Market Strategy
by STRATEGAS A BAIRD COMPANY

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Market Strategy Weekly

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Strategas – a Baird Company provides market strategy and perspective to help you better understand what is happening in the world today and how it impacts your portfolio and plans. Exclusive to Baird, these premier market, macroeconomic, and policy insights complement the planning and investment strategy work of your Financial Advisor.

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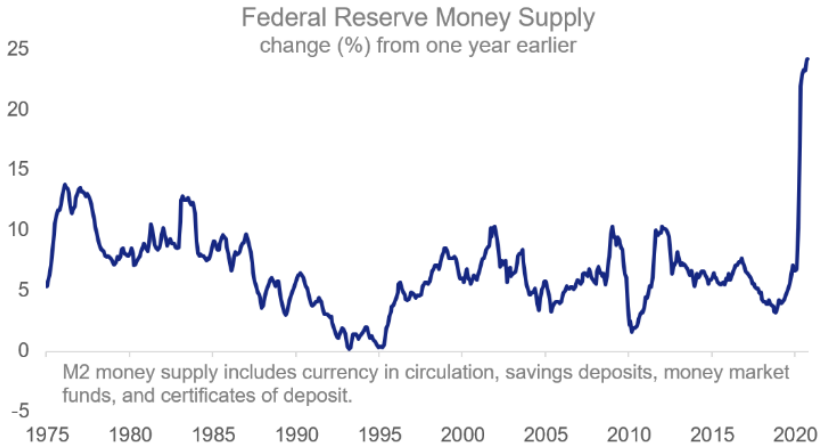
MONEY SUPPLY HIGH | INFLATION POTENTIAL GROWING | ADDING HEDGES

Last week, we evaluated the strength of our economic recovery and reaffirmed our conviction that the building blocks are in place for a transition from recovery to expansion. The next several months may be choppy as we deal with both an ongoing pandemic and vaccine distribution logistics, but we want to take a moment—as one does at year-end—to consider some of the longer-term drivers of economic activity and market performance.

The Baird mailbag is full of great questions on all manner of topics, but few seem to come up more often than this one: Will inflation finally rear its head after decades of eluding us? There's a lot of angles on this, so let's dive in.

In the finance world, it is treated as a foregone conclusion that rapid growth in the money supply (relative to insufficient outlets for capital) causes inflation. **Said plainly, too much money chasing too few goods causes prices to rise.** On that note, let's take a look at this chart showing year-over-year growth in the M2, or the US money supply. As you can see, the line has gone nearly vertical as the system was flooded with liquidity in an effort to fight the COVID-19 recession.



Perhaps it's the short-term deflationary impact of the pandemic (high unemployment = lowered demand), or maybe it's been so long since we've seen inflation in the U.S. that it's out of sight, out of mind—but policymakers don't seem all that bothered by the potential long-term implications of all this money printing. As Congress debates another trillion-dollar stimulus bill, the Federal Reserve has continued to inject cash into the economy by buying bonds in the open market. There's little evidence to suggest that monetary or fiscal policy will reverse course any time soon, and the current cocktail of conditions does make inflation more likely. At the very least, we could see a weaker US dollar, particularly against hard assets like Gold or Real Estate.

It can be easy to forget the things that haven't been around in a while, but it could be a good time to begin adding inflation hedges into portfolios. We think this is something to take into consideration, but your Baird Financial Advisor can help you determine what is right for your own portfolio and plan. Stay focused, stay healthy, and keep the questions coming. We'll see you again next week.

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