CHADD GARCIA ON RELEVANT RADIO – MORNING AIR SHOW

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John Morales: Yes. We're going to talk about money. Welcome back to Morning Air; I'm John Morales, along with Glenn Levens. Thanks so much for joining us on this Friday morning. Want to talk about financial issues. There's no doubt that our finances and the economy are on the minds of many Americans this morning as we head into the Memorial Day weekend. Inflation is up at a 40 year high with gas prices that hit another record high just yesterday. The annual inflation rate is 8.3% for the period ending in April, down from 8.5% the previous month. The question for many folks is, are we heading into a recession? What exactly is causing this level of inflation that's on the minds of so many people that's causing the American people a lot of anxiety. Joining us now for much more is Chadd Garcia, Vice President of Schwartz Investment Council Inc., the lead portfolio manager of the Ave Maria Focused Fund and the co-portfolio manager of Ave Maria Growth Fund. Good morning, Chadd. Thanks so much for joining us. Good to be with you once again.

Chadd Garcia: Good to be here. How are you doing this morning?

John Morales: Doing well. Chadd, what is your take? What do you think is causing this level of inflation, the worst in 40 years that we are seeing right now?

Chadd Garcia: Well, there's several factors that are causing this inflation. To start with, the COVID 19 pandemic was quite a shock to the economy. Particularly, because the government decided to shut down large portions of it and to combat worse economic effects of it, there were two major actions from the government. One was from the Federal Reserve, which is in charge of the money supply. They greatly increased the money supply during the pandemic, which I think was needed at the time and helped us get through the pandemic with minimal economic effects. And then the second was the fiscal policy. The fiscal policy is when the government spends money and there were several rounds of stimulus packages that were passed and money that was spent and checks that were sent out. And arguably some of those were probably necessary at the time as well. The last $1.9 trillion in the American rescue plan that was passed was probably overkill. I mean, the economy had turned, and we were coming out of the pandemic on pretty solid footing with money in the bank, in several households. And that was probably overkill. So, the first culprit would be the strong fiscal and monetary stimulus packages that have went through. And then, you know, if you want to move that forward, the supply chains became stressed during the reopening, and they are still stressed. You're seeing that in fragile supply chains such as the infant formula and you're seeing it in some of our energy pipelines.

Chadd Garcia: You're seeing that in the electronics that go into automobiles. And automobile production is not at the rate where it should be. So that part will normalize. And then recently, Russia invaded the Ukraine. Russia is a large supplier of energy into Europe. It's a major supplier of heavy oil, which is used in diesel production. It's an exporter. It's the largest exporter of fertilizers. And so that had a major effect on energy and food inflation. I mean, furthermore, Ukraine is the breadbasket of Europe and Russia has been looting Ukraine wheat, taking it to Russia. They've also been blocking the ports. So, Ukraine wheat, corn and oils can't leave Ukraine and get on the market. So that's causing some energy and food inflation. And then finally, we've had several years of bad energy policy in the U.S. We've had pipelines that need to get built, that aren't, the pipelines would take oil from the wells to the refiners. We've had politicians that that believe we can flip a switch and go right to alternative energies and alternative energies, you know, could be great technologies and something that we'll be using more and more of. But this is a decades long process. It's not a flipping the switch process. In Europe, they've been shutting down their nuclear energy plants and they've been replacing that with Russian natural gas, which has tied them closer to Russia and made the sanctions even harder on Europe.

John Morales: Well, Chadd. Yeah, I mean, you just gave us a mouthful and it's a lot to think about. But the reality is, as we head into this Memorial Day weekend, people are especially feeling it every time they put gas in their car. I believe that we're up to an average of $4.60 a gallon and some people are paying seven, almost $8 a gallon in California, and in parts of New York. I mean, it's just unbelievable. So, the question is, what can be done about this inflation in what you just described?

Chadd Garcia: Well, the Federal Reserve is taking strong steps in reducing their money supply. So, the first step they take is they raise the interest rates by 50 basis points, which is one half of 1%, which is the biggest raise in two decades. And then the next thing that they'll do is they'll start reducing the amount of bonds that they've been holding on their balance sheet. So, when they wanted to increase liquidity, they purchased bonds from the markets, which put money into the markets. So, they're going to be rolling that off to the tune of about $100 billion per month. So that's going to reduce liquidity in the economy and start pushing down inflation. The next thing is just the natural effect of the inflation is demand destruction. As prices rise, consumers are going to pull back purchases. Unfortunately, when they do that, that's going to slow down the economy and which may lead to a recession. You know, long term, we get to the bad energy part of policy. Long term, we need to make smarter choices. You know, the Permian Basin, which is in West Texas, has an ample amount of oil, the Marcellus Basin in West Virginia and Pennsylvania, Ohio area has ample amount of natural gas, and we need to put pipelines in place to get the oil from the wells to the refineries. And then the Keystone pipeline is a pipeline that would move heavy crude from Canada to the U.S. And as I said earlier, heavy crude is what's used to manufacture diesel. You know, the alternative sources of heavy crude are Russia and Venezuela.

Chadd Garcia: So, we certainly need to be moving forward with the Keystone pipeline and then as a more temporary move, we can suspend the Jones Act. So, the Jones Act is an act that says that if a ship is going from a U.S. port to a U.S. port, it must be a U.S. flagged vessel. So, for example, if we have a boat coming from Japan to Long Beach, California, to deliver goods, if there's some goods that Hawaii needs, you know, instead of stopping at Hawaii on the way, that Hawaii to Long Beach leg is now U.S to U.S. Port. So, they can't do that. So instead, they would have to go to Long Beach and then send another ship back to Hawaii. What this does is it limits the supply of boats that can take oil from the New Orleans Gulf area to the refineries on the Eastern Seaboard. If we suspended the Jones Act, that would allow increase the supply of boats that can transport our oil to our refineries. And then longer term, I think Europe probably needs to start drilling in the North Sea to get their own oil and gas supplies and get away from Russia. The U.S. has an ample amount of natural gas. We can build some export terminals to supply natural gas to Europe. This will take about 2 to 3 years to build, and I think that plans are in place to start building those.

John Morales: Well, those are all really good observations. And I think the key is bad energy policies. I mean, especially when you consider just a few years ago our country was basically self-sufficient when it came to gas and energy. And, you know, we were paying a little over $2 a gallon and look where we are right now. So, it's maddening. So, the question on the mind of many people is, will we be in a recession in the coming months as we look forward?

Chadd Garcia: I don't know, but I would not doubt it. I try not to focus on what's going to happen in the macro markets. I focus on buying companies that are going to do well no matter what's going on in the macro market and paying a reasonable price for them. But it wouldn't surprise me if we see a recession. I don't think it'll be a long-lived recession, but we may see one. The question is, what will it look like? And, you know, there's a saying in finance that's often lampooned is that it's different this time. But I think it's always different because the situations in one recession are always different from another. So, if you look at what's going on right now, the consumers, both in the U.S. and in Europe have a massive amount of COVID related savings. Furthermore, we have a very mobile workforce. If Covid did anything it normalized working offsite. If you look at people that have been cooped up for two years from COVID, what do they want to do? They want to they want to travel. The gas prices are at the highest levels in U.S. in history, yet you're going to see a record amount of travel this weekend. You know, one of my portfolio companies is an online travel agency in Europe. They reported yesterday their bookings for April were up 50% over pre-COVID numbers and their record and their bookings for May were up 58% over pre-COVID numbers. So, while we may see a recession, there are going to be parts of the economy that may do quite well while other parts do badly.

John Morales: Well, Chadd, if our listeners want to learn more about all the great work that Ave Maria Focused Fund and the mutual funds are doing, where can they go?

Chadd Garcia: They can give us a call at 866-AVE-MARIA or visit us online at avemariafunds.com.

John Morales: Sounds fantastic. I really appreciate your perspective and thanks again for being with us this morning.

Chadd Garcia: Have a great day.

John Morales: Thanks so much. Chadd Garcia, vice president of Schwartz Investment Council Inc, the lead portfolio manager of the Ave Maria Focused Fund.

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