Investments In an Economy with a New Normal

By: www.ProfitableInvestingTips.com

Inflation is at a forty-year high while more Americans have jobs than ever before. The Covid crisis is receding in most parts of the world but China is shutting down whole cities over a few cases of Covid thus gumming up the global supply chain and reducing demand for commodities like oil. Russia is at war in Ukraine and sanctions imposed by the West are causing as much pain in Europe as in Russia. The Fed is raising interest rates which is the best way to slow the economy and reduce inflation. But this approach will do nothing to fix supply chain disruptions or get Putin to bring his troops back home to Russia. Fed Chair Powell says that the US economy may be experiencing a new normal. If that is the case what will that new economy look like and what should be your investments in an economy with a new normal?

Covid-19 Disruptions Cause a New Economic Normal

Bloomberg reported on a recent "Fed Listens" event held in Washington, D.C. Here is where Fed Chair Powell talked about a **new economic normal** emerging from the Covid pandemic. *Bloomberg* quotes the Fed Chair as saying they are seeing and dealing with an "exceptionally" wide range of disruptive economic circumstances as they continue efforts to **tame inflation** and maintain high employment numbers. The Federal Reserve uses monetary policy to fulfill its twin mandates of "maximum employment, stable prices, and moderate long-term interest rates" as decreed by the US Congress in 1977. This is the "**dual mandate**" of keeping inflation within a desired range and employment as high as possible. The Fed's tools are interest rates and its balance sheet. In the "new economic normal" it is more difficult than usual for the Federal Reserve to slow the economy without causing a prolonged recession. The price of oil and natural gas have been up because of Putin's war in Ukraine and sanctions by the US and EU on Russia.

Downward pressure of energy prices comes from Chinese shutdowns. High prices for wheat, corn, sunflower oil, strategic minerals, and more come from Russia's war as well as Ukraine has been unable to **produce, harvest, and export** as normal and Russia's exports are directly affected by sanctions within the international banking system. None of this can be fixed by reducing the Fed's balance sheet or raising interest rates.

Difficulty Finding and Retaining Workers in the New Economic Normal

For years if not decades people in low-paying jobs were told that if they wanted a raise or better working conditions, they would need to find them in another job. During Covid lockdowns it appears that many people thought about this advice and took it to heart. When society emerged from lockdowns low-wage jobs went unfilled and companies had to offer higher wages to attract workers. The high cost of workers is part of what is driving up prices across the board. Whenever the Fed fights inflation there is the risk of higher unemployment. Four decades ago the Fed successfully brought inflation down by raising rates as high as 20% but that caused seven years of higher unemployment. The Fed today is raising rates monthly in an attempt to thread the

needle, stem inflation and keep employment high. If the labor market we expect to see more job switching as workers leave companies unable to pay what they want for companies that can give them higher pay and benefits. The Fed says that their goal is to put the economy "back into balance" but for lower paid workers and those who will be laid off during a recession this does not feel like balance but rather personal disaster and they will look for other work.

How Do You Invest in This New Economic Normal?

In the near term there are few good options in the stock, bond, or crypto markets. For the long term, recessions and **bear markets are keys to future wealth**. The American economy is not going to collapse despite the disruptions caused by Covid, war, and inflation. The green revolution with sustainable energy production, electric vehicles, and all of the infrastructure that supports these new industries will offer profits far into the future. Successful long term investors are optimistic when others are scared (to paraphrase Warren Buffett). As the US dollar goes up with higher interest rates and recession looms, successful investors will go back to evaluation of **intrinsic stock value** for indications of the best investments going forward. More conservative investors will look at companies that have weathered previous storms and **raised their dividends** decade after decade.

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