CONWAY• JARVIS LLC
Investment Outlook

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Update

This Week: A Preview of Things to Come

Since our most recent Update, that slight bump in volatility we saw earlier this month developed into a spike as measured by the VIX index. No doubt, you noticed. This week was all about the Fed and their scheduled meeting. It had some talking heads in the media giddy with excitement as they raised prior estimates of 2 to 4 rate hikes this year up to the 5 to 7 range. Apparently, their crystal ball puts the Fed's to shame in light of Chairman Powell's carefully considered statement that the FOMC *would* raise the Fed Funds rate *only if* conditions at the end of March warranted such action. While media "experts" make bold predictions of future economic conditions in making their decisions, the Fed doesn't have that luxury. The committee must rely on *actual data* in determining their course of action in order to avoid the policy mishaps of past Fed boards.

The pandemic economy has no precedent and therefore many of the "rules" followed by central banks in the past don't apply here. That fact is lost on most journalists and too many market experts that see the Fed as being "behind the curve". We're in the minority thinking that's exactly where they should be. We see the Fed already taking action in addressing inflation. Aside from tapering, they are currently jaw-boning, or saber-rattling, the markets and consumers with their commitment to do whatever it takes to curb inflation. The objective is to *preempt expectations* of higher prices in the long-term while buying time for the supply chain to regain its footing. Consumer expectations fueled the persistent inflation we suffered in the 70's. The remedy then required Paul Volcker's hammering of the economy with historically high interest rates. The recipe called for today is increasing supply, not killing demand and the economy with it.

This past Monday, for the first time since 2020's bear market, capital left the broader market….briefly. By briefly, we mean a few hours. Monday's monumental reversal to the upside followed a broad selloff of the major indexes that left all in correction territory at their intra-day lows. However, as the week progressed capital rotated *from* the NASDAQ *into* the DOW and S&P 500 leaving the tech-heavy benchmark down roughly 15% off its high and the others flirting with the -10% correction threshold. Both traders and investors were pursuing bargains at the lows of trading sessions, a reminder that we still have a healthy, expanding economy ahead of us.

That said, this week provided a glimpse of the future for when the Fed actually begins to raise rates to a level consistent with the return of a stable, expanding economy. Speculation over future economic data and the Fed's response to it will persist until interest rates are normalized. For traders, it's their bread and butter and a call to action. For diversified investors, it's headlines and noise that, while affecting portfolio values, is best ignored while the economy continues to recover. The cure for inflation has always been higher key interest rates, but carries with it the risk of a policy misstep of going too fast or too far and tipping a recovery into recession. In this unprecedented COVID-burdened recovery, we're among those happy to see the Fed pursuing a data-driven approach to formulating monetary policy for the post-pandemic era. It may be stressful for investors at times but healthy for both the economy and the market in the longer-term. Stay tuned.

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