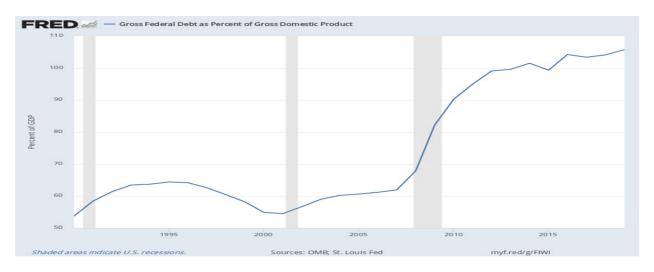


Increasing U.S. Government Debt

Modern Monetary Theory proposes that governments that control their own currency should spend without limitation on programs they deem valuable because they can always create additional currency to pay off debts. Essentially, larger independent governments cannot run out of money and therefore should have little financial constraints regarding elevated spending and debt levels. Especially, when there is unfilled economic capacity and/or labor slack. Some supporters of the theory suggest that governments should guarantee jobs, income and give citizens a purpose for using money. The vital government financial support that was needed during the pandemic, could be more common place.

When governments spend more than they receive in taxes, they have to borrow. That borrowing leads to additional supply of government bonds and potentially a supply imbalance of sovereign debt that could increase borrowing costs. However, since 2009, central banks have been buying their own debt in very large quantities, "Quantitative Easing", to provide additional support for deficit spending. The United States, thus far, has been able to increase its money supply without negatively impacting borrowing costs. Post the financial crisis, and subsequently the COVID-19 global pandemic, some economists are less concerned about debt levels, and even support the idea that spending can be sustained perpetually without consequence.

Gross Federal Debt as % of GDP (1990 to Today)



Opposed to this theory is the concern that budget deficits and printing money can be harmful and spark inflation. **Conventional economic theory** suggests that if a country significantly expands its debt relative to GDP, a country would eventually experience some amount of additional inflation and/or higher borrowing costs. Central banks, prior to the global pandemic, generally had stricter targets for inflation and governments had an aversion to growing deficits. There was more of a mantra to have fiscal responsibility because of negative



inflationary and/or currency consequences. Additionally, today we are experiencing inflation driven by supply side disruption (Cost-push inflation), versus inflation historically driven by demand, which adds further uncertainty to future monetary policy, spending programs and inflationary effects.

Due to these unique circumstances and the uncertainty AHB feels a balanced approach between risk and reward is prudent. AHB equity portfolios and the equity portion of balanced accounts are managed using a combination of value and growth securities which, we feel will perform relatively well regardless of the economic and inflationary environment. Additionally, fixed income portfolios and the fixed income portion of our balanced portfolios are managed with an active ladder approach to mitigate changes in inflation expectation. If there is high inflation and consequently high interest rates, client portfolios will be able to reinvest proceeds from maturities into the new, higher rates. Lastly, clients have the ability to work with our team to shift asset allocation between equity and bonds within one portfolio due to personal changes in risk-reward profiles.

To learn more about AHB and our investment strategies, please contact:

Matthew Flood at 201-484-2050 or mflood@ahbi.com

Alexander DiGregorio at 201-484-2032 or adigregorio@ahbi.com