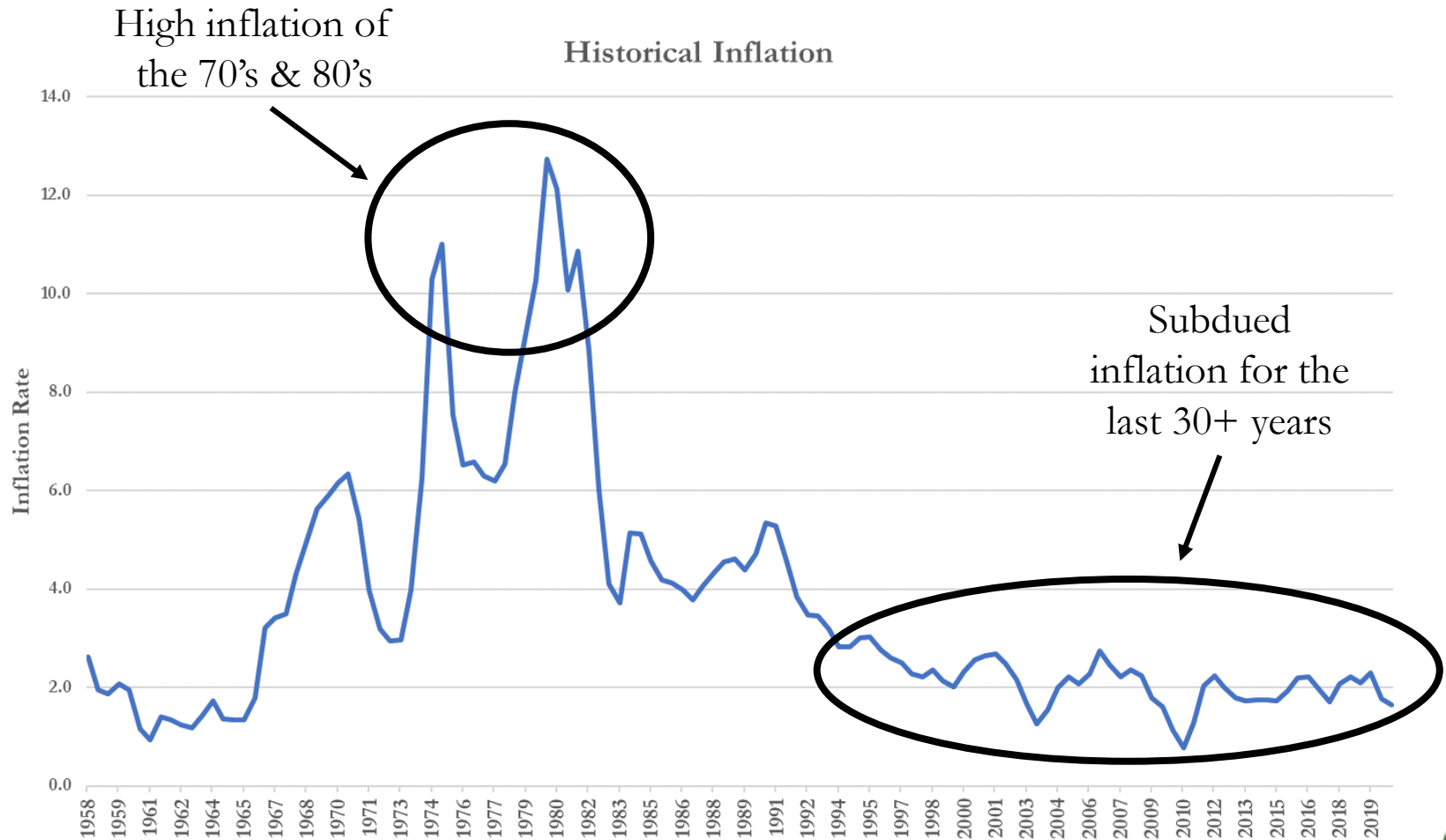


North Woods Asset Management

Market Insights – 3rd Quarter, 2021

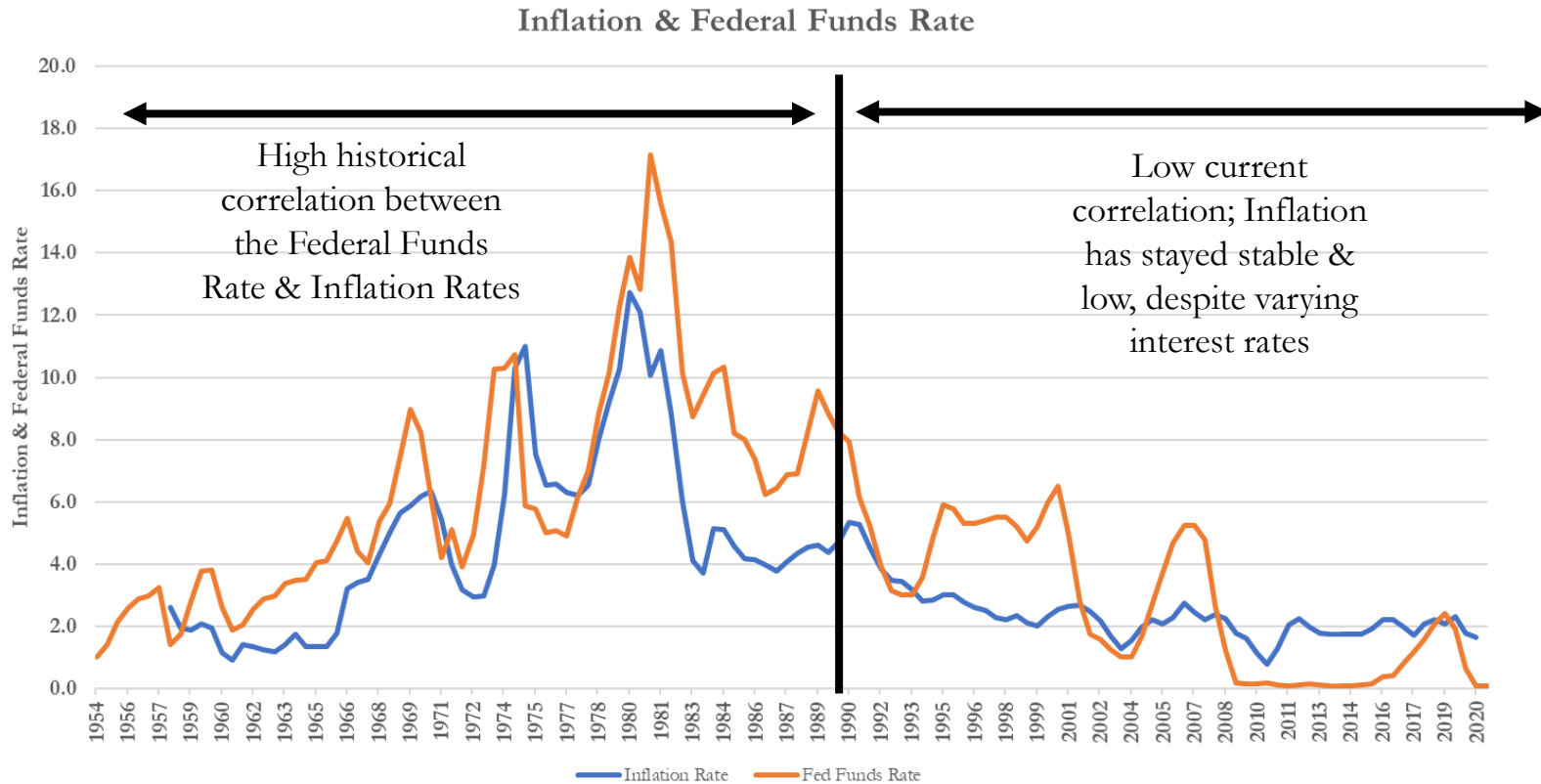


Where Has Inflation Been?



Source: St. Louis Federal Reserve

Effect of Monetary Stimulus

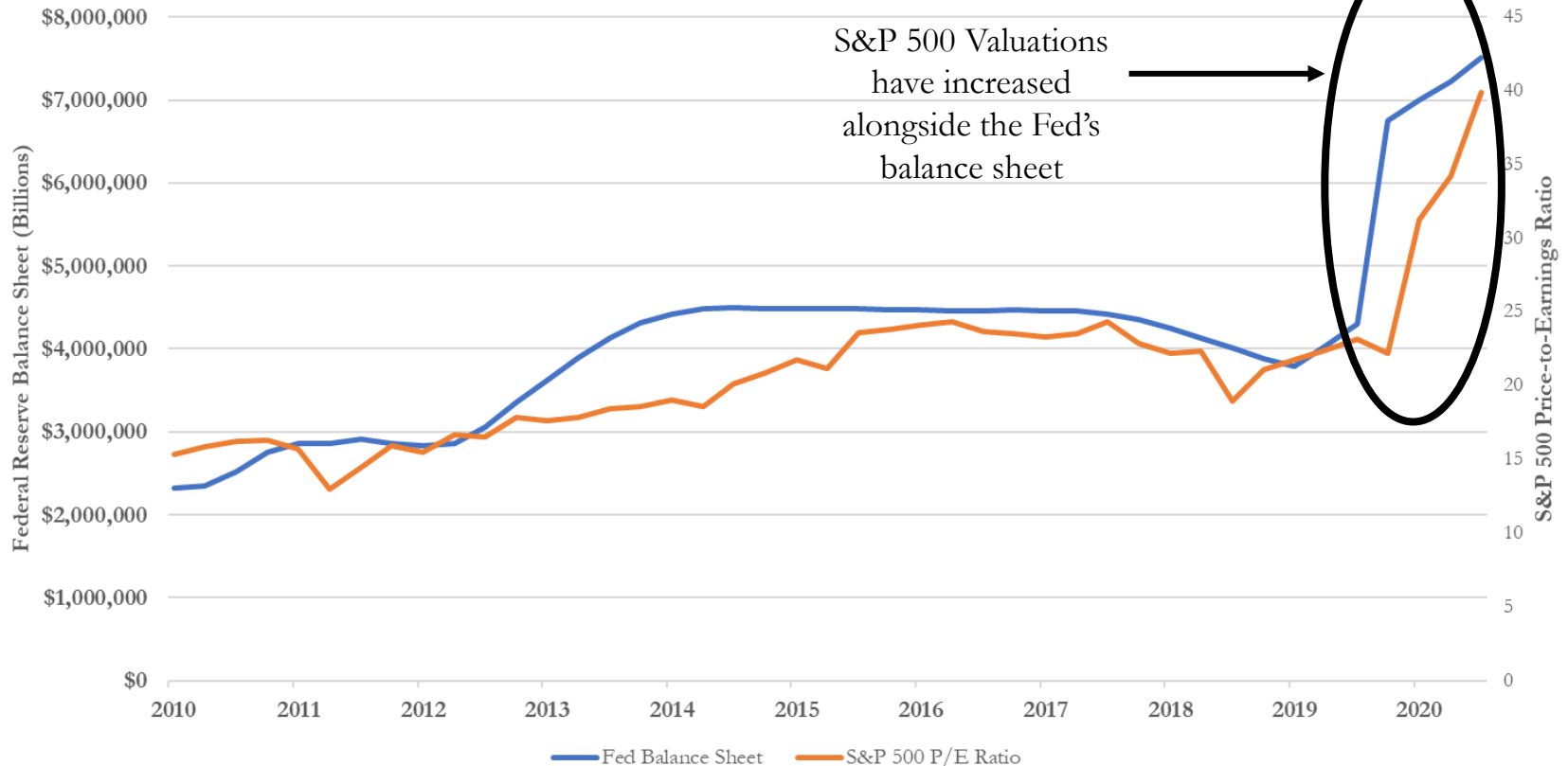


Adjusting the Federal Funds Rate is one of the primary monetary stimulus tools the Federal Reserve uses. Historically, this rate demonstrated a strong correlation to inflation rates, which confirmed many core economic theories. However, in recent times, inflation has stayed firmly around 2% regardless of the Fed Funds Rate, including a long stretch of 0% interest rates.

Source: St. Louis Federal Reserve

Where is the Money Going?

Federal Reserve Balance Sheet & S&P 500 Valuations

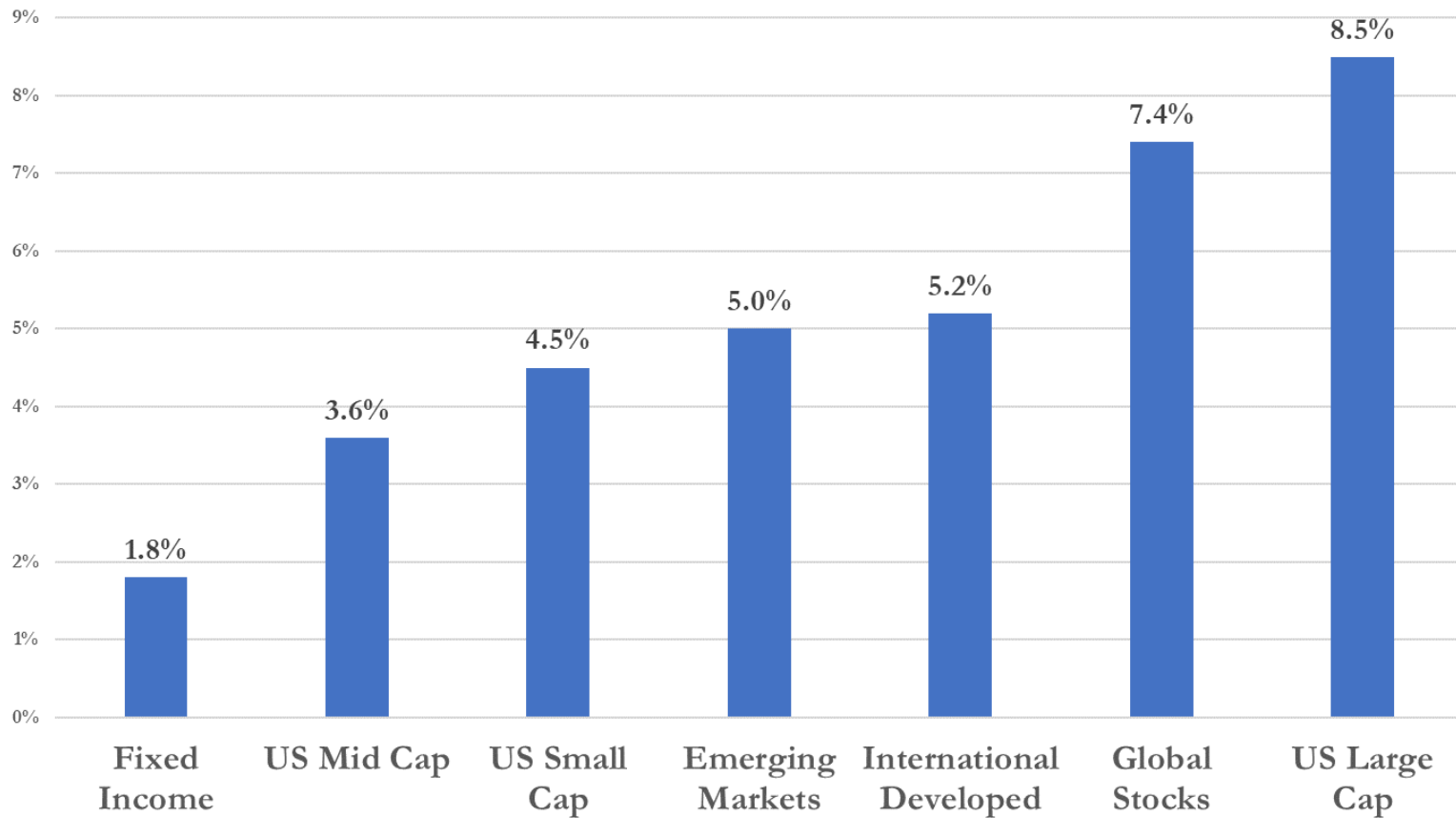


The other primary monetary stimulus tool used by the Federal Reserve is to purchase Treasuries and Mortgage-Backed Securities. The Blue Line shows how many of these securities the Fed holds on its balance sheet. These purchases are another form of money creation and in theory should increase inflation. However, it appears that a lot of that money has flowed into asset prices – as represented by higher equity valuations (Orange Line).

Source: St. Louis Federal Reserve; ycharts.com

Quarter Recap: Positive Returns Across Asset Classes

2nd Quarter Returns



Data Source: Morningstar Office