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The Fed, The Economy, The Inflation Rate, The Pandemic, Your Portfolio

You may recall a commentary that we provided to our clients back in 2016. The premise of the commentary discussed The Fed, The Economy, Elections, and how it relates to your portfolio. From 2016 to 2022 much of the same points are still relevant today with the addition of the global pandemic. Let's review what we discussed....

As we look back and ask ourselves from the '08/'09 recession regarding the Federal Reserve Bank (Fed) and Ben Bernanke's decision on implementing an unprecedented monetary easing program (ultra-low interest rate environment), was this the prudent cause of action? The answer to that question, 14 years later, is most likely yes. We can recall the collapse and stress of financial institutions, bank failures, and credit markets on the verge of closing. The Fed emptied its tool chest and did what it needed to keep the economy from market collapse.

The follow up question we need to ask is why has the Fed continued to keep interest rates so low for this extended period of time? Here we are, fourteen years later, and our 10-year Treasury rate is still at very low levels (approximately 1.80%[i]). That is certainly not helping investors, savers, and retirees today. The Fed has always had a dual mandate of monitoring employment and inflation when decisions are made as to raise or lower interest rates. Here we are in 2022 and inflation has touched 30-year highs. The Fed announced a preemptive rate increase throughout the year, but will the rate increases be enough? Too little? Not fast enough? This decision to keep interest rates at ultra-low levels will affect bond prices, create economic bubbles, and continue to add market volatility. Most importantly, how will this affect your portfolio?

As we eventually transition into an increase in interest rate policy, can our economy stand on its own without accommodative measures? The global pandemic has brought many challenges with central banks across the globe. In addition to the interest rate conundrum, will supply and demand normalize? The bottom line is can our economy function without significant accommodative measures from the Fed? We are of the opinion that we are long overdue to transition into a more normalized interest rate environment.

For the U.S. economy to "break away" from a low interest rate policy and for the economy to continue growing, there needs to be supportive legislation to foster continued progress which leads us to the upcoming mid-term election. Regardless of which party wins, both sides of the aisle need to have common sense tax reform, trade initiatives, spending monitoring, and a commitment for supportive growth regarding innovation and technology. Our GDP may evolve from manufacturing, infrastructure advances, and housing to growth in innovation, technology, and medical advancement. Regardless of which direction growth will take, it will need support from a government that is willing to part ways with partisan agendas and be held to a higher fiduciary standard on behalf of its people.

Finally, how does all this correlate to your portfolio and the continued management of your retirement, education, and long-term savings goals? It is essential to have a portfolio that is well diversified, consisting of stocks, bonds, alternative investments, and cash holdings. Despite an interest rate environment at historical lows, you most likely still need bonds in your portfolio. Despite equity markets trading at all-time highs, you most likely still need equities in your portfolio. Even with cash-like investments or money markets paying next to nothing, you most likely still need cash in your portfolio. As your advisor, we have done extensive due diligence on alternative investments to help add value into your portfolio. These investments consist of real estate investments, managed futures funds, market neutral funds, momentum funds, buffered ETFs, and, when appropriate, annuities to help with supplemental retirement income.

We understand this environment that we are in is unprecedented and unpredictable. The markets are always unprecedented and unpredictable and that is why we will continue to take steps necessary to help make sure your portfolio meets your goals and objectives. We will continue to monitor economic events and adjust your portfolio if suitable in pursuing your long term goals. We will always work with you and assist you regarding your investment portfolio and financial planning needs no matter what the markets may do in the present or the future.

[i] Source: Wall Street Journal