TRANSITORY

"Of brief duration" is one definition of ***transitory,*** and it is one the US Federal Reserve Board and the Biden administration are hanging their hats on in response to last week's huge up-spike in inflation. April's Core Consumer Price Index surged the most since 1982, and the annualized rate of inflation over the past year jumped to 4.2% from 2.6% in the prior month — the highest level since 2008.

Nevertheless, despite their reassurances, the reflex action of equity markets worldwide was a rush to the exits and major indices witnessed a couple of days of notable selling. Despite the three major U.S. stock averages and our TSX rising strongly over the last two days of the week, it wasn't enough to offset declines from earlier in the week.

For the record, the <u>weekly losses</u> were:

- S&P500 -1.4%
- Dow Jones -1.1%
- Nasdaq –2.3%, still unwinding the excess valuations of the ***work from home*** companies
- TSX -0.5%
- FTSE all world -1.6%
- Emerging Markets -3.0%

If it wasn't for the week ending rally the losses would all be a percent or two worse!! So the big question yet to be answered: is the spike in inflation transitory and will it ease as production gets back to normal and our Covid related pent-up demand eases? Or not? Noted hedge fund manager, Stan Druckenmiller, is amongst a number of high profile investors who believes inflation will remain elevated and go on for much longer than the FED and US Government would like. <u>He also warns that in the years ahead the US dollar will lose its reserve currency status</u>. Headlines that Russia slashes its US dollar and Euro reserves, in favor of Gold and the Chinese yuan, is already giving him some credence.

Monetary policy constraints mean the US Fed is limited in its action on interest rates, so if inflation continues I expect a lower US dollar, and if that prediction is correct, the Loonie rising to $0.91 vs. the greenback is possible <u>within the next few years.</u>