Insights from Tom Moran,

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In my recent conversations with clients, there was one topic that seemed to be at the forefront of everyone's mind — inflation. While there are overt signs that inflation is here, the question remains if it will stay. At first, the Federal Reserve and Jerome Powell insisted that inflation is merely transitory due to the unwinding of the pandemic. They recently, however, started to change their tune suggesting that inflation may be more persistent. In order to evaluate how long inflation is here to stay, we need to take a step back and look at why we are experiencing inflation in the first place.

Broadly stated, inflation is a sustained rise in prices caused by more dollars chasing the same amount of goods and services. In the depth of the crisis, the Fed provided liquidity to the financial system and the U.S. government passed truly enormous amounts of fiscal stimulus to both companies and the American consumer. Those actions prevented a greater economic crisis and enabled a rapid recovery. Demand is back—and expected to grow—but you can't restart an entire economy overnight. The disrupted supply chains and labor shortages are still sorting themselves out, causing wild price movements for goods and commodities such as used cars, coffee and lumber; shortages for everything from semiconductors to caramel syrup. Even Dollar Tree is raising their prices on some items above $1. However, this chaos in supply chains should eventually calm, restoring a measure of normality to the prices of many goods. Chairman Powell likely referred to this process when he talked about elevated inflation readings being "transitory." The elephant in the room is whether the Fed's actions on monetary policy have the potential to create lasting inflation that can negatively impact the markets and the broader economy for years to come.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

Please talk to your Financial Advisor or give us a call to discuss your situation and pursuit of strategies designed to protect your portfolio from inflation. One option is to invest in equities with strong dividend history and a healthy balance sheet. Historically, dividends have risen faster than the rate of inflation, acting as a much-needed hedge against inflationary pressure. Many dividend-oriented companies are also value stocks, so we anticipate value stocks continuing to outperform growth stocks in the short and medium-term. When inflation increases above 4%, equities traditionally start becoming less favorable for investors than other asset classes. [1] If this is the case, we recommend clients discuss other investment options depending on their situation and what is most appropriate for them. At Moran Wealth, we offer multiple proprietary Private Investment Management (PIM ®) portfolios that may be appropriate for clients wanting to protect their assets against inflation. In order to evaluate your portfolio for its sensitivity to inflation, please reach out to set up an appointment with one of our financial advisors.

1 https://www.barrons.com/articles/inflation-is-good-news-for-stocks-with-high-dividends-51621170002

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