ALTUS
WEALTH MANAGEMENT

Advisor report
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June – Inflated Concerns?

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At a recent meeting in which I was making an annual presentation to the board of a foundation, there were a couple of retired bankers there. As the topic turned to interest rates and inflation, one of the "old bankers" (as he called himself) interrupted me and talked about the day the Fed Funds rate hit 20% in March of 1980 and inflation was over 13%...(Today we are at .25% Fed Funds rate and 5% inflation) We all had a quick chuckle at how this current inflation discussion paled in comparison to those days. We then proceeded to more seriously address the main concern of the board which was the low current interest rate environment and the effect this would have on their organization. How ironic…We are talking about rising inflation and record low interest rates in the same meeting.

How does this make any sense? Is the current inflation concern real? Quick history lesson…In 1979 when inflation hit 13% Fed Chairman Paul Volcker was forced to slam the brakes on the economy and throw it into an immediate recession to regain control of the wheel. (Hence the 20% Fed Funds rate recalled above) The result? Millions of jobs lost, crazy mortgage rates (17% in 1981), and higher interest rates (16% CD rates in 1981). This certainly slowed the economy and eventually worked. In fact, the Fed has been vigilant about inflation like a dog on a bone since those days. Fast forward to now. Annual inflation is at 5%, the 10 yr treasury is below 1.5%(CD's are near 0%) and the economy is booming. And, YES the government is borrowing more than ever (INFLATIONARY), but they are borrowing at 1.5% interest rates. (The government debt service is ridiculously low historically)

So, what is happening? The big description being thrown around is "transitory inflation". Yes some things cost a lot more right now than they did 12 months ago. But, do they really cost more than they did pre-pandemic? Some areas are ridiculous (used cars, housing, energy, some food items and even wages). But, many are very tame (healthcare, tuition costs, technology costs). Some economists are saying that in the fall when schools open back up and the unemployment trough empties, people will go back to work bringing down the types of signs we are all seeing such as…"$15 an hour starting wages" and "$5,000 signing bonus". This in turn will reduce wage inflation which they see as the bell cow leading broader inflation numbers downward in late 2021, early 2022.

But let's keep in mind that this is just a short term factor holding back the inflation monster. What is the real reason interest rates are declining as rising inflation numbers are being revealed? (Can't find that in any of my grad school textbooks) As crazy and simple as this sounds, it could be that the inflation jump coupled with the sprinkling of stimulus programs are just temporary anomalies. The longer term lower inflation path that we have been on for a couple of decades is driven by much stronger forces: globalism, demographics and technology….which by the way are not going away. Thus, we have an eye on inflation just like everyone else, but we have the other eye on bigger factors. Stay tuned…

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