

# Timber eyed as a hedge against rising prices as inflation surges to 40-year highs



Getty Images

As US inflation surges to its fastest rate in 40 years, investors are turning their attention to other asset classes to protect their investments, and timber is beginning to emerge from the sidelines.

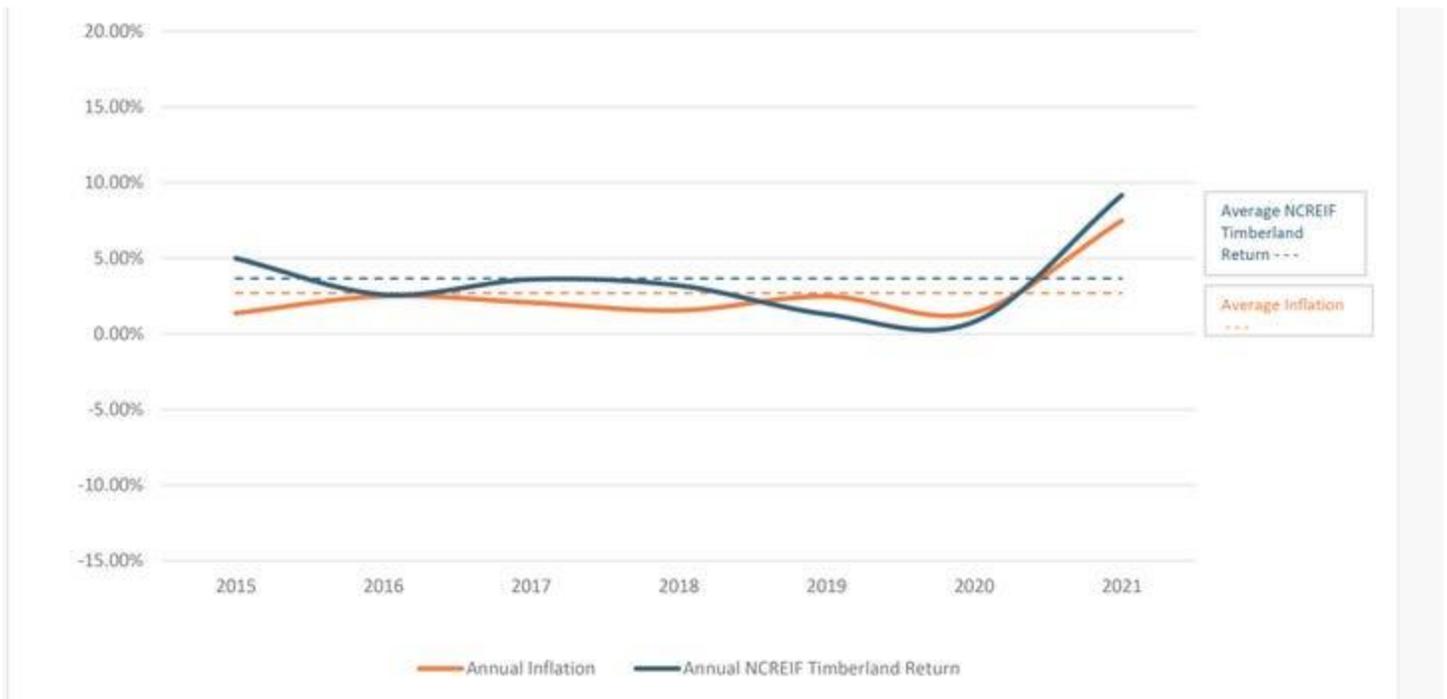
Timber prices have shot up in the past year as demand for lumber, cardboard, and other products soared amid the pandemic. Average prices throughout the South for pine sawtimber jumped 10% in the fourth quarter from a year ago, and prices for mixed hardwood sawtimber leapt 11.6%, according to data from TimberMart South.

Those rates outstrip consumer prices, which shot up 7.5% in January – the strongest growth since February 1982 — after accelerating from December's pace of 7.1%.

"Timber, historically, has been positively correlated with inflation fairly directly," Joe Sanderson of Domain Timber Advisors told Insider, adding that this makes it a good hedge against the rising prices of goods and services.

Sanderson is the managing director and CEO of Domain Timber Advisors, an Atlanta-based investment management firm that specializes in timber investing and has more than \$550 million of assets under management.

He also said the asset has proven its long-term ability to preserve capital by tracking inflation and has displayed far less volatility compared to other forms of investment. Timber's heaviest determinant is perhaps the biological growth of trees.



Timber Return vs Inflation Domain Timber Advisors, NCREIF, US FRED

The hot inflation print has fueled expectations that the Federal Reserve will hike interest rates more aggressively this year, starting with the next Federal Open Market Committee meeting on March 15 and 16.

As such, investors are now scrambling on where to shelter ahead of a hawkish central bank determined to rein in inflation.

Timberland could be one of them, Sanderson suggested, saying investors can benefit from positive cash flow and appreciation.

In fact, value investor Jeremy Grantham, co-founder and chief investment strategist at GMO, once called timber "a perfect investment," especially for long-term investors who are looking at a two-decade or more horizon.

"Timber is safer than stocks but not quite as safe as Treasury inflation-protected bonds," he told the New York Times in 2010. "And as long as the sun shines and the rain rains, trees grow."

And what happens when inflation isn't surging anymore?

There are still other reasons to invest in timberland, Sanderson said. One of those is from an environmental, social, and corporate governance standpoint.

"It's just great from an environmental standpoint because timber pulls carbon out of the atmosphere at very high rates and stores it," he told Insider, adding that it will help investors looking to meet carbon-neutrality goals.