

## COULD INFLATION BE 2021's SURPRISE?

Mortgage rates are below 3%, bank CDs pay less than 1%, and the 10-year US Treasury bond yields less than the dividend yield on the S&P 500. In 2020, the broad measure of inflation (the consumer price index-CPI) rose a mere 1.36%. Many experts seem to agree inflation is as sleepy as Rip Van Winkle. Federal Reserve chairman Jerome Powell, in a February speech to the Economic Club of New York, said he doesn't expect "a large or sustained increase in inflation right now."

However, former Treasury Secretary Larry Summers noted within the same week that, "there is a chance that macroeconomic stimulus on a scale closer to World War II levels than normal recession levels will set off inflationary pressures of a kind we have not seen in a generation." Summers' concern is echoed by Jeremy Siegel, of Wharton Business School. Siegel recently wrote in the *Financial Times* that he believes inflation will run well above the Fed's 2% target and will do so for several years.

There has been a 25% increase in M2 (a measure of money supply) over the last year and we would argue that COVID restrictions have acted as de facto "price controls" during this period. The Biden administration has proposed a \$1.9 trillion stimulus package that will likely be approved by spring. This is in addition to the \$2.2 trillion

CARES Act passed in 2020 in response to the economic downturn brought on by COVID-19. To put this stimulus in perspective, US GDP in 2019 was about \$21 trillion. We are left wondering how exactly this deficit spending will be repaid.

We suspect there will be a spike in spending as the vaccine rollout continues throughout the year. Increased consumer demand coupled with a lag in returning production to full capacity could lead to too many dollars chasing too few goods, the classic recipe for inflation. We've seen signs of this already with a 2-3 month wait for home appliances and a computer chip shortage impacting cars, smart phones and PCs. The Wall Street Journal recently reported a shortage of shipping containers, which has resulted in a doubling of shipping rates year over year. Virtually all imported goods move by container, so expect to see price increases bubble through the system as producers pass along the higher cost.

Over the last decade, inflation has averaged a benign 1.7%. Should inflation creep up to more historical norms of 3%, it will feel significantly higher by comparison. We think inflation is an overlooked risk by many investors. With junk bond yields below 4% in February, any investors reaching for yield may find themselves in a troublesome predicament should inflation indeed turn out to be above the Fed's stated target of 2%.

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## SHOULD YOU BUY A TESLA?

Unlike your cousin Lee, you missed out on buying Tesla stock. Should you buy the car instead? I admit I've been intrigued with the idea of an electric vehicle (EV), so I decided to look into the economics of buying a Tesla.

*Consumer Reports* rates the 2021 Tesla Model 3 (their entry level model) number 6 of 15 in the "luxury compact car" category. It enjoys high marks in the road test and owner satisfaction areas, but a middling 3 out of 5 in the predicted reliability category. J.D. Power's 2021 dependability study assessed Tesla for the first time, with a below average ranking.

But let's face it, the appeal of a Tesla is mostly in the cool design and the fact it uses no gas, which makes paying a premium for a small sedan more appealing. Since EVs don't use gas, the industry has come up with a different metric, mpge, which stands for miles per gallon of gasoline equivalent.

Tesla has a mpge of 130, which is among the highest of EVs available in the US. An equally important consideration is the range. Tesla estimates the range of the base Model 3 at around 260 miles, the Model 3 Long Range (about \$9,000 more) extends it to 350 miles. However, Edmunds recently tested EVs and found Tesla models actually averaged about 10% less than the estimate. It is important to note that battery range is impacted by cold weather and the use of heat and AC within the car.

The other appeal of Tesla is that the car is essentially maintenance free. Tires are the only routine maintenance required. The battery has an 8 year/120,000 mile warranty.

### OTHER FAQ

**What about tax credits?** The popularity of Tesla means they no longer qualify for the \$7,500 federal tax credit<sup>1</sup>. Once an automaker sells over 200,000 EV units (cumulatively), they no longer are eligible for EV tax credits.

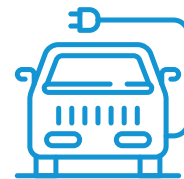
**What are the income limits to qualify for an EV tax credit?** If your gross income is over \$300,000 (married filing jointly or \$150,000 for single,) you will not qualify for the EV tax credit.

**How much does it cost to charge?** It costs about \$12 to fully charge a Tesla at a supercharger.

**How long does it take to charge?** It takes about 25 minutes at a supercharger, about 4 hours using a home charger.

Based on driving 15,000 miles per year, a Tesla (and other comparable EVs) would save you about \$1,000 / year in gas, plus expected maintenance costs. There are many considerations involved in the purchase of a car, and many are specific to the individual purchaser. However, from a financial perspective, it is hard to make the case that a Tesla will pay for itself in cost savings.

1. The EV tax credit can be up to \$7,500 depending on the make and model of car AND is also based on the purchaser's taxable income.



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# GET IN THE GAME—AN INTRODUCTION TO PICKLEBALL

I will admit that prior to actually playing pickleball about two years ago I thought it was an “old person’s game.” I’d briefly seen it played as I was passing through a community center a decade ago, so my opinion was rooted in a very small sample size—certainly no way to make an informed opinion. According to the USA Pickleball Association, pickleball is the fastest growing sport in the country, with a 650% increase in participants in the last six years.

The game is something of a cross between tennis and ping-pong, played on a court roughly 1/3 the size of a tennis court. It can be played either inside or outside. The game is played with a paddle that is roughly 50% larger than a ping-pong paddle and with a hard plastic wiffle-type ball. You can play singles, but most players opt for doubles. Games are played to 11 points and you only score points when your team is serving.

I now try to play 2–3 times per week, even during the winter. I’ve met new people and formed some great friendships through pickleball. And it is a great sport for families—I’ve even gotten my kids (ages 19–26) playing! They play with their friends and we often play as a family.

Here are just a few things I love about pickleball:

- It’s a fun way to get exercise. According to my fitness tracker, playing for 90 minutes equates to walking about 3 miles.
- It’s inexpensive to play. A paddle & balls are roughly \$50.
- It is easy to learn and it’s a very social sport.
- Men and women can play on roughly equal footing (as can young and old players).

If you want to learn more, contact your local Parks & Recreation department to find pickleball groups and places to play.

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A new year means lots of predictions about the markets. Over the last 16 years, I've tracked stock market predictions—with humorous and instructive results.

- Jeff Gundlach, CEO of Doubleline Capital, predicted stock returns wouldn't "come anywhere close to where they were in 2019 (S&P 500 up 9.8%)." Well...stocks managed an 18% return in 2020, almost double 2019's return.
- Yahoo Finance touted 3 *Great Mutual Funds for Your Retirement*. An equal weighted portfolio of those three funds returned 16%, short of the S&P 500's return.
- Byron Wien & Joe Zidle predicted "...certain FAANG stocks will underperform and the equal-weighted S&P 500 outperforms." The FAANG stocks equally weighted returned 56% and not one returned less than 30% versus the S&P 500 equal weight return of 11%.

A young girl with long dark hair, wearing a bright yellow raincoat, is holding a dark blue umbrella. Water is dripping from the edge of the umbrella onto her outstretched hand. She is looking down at the water with a gentle smile. The background is a soft-focus outdoor scene with greenery and a path.

—HENRY DAVID THOREAU

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