
DIVIDENDS

Investment Planning Enewsletter

Whipped Cream Inflation

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Whipped Cream Inflation...I am not referring to the high price one pays for whipping cream these days. I am talking about how "whipped up" prices are today as compared to the good old days of 2020 Covid when we found toilet paper scarce.

Whip cream starts out as a simple liquid and once placed in a chilled bowl and the beaters are lowered into it, it froths up into something it was not before and its volume has increased dramatically. One could say its volume has been "inflated". Will this "inflation" last? For a while until it starts to transition back to a liquid. Same for Inflation on what we pay for everything.

Inflation is with and upon us on each and every item we consume. Will it abate, how and when?

What does this mean to us, the investor?

As an investor, inflation can be valuable for the companies we own, as they get to increase prices to help dissipate against their higher costs of operation. But it also can enable some or all of this price increase to stay in place after inflation comes to an end. That has longer term value, however in the short term it typically places a bigger emphasis on profit margins and real sales growth. Short term inflation is rather benign for most companies values, longer term it helps. Those utility and infrastructure companies we own get to pass on these costs immediately, so a positive impact is provided sooner.

Will Inflation come to an end?

Yes, however the time it takes, no one can ever say correctly. One thing that helps abate inflation is increasing interest rates, which is happening at this time. Higher interest rates force some to curtail purchases and takes demand away which helps bring equilibrium back into the supply/demand cycle.

Governments around the world curtailing their spending programs helps reduce inflation as well. However we are not seeing much prudence in this area around the globe. Extra government spending is like monetary kindling. It may not create the fire, but it sure helps get it started and keep it going.

When will it end?

With all this kindling and demand, not in 2022. What I do believe is that it remains with us through the end of this year as demand will continue to outstrip supply. Companies learned valuable lessons from the '08 recession and that was to not be in a position of over production. They have kept this in place today and this helps keep supply in check.

I am far more concerned about 2023 and will throw the recession word into our vernacular for discussion when we enter the last quarter of this year. It is too early to get worried about it at this time. A highly volatile 2022 so far is the norm for the equity and bond markets, and I do not see this coming to end this year. A net positive year yes for equity markets in North America, with spikes up and down for the whole journey.

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