Politics, Inflation, The FED and Gold

August 25, 2024 - It isnâ€™t your imagination. The economy isnâ€™t good regardless of what anyone wants you to think. Just this past week, the Bureau of Labor Statistics had to revise the number of jobs created last year. They reduced their previous number by a staggering 818,000. Over the past three years, food prices are up by approximately 37% and continuing to rise. And fuel prices are up 41% over the same time period. Rental and housing prices have followed similar trends. In the 1970â€™s, this sort of thing - a less-than-optimal job market and increasing cost of living - was called stagflation and it took years... and a change in administration to get it under control. And the FED didnâ€™t get it under control by cutting interest rates quickly.

But something odd happened on Friday. Jerome Powell, the chairman of the Federal Reserve, made the grand announcement that it was time to start cutting interest rates. That inflation was coming under control and approaching the FEDâ€™s 2% target. Markets loved the news. All of the major markets saw large increases in stock prices. And that very same announcement should have triggered a sell-off in gold. Thatâ€™s because gold is an anti-inflationary asset.

Several years ago, the host of a show I watched was doing a segment on the economy and he gave one of the best examples Iâ€™ve seen of the power of gold to beat inflation. He pointed out that in the 1920â€™s you could walk into a tailor shop and have a suit custom made for you for a $20 gold piece. At that time, a $20 gold piece contained 1 oz of gold. He then went on to point out that today, you can do just about the same thing for that same 1 oz of gold. The value of the gold really hasnâ€™t changed. But the value of the dollar has become significantly less over that same period of time.

So when investors think that inflation is under control, typically they donâ€™t buy gold. They buy other investments and gold prices decrease. But on Friday, while the markets were going a little crazy because of Powellâ€™s announcement, gold prices also went up. And that shouldnâ€™t have happened if investors truly believed the Kool-Aid that Powell was trying to feed them.

Sadly, the move by Powell appears to be political in nature. The FED isnâ€™t supposed to act differently in an election year than it does in any other year. But it is. It appears to be making a move to trade stagflation for ever-higher inflation. Because right now, those appear to be the only two options that are available to it. And as long as that is the case, gold prices are likely to continue to rise, and inflation is likely to continue to make it harder and harder for Americans to make ends meet.
by Jim Malmberg
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