Registered Investment Advisor Firm

©ISSUE IV, VOL. VII – APRIL – 2018

Inflation Worries?

Lately, inflation seemed to be dead or, at least in remission. Thanks to cautious companies holding down wages and prices in the aftermath of the 2008 recession, annual inflation between 2010 and 2015 averaged 1.5 percent. Hitting 2.1 percent in both 2016 and 2017, now there are fears that inflation is about to charge ahead. In January, the Consumer Price Index (CPI), which tracks everything from the price of groceries to education costs, surged 0.5 percent; at that pace, annualized inflation would hit 6 percent by the end of the year. It almost certainly won't go that high, but it leaves the new Federal Reserve (FED) Chairman Jerome Powell facing a tricky task to contain inflation without killing the economy.

With a decade of near-zero rates, current tax cuts and deregulatory movement could accelerate economic growth. That could further fuel inflation, prompting the Fed to raise rates faster than anticipated. In the worst-case scenario, this will severely affect the markets and dampen the economic outlook. We have seen some of this fear in the past couple of months of market movements.

I do not think we will return to the 1970s when prices rose more than 10 percent a year. Yet the markets recent declines were largely due to inflation worries. That overblown reaction doesn't make sense. Far from impending economic doom, a minor inflation bump could actually be a good thing, by helping us prepare for the next recession. The Fed's best tool in fighting downturns is cutting interest rates. Normally during recessions, the Fed cuts 5 to 6 percentage points. Right now the Fed key interest rate is 1.5 to 1.75 percent, leaving little room to fight a recession.

The solution? A little inflation. Are inflation and interest rates headed higher? Yes, but not dramatically and at a measured pace.

The current expectation is for 6 to 8 quarter point increases in the next 2 years. We have a long way to go before inflation is a real problem. When prices surged in the 1970s, the booming economy of the earlier two decades had allowed unions to demand far higher wages, and new social programs and spending on the Vietnam War poured fiscal fuel onto the fire. There are few parallels today. Sure, inflation may pick up a bit, but not as bad as some are expecting.

You may have noticed my newsletters provide the readers a short update as to the Fed meetings and chances of further rate adjustments. This is to help keep you informed about the Fed's current and potential actions so we can be prepared to see inflation and market reactions.

If you need help or more information on this or any other financial matters, contact Bob Davis at (707) 648-2024.

FED Watch

At the March meeting, the Fed lifted interest rates (as expected), and new Chairman Jerome Powell signaled that the U.S economy wasn't in danger of overheating. This should mean they plan to stick with the 3 to 4 increases this year as planned. The May meeting has a 2% expectation of a ¼ point increase to 1.75 -2.00, while the June meeting has a 79% chance of this move. They will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them. They expect to be at $50 Billion quarterly by October 2018

Next meeting:
May 1st and 2nd

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. The Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:
bob@crwmadvisors.com