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CAMPBELL CAPITAL MANAGEMENT
- EST 1988 -

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Dear Money Management Client:

The first half of 2021 is over, and all is well. We previously wrote that the second half of 2021 could be more challenging, and that opinion still holds. The U.S. central bank continues buying about $120 billion of bonds each month and holding short term interest rates near zero. This accommodative monetary policy is good for equities, as confirmed by new highs in the stock market. Even when the Fed begins to taper, the raw ingredients of money have increased so rapidly that banks will have more than enough reserves to accommodate growth.

That's the good news. What's keeping us up at night is the discourse over inflation. Wages and salaries were up at an annual rate of 20% from the first quarter, and consumer spending was up at an annual rate of 35%. Those prints reflect rapid growth and rapid inflation, but most investors are betting those are one time price level changes in 2021, and not a trend. Even the problem with insufficient supplies resulting from Covid lock downs are believed to be transient because production has ramped back up. It all comes down to a "wait and see" situation, because while the Fed continues to assure us inflation is transitory, their ability to forecast even a few quarters out is poor based on history.

We tend to think energy prices matter more to inflation than most other transitory prices. Energy, after all, is often the largest cost component of extracting, or producing and delivering any commodity to market. We will keep an eye on energy prices for true trends in inflation. Vast fortunes are being spent on "green energy", but the jury is out on whether the transition is fast enough and/or productive enough.

In summary, during the second half, investors are going to worry about Fed policy in response to inflationary outcomes. Any discussion of scaling back quantitative easing due to inflation concerns could be met with a "taper tantrum" or market correction just like what occurred in 2013. Keep in mind, the additional government debt ($3 trillion) incurred in 2020 resulted in current spending in exchange for a decline in future spending, so transitory inflation does have merit.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell

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