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Last Week's S&P 500 Index: +1.6%

## Supply-chain troubles and daily life

### Key takeaways

- Pandemic-induced supply-chain disruptions have decreased availability and increased the pricing of many materials, components, and manufactured goods.
- However, we believe these disruptions will ease over the next six to 12 months and inflationary pressures will be transitory.

Have you tried to get your malfunctioning garage door fixed lately? If new parts are needed, there may be a delay. How about that weekend fishing trip you have planned now that spring is in the air and the weather in many parts of the country is improving? Need lead weights or hooks for that excursion, but when you went to your favorite outdoor retailer you were surprised to find nothing in stock? Or consider the new deck you priced out last year but didn't get around to building? And you don't want to think about what that three-season room addition you have been contemplating for the last couple of years is going to cost now. Count on it being a lot more expensive as lumber prices have surged higher over the last six months along with other items used in the building process, such as copper wiring and roofing materials. You may also have recently tried to purchase a new vehicle that needed to be ordered to meet your specifications. Good luck with that as the semiconductor chips that represent the brains of the modern-day vehicle are in very short supply. So who knows when that vehicle will be delivered? Certainly the dealer doesn't.

Higher prices and less availability of many finished goods and materials or components used in the manufacturing process have a foundation built on the COVID pandemic. What has happened to cause these disruptions and higher prices really isn't all that complicated of a story. In short, many manufacturing plants and related supply operations were shut down for a period of weeks to a number of months as virus lockdowns crossed the globe and the world economy tumbled. But when the U.S. economy came roaring back much quicker and to a larger magnitude than many expected, there was simply not enough supply to meet the huge jump in demand. Combine that with the strategy of many end users to only hold "just in time" (a.k.a., minimal) inventories and the stage has been set for the current supply-chain chaos and higher prices. In addition, transportation costs for getting products and materials to market have risen with the increased demand.

The big question for investors is whether or not these supply-chain issues can be resolved and supply get to the point where it is more in sync with demand and price pressures subside. Our economists believe it will take from six to 12 months for supply to "catch up" with demand. In the meantime, living with higher prices for what most would consider basic goods and materials is something American consumers are going to have to get used to.

But we continue to side with the Federal Reserve and believe these price increases are transitory rather than a permanent fixture of the economy looking ahead. Few consumers would guess that supply-chain disruptions would so directly affect their daily lives but, for now, that is the case.

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