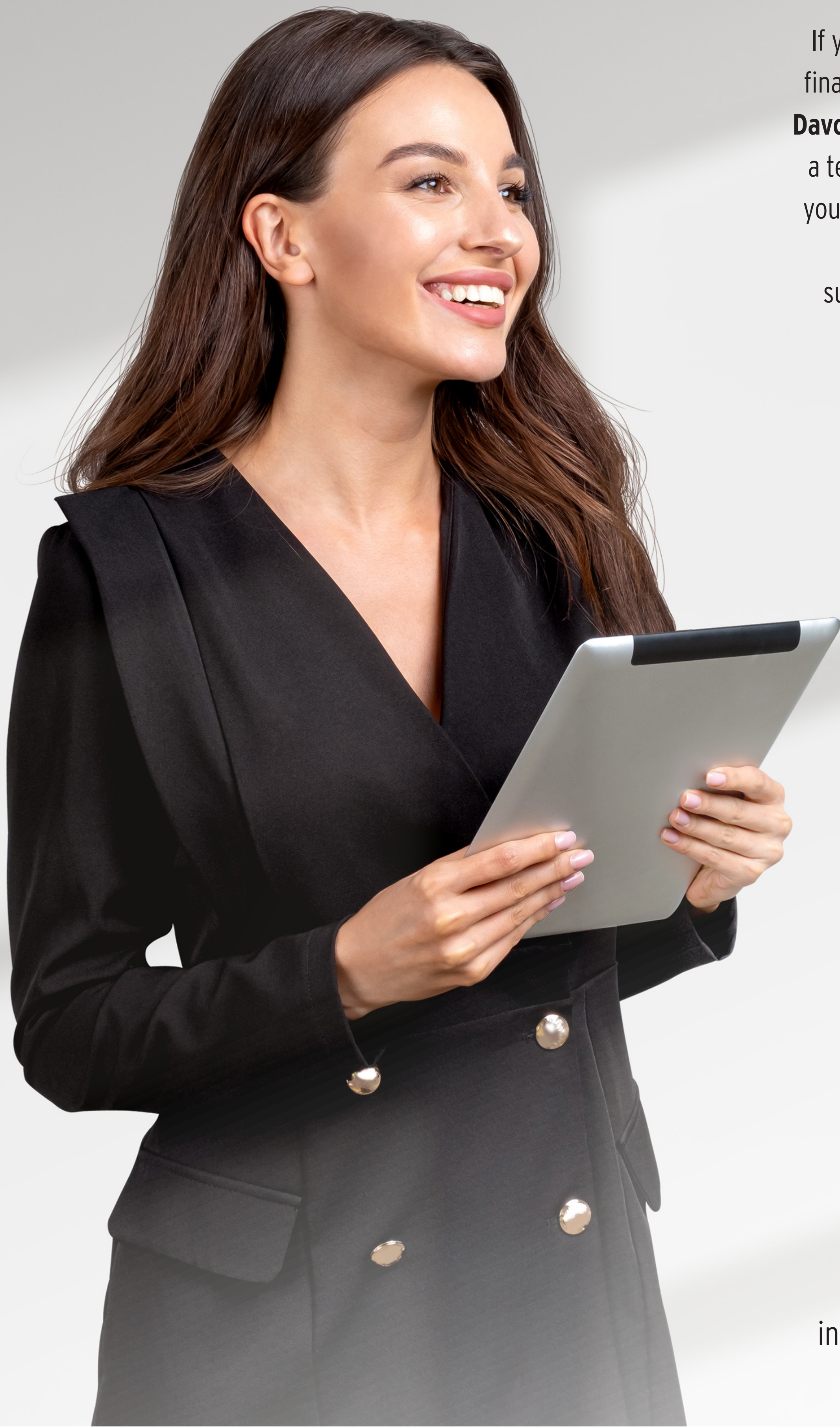
A stark example of an economy facing a drastic challenge ahead due to unregulated and highly business-friendly policies is Japan, which is struggling to remain true with its interest rate slashes, currently hovering at -0.10%. Their fiscal policy of encouraging entrepreneurship and production during high inflationary periods has been seen as detrimental by some economists and ahead of its time by others, however, the Bank of Japan's move in this policy has led to a growing depreciation of their currency (Yen) in comparison to the US Dollar, making it even harder for Japan to reassert its economic power abroad and at home. Currency markets across the world have been trying to tackle their rates, and how they can compete with the US dollar, currently the world's currency reserve, but only time will tell whether this fiscal stand proves to generate a boom in their economy as projected. Of course, other national factors like labor demographics and stringent investment opportunities continue to create uncertainty in their success, but their yield-perk control framework seems unlikely to change soon, having already endured some of the largest inflationary peaks in the last year.

Undoubtedly the year ahead does not look as promising as previous years in the 2000s have been, with a stagflated American economy creating massive ripple effects in markets across the world, however, **in times of uncertainty, recession, and inflation, there is always a way to create a competitive advantage compared to other fiscal actors in your industry.** By saving, creating a sound debt payment strategy, and diversifying your wealth into bonds, credit deposits, and other sustainable and inflationary adjusted asset markets, you can be able to navigate with cash on hand the challenges ahead.



What will remain true through 2023 and unto the years ahead of this fiscal instability is that fiscal policies that adjust to the environment at hand will see their national economies become more centralized. Globalization is not dead, but fast transitioning to meet demands at home for countries everywhere who are facing far different circumstances than the United States, Japan, or China, developing nations and high-income countries are all dealing with similar symptoms caused by the changing geopolitics. **It is up to individuals, not bound by their national interests, to face these challenges** through savvy financial moves to ensure that their wealth is in the best environment, under the most protection, and fluid enough to see them through to the future.

If you are looking to start your financial journey, contact us, at **Davos Financial Group** we offer a team of professionals to help you find the best fiscal route to offer you lucrative and successful outcomes for your business or personal future.



Contact us
info@davosfinancial.com