SEPTEMBER 2022

MARKET PERSPECTIVE

High Inflation? Still Here

By James M. Walden, CFA

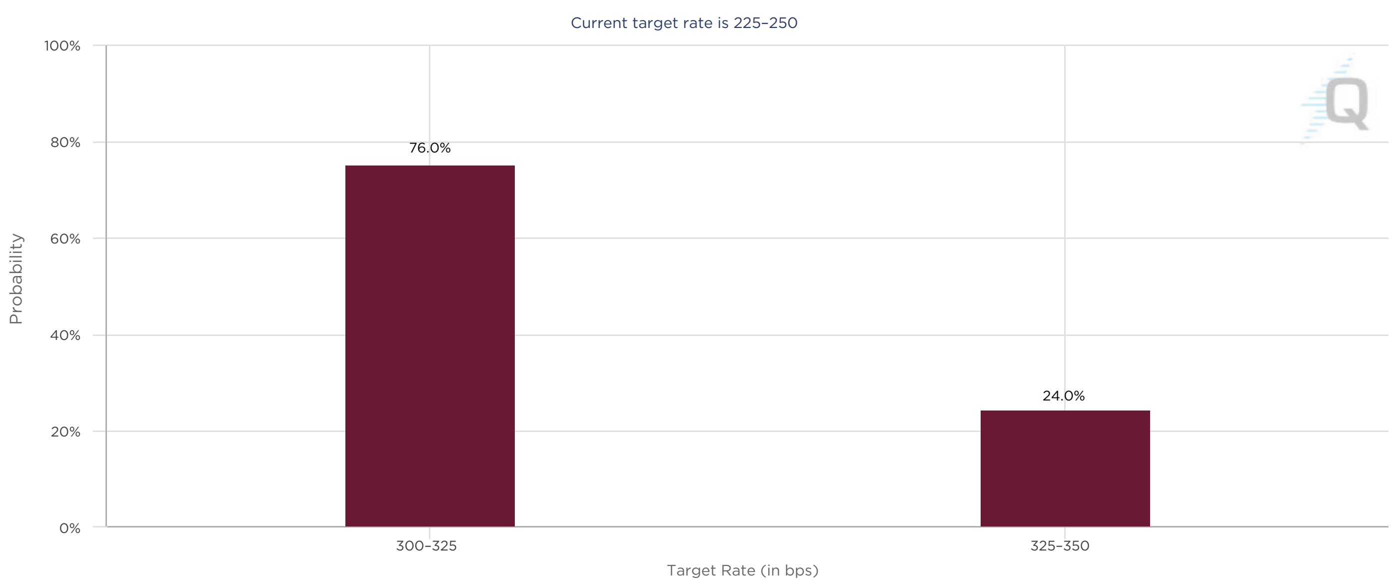
The Labor Department's recently released report on August inflation confirmed that it's still here and still high. Certain aspects are getting worse. That should put to rest any speculation that the Fed is ready to pause its anti-inflation tightening efforts. We think it's prudent to remain risk-off for now.

Consumer prices were up 8.3% in August compared to the same month a year ago. That's lower than the same year-over-year measures from the previous couple of months. We welcome that improvement. But increases from July 2022 to August 2022 for core prices (which strip out volatile food and energy categories) accelerated to 0.6%, up from 0.3% from June to July. And more individual items included in the data showed higher prices in August than July. This suggests that inflation is broadening.

DASHBOARD

- Business Cycle (red)
- Trend (red)
- Valuation (green)

TARGET RATE PROBABILITIES FOR 21 SEP 2022 FED MEETING



Source: CME FedWatch Tool, Clayton Wealth Partners.

TARGET RATE (BPS)	PROBABILITY (%)			
	NOW*	1 DAY 13 SEP 2022	1 WEEK 7 SEP 2022	1 MONTH 12 AUG 2022
275–300	0.0%	0.0%	23.0%	55.0%
300–325	76.0%	69.0%	77.0%	45.0%
325–350	24.0%	31.0%	0.0%	0.0%

*Data as of 14 Sep 2022 03:31:01 CT. Source: CME FedWatch Tool, Clayton Wealth Partners.

The August inflation report is one of the last economic reports the Fed sees before its meets next week. The Fed has made taming inflation Job #1, and they can't like what they just saw. This all but locks in another hefty rate hike next week. In fact, as of this writing, markets are anticipating another 0.75-point increase in the Fed's benchmark rate and a not-insignificant 1-in-4 chance of a full-point hike. A week ago, before the inflation report, markets still expected a 0.75-point hike, but a 1-in-4 chance of a smaller hike, with no chance whatsoever of a full-point increase.

Following these month-to-month trends is important, but it's more important not to lose track of the context around the intermediate-term business cycle trends. Here, the picture hasn't changed much. We still see warning signs flashing, including the inverted yield curve and rising mortgage rates. (As of this writing, the average rate on a 30-year fixed mortgage hit 6%, more than double from a year ago and the highest since 2008.)

As we continue to consider the weight of the evidence, we think it remains prudent to stay cautious.

Bullish

- Significant pent-up consumer demand
- Strong jobs environment
- Relatively healthy consumer finances
- Reasonable equity valuations

Bearish

- Slowing global economic growth
- High global inflation
- The Fed and other global central banks tightening
- Russia/Ukraine war and other geopolitical concerns
- Equities in a downtrend

JAMES WALDEN, CFA

Partner and Chief Investment Officer

As Partner & Chief Investment Officer, James Walden strives to maximize our clients' long-term, risk-adjusted portfolio returns. This includes determining strategic and tactical asset allocations, as well as specific investment analysis and prudent rebalancing. Jim is also a partner & management team member. His expertise includes advanced investment research and valuation, and he is passionate about his role in helping clients reach and exceed their financial goals.

CLAYTON WEALTH PARTNERS

716 S. Kansas Ave.
Topeka, KS 66603

832 Pennsylvania St., Suite 1005
Lawrence, KS 66044

785-232-3266 | claytonwealthpartners.com