Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – August 1, 2021

Look back over the past, with its changing empires that rose and fell, and you can foresee the future, too. ~Marcus Aurelius, Meditations VII.

Some of our dear readers may accuse us of citing quotations from the past far too frequently. *How can they be relevant in our modern technocratic societies?* As you might imagine, we have an answer. There are more similarities than differences between the ancient and modern worlds. As long as flawed human beings populate and influence a civilization, wisdom from the old may be applied to understand the new.

And since Aurelius is often considered among the wisest of all Roman emperors, ruling over the height of Pax Romana, perhaps his observation above is worthwhile to us as we navigate what remains of Pax Americana. But specifically, what future thread are we trying to portend?

With many one-time certainties up-ended, investors are struggling to divine what will happen to the economy and then prices for stocks and bonds. More than ever, our clients are asking how the opposing forces of re-opening and a raging delta variant will play out. The first is inflationary, the latter deflationary.

We believe that the immediate past is the best guide for how the economy will weather delta variant. Since delta is so rapidly transmissible, both India and the UK experienced peak cases in just a couple months. Thankfully, delta appears to be roughly a third less severe in regard to hospitalization and lethality compared with its wild-type predecessor. As such, at worst, we believe some localities will continue to institute tightening of mask and distancing restrictions. Our economy demonstrated late last year that it can grow (not robustly) under masking regimes. We do not expect any more wide-spread shelter in place orders.

Which means we believe the risks toward inflation outweigh deflationary risks. Last week's Fed meeting held rates between 0-0.25%. They maintained their current buying of bonds near $200 billion each month. These two outcomes keep our nation's monetary policy handily in stimulus territory as Chairman Powell currently believes the inflation we've experienced thus far is merely transitory.

But it is primarily the current fiscal climate that has begun to tip our personal views away from consensus toward an inflationary outlook. White House and Congressional spending since the start of the pandemic has been in the $10 TRILLION range (what's a trillion here or there between friends?). That money finds its way to bank accounts and brokerage accounts. Recipients use it to buy the next computer, car, or candy. And since production of most goods and services remains crimped due to lingering fears among workers about the virus, we have a classic definition of inflation. Too many dollars chasing too few goods.

Won't it be transitory as the televised experts tell us? Once the pandemic is officially over, won't the supply constraints fade? We were decidedly in that camp four months ago. But we've migrated to a new, less populated camp. The reason for our new abode is two-fold.

First, as of this writing, Congress has agreed to another $550 billion infrastructure spending bill. The current ruling majority party has promised to pass another "infrastructure" bill afterward that totals $3.5 trillion. The second bill will expand many of the economic transfer payments already enhanced by last year's coronavirus relief packages. Again, too many dollars chasing too few goods.

The second fiscal reason we now believe there is an elevated risk for inflation can be found in the history of decades past. It has to do with prevailing social attitudes. Beginning in the 1960s and into the 1970s we embarked on a massive spending spree toward societal issues. The regulatory regimes in those eras escalated. New agencies were created and they created new rules to follow. Costs increased. A term called "stagflation" was coined. In the 1980s, only sharp changes in Federal Reserve commitments, a new political outlook, and the twin deflationary effects of women in the workforce and globalization removed the specter of inflation.

Today, our populace appears to want more societal spending with more economic, environmental, and political rules. However, the deflationary effects of adding women to employment roles and globalization have already been wrung out.

In short, seeds of inflation might have been sown in recent months. The US may have decided to cultivate inflation for the coming years.

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So, we are positioning client portfolios for that possibility. History shows that stocks may continue to do well in the early stages of inflation (mid-single digit). Companies pass on their costs to consumers. Workers get wage increases to help pay at least a portion of those added costs. We remain on or above target to stocks in client portfolios.

We also remain vigilant, however, for the risk of inflation moving closer to the dreaded double-digit figure. As of this moment, we retain hope that policy makers will make proper shifts should that begin to occur.

After all, Marcus Aurelius also said, "The object of life is not to be on the side of the majority, but to escape finding oneself in the ranks of the insane."

But we also know that sometimes even Senators and Federal Reserve governors can fall victim to the momentum of culture. They may find it politically expedient to join the ranks of the insane rather than eschew them.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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President