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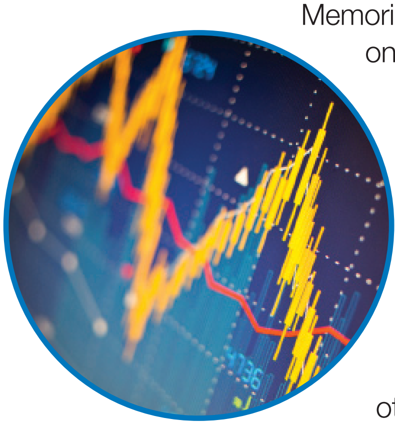
Inflation Creation



Memorial Day weekend has come and gone which marks the unofficial start of summer. It's one of my favorite times of year and will surely feel more normal this year as we continue past COVID-19. Friends, family, food/drinks, and rising temperatures, are all factors that contribute to this sunny time of year. Rising temperatures are a fundamental characteristic of summer, though can cause issues when they get out of control.

Within the stock market and economy in general, it's not rising temperatures we face but rather rising prices – better known as inflation. The fluctuation in prices that you and I pay at the store and pump, among others, is naturally affected by the law of supply and demand. The Federal Reserve System, "The Fed," as it's often referred to, is in charge of our nation's money supply. Through various means and other measures voted on by Congress, the Fed has the ability to control the amount of money in circulation.

As a result of COVID-19, our nation's money supply has drastically increased (think stimulus payments) and the cost to borrow money (think interest rates) continues to be near record lows. While both of these measures promote a higher supply of cash, we have the "demand" side of the economy working to catch-up on a backlog of products in wake of the COVID-19 shutdowns. If there are too many dollars chasing too few goods, the law of supply and demand states that prices will rise. At its core, this is the basic premise of inflation and what we are currently experiencing.

The main way the Fed is able to "cool" inflation is by raising interest rates. Interest rates rising means the cost to borrow money is rising. A higher rate will begin to discourage potential borrowers while enticing those looking to save money. This is a balancing act the Fed must navigate by not only choosing when to begin raising rates but also at what interval and magnitude. If the Fed raises rates too quickly there may be the risk of a market sell-off. If the Fed raises rates too slowly there may be a risk of excess inflation.

Certain asset classes or investments tend to perform better during times of inflation. The beauty I find in investing is that no matter the economic situation, there is always an angle of opportunity. As I have mentioned in previous publications, be sure to work with your Financial Professional and take the necessary time to be educated and clearly understand your goals.

—Rob Swarts, AWMA®