July 2021 – Fortune Telling

"Economists say there are important differences as well as parallels to the era of rising prices of a half-century ago. And the road ahead is murky".

- ***Jeanna Smialek and Ben Castleman, New York Times, July 9, 2011***

Economic Challenges

For the last year and a half, we have all been through a lot. Importantly we all have lost family members and friends. We have had one hundred and eighty-five million (and counting) cases of the Coronavirus; over four million people have died; vaccines have been developed and over three and a half billion doses administered; and we are not done yet.

Our schools had poor attendance even when we count online learning. Places of worship were empty, inventories of many items ran short, unemployment skyrocketed, governments experienced sharply increased expenditures, deficits ballooned, and, at times, hospitals and healthcare providers were overwhelmed. Urban unrest, violence, and angry rhetoric drowned out attempts at constructive dialogue.

Yet with all this the stock market continued upward at a rapid pace, and interest rates continued to be at historical lows.

Another debate going on is while we have experienced inflation, is it temporary or here for a more extended period? Grocery shoppers believe their shopping cart is more expensive each week. Wages and salaries have gone up, despite higher unemployment. Employers are finding that people willing to work at even higher wages are scarce. It is anecdotal but restaurants have had to close temporarily because there are not any cooks in the kitchen. We know wages increase but seldom decrease. As productivity increases labor costs can go down because of automation but generally not because workers are willing to work for less pay.

Many economists believe that the price increases we have experienced are temporary, but they also generally believe that the more prices rise the expectation becomes that they will continue upward. This creates an incentive to spend now as the products or services will cost more in the future.

Eventually we must deal with our very large deficits which have to be financed, and interest rates should rise as the buyers of our debt will demand to be paid more as well.

We believe government spending will be driven as much as by political motives as sound economic policy. This gives the Federal Reserve a daunting challenge to achieve its two objectives of controlling inflation and abetting an economy of full employment. Given the hand they have been dealt this will be a tricky and narrow pathway.

The investment question on most people's minds seems to be: Should I lock in my gains, pay any taxes from such gains, and change my investment profile to a conservative fortress type strategy?

Currently we have a good, recovering economy, primarily because of pent up demand and historically low interest rates. We believe that this continues to provide opportunities to investors in the market although, as we are fully aware stock values are at very high levels. Should interest rates increase rapidly (which is not expected), investors should reevaluate their allocations.

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Assuming the Federal Reserve "threads this needle" the market should continue to reward investors. But as noted in our quote: "The road ahead is murky."

It is time to be vigilant, and avoid hasty, potentially costly, decisions. However, as seen in the past, volatility should return whenever the Federal Reserve begins to modify its strategy. If you have not met with your advisor recently, now would be a good time to do so.

As always, please let us know if you have any questions, comments, or suggestions. We are thankful for your support.

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