



The Great Unknown: Inflation

A Conversation with Legendary Market Economist, Ed Hyman

Interest rates have been rising ... despite recent efforts by the Fed Chair to dispel the notion or at least cast the possibility of inflation as transitory. Economist and Vice-Chair of Evercore ISI, Ed Hyman, recently told Bahl & Gaynor Portfolio Managers it's too early to flag an inflation problem, but "You'll know it when you see it." Hyman says you can't miss the signs; when prices go up along with wages, it's inevitable. More to the point for investors, it's an important component in equity choices. **At Bahl & Gaynor, we believe rising market-based interest rates are perhaps the most important variable impacting investments in the foreseeable future.**

The questions become, says Hyman, how quickly, how long? Can a moderate increase be absorbed by the market if it occurs slowly, and if the S&P earnings also continue to rise? **The clearest indication of mounting inflation: consumer prices.** They shot higher in March¹ on a wave of increasing producer prices, supply chain shortages and reports from businesses they are raising prices while struggling to find qualified workers.² Gasoline, food, and used car prices top the list. Fed officials claim they won't adjust policy this year based on short-term numbers. Still, market participants' actions may test the Fed's resolve.

More evidence of an inflationary environment: the sharp sell-off in government bonds since the start of the year. (Bonds tend to lose value when inflation expectations rise.) As bond prices fall, yields rise, impacting companies, consumers and homeowners.

The other piece of the puzzle, unemployment, varies across the country. (The biggest supply chain problem, says Hyman, is labor.) The Bureau of Labor Statistics' March report indicates a national unemployment rate of 6%.³ (That statistic is higher in states relying more heavily on tourism and with service jobs still compromised by COVID.) The good news: the trend continues downward and observers say, could drop more quickly if wages rise, luring workers back from home. Still, that trend is uneven; some states are still working to extend jobless benefits with help from the latest coronavirus relief package. Others (i.e. Michigan) are ending benefits for thousands of workers as more jobs open.

Still, Hyman believes pro-inflation fears are overdone. He tends to agree with Fed Chairman Jay Powell, saying inflationary indicators are transitory; Hyman expects them to ease by 2023.

At Bahl & Gaynor, we believe the best protection against inflation without compromising market equity returns is ownership of dividend growth stocks that seek to deliver a growing stream of income, especially in unpredictable markets. We have a hand selected team dedicated to the dividend growth philosophy. For 30 years we've endeavored to consistently deliver exceptional service to our clients with customized plans that seek to meet and exceed expectations.

¹<https://bit.ly/32d76rk> ²<https://bit.ly/3wUUEdY> ³<https://bit.ly/3g82pav>

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