

June 2021



Inflation: Team Transient or Team Trouble

The shutdowns in 2020 hit the U.S. economy hard. As people emerge from 15-month hibernations and start spending more, 2021 economic growth comparisons year over year could ricochet up 7-8%. Many businesses went away for good, though, so an imbalance between demand and supply is pushing up prices, the definition of inflation. The decisive question now is whether inflation will be transitory (and manageable) or more permanent (and trouble).

What Inflation Means for Interest Rates and Bonds

With inflation heating up, interest rates have risen sharply from their unprecedented lows of last August. Higher rates mean lower bond prices, right? Sometimes. But that is not the whole story. Like ice cream, bonds come in many flavors from plain vanilla (government bonds) to Ben & Jerry's Everything But the Kitchen Sink (junk bonds).

Rising inflation, and therefore rising interest rates, inflict the most hurt on "Plain Vanilla" flavored government bonds because these kinds of bonds are entirely impacted by interest rates. High yield corporate bonds, in contrast, are the "Everything But the Kitchen Sink" flavor because many more factors influence their prices, not just interest rates. In fact, research has shown high yield corporate bond prices typically rise during times of rising interest rates and inflation. In summary, the right bonds can still be productive during times of escalating inflation.

Progress on investments

Zuma Wealth accounts generally rose just under 1% during the month of May, outpacing both the broad bond and the stock markets. The outperformance was led by holdings in European stock and small U.S. stock funds.

We **guard and grow** your wealth in two ways: strategically and protectively. Strategically, through good offense, we combine different types of asset classes to create an allocation with a high probability of delivering the growth you seek, while guarding against unnecessary risk. Protectively, through great defense, we incorporate data to flexibly respond to market information and to guard against losses.

We thank you for your loyalty and trust. You can contact us anytime.



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