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Dear Friends and Financial Advisory Clients:

Over the last few months, we have witnessed an acceleration of a profound transition from a society in shutdown mode to one that is rapidly rebounding. Is all back to normal? No. Will some of the change we have experienced be permanent? Probably so. But, as has always been the case in American society, we learn, adapt and move ahead. And despite bumps in the road, we ultimately identify new means of improving our collective experience.

But right now, even though there are many issues we could discuss, we want to focus on one particular factor that is impacting consumers, businesses and the strategic thinking of investors possibly more than any other. And that factor is inflation. Prices in many core categories have risen sharply and quickly this year and it is important that we understand not just why this has happened, but what this development could mean going forward.

But first, it is important to understand that much of what we are experiencing by way of rising prices – something that is not necessarily welcome – is actually the result of a truly amazing and positive fact. Our country has rebounded from a pandemic-based shutdown at a pace that has simply been stunningly fast…and it has caught businesses by surprise. The result has been glaring supply shortages and then significant price increases in everything from automobiles, lumber for homebuilding, appliances, food, air travel and yes, even hotel rooms. Basic materials like aluminum, copper, steel and iron have all seen massive price surges. And, these materials are part of what goes into the production of so many different products that we, as consumers, need.

And there is another factor that has not been acknowledged as much as it should be. Over the years, businesses, through technological efficiencies, have transitioned to something called Just-In-Time manufacturing. Yes, because of the ability to use technology to efficiently manage supply chains, businesses of all kinds have tended to maintain less inventory and only order from the initial players in their supply chains as needed. In most circumstances, this process has created greater efficiencies and tremendous cost savings.

But when the pandemic hit, we went into virtual shutdown. Business came to a grinding halt. And nobody predicted a recovery that would be as rapid as we have actually seen. So, it is fabulous news that our society is rebounding. But part of what comes with this unprecedented surge in demand for so many things, is that restarting a Just-In-Time supply chain means there is a significant lag between demand and the ability to deliver.

Now understanding this concept of a lag in getting back on game is really important. Because, in our opinion – and we could be wrong – we are experiencing a “good” shock to the system by virtue of a rapid recovery. Yes, prices have surged…. but this condition may well indeed just be a blip, a transitory phase we must endure as businesses restart their engines and get back on line. This transitory phase may last at least a year or more. But ultimately, it is not necessarily an indication that rampant persistent inflationary forces are in play.

Now, certainly supply shortages and resulting higher prices are unwelcome right now. But it should be noted that even our Federal Reserve has not rushed in to raise rates and tamp down this inflationary trend. That is a strong indication that they too see what is happening as mostly a good thing. And that this inflationary surge is temporary….a phase….because we are experiencing a remarkable recovery. And it is happening really fast. So, on balance, yes we have inflation…but it is occurring because of a far more welcome chapter than the one we were in just one year ago.

Wishing you a wonderful summer season,

Jeffrey C. Vahanian

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