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The Real Danger is Hyperinflation, not Recession



As the new year began, I have received calls and emails from a number of organisations requesting me to deliver a presentation on the 2023 economic outlook. I will do my very best for them, even though it is not easy to anticipate future events in a world where we don't know what will happen tomorrow. Before my presentations, I examine previous and latest reports issued by international institutions.

Frankly, the gap between the forecasts and the realisations has considerably grown over the course of last eight years, which has inevitably caused volatility in the markets. As the gap between planned or predicted events and those that have actually come true increases, several factors, such as resource utilisation, employment, production, inflation, and exchange rates are more and more affected by sharp fluctuations. Unforeseen economic events lead to delayed side effects in capital stock and financing, and the fact that the solutions created to eliminate them are not realistic enough augments the impact of these fluctuations.

Also, different countries are dealing with inflation with different measures. This makes the investors' job more difficult than ever. Some countries engage in a direct fight against inflation, whilst others prefer to increase wages so as to try to protect citizens against price increases. Obviously, some countries do both. However, in emerging markets, the prices of goods and services as well as wages and salaries keep going up. However, on average, the prices of goods and services are increasing at a higher and faster rate than salaries and wages. Business people ask me, "should we be afraid of a possible recession?" And I reply: "Just pray that hyperinflation and recession do not occur at the same time." Let me clarify: recession taking place simultaneously with low inflation, high inflation, or hyperinflation would lead to different results. If there is a combination of low inflation and recession, those who have considerable cash in national currency would have the opportunity to buy many assets at affordable prices. Not for nothing do they say that "cash is king".

However, when high inflation and recession happens at the same time, the performance of investment instruments begin to decline, fluctuations intensify, and investors start incurring losses because they are delayed in closing positions. Some investment instruments rise too high and become too risky. We are pretty much experiencing this situation right now. There is a strong likelihood of high inflation under a slowing economy, which will eventually turn into recession. My suggestion is to cash out the overvalued assets and look for the next opportunity.

The Era of Cheap Money is Ending

Hyperinflation and recession. This is the duo we should fear the most. Because if this happens, no matter how much liquidity there is in national currency terms, the economy's strength would be weakened in the face of rapidly rising prices, and no interest rate or financial instrument would make up for such a loss. If investors do not have assets in euros, dollars or other powerful currencies, they would quickly become poor, and cash would cease to be a king and become a hindrance.

Some emerging markets are just a stone's throw away from hyperinflation. Therefore, although having considerable amounts of dollar or national currency-denominated cash may seem like a guarantee against loss at first glance, it actually increases the risk even more. It would be wise to spend a portion of this money on strong currency assets and benefit from their appreciation.

You can use this money to buy a wide range of investments, including real estate or rare art pieces. So, it would be best for business people to expand their networks to make new discoveries rather than hoarding the money rashly printed by the central bank. But you must also know when to say goodbye to your assets. Always try to diversify your assets because very soon, real interest rates will move to positive territory all over the world,

and if you do nothing by then, you will have missed the bus!