The debate around inflation has heated up in the past few months. Federal Reserve Chairman Powell admitted that inflation is running hotter than the Fed expected, but he held to his position that the situation is temporary. Not only is there talk of inflation, but 'stagflation,' another term from the late 1970s and early 1980s, is being mentioned more and more in Wall Street research.

So what's going on? On the commodities side, prices for some commodities have risen considerably this year. Gaining much of the headlines are the prices of crude oil and natural gas. West Texas Intermediate (WTI), the grade of crude oil most quoted in the United States, began this year trading at under $50 per barrel. Today, that same barrel of oil is priced at over $80, an increase of close to 70%. The story on natural gas is even more eye-popping. Natural gas began the year at $2.53 per MMcf (one million cubic feet). Today, that same amount of gas costs $5.39, increasing over 100% in just nine months. For those arguing that inflation is other than temporary these are two easy examples to cite.

What then gives credence to Chairman Powell's assertion that inflation may be temporary? In a word 'logistics.' This period in our economic history is unusual, if not unique. Few people have experienced a pandemic. In addition, the amount of stimulus being applied to the U.S. economy and the economies across the globe is substantial. What this has created is considerable pent-up demand coming out of a year-plus in lockdown, coupled with consumers who are flush with money. That surprising surge has stretched the global supply chain to its limits. The chart below shows the delays that suppliers are enduring today.

The situation has become so apparent that CBS Sunday Morning did a piece on logistics and the supply chain. I encourage you to take a look: https://www.cbsnews.com/news/weak-links-in-the-supply-chain/. Simple economics suggests that logistical bottlenecks will drive prices higher, the adage 'too much demand chasing too few goods.' If that is what is going on today, then Chairman Powell's view may be correct. At some point ports will clear, truckers will be found and, importantly, goods will be delivered. All of which would suggest that prices should normalize downward. We expect to gain more insight into the economy and the impact it is having on businesses as companies report their third quarter results this month.

We are open for business and welcome your interest in Argent Capital. In addition, if you like our market letters, we hope you will pass them on to friends. We have four successful equity strategies – Large Cap, Dividend Select, Mid Cap and Small Cap.

Sincerely,

Ken Crawford

Ken Crawford, Portfolio Manager