Integrated PARTNERS

What's the Future for Inflation?

This is the right question and an important one. Since we all pay the price of future inflation, as we eventually use our savings/investments to purchase goods and services or donate to charity. Much can be said on this topic . . . that's well-grounded in cold hard fact and durable/reliable economic relationships (and therefore worth considering). But we must remain humble, in that forecasting the future is a perilous activity. Nevertheless, valuable understandings of the future can be made, if we remain grounded in the data (both current and long-term).

What follows is not ***"an opinion"*** (opinions are what one has when they're discussing a topic about which they have limited knowledge and/or experience, e.g., me voicing my opinion on the Boston Red Sox or Celtics). Instead, this is a professional judgement offered by a network of macroeconomic and monetary economists and numerous teams of remarkably seasoned investment experts drawn from across the domestic and international investments industry.

The Short-Run . . . The Next Several Years

Inflation will continue to come down. This favorable result will be driven by three factors:

> **Healing.** We'll continue to heal from the broken global economy. Which was a consequence of the global COVID pandemic (and the concomitant governmental, consumer, and business responses). This was the worst medical catastrophe in over 600 years (i.e., not since The Black Death of the 1300's when about 50% of the entire human population perished).
>
> **Monetary.** Central banks throughout the world raising overnight borrowing rates and reducing money supply growth rates.
>
> **Recession.** The U.S. (and several other nations) going into recession.

But this reduction in inflation will be slow, halting, and quite limited. Inflation will bottom out at the end of the coming recession.

The Long-Run

Once the coming recession has ended, and recovery begins, inflation will start rising again. It will rise consistently (but not in a straight line) for the subsequent ten to twenty years. But why, why must inflation inevitably rise?

Think of it this way. I'm the government. I need to pay for all of my programs. As an elected representative, I desire to be reelected (I'd like to keep my job). But if I raise taxes to pay for my ever-expanding governmental programs, I may lose the next election (I'll get blamed by the voters). Recall, that I can pay for my programs through two alternate mechanisms. I can raise taxes or I can hide the cost by just printing money. Unfortunately, printing money creates inflation, but that's not my problem since no voter will attach the blame to me (unlike if I vote to raise taxes).

So, are governments (the U.S. and other nations) considering additional programs? Yes. Many are already baked into the cards . . . and nothing can alter their already existing trajectories (they're locked).

Others are more obscure and/or indirect, but nevertheless, no less real and game-changing. A plausible list of such ***"programs"*** (that must be funded, i.e., paid for one way or the other) might include:

- Hot war with Russia
- Cold war with China
- Conversion from fossil fuels to renewables
- Reducing the income inequality gap
- Shrinking the wealth inequality gap
- Expanding social-support programs
- Changing weather patterns
- Deglobalization
- Rising interest rates . . . i.e., debt service payments explode
- Transitioning from one political structure . . . to a different structure

I'm not agreeing with or disagreeing with these projects. But I'm honest enough to admit that these trains have already left the station. Collectively, these ***"programs"*** will drive inflation ever higher (post-recession) during the subsequent ten to twenty years.

Is this a Reasonable Outlook?

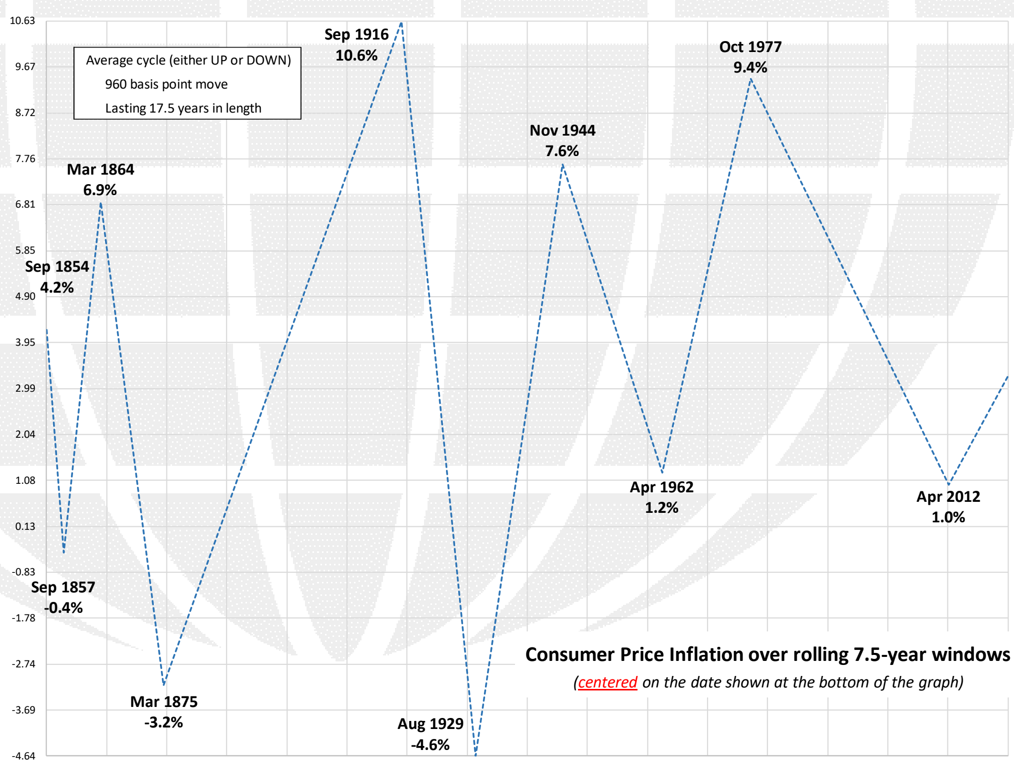
Yes. Such an outcome would be normal, traditional, and commonplace.

For this outcome not to occur would be rare, exceptional, and quite frankly . . . never before seen.

Which do you think is more likely, something that's always happened, or something that's never before been seen?

Is this true? This graph shows the history of U.S. inflation over rolling 7 ½-year periods (to smooth out the historical experience).

It's not a pretty picture, but it is accurate.



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Inflation has never been steady, for the last 175 years (both here in the U.S. and also overseas), it's been either rising or falling, and for solid macroeconomic, monetary, governmental, technological, innovation, and societal reasons. Nothing happens by accident. So, inflation rises over the ten to twenty years following the coming recession, this would fit in well with historical norms.

Is this Forecast Correct?

Of course not. Instead, something else will happen. Why? Because between now and then . . . new data, new facts, new circumstances will arrive, which will change the eventual outcome. But those data/facts/circumstances have not yet arrived. And ***based on everything that is known today***, at this instant in time, the just related short- and long-run forecasts are eminently reasonable . . . in fact, they're quite probable.

One thing you can be ***"certain"*** of. Inflation has never remained stable (refer to the graph above). So, if you meet someone forecasting a future stable rate of inflation . . . just run in the opposite direction. Obviously, they're expressing their ***"opinion"*** instead of a ***"professional judgement."***

What's to be Done?

If the future of inflation is as described above, i.e., rising over the next ten to twenty years, then you may want to consider investment strategies that have as one of their explicit objectives to mitigate the negative impact of future inflation. Integrated offers numerous investment programs that do just that.

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The use of a proprietary technique, model, or algorithm does not guarantee any specific or profitable results.

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All data was provided by Global Financial Data, Inc. on October 5, 2022.

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