



Inflation and War

It was a volatile week for the financial markets. With persistent inflation and the threat of war, we might be in for a period of no apparent trends, and the choppy action makes it hard to generate meaningful returns.

2022 is shaping up to be a challenging year.

For now, at least.

The *Risk-O-Meter* stays on a "sell" signal. Risks are elevated, and caution is warranted.

40-year high inflation numbers roiled the markets last week.

As I have noted in the past, *everyone* is talking about inflation. We are all feeling the pain of higher prices. There's no escaping inflation right now. My heating oil bill increased 20% in a single month in January.

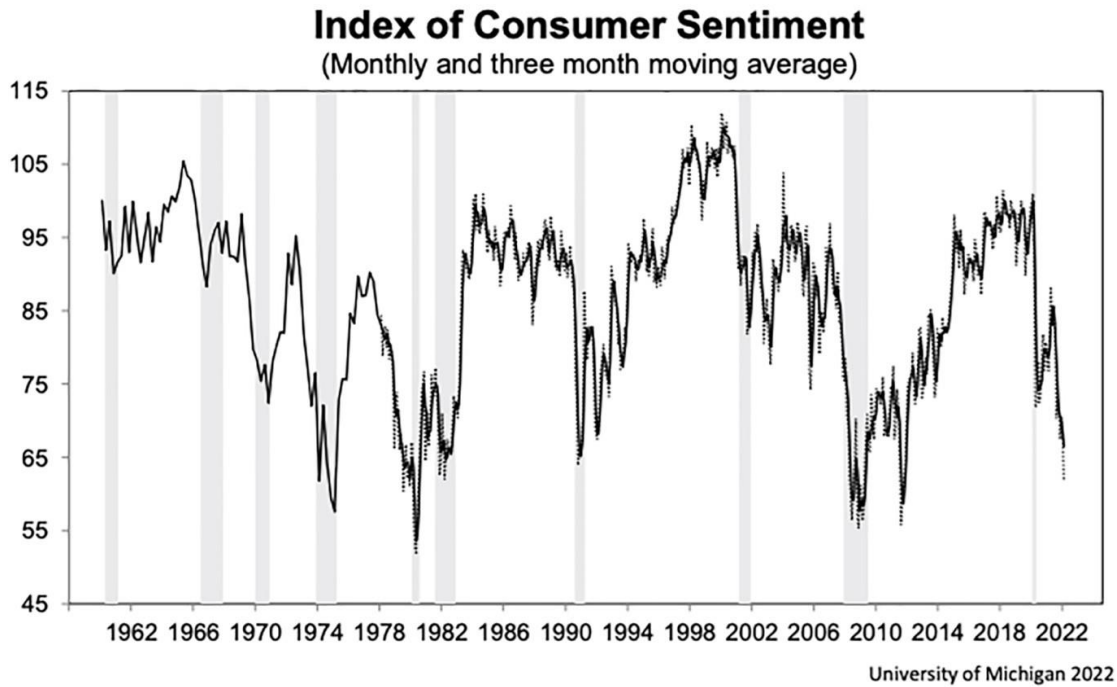
I just returned from Costco. My local Costco finally raised prices on toilet paper and paper towels. While I own enough toilet paper to survive the next two pandemics, I picked up another batch just in case. The 7% increase in paper products is painful. It pisses me off.

I didn't even peek over at the meat section. I didn't want to faint.

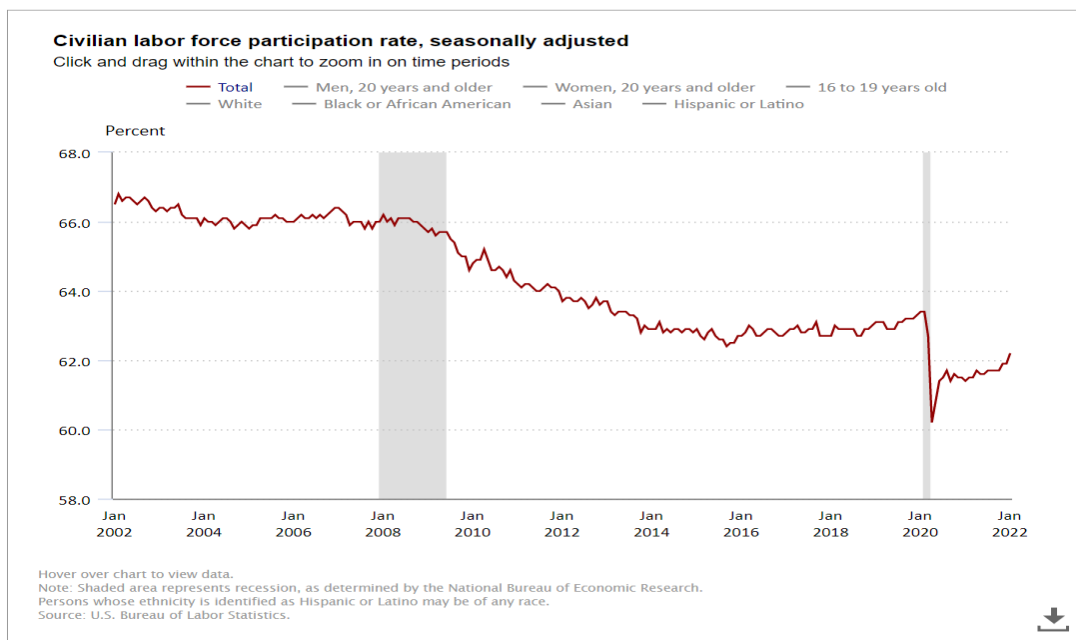
Of course, with everyone freaking out about inflation, I think about how the opposite could occur, and we could have a deflationary bust.

First, consumer confidence is at the fourth-lowest level of my lifetime. When folks are less confident, they are less likely to spend money beyond the necessities.

This means death for a lot of small businesses.



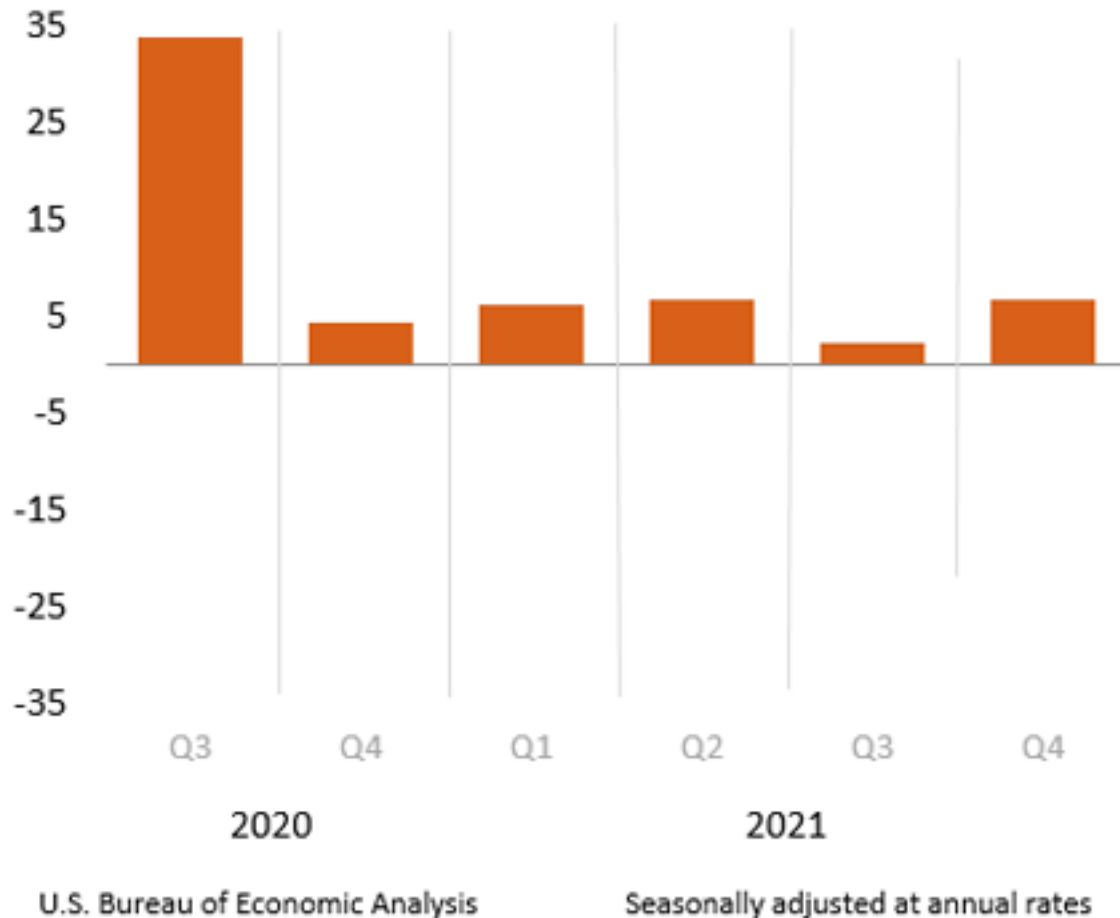
On top of low confidence, the labor force participation rate stinks.



In addition, wages are not keeping pace with inflation. Therefore, everyone feels the pinch every time they go to the grocery store or gas station.

Lastly, considering easy comparisons due to the worst pandemic in 100 years, GDP growth is underwhelming. Economic stagnation is a real possibility.

Real GDP: Percent change from preceding quarter



To recap, prices are up more than wages, economic growth stinks, and people are out of the workforce even though more jobs are available than there are people to fill them.

These are forces in play that we have not seen in decades, if ever. There is a real possibility that the floor falls out from under the economy, and there is a collapse.

All of this bodes poorly for the folks in power right now. With November approaching at blazing speed, it will be hard to get anything significant done in Congress.

Spending is likely on hold. Build Back Better is dead. While there is talk of a "skinny" version of Build Back Better, Senator Joe Manchin wants to go through committees and have public hearings. That will take forever.

The Federal Reserve is also way behind the curve. I am not sure the Fed can ever catch up.

It isn't pleasant out there.

We also face the threat of war.

If I were a dictator and I put my Dictator Hat on for a moment, I know what I would do.

I would coordinate an attack on Ukraine at the same time as Taiwan. There's no way The United States can handle a two-front war. The expectation is that Russia will attack Ukraine this week. Why not wait and do it after the Olympics and start a two-front war?

I am anti-war and believe we should stay out of most conflicts. I do, however, support a strong military for defense purposes. I'm also a huge advocate for our troops.

Politicians say they support the troops only to abandon them when they come back from conflict.

I support the troops.

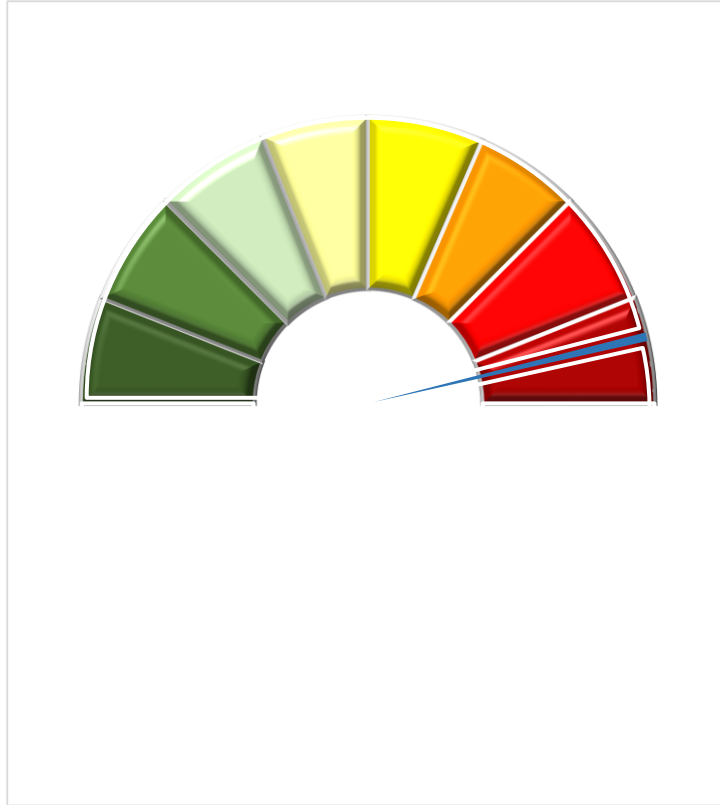
However, my view of Ukraine can be summed up with this photo.



When Mom has a sniper rifle, I think we should stay out. Let these people fight their fight.

Of course, the markets are processing these issues minute by minute, and this has led to volatility on a day-to-day basis.

Right now, risks are highly elevated.



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