



TFA

Monthly Newsletter

May 2021

IN THE NEWS

Inflation...Straight Ahead

By Kristi Jackson

Inflation fears have been stoked over the past several months – and for good reason. We are returning to a sense of normalcy, the number of fully vaccinated individuals continues to rise, and as restrictions on mobility are increasingly eased, we are all getting out and enjoying life once again. In addition to getting vaccine shots into the arms of citizens, the government has provided a shot in the arm to the economy in the form of fiscal stimulus – as a boost to aggregate demand that might result in inflation.

The Biden Administration's most recent legislative package is the third stimulus bill passed since the Coronavirus outbreak: \$2 trillion CARES Act in April 2020, \$900 billion passed by Congress in December and now the \$1.9 trillion plan passed in March. At least \$4.8 trillion in total fiscal stimulus – this will most certainly spur economic activity nationwide (as it was intended to) and help the economy recover from the most spectacular recession of our lifetimes.

Just how much is \$4.8 trillion?

- 109% of the entire US budget outlay in pre-pandemic 2019 of \$4.4 trillion
- Seven times the 2019 total defense budget
- Over twice the amount spent annually on Social Security, Medicare and Medicaid - combined

Some argue this is too much stimulus funding. Between the fourth quarter of 2019 and the second quarter of 2020, GDP fell by over \$2.2 trillion due to the government-imposed shutdown. The government had to step in to correct this slide – but the approved stimulus funding is more than double this decline. With a multiplier effect, this amount of new spending is likely to push prices higher. The theory of multipliers rests on the belief that government spending encourages additional private spending which further stimulates the economy.

So far, we have not seen inflation spike given that nearly 1/3 of the stimulus payments directly paid to individuals has been saved and is not finding its way yet into the economy. But we think it's com-
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Tribes Deliver Big Economic Lift to Oklahoma Communities
4/5/21 – oklahoman.com

Tribal 'Family Businesses' Now Led by Their Own
4/12/21 – theday.com

New Casinos, More Slots Coming to Arizona as Gov. Doug Ducey Signs Deal with Tribes
4/15/21 – azcentral.com

Dawn of Legal Sports Betting in Washington State in Deal with Tulalip Tribe
4/16/21 – kuow.org

Florida Senate President Hints at Special Session for Seminole Gambling Agreement
4/17/21 – wmfe.org

Ledyard Wins a Marathon Court Case that Began with its Effort to Impose Property Taxes on the Mashantucket Pequot Tribe's Casino Slot Machines
4/21/21 – courant.com

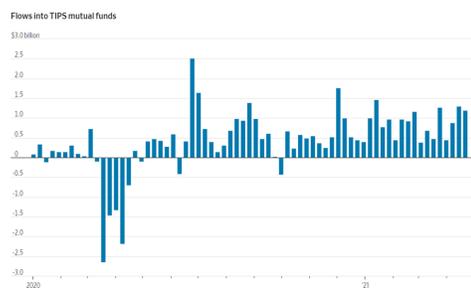
Interior Department Takes Steps to Restore Tribal Homelands, Empower Tribal Governments to Better Manage Indian Lands
4/27/21 – indianz.com

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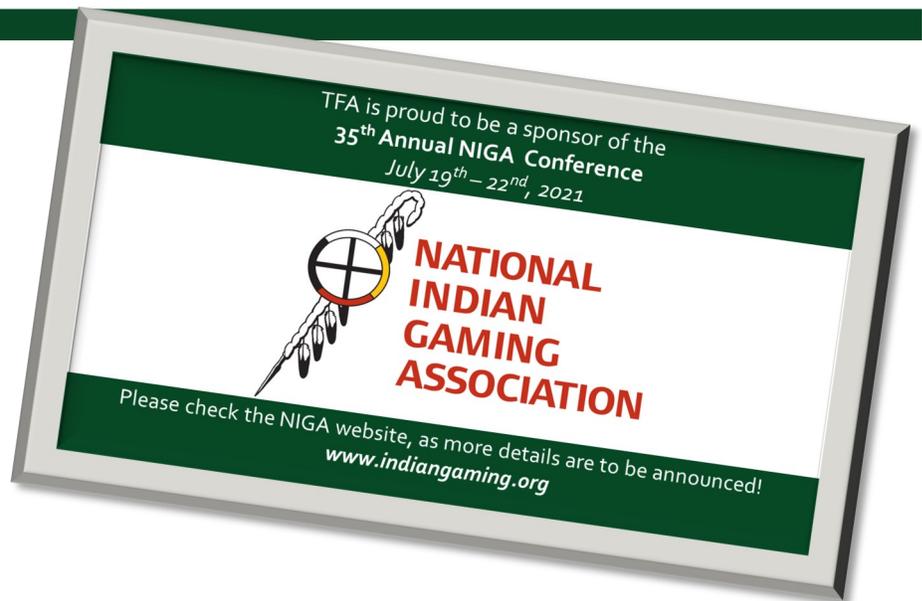
ing.

Expectation for broad-based price increases across most sectors of the economy have an easy comparison given the depressed levels of good and services in 2020. Higher prices are expected mostly in the services sector (which were shutting down last year) as well as in gasoline and rents. In March, the CPI rose 0.6% from the previous month but 2.6% from the same period a year ago. The year-over-year gain is the highest since August 2018. Fed officials see GDP growth this year of approximately 6.5%, a rate which is the highest rate of increase over the past 30 years.

A measure of investors' inflation expectation is the demand for Treasury inflation-protected securities ("TIPS"). TIPS are bonds indexed to inflation to protect investors from a decline in the purchasing power of their money and are often used by bond fund managers as a hedge. According to the Wall Street Journal, for the week ended April 21, investors put a net \$1.2 billion into mutual funds that buy TIPS, which was the 29th consecutive week of inflows into such funds, the longest such streak since 2010. Investors are expecting inflation.



Source: EPFR, The Wall Street Journal



To summarize: (1) the recession was short and pandemic-induced, (2) the vaccine roll-out has thus far been successful, (3) there is stimulus money on the sidelines and likely to be spent some time soon, and (4) institutional investors and Fed officials alike are uniform in their overall expectation of higher prices. These factors imply we should see inflation. When we do, does it matter?

Yes – particularly if it is unexpected and sustained. If the prices for goods and services go up more than incomes/wages, there is a loss of real purchasing power. For anyone or organization on a fixed budget – this will affect the ability to manage expenses. Tribes working off less flexible annual budget expectations may quickly find expenses outpacing a preset annual income level.

On the investments side – diversification strategies across asset classes can be used to hedge against inflation risk. Fixed-income holdings may be negatively af-

ected by inflation as bond prices decline when interest rates rise. As Morningstar appropriately notes “by staying on the shorter end of the maturity spectrum, investors guard against the inflation risk inherent in long-term bonds, particularly now that interest rates are at a historical low.”

The Fed’s long-term 2% inflation target – which allows inflation to run above 2% for periods of time but managing to an eventual 2% target – should help in the longer run. Given the extraordinary circumstances from which we are emerging, we remain cautious on inflation and advise a flexible strategy that plans for a higher expense structure and outlook. Give us a call - we are always available to discuss these issues and how they may relate to your Tribe and planning.

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