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WEEKLY UPDATE
March 14, 2022

MARKET COMMENTARY

Earlier this month, Elga Bartsch, Head of Macroeconomic Research at BlackRock Investment Institute, and Michael Crook, Chief Investment Officer at Mill Creek Capital Advisors joined us for a Livestream to discuss their outlook on inflation. During the conversation, we spent some time discussing the driving forces of inflation. ***Is it supply constraints, excess demand, or both?***

BlackRock strongly emphasizes supply constraints as the key driver of inflation. Elga unpacked this view for us: "We are in a new macro market regime where inflation is shaped more by supply constraints than demand constraints. This is due to limits on supply that are behind the surge in inflation which is likely to stay even at a less extreme way moving forward. During the pandemic, the lockdown measures created worries that ultimately created several supply and demand imbalances that are down to various bottlenecks on the supply side."

Elga said that the supply side was unable to keep up with the shifts that we have seen in the composition of consumer spending—notably a move away from services and toward goods. BlackRock believes that factors driving supply shifts over the coming years include the global drive to net-zero carbon emissions, the fragmentation of global supply chains, and the aging workforce.
According to BlackRock, these factors will likely reinforce the supply shifts and determine central bank behavior and how we look at what the economic ramifications are, what the central bank policy implications are, and as a result, what the investment recommendations that emerge on the back of this will be.

But is it all about supply constraints?

Michael introduced the other side of the equation: demand. The consumer appetite for spending is insatiable, and supply chains have limits. Durable goods consumption – items people buy to take home and use –is 25% higher than in January 2020. The aggregate weekly payrolls—which measures how much income households take home each week—drive nominal spending capacity. Right now, it's running at about 10% on a year-over-year basis.

"Our economy can't grow that fast in real terms," Michael pointed out. "If spending capacity is going up 10%, we could grow at 5%, but we'll have to experience inflation at 5%. We must see spending come down before we can gain confidence around inflation easing."

To this end, we've observed that most companies have maintained margins by passing down cost increases to consumers with relative ease. According to a recent Wall Street Journal article, some firms are even moving to quarterly pay reviews instead of annual pay reviews, reflecting the unsteady price and inflation environment we face today.

You can watch the Livestream, *A Conversation on Inflation* here.

QUICK LINKS

- Normalization Ahead for Earnings
- March Market Update
- "If you hear missiles flying..."
- The "Hurry Up" is over

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