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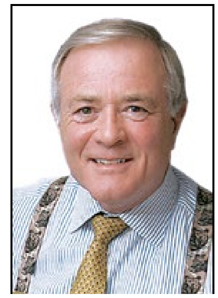
William Rutherford

OP-ED: Investment quandary in inflationary times

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Sell in May and go away? There is no fun until the Fed is done. Is a June swoon on tap?

All these adages come to mind in the current market environment. So, what should an investor do when considering these pearls of wisdom?

Jamie Dimon, CEO and board chairman of JPMorgan Chase, America's largest bank by assets, recently cautioned investors to batten down the hatches. Mr. Dimon says the Federal Reserve can't do all the things expected of it, so a hurricane is coming. It is probably good advice in any market, and certainly now. This economic environment seems more fraught than usual, with inflation, rising interest rates and a European war all contributing to a witch's brew.

The Fed has its recipe for a solution using the tools at its disposal: raise interest rates and tighten the money supply by reducing bond purchases. It sounds like an old recipe tried before. In the late 1920s, the administration's policy was to tighten money to fight inflation, which resulted in people losing their livelihoods and standing in food lines for bread. When confronted with the effects of his policies, President Hoover claimed that in the long run his policies were correct. He was challenged with a riposte: "People don't eat in the long run." Both points of view were correct.

The Fed will have to continue to tighten the money supply. The money supply increased exponentially during the pandemic and was too easy for too long, enabling inflation to get the upper hand. The response to the monetary stimulus was overly late in coming. Now the Fed is determined to squeeze inflation out of the system, and the Fed governors don't seem to care what price we will pay. It remains to be seen if they can hold to this policy.

In addition to easy money, the great contributor to inflation currently is the war in Ukraine. Putin's war has proven very expensive in terms of worldwide commodity pricing and logistical bottlenecks, as well as devastation to Ukraine, its economy and its population. The solution may be as straightforward as more war because neither belligerent seems to be willing to have less war. Each side claims to have "right" on their side. It seems the only way to determine who in fact has right on their side is to have a victor, but thus far, neither side seems to be able to claim that mantle. Putin does not seem to be able to finish the war he started, and Ukraine, despite having admirable will coupled with resources from western allies, cannot finish it decisively either. The U.S. and its allies, standing in the background with half measures of support for Ukraine, do not seem to have a goal of winning. Indeed, what does winning look like?

So, we are back to our beginning: how do we invest? As always, get your asset allocation and then your sector allocation right. We have a bias toward growth equities, because over time that appears to be the best place to invest. This downturn has hit equities hard, particularly growth equities, but it has also been hard on fixed income, cash and digital currencies. So, with no place to hide, we still think equities are the right place to be. As legendary investor Fayez Sarofim stated, remember that nervous energy (i.e., market timing) is a great destroyer of wealth.

A bright spot in an otherwise grim picture is the recent jobs report. The world's largest economy added 390,000 jobs in May on top of the 436,000 added in April. The jobless rate stood at 3.6 percent, only 0.1 percent higher than in February 2020, when the epidemic spread globally. This was a very good Goldilocks report, as it was consistent with a "soft landing" for the economy.

Another forecast of improved economic conditions is the wedding industry, which has seen an uptick as COVID loosens its grip and people become more optimistic about the future. Wedding venues are booked well out. The number of weddings scheduled for this year is about 2.6 million, according to wedding planning website The Knot. This is up from 1.9 million in 2021. Weddings usually lead to babies, which are a true sign of optimism. Unfortunately, the fertility rate in the U.S. has been in a long decline. A declining fertility rate is associated with a shrinking population and economy – not good signs for a vibrant nation. As immigration into the U.S. slowed in recent years, the declining birth rate became more apparent. So, any positive sign in this regard is good news.

Thus, with all the uncertainty and negativity, there are still green shoots. Yet, as Mr. Dimon says, batten down the hatches to be ready for a rough ride. Be diversified and patient.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. *Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.*