

## Timber! Could Inflation Fears be Calming Down?

Total reading time = 2 minutes



**Fears of higher inflation and interest rates have echoed through the capital markets for most of 2021.** Although Fed Chairman Powell and most of colleagues on the Federal Reserve Open Market Committee believe that recent inflationary pressures are “transitory,” the truth is that no one can be sure about the precise future path or trajectory of prices for goods and services.

### The inflation narrative reached a fever pitch in May.

Although prices for many commodities were ramping early this year, lumber prices got special attention from the financial media. The importance of lumber as a key input to residential housing construction, combined with a widespread shortage of single-family homes in many geographies, caused many observers to flag skyrocketing lumber futures as the harbinger of persistent price pressures in the broader economy.

**As the above chart indicates, near-term lumber futures prices peaked on May 7, before slumping by 47.6% through June 23.** Interestingly — and ironically — lumber’s peak coincided nicely with Barron’s Magazine cover story from May 14, which blared The I [Inflation] Word, with the sub-title “Inflation is heating up fast- and it could last longer than many think.” How to protect your portfolio.” These sorts of profound media forecasts are superficially calming or amplify anxiety, but mostly they just sell newspapers. In hindsight, Barron’s cover story appears to have **marked an inflection point in fears of accelerating inflation expectations.**

**Inflation is one of the many risks and opportunities that JAG monitors for our clients, but we do not allow media pundit narratives to drive our investment process.**

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