September 1, 2021

A Picture of Where We Are Today

This newsletter represents a continuation of our message that we outlined earlier this year. It was widely expected as we began 2021 that inflation would raise its ugly head and that is exactly what happened over the last six months. While there are different types of inflation, it is essentially a phenomenon of too much money chasing too few goods/services. The U.S. government has handed out the equivalent of $50,000 to every American family in various forms of loans, grants, stimulus checks, enhanced unemployment, tax rebates and debt forbearance measures over the last 18 months. Measured from March 2020 this action has produced the largest increase of inflation in 40 years. Inflation is now very apparent to consumers for food and energy which is what most people notice first and daily. Inflation is real and here to stay.

This scenario takes us into a situation that every economist in the country has been predicting would occur since last year. As we are all aware, the Federal Reserve reduced interest rates to zero in an effort to stimulate the economy. That action alone, left unchecked, is highly inflationary. Now, the Fed finds itself in a “trap” that has no easy exit. The conundrum is the Fed must continue to print money at a record pace to keep asset bubbles (i.e., stocks, bonds, and real estate) from crashing, however, this action directly feeds into the inflation problem.

As the country continues to pull itself through the economic disturbances of the pandemic, and as its citizens, we continue to deal with additional variants of the Covid virus, the job picture in this country is beginning to come into clear focus. It is estimated that the pandemic last year caused as many as 3 million people to retire earlier than they intended. Now we see job shortages in every industry throughout the country – not enough educated workers to take the place of these experienced people. There are currently over 9 million job openings and simply not enough people to fill them. As job claims continue to drop, hiring unfortunately continues to fall short. There are fewer people seeking jobs since the pandemic hit last spring.

How will the current state of inflation, interest rates and jobs continue to affect the markets throughout the remainder of this year? It’s too early to tell if the rate of inflation will continue to increase or somewhat flatten out between now and year end. Enormous amounts of cash continue to line the pockets of consumers and corporations while millions of lines of credit continue to remain unused. There are few good alternatives for cash other than inflation adjusted treasury bonds and handful of selected asset classes of

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stocks. A host of red flags are appearing on the horizon with respect to how professional money managers and corporations are viewing today's environment as they ask themselves these questions: How fast will inflation continue? Will the Fed overreact by raising interest rates too soon? How much higher can equity and bond prices go before an inevitable correction? Lastly, world events cannot be ignored, such as Afghanistan, that may affect the geopolitical landscape overnight.

We continue to monitor closely the positive growth and earnings trend within the economy while keeping diligent track of the aforementioned risks. As always, we at Kapusta Financial Group would like to thank you for the trust and confidence you place in our team.

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