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Market Perspective: Special Edition
Why We May Have Seen “Peak Inflation”
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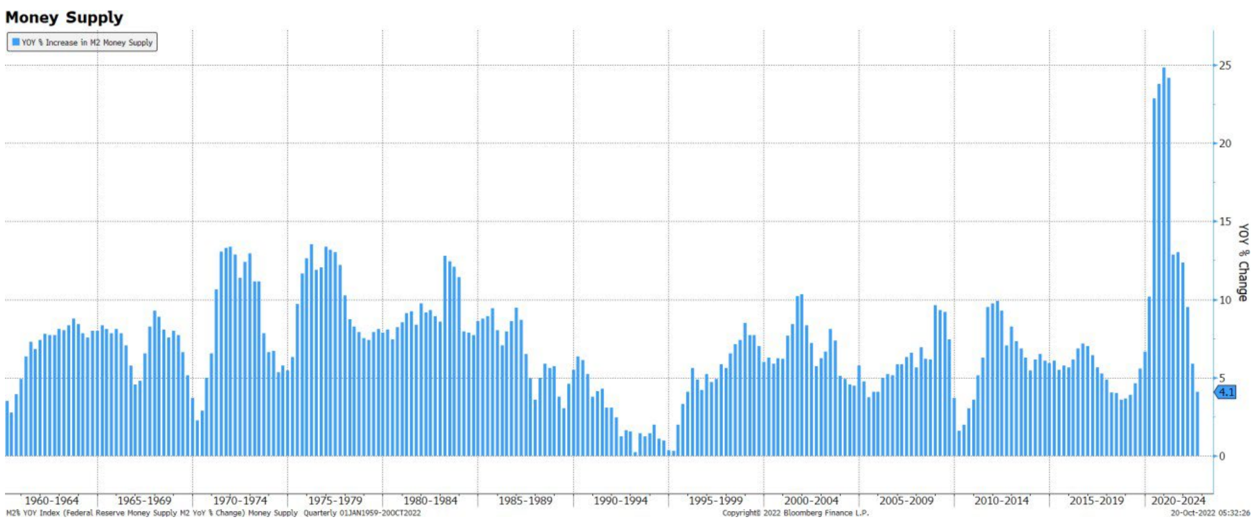
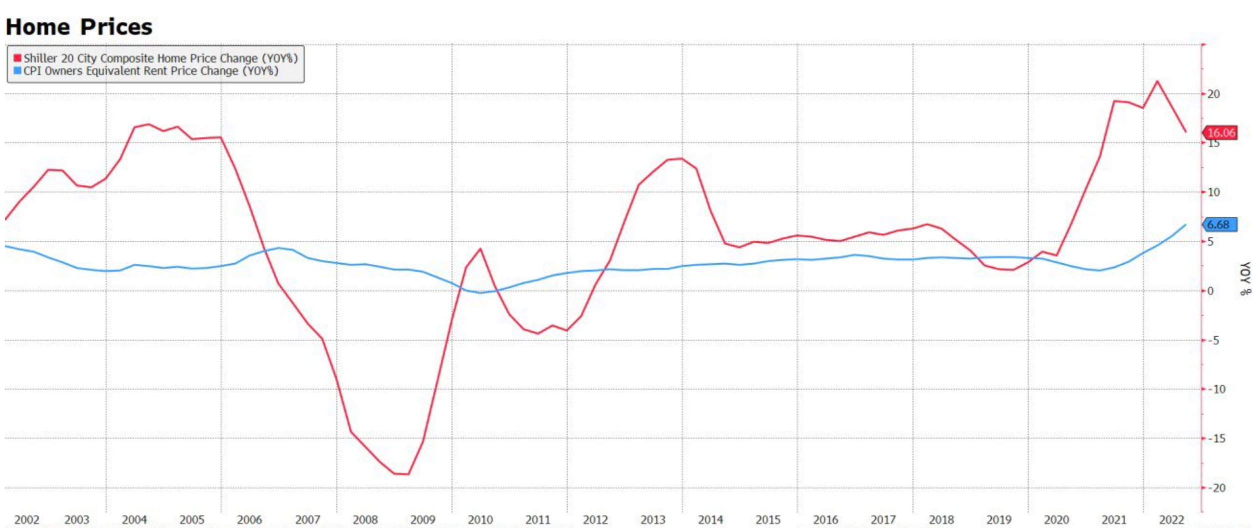
I’ve been thinking about the forces that have driven the markets this year. By far, the biggest driver has been the generational increase in inflation and the subsequent Fed policy moves. Understanding when this could moderate would seem to be an important component of portfolio strategy. Here are my thoughts on why we may have seen “Peak Inflation”.

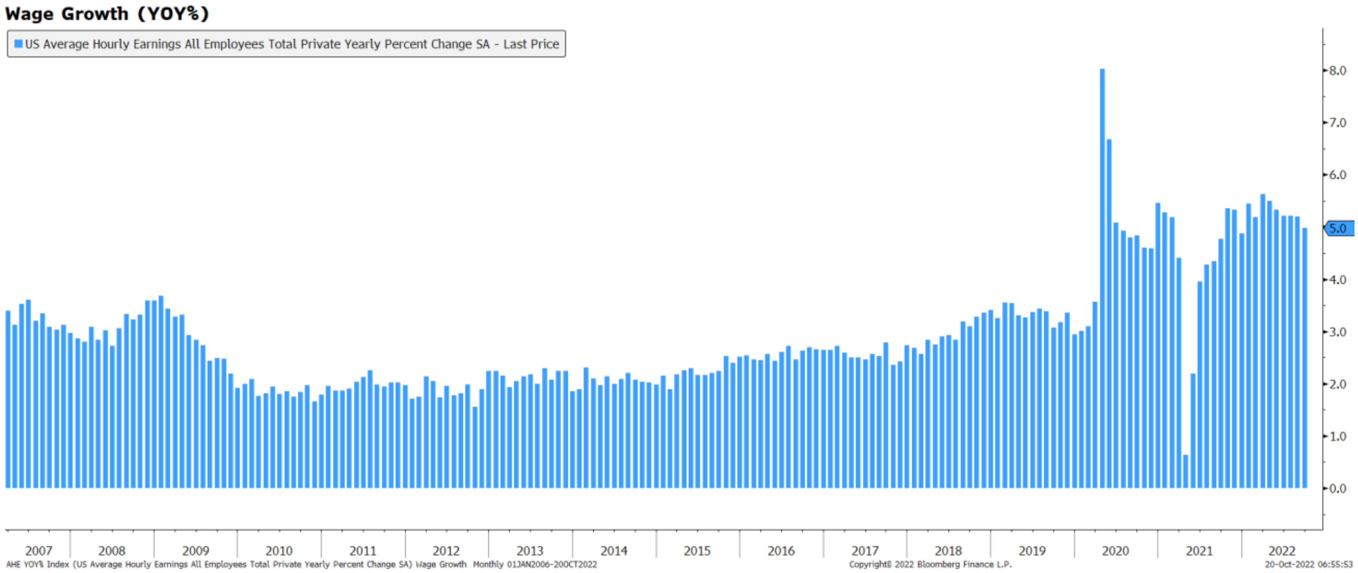
- Money Supply growth (largely regarded as a harbinger of inflation) has come back to earth.



- The biggest driver of CPI has been shelter costs – roughly one third of the index. This measure (Owners Equivalent Rent) greatly lags and smooths the prices of home sales. Housing price increases appear to have peaked. It’s only a matter of time before OER begins to decline.

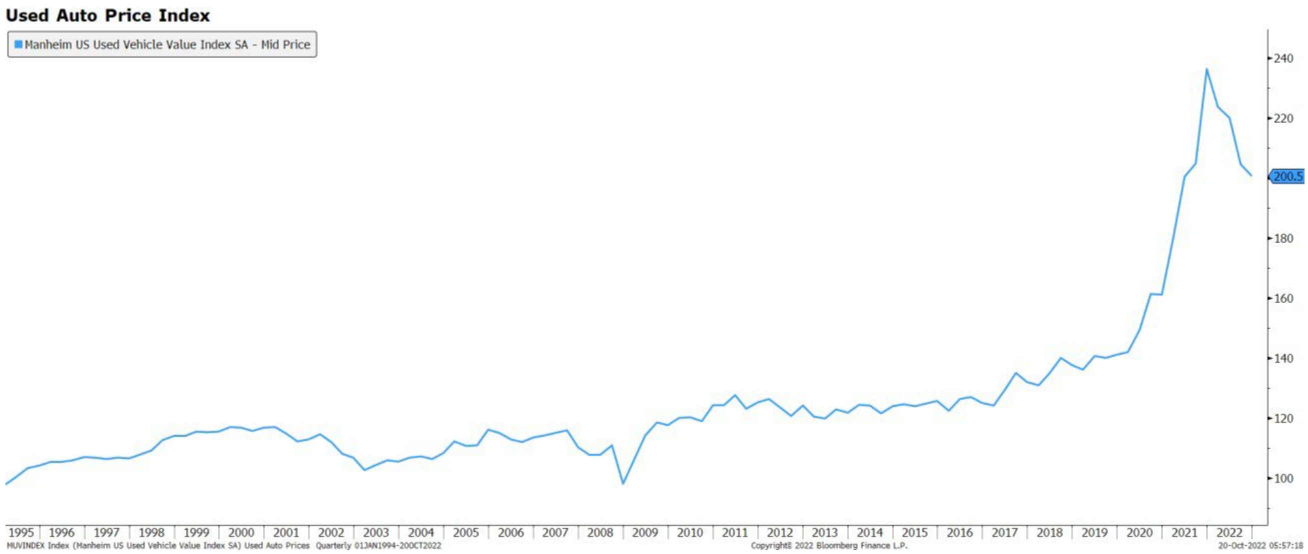


- The rapid wage growth that we saw during the pandemic appears to have moderated

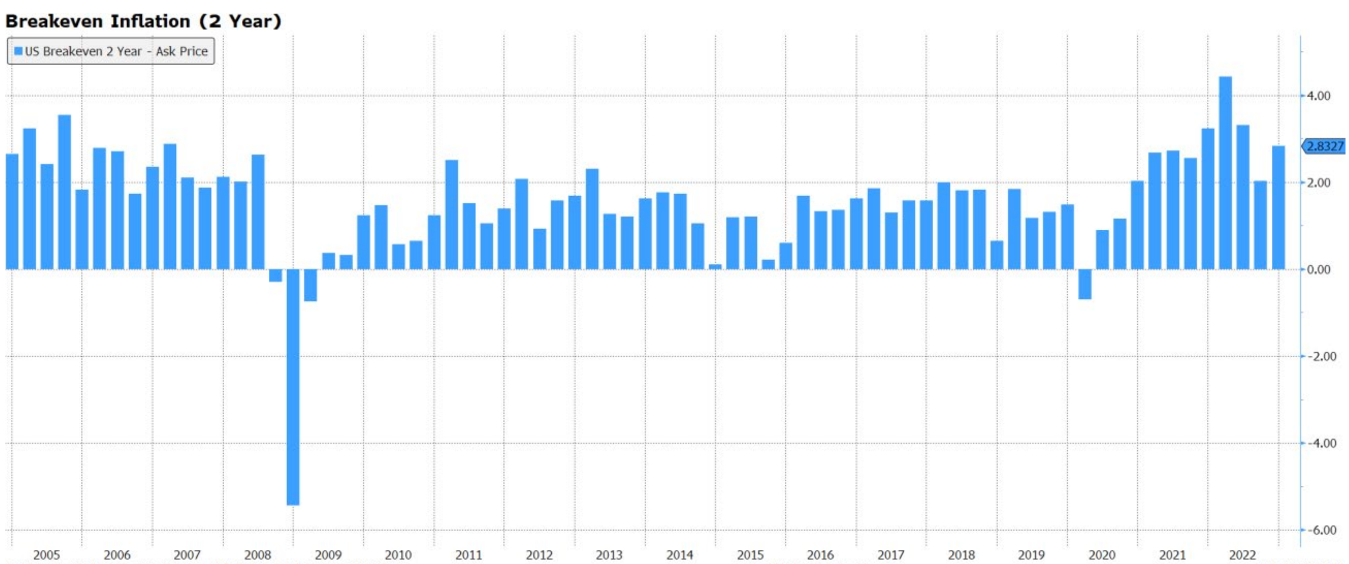


- The Producers Price Index, which is "upstream" of the Consumer Price Index, appears to have sharply rolled over (see Black line).

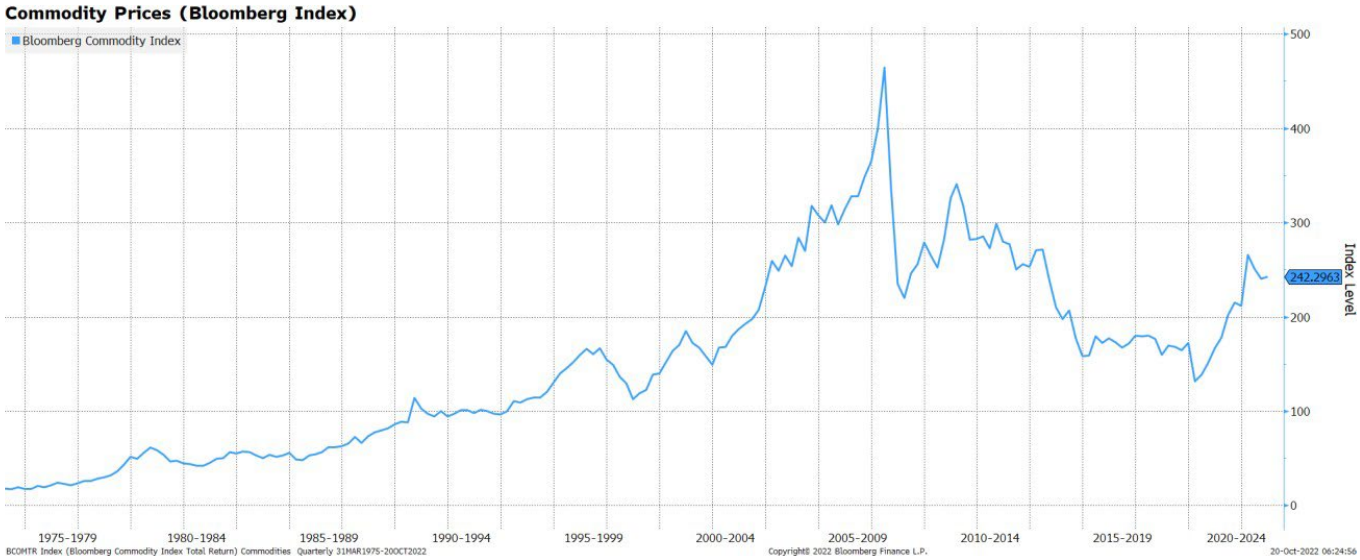
- Used auto prices are also weakening.



- The “Market” (which can always be wrong) is pegging inflation (CPI) at 2.8%.



- Commodity prices have shed their pandemic-infused escalation.



None of these observations are likely to affect the Fed’s near-term tightening. That will have to await a convincing move downward in the rate of inflation. Of course, capital markets anticipate future economic indicators. These indicators seem to suggest we are nearing a point when portfolios should be positioned to anticipate a moderating inflation and interest rate environment.

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