

11.12.20 | INVESTMENT MANAGEMENT

2020 Outlook Theme #3: Will Helicopter Money Rescue the Economy, or Cause Inflation to Take Off?

Benjamin B. Wallace, CFA – Chief Market Strategist

The primary policy side effect would be inflation. As noted on 3/31/20: *While short term support for the economy and developments on the healthcare policy front are the main focus right now, the longer term question is whether the $6.7 trillion stimulus will be inflationary and what the long term impact on the Federal debt will be.*

In 2008, the concept of the Federal Reserve buying bonds to keep long term rates down, known as QE, was a largely untested theory put into practice to support the economy. The next step out the theoretical ladder is known as "Helicopter Money", referring to the Fed printing money and figuratively dropping it from helicopters on the economy to spur economic activity and/or inflation should simple QE not work. From a practical standpoint, a rapid ramp in fiscal stimulus including direct payments to individuals paired with the Fed leveraging itself up to buy bonds directly from businesses looks a lot like helicopter money. How it will ultimately end up depends on the nature of the programs: how large they are versus the economic shortfall and whether the programs are permanent or temporary.

On the fiscal front, Treasury spending is now up to nearly $2 trillion (from $1.6 trillion), while loans are around $774 billion. Assuming the economic disruption is relatively temporary, and thus the surge in fiscal stimulus does not prove to be recurring, this spending serves to offset the lost economic activity. By filling in this lost demand, it prevents DEFLATIONARY forces from taking hold.

For monetary policy, much of the Fed's $3.8 trillion is also not permanent, and thus has far less inflation impact than the very large headline amount suggests. In fact, the SMCFF/PMCFF's mere existence supported the credit markets, even before they were deployed. So not only can Fed programs be pulled back, but they may not even reach close to their stated maximum capacity. This is good as it delivers a benefit with even less long term distortion.

For now, the conclusion remains: *Overall, yes, adding $6.7 trillion stimulus (about 30% of $20 trillion GDP) would be inflationary if the economy was at or near capacity. But if a large portion of that stimulus is temporary and so goes away when no longer needed, and the remaining portion offsets deflationary lost spending, then the inflation impact is less than it might appear.*

There is, however, an inflation consideration beyond the crisis response. During Q3, the Fed made a notable shift to its

© 2026 Grimes & Company | One Technology Drive, Suite 100, Westborough, MA 01581

"policy framework", meaning the how data is considered when setting interest rates. Traditionally, the Federal Reserve has balanced readings on inflation and unemployment, based on the idea that low unemployment will eventually spur inflation, and so when unemployment would get low, the Fed would start to raise rates (or otherwise tighten policy, such as slowing QE). Over the past 10 years, however, inflation has remained at or below the Fed's 2% target. This has raised the question as to whether the Fed has been too quick to raise rates and has prevented unemployment from truly getting low enough.

Consequently, it has changed its framework from anticipating that unemployment is getting too low, to one of "don't fire until you see the whites of their eyes," meaning they will wait until inflation really is lifting off before raising rates. Also, the Fed emphasized it wants inflation to average 2%, not have a 2% ceiling, so inflation of 2.5% is tolerable. With unemployment at 8.4%, the Fed is a good distance away from the 3.5 – 4% range when this policy would actually have an impact on its actions. It might mean, for example, the Fed would think about raising rates in late 2023 instead of late 2022. This will be relevant when that time (and sub 4% unemployment) comes, but for policy actions right now, the impact is minimal.

The Fed has clearly shifted its focus to supporting the economy until the point that inflation is generated. The hope is that this results in unemployment being pushed down to a new, lower, level than was previously thought. The issue is, whether its good inflation or not, that bond yields have reached historic lows thanks to the 20 year drop in inflation. Any form of higher inflation, therefore, could cause this interest rate backdrop to shift. With the 10yr Treasury at just 0.68%, the Fed committing to getting inflation over 2% should raise some concern. Thus it is important to wonder *Will Helicopter Money Rescue the Economy or Cause Inflation to Take Off?*

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Grimes & Company, Inc. ["Grimes"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Grimes. Please remember to contact Grimes, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing / evaluating / revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Grimes is neither a law firm, nor a certified public accounting firm, and no portion of its services should be construed as legal or accounting advice. A copy of our current written disclosure Brochure discussing our advisory services and fees is available upon request. Please advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Grimes account holdings correspond directly to any comparative indices or categories. **Please Also Note**: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Grimes accounts; and, (3) a description of each comparative benchmark/index is available upon request.

The information contained herein is based upon sources believed to be true and accurate. Sources include: *Factset Research Systems Inc.*, Bureau of Economic Analysis, Bureau of Labor Statistics, Congressional Budget Office, Board of Governors of Federal Reserve System, Fred: Federal Reserve Bank of St. Louis Economic Research, U.S. Department of the Treasury

- The Standard & Poor's 500 is a market capitalization weighted index of 500 widely held domestic stocks often used as a proxy for the U.S. stock market. The Standard & Poor's 400 is a market capitalization weighted index of 400 mid cap domestic stocks. The Standard & Poor's 600 is a market capitalization weighted index of 600 small cap domestic stocks.
- The NASDAQ Composite Index measures the performance of all issues listed in the NASDAQ stock market, except for rights, warrants, units, and convertible debentures.
- The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 21 emerging markets. The MSCI All Country World Index is a free float adjusted market capitalization index designed to measure the performance of large and mid and cap stocks in 23 developed markets and 24 emerging markets. With over 2,800 constituents it represents over

85% of the global equity market.

- The Barlcays Aggregate Index represents the total return performance (price change and income) of the US bond market, including Government, Agency, Mortgage and Corporate debt.
- The BofA Merrill Lynch Investment Grade and High Yield Indices are compiled by Bank of America / Merrill Lynch from the TRACE bond pricing service and intended to represent the total return performance (price change and income) of investment grade and high yield bonds.
- The S&P/LSTA U.S. Leveraged Loan 100 is designed to reflect the largest facilities in the leveraged loan market. It mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads and interest payments.
- The S&P Municipal Bond Index is a broad, comprehensive, market value-weighted index. The S&P Municipal Bond Index constituents undergo a monthly review and rebalancing, in order to ensure that the Index remains current, while avoiding excessive turnover. The Index is rules based, although the Index Committee reserves the right to exercise discretion, when necessary.
- The BofA Merrill Lynch US Emerging Markets External Sovereign Index tracks the performance of US dollar emerging markets sovereign debt publicly issued in the US and eurobond markets.
- The HFRI Fund of Funds index is compiled by the Hedge Funds Research Institute and is intended to represent the total return performance of the entire hedge fund universe.