KELLEHER FINANCIAL ADVISORS

Inflation and Your Investments

You've probably noticed that your supermarket bill has increased even though you're buying the same amount you bought a couple of months ago. And the hotel you've booked for your summer vacation is more expensive than it was last year. What you're experiencing are the results of the latest surge of inflation.

Fed Chair Jerome H. Powell said, “Inflation could turn out to be higher and more persistent than we expect.” Fed officials have also indicated that interest rates might need to rise sooner than anticipated last year. While some of these increases can be attributed to the world opening up again after the pandemic, we still don't know how long this will last and how we should respond to it. Especially for investors, inflation presents a real challenge. How do you protect your money from losing its value in this market?

There are several inflation-hedging investment strategies you can take. There is not a one-off solution to heading off the economic impact, but a combination of several which could give you a return greater than the current rate of inflation. I recommend that before you make any of these decisions, speak with your financial advisor.

1. TIPS – TIPS is Treasury Inflation-Protected Securities. These are government bonds that reflect inflation's rise and fall. When inflation increases, so does the TIPS interest rate paid. And on the reverse, when deflation happens, interest rates fall. Since TIPS are backed by the Federal Government, they are a safe and effective way to diversify your investment portfolio as well as increasing retirement income. TIPS bonds pay interest twice a year at a fixed rate and are issues in 5, 10 and 30-year maturities. Investors are paid the adjusted principal or original principal, whichever one is greater, at maturity.

2. Cash – Cash may not be a growth asset, but it usually aligns with inflation if inflation is accompanied by rising short-term interest rates. As the pandemic has proven, the economy can be unpredictable and it may be wise to keep cash in a high-yield savings

account, money market account or a CD. A recommendation would be securing enough cash for 6-9 months for a single household and 6 months of cash for two-income households.

3. Short-term Bonds – is a similar strategy to keeping your cash in a CD or savings account, allowing your money to be both secure and accessible. Short-term bonds are more resilient to higher interest rates, which rising inflation may lead to and causing losses with long-term bonds. You can also reinvest short-term bonds at higher interest rates as they mature.
4. Stocks – diversification is the key here. Stocks did not fall during the last prolonged period of inflation (1973-1979), however, they didn't quite keep up with annual inflationary price increases of 8.8 percent. Large-cap stocks gained 3.26 percent a year during that period, according to Morningstar Direct. Whether you have rising inflation or stable inflation, stocks are a long-term hedge but may be affected in the short-term with a spike in inflation. Remember, the current inflation may be transitional so don't make any drastic changes that could hurt your portfolio's performance if inflation drops.
5. Real Estate – property values tend to increase during times of higher inflation. Besides the purchase of a home, you can make a real estate investment through REITs (Real Estate Investment Trusts) or through a mutual fund that invests in REITs. While home values may be rising, there is a concern post-pandemic of commercial real estate as more and more companies are migrating to remote or hybrid work models therefore requiring less office space.
6. Gold – although gold may not protect against rising inflation in the short-term, it does keep up over the long-term. In the last inflationary period of 1973-79, Gold rose an annualized 34.78% and should do particularly well if inflation persists and the Fed is slow to raise interest rates.
7. Commodities – prices for commodities can be risky. As it depends heavily on supply and demand, it can be unpredictable. For example, lumber prices rose precipitously this year but declined in June as supply chain bottlenecks cleared up. We may also see a rise in industrial metals, especially copper as it's used in electric vehicles as well as wind and solar energy generation. Agricultural products could also see a rise as there is an increased demand for cattle and hogs as well as the corn and soybeans used for feed.
8. Cryptocurrency – while I personally am not an advocate for this type of investment, it is a question that has come up often with my clients. Bitcoin and its like might be termed as "digital gold" but the jury is still out as to whether or not cryptocurrency is a good inflation hedge in the long term. It is an extremely volatile investment and may not easily be incorporated into your current portfolio's level of risk.

As you can see, there are many options for investors regarding protection against inflation. As always, we will watch and research the global economy and make investment choices to the best of our ability for each and every client portfolio. If you have questions about your portfolio, our views expressed in this letter, or anything else financial, please do not hesitate to call.

Warmly,

Colleen Kelleher Sorrentino

Performance Table for 2nd Quarter 2021

Asset Class	% Change YTD June 30, 2021
Dow Jones Ind. Avg. (TR)	13.1%
S/P 500 Index (TR)	14.8%
NASDAQ Comp.	12.5%
Nikkei Tokyo	4.9%
China- Shanghai	3.4%
DAX Germany	13.2%
CAC-40 France	17.2%
FTSE-100 UK	8.9%
Gold $ per oz.	-6.5%
Crude Oil ($ per bbl.)	51.4%
Rate on 10-Year Treasury Bond	1.44%
VIX Volatility Index Change	-31.55%

Source: Wall Street Journal – Dow Jones

2^{nd} Quarter 2021 Markets Perspective

Tom Burnett, CFA, Vice Chairman & Director of Research

Kelleher Financial Advisors

As the Table clearly indicates, the stunning stock market rally off the March 2020, Covid-19 induced bottom continued into the end of the June 2021 quarter. The S/P 500 Index set more than 30 record high closing prices during the first half of the year and ended the quarter at a record high. Small stocks are doing even better this year. The S/P Small Cap 600 Index is up 22.9% so far. The 600 Index has risen 130% off the March 2020 bottom, beating the 81% rise in the 500 Index over the same time period. Investor confidence has grown in line with the strong equity market performance as the VIX "fear" index has declined by 31% in the first half of 2021. At just 15.8, the VIX Index suggests that investors have completely forgotten the fears generated by the March-April 2020 collapse.

The worst performing market sector was the long-dated bond market as interest rates rose this year from the 2020 low levels. The Index of 20+year Treasury bonds is down 8.5% in 2021. Rising inflation fears have hurt the long-term bond market, but, despite growing inflation numbers in 2021, the yield on the 10-year Treasury bond actually fell from 1.75% at the end of March to 1.44% at the end of June. Falling rates helped the stock market's performance, but many observers now expect the Federal Reserve to begin reducing its monthly bond purchasing activity which could lead to rising rates in the near future.

Commodities offered a mixed picture, as crude oil rallied sharply this year and gold prices fell. The recovery in oil prices off the April 2020 lows has been remarkable. After trading near zero in April 2020, crude oil futures prices have risen to $73 per barrel at the end of June 2021. The XLE Energy Stock Index was down 32.6% last year. This year, it has risen 39.3% to June 30, 2021.

Equity valuations have now reached 'stretched' levels with the price-earnings ratio on the 500 Index now at 22x expected 2021 earnings. Low interest rates appear to be supporting this high earnings multiple, but investors must watch closely for any marked changes in Federal Reserve policies that would impact rates and move them sharply higher.

Past Events

Lifted Presentation - June 21, 2021

On Monday evening, June 21st, Colleen Kelleher Sorrentino spoke to celebrity trainer Holly Rilinger's *Lifted* team on how to prepare yourself financial for life's events – a talk incorporating financial wellness with Holly's focus on physical and mental well-being

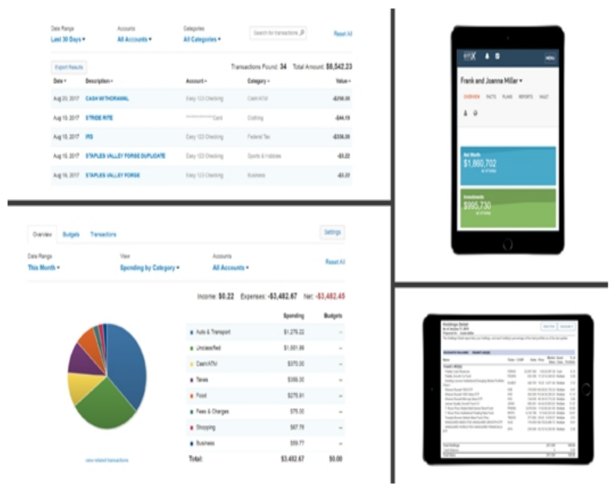
Upcoming Events

August 2021 Thought-Leader Discussion

In August Colleen Kelleher Sorrentino will be a guest on The Bellringer – a one-on-one recorded discussion where she will be addressing the current state of the market, inflation and how best to protect your investments.

Webinars

We are currently in the process of developing our webinar curriculum for the remainder of 2021 and would like to hear from you about topics of interest. Please let us know what you would like to hear about by clicking here.



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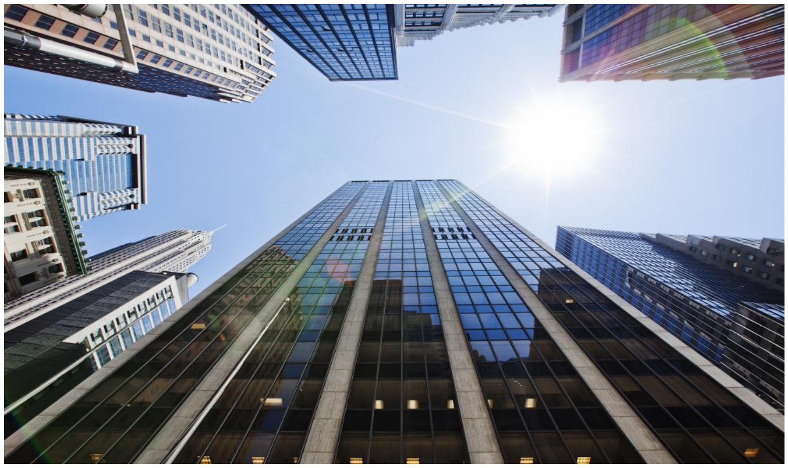

100 Wall Street

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For more information, call us at: **212-232-5685** or visit us at: **www.kf-advisors.com**

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