

Inflation Nation

Who could possibly believe that inflation is just around the corner!? Alan Greenspan!!!

One of the most lionized Chairpersons of the Federal Reserve Board over the past half century is Alan Greenspan. Mr. Greenspan led the venerable institution for many years, with multiple reappointments from both democratic and republican administrations. He was perceived as a steady hand through such crises as the 1987 stock market crash, the savings and loan crisis and the recession following the dot.com bust and 9/11. He was dubbed with the moniker, "the Maestro," for his leadership during his service as chairman of the Federal Reserve Board from 1987-2006.

With few public interviews these days, the 94 year old Greenspan continues to capture the imagination of investors. Yesterday he appeared in an interview on CNBC with some dire warnings. His position on the current state of economic affairs was downright dour.

Just a sampling of some of those warnings:

“My overall view is that the inflation outlook is unfortunately negative and that’s essentially the result of entitlements crowding out private investment and productivity growth.”

"We are underestimating the size of the budget deficits that are down the road."

"All in all my major concern is inflation."

"We've got to resolve the budget deficits which are getting out of hand."

While I do not completely agree with all of Mr. Greenspan's warnings, I believe he makes a very important point. I have been, and remain, concerned about the size and frequency of government intervention to prop up the economy. There is a difference between limited, targeted stimulus and the open check book policy that the federal government favor. After several rounds of fiscal stimulus in the wake of the Covid-19 pandemic, federal debt outstanding is on the cusp of exceeding its all-time record level of debt both in nominal terms and as a percentage of GDP. And politicians on both sides of the aisle are not reining in their spending habits.

While I am not predicting a surge of inflation anytime soon, I believe we could be approaching a "tipping point" where the continued spending may lead into a spiral of rising inflation. For those of us who remember the devastating inflation of

the 1970's, we understand the havoc that inflation can wield on the economy and financial markets.

My base case economic outlook is not for an inflationary spiral. At the same time, I would not be surprised if inflation does creep higher if the ruling class continue to throw caution in the wind. For investors, I recommend reviewing your portfolios for exposure to rising inflation and to think about building inflation hedges into your portfolio just in case Mr. Greenspan proves correct.