Stirling Bridge
Wealth Partners, LLC

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You must not know too much, or be too precise… about birds and trees and flowers…; a certain… ignorance helps your enjoyment of these things. ~Walt Whitman

Mister Whitman's observation on the human condition certainly rings true in our own personal experience. For, the more we dig into the details – or, to put it crudely, learn how the sausage is made – the less we tend to adore our experiences, possessions, or relationships. We recall an interview of the composer John Williams from some time ago. He's written seemingly dozens of the most famous movie scores over the last fifty years (Jaws, Harry Potter, Indiana Jones, Star Wars, Jurassic Park, E.T., Superman, Schindler's List, and more). Mr. Williams admitted to the interviewer that he is unable to enjoy music for music's sake. When in a restaurant, if he hears an unfamiliar tune, his mind dissects the piece and begins analyzing it for imperfections.

His knowledge is his loss, our gain.

Unfortunately, we cannot allow ignorance to become a crutch. Our livelihoods and world would suffer. We must be precise about a good many things.

One of them is inflation.

Last month, we introduced the renewed threat of inflation. However, the more we mulled over the topic, the more we realized that some further clarification and expansion were required.

Let's start with clarification. In our own clunky manner, we attempted to say that inflation has already accelerated. Gasoline prices are up 35% YTD. Copper prices are up 28%. Coffee is up 11%, sugar 21%. Packaged food producers have seen their costs rise by about 13% over the past few months. Lumber, drywall, cars – all of them are higher.

The fact that prices jumped so much so fast is understandable for a host of reasons. We are coming off a low, lockdown-induced base. Global supply chains for semiconductors and socks remain constrained so that inventories are low to non-existent. Demand for consumer goods remains elevated due to near-zero interest rates and continuous fiscal stimulus.

The conclusion we reached last month was that the inflation we're experiencing would be transitory. In other words, we'd continue to see rising prices for several quarters. Then, perhaps in late 2021 or early 2022, the increases would settle back toward the normal 2% or less that we've seen for two decades.

We've decided to modify this assertion, or at least insert more wiggle room into our analysis. We hinted at just such a caveat last month when we mentioned that "structural changes" would be required to see sustained inflation. What are structural changes? They are regulatory, monetary, or policy shifts that become embedded accelerants of inflation.

We see potential signs of these changes. From a regulatory standpoint, the new administration is issuing more rules than the previous (DOL, EPA, SEC, etc.). Even if a new regulation is necessary, to the extent it adds friction or burdens to businesses and consumers, it is inflationary.

From a monetary standpoint, Jerome Powell has suggested that the Fed will continue its monthly asset purchases (thereby injecting more dollars into the world) for quite some time. In the midst of March 2020 when commerce slammed to a halt, this was arguably apt Fed practice. Going forward, however, the concern is that the Fed will not find a politically feasible way out of their purchases, feeling compelled to continue far too long. Last month, we thought it likely the Fed would gradually turn from dovish to hawkish. However, Powell's recent comments made our inflation Spidey senses tingle.

Finally, from a policy perspective, the new administration has proposed some truly historic spending plans. They insert new, ongoing social programs and support. We've seen glimpses of what these plans might mean – and they've already contributed to the inflation we've felt. As more folks receive compensation from the Federal government, fewer are induced to produce. This magnifies the supply constraints while simultaneously increasing demand. A double whammy. And if these forces conspire with regulations and monetary policy to become long-term, then inflation will most definitely increase alongside.

While the risk to a return of 1970s stagflation remains low, it is higher today than it has been in the past 40 years.

Inflation is a complicated subject with many factors driving it at the moment. However, even the hawks among us must admit there are also facets that might end up mitigating its resurgence. We mention a pair in closing. First, persistent globalization after the pandemic may continue to shift the production of goods to lower cost regions. In our lifetime, it has already moved in the US from the north to the south. And then to Mexico. Then to China. Will other SE Asian economies continue to benefit? Will Africa begin to better participate in the world economy? Second, the pervasive use of technology creates the possibility of carving out further costs of production. No longer just a threat to blue collar folks, technology now has an insidious way of stripping any largess from middle and upper managements.

And so, the electorate and policy makers have a path to choose – a structural inflationary environment with little incentive for growth or a more balanced one.

Will we pay attention to the details? Or, for the sake of enjoyment, pleasure, and current spending will we remain ignorant of potential inflationary risks?

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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