

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Inflation Heal Thyself

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The US is experiencing the worst inflation in forty years and the US Federal Reserve just raised interest rates by a quarter percent. They currently expect to raise rates by another quarter percent six more times this year and five times in 2023. Back in 1979 when inflation approached 15% the Fed under Paul Volcker raised rates by 4% in one month to 15%. The belief was that low employment would not be solved until inflation was under control and the problem was primarily the result of previous monetary policy. Today the Fed's much more gradual approach essentially says inflation heal thyself. Why is this?

### Monetary Policy vs Fallout From Covid

We wrote about persisting supply chain disruptions resulting from China's [zero tolerance approach to Covid-19](#). There is a supply versus demand imbalance caused by people with money wanting to purchase products that are only available in restricted amounts, such as automobiles whose production has been limited by [computer chip shortages](#). The combination of less dangerous Covid strains and vaccinations has reduced the effects of the virus in the USA but so long as China persists in city-wide lockdowns every time a case emerges and until the US bring more [production back onshore](#), monetary policy adjustments will do little to fight the fallout from Covid and part of the fallout is the current level of inflation.

### Monetary Policy vs War in Ukraine and Sanctions on Russia

From the beginning of Putin's threats to invade Ukraine through the first incursions by Russian forces to the now-grinding conflict is has been apparent that the Fed will have to consider the Russian invasion and sanctions in their planning to raise interest rates in trying to [tame inflation](#) without dragging the US economy into a years-long recession. Russia produces 10% of the world's oil. If Russia's oil exports were to be blocked completely due to payment issues, oil would head back up in price and stay there making inflation even worse. The point is that raising interest rates to the degree that Paul Volcker did would not help the economic effects of sanctions on Russia or the war and would more likely work quickly to drive the US economy into a recession that would outlast the war in Ukraine.

### Easiest Path to a Soft Economic Landing

In an article about the Fed raising interest rates to fight inflation *The New York Times* speculates that the Fed is betting that [inflation will fix itself](#).

*The bank appears to be betting that inflation will solve itself. The Fed's preferred gauge of inflation is running at just over 6 percent, and the official forecasts expect it to fall closer to 4 percent by the end of this year. A good deal of that drop, though, comes not from higher interest rates, but from the expectation that supply chain problems will fade, even as the war in Ukraine and pandemic lockdowns*

*in China threaten to snarl trade.*

The Fed seems to be opting for the age-old approach taught to medical doctors to first do no harm. While a series of big rate increases would be impressive and satisfy some economists it would appear that the Fed thinks the major causes of inflation are beyond their control and will, eventually, heal themselves. That being the case we can expect to see a series of 0.25% rate increases extending into next year unless Putin takes his army and goes home and China changes its approach to dealing with Covid-19.

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