

The Skyline Group

7175 N Pima Canyon Drive
Tucson, AZ, 85718

direct +520 878 2007
toll free +800 877 8417
fax +520 519 2358

advisor.morganstanley.com/the-skyline-group

James P Dretler

Senior Portfolio Management Director
Senior Vice President
Financial Advisor
NMLS #1279614

direct +520 878 2001

David Hum, CFP®

Portfolio Management Director
Vice President
Financial Advisor
NMLS #1262203

direct +520 878 2002

Christopher Graves, CFP®

Portfolio Management Director
Vice President
Financial Advisor
NMLS #1265113

direct +520 878 2003

Hugo Frausto

Senior Portfolio Manager
Financial Advisor
NMLS #1923254

direct +520 745 7074

Anne Emmerich

Senior Registered Associate

direct +520 878 2007

May 1, 2024

Inflation and Growth

How much inflation is too much?

In our last letter we mentioned that former Fed Chair Alan Greenspan (1987-2006) thought that the Fed's goal of stability justified an inflation target of Zero percent.

He said that he thought the goal of Fed policy was to make the inflation rate of no consequence in investor's planning decisions, that is, to eliminate the higher anticipated future cost calculation that could result in an ever-increasing higher cost estimation that could create the wage--price spiral. The possibility of this was, in his opinion, so destructive, that he justified ignoring the then current view that technology and the growth of the labor force would offset moderate inflationary forces. ¹

He further justified this view through his real--life experience. His immediate predecessor as Federal Reserve Chair, Paul Volcker (1979-1987), took seven years and two recessions to reduce inflation from 11.3% to 3.6%. This was a scenario Mr. Greenspan didn't want to repeat. ²

Under Mr. Greenspan's direction, inflation went from 3.6% in 1987 to 3.2% in 2006, although later, under Chair Bernanke, with the help of the 2008 financial crisis it went to a negative, -1.4 % in 2009. ²

Although I don't think Chair Powell or anyone else wants to create a recession or crisis to solve the excesses of the current inflation, there also doesn't seem to be any need to stimulate the economy by lowering interest rates at this time.

I think that Mr. Powell's current actions show that with his 2% inflation target, he is less aggressive or fearful than Mr. Greenspan, but well aware that he has more work to do in unwinding the excesses caused by the low

interest rates created to fight the crises of the Pandemic as well as the 2008 financial unpleasantness.

Enabling businesses to cope more easily with change is not in the official mandate of the Federal Reserve. Price stability is.

It is, however, also in their interest to monitor the many nuances within the economy to determine if current conditions are going to contribute to a situation where their actions might be required.

What is perhaps even more difficult is the Fed's mission to convince a skeptical or even cynical public that the Fed can accomplish the task of preventing the ever-higher prices that businesses and individuals will build into their future plans and thereby create the very inflation spiral that they fear.

Although Powell's job is difficult, like former Chair Greenspan, his steadfast willingness to delay stimulative interest rate cuts may take a long time to work.

If so, I think that the business community, and with it the economy, as well as the stock market will react positively.

It is up to us, to take advantage of this.

Sincerely,



James P Dretler
Senior Portfolio Management Director
Senior Vice President
Financial Advisor

1. Robert H. Rasche and Daniel L. Thornton, 'Greenspan's Unconventional View of the Long-Run Inflation/Output Trade-off', Economic Synopses, Federal reserve Bank of St. Louis, 2006, Number 1, <https://research.stlouisfed.org/publications>

2 Historical Inflation Rates: 1914-2024, C I US Inflation Calculator, <https://www.usinflationcalculator.com/inflation/historical/inflation/rates>

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided, nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

Investing in commodities, futures and options on futures contracts entails significant risks. Prices of futures and options on futures contracts may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in the underlying assets or commodities and related contracts, (vi) pestilence, technological change and weather and (vii) the price volatility of a commodity or asset. In addition, the futures markets may be subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Please note that by clicking on the URLs or hyperlinks in the document you will leave a Morgan Stanley Smith Barney LLC website and enter another website created, operated and maintained by a different entity. Morgan Stanley Smith Barney LLC is not implying an affiliation, sponsorship, endorsement with/of the third party or that any monitoring is being done by Morgan Stanley of any information contained within the linked site; nor do we guarantee its accuracy or completeness. Morgan Stanley is not responsible for the information contained on the third-party web site or the use of or inability to use such site.

The securities/instruments discussed in this material may not be appropriate for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley Wealth Management recommends that investors independently evaluate specific investments and strategies and encourages investors to seek the advice of a financial advisor.

Equity securities may fluctuate in response to news on companies, industries, market conditions and the general economic environment.

Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice.

Investing in smaller companies involves greater risks than those associated with investing in more established companies, including significant stock price fluctuations and illiquidity.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Morgan Stanley and its Financial Advisors do not provide tax or legal advice. Individuals should seek advice based on their particular circumstances from an independent tax or legal advisor.

Morgan Stanley Smith Barney LLC is a registered Broker/Dealer, Member SIPC, and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services.

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index. Morgan Stanley Smith Barney LLC. Member SIPC.