DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
34,678.35	14,220.52	4,530.41	2,070.13	9,857.01	100.28	0.9036	2.32	0.25-0.50	3.50

Money Manager Newsletter
March 31, 2022
Investment Consulting Group, Inc.

"Any Idiot Can Face A Crisis. It's This Day To Day Living That Wears You Out"
~Anton Chekhov~

When COVID–19 hit in early 2020, the entire economy hunkered down as demand collapsed. The central bank sprang into action; lessons learned from the great financial crisis. The Fed cut its benchmark interest rate to nearly zero, and announced massive stimulus packages to prop up the economy. With all this money being printed and dropping into the system, the economy was apparently on the road to recovery. It's high school economics 101. You can't keep pushing out money because that money will definitely lose it's worth, like anything else. The fed keeps pushing money out there, which is great for a while. That party has to stop. The major consequence of outsized money printing is rampant inflation. Carl Icahn

For what it's worth, when inflation is too high, it is a good strategy for the Fed to prepare for more tightening than the market expects in the beginning, rather than less, to keep expectations in check. They can always slow the pace later. As Powell said, the Fed is by no means committed to a forecast. It is not even a plan. It is based on assumptions using data that is more uncertain than usual by the combination of risks to inflation and growth; the Fed continuously reassess that information. Reasons to be hopeful:
1.) Economists take their forecasts personally, but Jay Powell is not an economist and this is one key area where we all benefit from that. He has no problem adapting when reality diverges from his expectations.
2.) The way the forecasts are compiled makes it tempting to talk about the median as if it is "the Fed's forecast." It is wrong to say the Fed expects inflation to fall despite expecting unemployment expected to remain in the vicinity of 3.5% because the range of expectations for unemployment are in fact dispersed over a wider range than that, as are expectations for inflation.
3.) The Fed not only promises nothing in conjunction with its forecasts, it sends its Chairman out every six weeks in post-meeting press conferences to tell us these forecasts are not promises, and in fact not even intentions. The only promise the Fed repeatedly makes regarding policy is that it will be adaptive in response to data as it becomes available.
The Fed is raising rates for the first time since 2018, in an economy that has been transformed in more ways than anyone could have imagined four years ago. Philip D. Reed, Vice President—FHN Financial

The SEC is reportedly investigating the big four account firms. Whether the consulting services they sell to large companies present a conflict of interest when their auditing divisions are hired as the auditors for those very same companies. Those four firms audit 66 percent of public companies with a market cap over $75 million, and since 2014 all four have also paid fines over investigations into their audit independence. There are 47 companies in the S&P 500 with more than 25 percent of those fees actually consisting of nonaudit fees like consulting and advisory, which may present a problem of impartiality depending on what the SEC finds. Dave Michaels, The Wall Street Journal

The WSJ reports companies ranging from apparel makers to department stores are losing pricing power. Some have reversed recent price increases after consumers stopped buying. Price resistance is strongest on lower-priced goods and clothing staples. For example, Macy's was able to increase the price of a sectional sofa from $2,000 to $2,200, but when they tried to charge $100 more for a $499 mattress, sales faltered and they rolled the price back. Some companies are able to charge more by improving quality, a Coach purse with softer, "fluffier" leather is an example, but the bottom line is consumers are starting to think before they spend, which is the first step toward containing inflation. After all, from micro standpoint, we have always argued companies do not raise prices because they have to. They raise prices because they can. Conversely, when they no longer can, they don't.
Donald Stanforth, President - Investment Consulting Group, Inc.

Over the past decade, many pundits have predicted the death of the 60/40 portfolio, when in fact it has worked well during a rising U.S. equity market. In today's market environment, advisors need to expand their toolboxes to identify alternative sources/investments that provide growth and income; hedge funds and private markets. Hedge funds can be divided into equity hedge, event driven, relative value, macro, and multi strategy. Private markets include private equity, private credit, and real assets (real estate, infrastructure, and natural resources.) If we examine the asset allocations of family offices, we see that private equity and private real estate represent significant allocations. Private equity and private real estate together have been a big differentiator, which have been provided unique access and have been handsomely rewarded for locking up their capital for several years. Anthony B Davidow, CIMA—Investments & Wealth Monitor

YARDENI RESEARCH. Who's to blame for soaring gasoline prices? The price at the pump is higher than ever. During December of last year, the average American household spent almost $3000, at an annual rate, on gasoline when the price was around $3.00. Each dollar above that price adds about $1000 to annualized gasoline outlays.

The latest correction lasted 64 calendar days, from January 3, when the S&P 500 peaked. That's a 13.0% decline. And it may not be over yet. A low is coming. It's surprising that the put/call ratio hasn't moved higher despite the fact that chatter is uniformly bearish. However, my expectation is a break of the low will not lead to a big decline as the bearish call is becoming too universal. The next trading rally could occur after that break. We recently lowered our S&P 500 P/E forecast to 16.0 and our S&P 500 target to 4000 because we now expect higher and more persistent inflation as a result of Putin's War.
Edward Yardeni—President, Yardeni Research

"Learn from the mistakes of others. You can't live long enough to make them all yourself." Eleanor Roosevelt (First Lady)

Treasury Market Yields	3/31/2022	12/31/2021	12/31/2020
2 Year	2.28%	0.73%	0.13%
5 Year	2.42%	1.26%	0.36%
10 Year	2.32%	1.52%	0.93%
30 Year	2.44%	1.90%	1.65%
SP 500	1.39%	1.26%	1.60%
Commodities			
Oil ($bal)	$100.28	$75.21	$48.52
Gold ($/oz.)	$1949.20	$1827.50	$1893.10
CRB Index	$295.18	$232.37	$167.80

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Inflation in the United States

Money is just another commodity; no different from petroleum, pork bellies, or pig iron. So money, like all commodities, can rise and fall in price, depending on supply and demand. But because money is, by definition, the one commodity that is universally accepted in exchange for every other commodity, we have a special term for a fall in the price of money: we call it inflation. As the price of money falls, the price of every other commodity must go up. And what causes the price of money to fall? The answer is very simple: an increase in the supply of money relative to other goods and services. As the Nobel Prize winning economist Milton Friedman explained, "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output." Inflation has been around almost as long as money itself. In the disastrous third century, inflation wracked the Roman Empire. In the sixteenth century, as the gold and silver pouring into Spain from the New World caused a rapid rise in the European money supply relative to the production of goods and services, prices rose about 400 percent over the course of the century.

There was no inflation in the American colonies for the simple reason that the money supply was only a hodge-podge of foreign coins (most commonly the Spanish dollar), tobacco warehouse certificates, beaver and deer skins, wampum, and paper money printed by the colonial governments. Much trade was conducted on a barter basis. But when the American Revolution began, both the new state governments and the Continental Congress had to find ways to finance it. Having limited ability to borrow and to lay taxes, they quickly began printing money. Between 1775 and 1779, the Continental Congress issued no less than $225 million in continentals, a huge sum relative to the size of the American economy. Prices doubled in 1776 and doubled again in both 1777 and 1778.

By 1781, prices were up 80-fold relative to the continental. The need to deal effectively with the massive debts incurred in the Revolution was one of the main drivers of the Constitutional Convention that met in Philadelphia in the summer of 1787. The new Constitution and the monetary and tax systems put in place by Alexander Hamilton, the first Secretary of the Treasury, would keep inflation at bay until the great crisis of the Civil War came 75 years later. War is, by far, the most expensive of all government operations. And both Confederate and United States governments faced unprecedented financial stresses in funding the Civil War. Governments have only three ways to fund operations. They can tax, they can borrow, and they can print. By 1879, greenbacks had been made redeemable in gold and the country had returned to the gold standard. Consequently, the government must rein in the money supply to avoid being forced off the gold standard. The gold standard was very popular with bankers and industrialists, as it protected the value of their assets. But it was equally unpopular with chronic debtors, such as farmers, who wanted to be able to pay back their loans with cheaper money. Congress passed the Sherman Silver Act, mandating that the Treasury buy and coin 4.5 million ounces of silver every month, just about all the silver the country was producing, still at the ratio of 16 to 1. With the gold standard keeping the value of the dollar steady and the silver policy greatly increasing the money supply, the government managed both to forbid inflation and to guarantee it at the same time. When the crash of 1893 marked the onset of a new depression and the government revenues plunged, the trickle of gold out of the Treasury turned into a flood. Only some very fancy footwork by the country's leading bank, J.P. Morgan, kept the U.S. from being forced off the gold standard in 1895.

The outbreak of World War I caused many disruptions in the American economy. With Russian grain exports blockaded, demand for American wheat soared, as did allied orders for ships, railroad rails, munitions, and other war material. As a result, prices rose nearly 100 percent in the first two years of the war. The Price Fixing Committee set maximum prices for such materials as coal and steel, but these maximum prices quickly became the standard prices.

The only commodity that had a fixed price by statue was wheat. With the end of the war 20 months later, the American economy soon returned to normal. The beginning of the Great Depression in 1929 brought not inflation but deflation, which can be an even bigger problem. When inflation is serious, people tend to spend money as soon as they get it, to avoid even higher prices in the future. But in a deflationary environment, people tend to postpone purchases in order to take advantage of lower prices in the future, further depressing the economy. The Federal Reserve had pushed up interest rates in 1928 and 1929. But after the crash of 1929, the Federal Reserve should have lowered them aggressively. Instead, it kept interest rates high. After Britain was forced off the gold standard in 1931, and the world economy spiraled downwards, the Federal Reserve still kept interest rates high to defend the gold standard. With the onset of World War II and the U.S. becoming the "arsenal of democracy," inflation would have quickly returned as the American economy experienced shortages in many vital commodities. Strict wage and price controls were put in place and many commodities, such as sugar, butter, red meat, shoes, and gasoline, were severely rationed.

Some commodities such as rubber and building materials, simply vanished. When President Truman ended wage and price controls at the beginning of 1946, inflation came roaring to life. Many economists had thought that with the end of wartime government spending, the depression of the 1930s would return. It did not for several reasons. One was that during the war, with many products such as household appliances and automobiles unavailable, demand for these commodities built steadily. In 1940, Americans had held about $4.2 billion in savings, about the same as in 1929. In 1945, personal savings amounted to an astonishing $137.5 billion. Wages, too, increased once controls were ended. As corporate profits in 1946 increased 20 percent, labor unions demanded higher wages and went on strike to get them.

In January 1946, fully three percent of the workforce was on strike at the same time, including in the steel, automobile, electrical, and meatpacking industries. When Lyndon Johnson acceded to the presidency, he wanted to complete the New Deal. He pushed through a number of programs, including Medicare and Medicaid, Head Start, and the Mass Transit Act. These new programs caused a breathtaking rise in nondefense federal expenditures. The Vietnam War, military expenses went up as well, from $50 billion to $82 billion. By 1980, the inflation rate high 13.5 percent, the highest peacetime rate in history. Although the national debt increased by two and a half times in the 1970s, so great was the inflation in that decade that the debt actually declined as a percentage of GDP. Only when Paul Volcker became chairman of the Federal Reserve in 1979, and Ronald Reagan became president in 1981, did inflation end.

The Federal Reserve sharply increased interest rates, pushing the economy into a deep recession. Unemployment hit 10.8 percent at its peak, the highest since the 1930s. But it worked. Inflation, which had been 13.5 percent in 1980 was down to 4.1 percent in 1984 and would stay low for the next few decades. The national debt, over $10 trillion in 2010, would double by 2017. With the onset of the COVID pandemic in 2020, deficits soared further as the government sought to mitigate the effects of shutting down much of the economy. The national debt now stands at $29 trillion, about where it was in 1945, relative to GDP. When the expectation of inflation becomes widespread, it becomes a self-fulfilling prophecy. That prophecy was fulfilled in 2021. With continuing pandemic relief, which discouraged many from seeking work, and restricting oil and gas production, inflation set in. Supply chain disruptions also contributed. By December 2021, consumer prices were up seven percent on an annual basis, the highest in 40 years. For the U.S. economy and the American people, Milton Friedman, was right. Create too much money and you get inflation. We are witnessing the proof of that right now.

John Steele Gordon—Imprimis 1/2022

3/31/2022	"Current P/E" / "20 Year Avg. P/E"		
	Value	Blend	Growth
Large	15.3/13.7	19.5/15.5	26.8/18.5
Mid	15.1/14.5	17.9/16.4	28.6/20.4
Small	14.7/17.0	21.1/21.4	40.5/35.5
J.P. Morgan Asset Management			