

April 20, 2021

## Debt Financed Economic Recovery Leading to Inflation?

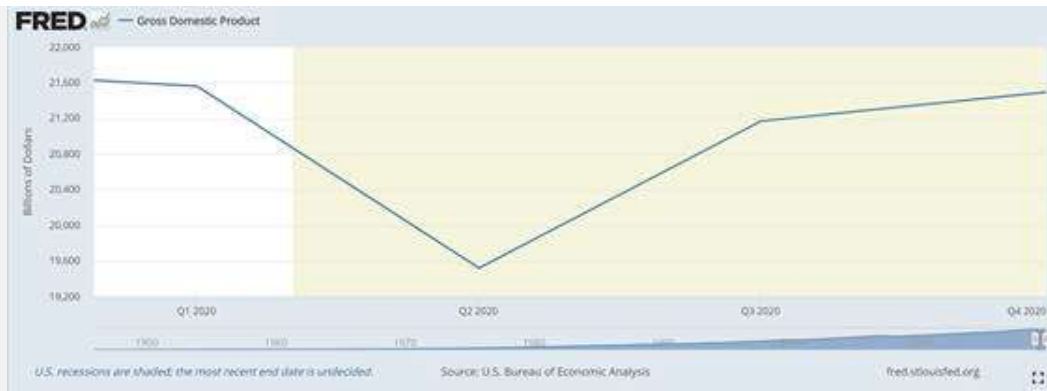
March marked a year since the onset of COVID-19 pandemic. After crashing last March at the outset of the pandemic, stocks <sup>[1]</sup> quickly recovered, ending March at 17% higher than the pre-pandemic high <sup>[2]</sup>, outpacing both economic and corporate earnings recoveries. So much so that in a recent interview with 60-Minutes, Chairman Powell commented that the FRB (Federal Reserve Board) does monitor asset prices and specifically mentioning stocks in reference to “some asset prices are elevated” <sup>[3]</sup>. FRB’s concern is less asset or stock prices as much as the impact asset prices have on unmanageable inflation <sup>[4]</sup>.

So, will a debt financed economic recovery lead to inflation? The short answer is yes but the question should really be “will debt financed economic recovery lead to HYPER-inflation?” The answer in this case is resounding no. Some level of inflation is needed for money supply and economy to grow. In fact, FRB’s annual core inflation target is 2%. Some pundits have raised concerns of inflation ever since last year’s CARES Act, this year’s American Rescue Plan Act, and went abuzz again by March inflation number which showed inflation grew by 2.6% year-over-year (YOY).



Source: Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/graph/?id=CPIAUCSL,CPILFESL>

Let us put this in perspective. 2.6% is YOY. This means inflation growth is against March of last year. Last March when COVID hit and economy froze, world came to standstill, and nominal inflation dropped to barely above zero. Any climb out of near zero is positive. Instead of being concerned about phantom hyper-inflation, we should celebrate the positive inflation number as a sign of economic recovery. Stimulus spending policy worked and is working. Stock markets, economy, corporate earnings, and inflation rate are all trending positive. The graph below shows that GDP rebounded and is almost back to the pre-pandemic level.



Source: Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/GDP>

Does this then mean the possibility of future hyper-inflation off the table? Definitely not. FRB needs to be diligent. Fortunately for us, investors and country, FRB is very good at managing inflation. Since the hyper-inflation era of late 70s to early 80s, FRB has held the core inflation rate at target level, within announced variance levels, through thick and thin of economy and stock markets.



Source: Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/graph/?id=CPIAUCSL,CPIFESL>

What then does this mean for you as an individual investor? No worries. We are optimistic long-term. Your portfolio should be on track. Live life to the fullest.

There will be hiccups along the way but that is within historical norms. We will monitor and reposition your portfolio as markets evolves with your best interest in mind. We will proactively reposition your portfolio through any significant pullbacks and reposition your portfolio for your future.

**San Asato, CFP®**

## Need a Checkup for Your Finances?

Our goal is to stay on top of your financial issues. We try to be the one to mention that it is time to review your Social Security Claiming Strategies and ask if we can review your estate plan. Sometimes you have questions or issues that we do not anticipate. If so, please ask.

We have had several people ask us about their long-term care insurance. Periodically, insurance companies have found that they need to increase prices because the policies still are relatively new. We seem to have hit one of those periods of premium increases.

We have also addressed inquiries about converting term life insurance policies to permanent policies.

If you have questions about any area of personal finance, please let us know. We are not professionals at all areas of finance, but we have access to professionals in most areas.

Here are a few of the areas we address regularly:

- Review estate plan documents. We do not and cannot draft an estate plan, but we can help you understand what is in yours and provide questions, if any, to ask your attorney. We can also review a plan that has been in place for several years to see if it needs to be updated for beneficiaries, changes in your family situation or changes in the law.
- Review of income sources in retirement. We can help you determine when to claim Social Security and pension income based on your unique financial situation.
- General retirement planning. Of course, we also help you more broadly with income in retirement. We can help you determine how much spending your income and portfolio can support. If you want, we can send you your retirement paycheck on your schedule.
- Asset allocation for work-related retirement. As part of a financial planning relationship, we review your investments at work in 401(k), 403(b) or deferred compensation plans to make sure your investments align with your needs.
- We can look at the risks you face and help you assess if it is valuable to transfer those risks to someone else through insurance. We directly assess your needs and your existing coverage in life insurance, disability insurance and long-term care. We partner with professionals, when necessary, for those coverage areas as well as property casualty and health insurance.
- We can help with financing and budgeting issues. Buy or lease your car; buy or rent your home; exercise those stock options at work; ways to save more; or how to invest your savings. These are all issues we regularly help clients assess.

Review your taxes to identify tax-savings ideas. Charitable giving and Roth conversions are a couple of areas that some clients find beneficial.

If you have questions or concerns in one of these areas or any other area of your personal finances, let us know and we will be happy to help as much as we can. San, John and Yoshi are happy to answer your questions and address your concerns.

**John Comer, CFP®**

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## **Safely store digital files in Vault**

Protecting your personal information our top priority. We are moving away from using snail mail and printing sensitive information on paper. As we continue to adapt new digital communication solutions, we continue to encourage all our clients to begin using Vault on Client Access to safely store, send, and receive files).

Vault is a free and powerful tool that keeps your important information in one place under multiple layers of digital protection. With Vault, you can securely upload, store and organize digital copies of vital files through Client Access – from financial statements and planning documents to passports and photos of valuable assets. Vault also provides a simple way for you to communicate with us by commenting on uploaded files.

To learn more about Vault, view our [FAQ](#) or contact us anytime.

**Yoshi Asato, AAMS®**

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## **SAM LUETGERS**

### ***Passes CFA Level 1 Examination***



We are very proud of Sam for this significant milestone accomplishment in his career. The Chartered Financial Analyst designation is one of the most sought-after designations for investment professionals. CFA consists of a series of rigorous exams, with the February 2021 Level 1 CFA exam passing rate being only 44%. Congratulations on a job well done Sam!

Source: [CFA® Exam Results and Pass Rates \(cfainstitute.org\)](https://www.cfainstitute.org/en/exams/results/pass-rates)

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### **Market Holidays**

We will be closed during the following market holidays. As a reminder, trade orders cannot be accepted during these dates.

May 31	Memorial Day Observed
July 5	Independence Day Observed
September 6	Labor Day
November 25	Thanksgiving Day (early closure at 3:00 p.m. central)
December 24	Christmas Observed



## Staff Directory

As always, we thank you for your trust in us! We will continue to endeavor to “go the extra mile” as best as we can in serving you. If anyone of us can of service, please feel free to call us directly at (952) 548-XXXX (please reference table below). Our general line is (952) 548-3123.



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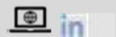
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