Eggcorn and Inflation Misunderstandings

By Alan Snyder

Many assert inflation is "transitory" and is not something to worry about. Prudence may dictate otherwise but first some fun ways of exploring misunderstanding for a bit more depth.

Think of an "eggcorn" which is mishearing a word or phrase. Some examples elucidate: hone in versus home in, death nail/death knell; one fell swoop, etc. Then, there is "transitory" inflation but what if it is not?

Or, there is mondegreen, a subform of eggcorn for nonsensical outcomes, usually in a song lyric. "Excuse me while I kiss this guy" in lieu of "excuse me while I kiss the sky." Here one might think about Jerome Powell's recent speech on inflation - lyrical, indeed.

Raising the stakes are malapropisms, using one possibly fancy word for a similar sounding one. He was the very pineapple of politeness but meaning pinnacle or, my favorite: illiterate him from your memory (obliterate). One calls to mind a recent *New York Times* article titled: "Inflation is Popping Up from Sydney to San Francisco. It may be a good thing." The article notes: "it [inflation] is a source of annoyance to consumers." We agree with the annoyance.

Each of us must judge the substance and consider the specter of inflation when evaluating our asset deployments. Possibly improving our evaluation might be some current facts.

1. Minimum wages are rising from Main Street (Walmart et al) to Wall Street. Even leisure and hospitality wages are up 10.3% on the year. Tellingly, more jobs are being listed as available (currently, a record of 10.9 million) than being taken from the 5.3% unemployed. All the while some states are considering using their excess federal dollar receipts to extend unemployment benefits with a goal of driving wages yet higher in order to entice workers back into the marketplace, and for social justice.

2. Supply chain woes are temporary. However, tell that to car companies, computer makers and other users of semiconductor chips. If correct, would our government want to subsidize U.S. chip makers in their building of new fabrication ("FAB") facilities costing approximately $1 billion a pop, or even $3 - $5 billion for state-of-the-art.

3. Rising prices will abate. Yet, the Energy Information Administration comments that energy costs are 41% higher than a year ago. The S&P/Case Shiller index on home prices rose 19.1% year over year, the highest increase since 1987. More worrisome, consumer confidence has fallen sharply to its lowest level since 2011, which may have been triggered by the Conference Board's report that inflation expectations ticked higher to 6.8% for 12

months from now. (N.B. The Fed goal is to run hot over their 2% hurdle.) It is sweltering hot!

4. Many indicate that inflation worries are without substance because central bankers can always step in and take corrective action. True, but remember the tumult called the "Taper Tantrum" of far less import.

5. The current administration claims more stimulus is needed for "social" infrastructure and that inflation worries are overblown. Hence, somewhere between the notional rate of $3.5 trillion and the more realistically assessed $5.5 trillion could be spent. If this were to pass Congress, including the $1.5 trillion hard infrastructure package, seemingly with general bipartisan support, the U.S economy will be further awash in stimulus monies. A skeptic would note that inflation is the decrease in purchasing power of a currency, i.e., too much liquidity chasing insufficient productive output.

Summing these considerations up should not mean we slit our wrists or head for the bunker. However, the prudent investor, we believe, must consider the possibility that inflation will continue unabated or even result in stagflation and prepare with fresh examination of potential portfolio shifts and rebalancing among asset classes - a sedative list:

1. Tangible assets: real property, commodities (including trend following with managed futures advisors). Gold is a tricky one, dependent on interest rate expectations, i.e., how high/how fast.

2. In the current low yield environment, loans backed by hard assets, e.g., **art loans shockingly qualify**.

3. Equities in companies with pricing power, many of which have been value plays: healthcare, energy, consumer staples.

4. Equities in companies with high cash flows instead of those demanding low discount rates for earnings in the distant future.

5. Moving to cash believing the world will end is risky. It may not and cash will depreciate with inflation, albeit is great dry powder if not sitting for too long.

The choices are many. Abrupt changes and extreme pessimism have been generally antithetical to consistent portfolio performance. Remember our earlier scribblings on the merits of a 60/40 portfolio and what might be included in each bucket for balance. Sadly most, and certainly not us, can reliably predict the future. Nevertheless, the Boy Scout motto of "Be Prepared" is prescient.

Welcome your thoughts, comments and any disagreement. Listening to others can only make all of us smarter. In the meanwhile, what are your favorite eggcorns, mondegreens and malapropisms?