# *Rodney's Take*

March 1, 2021

**Inflation Worries Are the Thing**

Last week, it seemed like investors sold everything.  Stocks were slaughtered, bonds were killed, and gold was monkey-hammered.  There were a few pockets of strength, but not enough to keep most portfolios in the green.  The problem was too much good news.

A couple of weeks ago, the *Wall Street Journal* outlined how we get to herd immunity against COVID-19 by April.  While we have documented nearly 30 million COVID-19 infection cases in the U.S., we rarely talk about the number of cases that occur but are not undocumented, including asymptomatic patients and people who don't get sick enough to seek treatment.  In the early days of the pandemic, this number was thought to be around 10 undocumented cases for every confirmed case.  With so much testing going on, that number has now dropped to about 6.5 undocumented cases per confirmed case.

At that rate, there should be 195 million Americans who have had the disease but weren't tested.  Add to that the documented cases and the 40 million plus people who have been vaccinated, and you get more than 250 million Americans who have had the disease or have been inoculated.  In a nation of 335 million, where millions of people are getting vaccinated every week, it's easy to see how we could reach herd immunity quickly, which should lead government officials to reopen wide swaths of the economy.

All we need to add is economic fuel to get things going, and the Biden Administration is working with Congress to do exactly that.

The latest relief package has a lot of goodies in it for specific groups. We can all find a line item that smacks of pork, but the bulk of the money will go to consumers in the form of stimulus checks or unemployment benefits or to cities and states as grants.  It's likely that most of that cash will be spent, especially if the economy reopens and we can go to restaurants we like with as many friends as want.

With the end of the pandemic looming and more government largesse about to be distributed, it looks like the perfect setup for a pop in prices that the Fed then would need to tamp down with higher interest rates.  But here's the thing.  Fed Chair Powell repeatedly has told investors that he won't raise rates anytime soon, and it's not about prices.  It's about employment.

The Biden administration is focused on implementing policies that give as much deference as possible to those at the bottom of the income ladder, which clearly includes the unemployed.  President Biden and his staff often mention getting people back to work, and now Chair Powell has picked up the mantle.  The Fed Chair isn't just echoing the dual mandate of the Fed to seek maximum employment while keeping prices and interest rates in line, he's going out of his way to emphasize full employment while all but tossing aside concerns about inflation.

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The problem is, we won't get there.

Our current unemployment is structural, not cyclical.  We have millions of frontline restaurant and hospitality workers waiting for businesses to reopen, while factories and trucking companies can't meet demand because they can't find enough employees.  It's highly unlikely that unemployed restaurant workers in tourist towns will move to Ohio to work in manufacturing plants.  It's also unlikely that all of the frontline jobs we lost during the pandemic will return. Thousands of businesses closed for good, while others reconfigured their operations to use fewer employees.

Chair Powell knows this. He's a bright guy and has hundreds of very smart people working with and for him. But the Fed only has a few tools. As the saying goes, "When all you have is a hammer, everything looks like a nail." The Fed can't make people move to where jobs are available, but it can keep short interest rates exceptionally low as prices tick higher. If investors don't think the Fed will take action, then they will demand higher returns in the form of interest rates to offset higher prices.

None of this is set in stone. A mutation of the virus could flare up and the pandemic could surge again, or investors could get nervous about the $24 trillion in debt that we've added to the global economy over the past year. It's about what investors think might happen and about how they want to be positioned as the year unfolds. The 10-year bond dipped below 0.4% last year and started 2021 at 90 basis points. No one wants to be left holding bonds with very low interest rates if inflation perks up and yields walk higher, which makes for a very nervous market and leads to selloffs like we had last week.

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*Got a question or comment? You can contact us at* info@hsdent.com.