



Zanetti Monday Missive 2022.04.11 Stagflation On The Horizon

“Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man.”

~ President Ronald Reagan

“History doesn’t repeat itself, but it does rhyme.”

~ Mark Twain (attributed)

February’s Inflation Index clocked in at 7.9%. It keeps rising!

US CONSUMER PRICES INFLATION 1983-2022



And, yet, that number is starting to look more like what the rest of us have felt in our pocketbooks for the past year. Not much has only gone up 7.9%, right?

INFLATION FROM FEB. 2021 TO FEB. 2022

MEAT & POULTRY  ↑ **13%**

CEREAL  ↑ **7.5%**

GASOLINE  ↑ **38%**

AIR FARES  ↑ **13%**

USED CARS  ↑ **41%**

FRUIT AND VEG  ↑ **7.6%**

SOURCE: BUREAU OF LABOR STATISTICS, BUREAU OF ECONOMIC ANALYSIS, ICE EXCHANGE

Well, even if we disagree with the Fed's calculation and believe their numbers are artificially low, at least we can agree with them that inflation hasn't been this high since the 1970's. And why is that?

The government has been spending more money than it earns. When the US does that, they have to print more money to keep up with spending. And what did they do when COVID-19 hit? They printed \$6,000,000,000,000.00. And that's just what we're able to tally. Then they dumped it into the economy.

When people have more money to spend than they had before... And they're not going to their jobs to earn that money... And the companies that don't have employees can't make stuff to sell... And so there's less stuff to buy but more money to buy it with... And therefore the prices of stuff goes

up... Well, that's one recipe for inflation 😊

Meanwhile, the Fed was trying to calm people like us down as we raised the inflation flag, saying the inflation we were seeing last year was "transitory."

Then we naturally asked, is the \$6,000,000,000,000.00 you've printed transitory? Because if it is, we want something REAL!

The Fed made its own bed and now it has to lay in it. They now have two options:

1. Let inflation keep rising and watch the stock market remain at all time highs.
2. Raise interest rates high enough to tame this extremely high inflation and create a massive pullback in the markets.

If they choose the first option, the majority of Americans will suffer at the grocery stores and gas stations. If they choose the second option, the stock market will crash – which will crush American's retirement accounts and will create job loss as public companies do everything they can to protect their stock value (and golden parachutes).

It's definitely a Catch 22!

Here's what I expect the Fed will do...

They're going to raise interest rates high enough to pull back inflation. And inflation will start to reverse, but it will still be high a year from now. Say... 5%? Better than today but still too high. (Remember, the Fed's inflationary goal is 2%.)

This interest rate hike will also slow down the economy, which is kind of the point.

So, here's my question to you: "What do you get when you combine high inflation with a slowing economy?"

Oh, why yes, President Jimmy Carter just rang the bell with the correct answer: STAGFLATION!

When we look to the 70's we can see a guide as to what's happening now. And what we have to look forward to.

During the period of stagflation in the 1970's the population suffered from rising prices in, well, everything. Many have pointed to the economic outrage of the voters that led to Ronald Reagan defeating first-term President Jimmy Carter in 1980. And, even then, it was no easy row to hoe for President Reagan. Paul Volker still had a lot of work to do at the Fed to reign in the inflation, but eventually their plan worked and we recovered.

I think there's going to be economic pain for the masses in the near future, similar to the 1970's. That being said, I believe our investment philosophy will prove to maximize on the opportunities out there. And why is that?

Because we don't sit back and relax just because the Federal Reserve tells us to.

Your AC/DC-Was-"Current"-In-The-1970s Financial Advisor,

Walt

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