

Funding the Future

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The FT has launched a new email alert on hedge funds and markets today. In the [launch mail it said this](#):

Last week was a doozy. The previous week's lousy jobs report (economy cool, good for markets because loose monetary policy is more likely) was a set-up for Wednesday's breakout inflation report (hot, bad, tight). It then turned into The Week We All Worried Even More About Inflation.

And in an instant I understood exactly why we are having so many reports on inflation expectations at the moment when the real prospects for it arising (most especially now the Indian variant of Covid appears rampant) looks to be very low indeed. The fact is that markets - and most especially hedge funds - survive on market turmoil.

Short term speculative profits, made by exploiting small price differences within and between markets, are one of the ways in which hedge funds make profit. Another is to short shares that they think might move in price as a result of market rumours, often using shares that they borrow from pension funds for this precise purpose.

The result is that anything that creates price volatility is good for hedge funds. They need that volatility to get the opportunity to speculate. And the moment you realise that you get all the explanation you require for the current speculation on inflation. The uncertainty that this speculation is meant to generate creates variable market pricing, whether there is any justification for the rumours or not. And hedge funds almost invariably win from that.

So, is there inflation risk at present? I still do not think so, a short term possible burst when the real markets of the world actually reopen (if they ever do in the way that they once existed) apart. Thereafter I see no reason for inflation expectation. Money creation will certainly not be a cause.

In that case, why the rumours? Because it pays some in the financial markets to create them; the FT included, I suspect.

Little happens by absolute chance in financial markets. Rumours always have a source. The motive is usually profit. And that is precisely what is true in this case. But that does

not mean that the rumours are true. It just means that there are short term speculative gains to be made whilst they last.