MARKET PERSPECTIVE

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Inflation Reacceleration

By James M. Walden, CFA

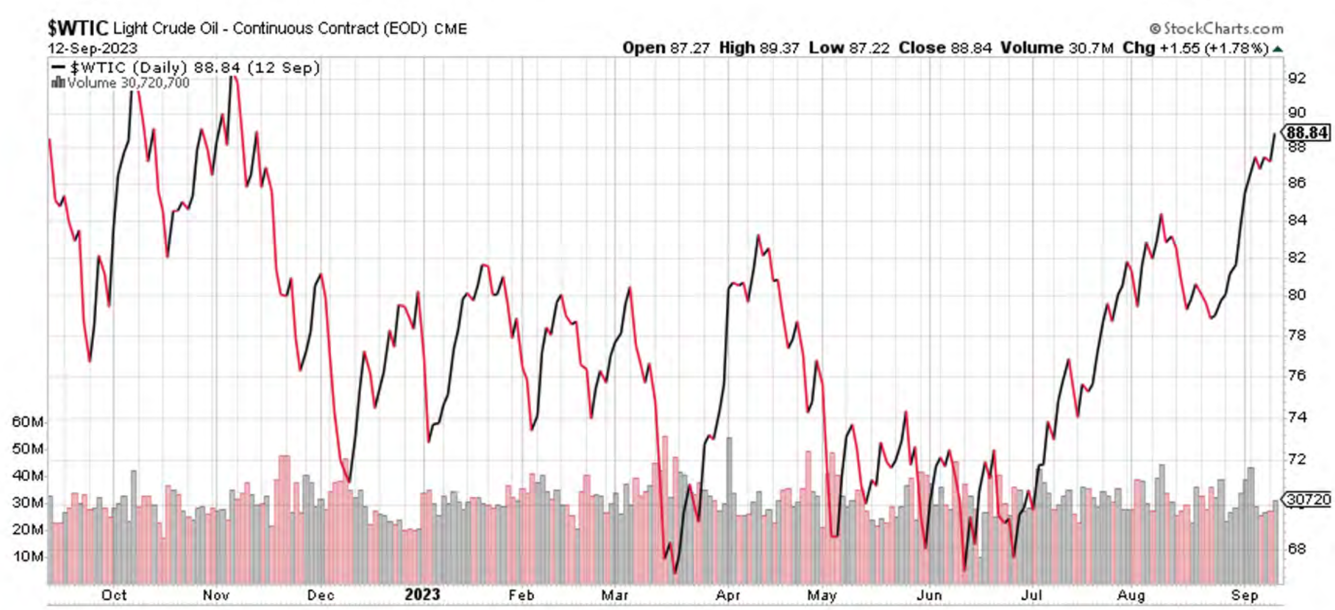
Inflation reaccelerated in August. According to the Consumer Price Index, month-over-month inflation in the U.S. jumped to 0.6%, the highest rate in more than a year. On an annual basis, prices were up 3.7%, compared to 3.2% in July.

Much of the increase came from higher energy prices. Oil currently sits at its highest level in 10 months (see the exhibit). A significant amount of the price increases comes from supply pressure, where Saudi Arabia extended earlier production cuts until the end of the year. Thankfully, further increases in oil prices should be mitigated by a slowing global economy.

DASHBOARD

- Business Cycle
- Valuation
- Trend

Exhibit: Price per Barrel of West Texas Intermediate Crude Oil



Source: StockCharts.com, Clayton Wealth Partners.

As of this writing, it appears unlikely that August's inflation readings are enough to induce the Fed to hike at its September meeting. Trends in core CPI (which is closer to the Fed's preferred inflation metric) showed improvement. The market is currently assigning a very high probability that it stays put in September. It's essentially a coin-toss if the Fed hikes once more in November or December.

But at the least, August's readings suggest that it remains too early for the Fed to declare victory in its fight to lower inflation. As we've written before, it appears that much of the easy work has been done.

Bullish

- The Fed is making progress toward reducing inflation
- Significant pent-up consumer demand
- The services sector of the U.S. has remained strong
- The most attractive yields for fixed income and cash in years
- Consumer and corporate balance generally remain healthy

Bearish

- Global inflation remains too high
- Global central banks tightening
- Slowing global economic growth with recession pressures mounting
- Deterioration in leading indicators of unemployment, such as a lower number of job openings and increasing layoffs and initial jobless claims
- Delinquency rates on consumer loans are rising
- Russia-Ukraine war and other geopolitical concerns
- China's post-Covid economic rebound has lost momentum, with deflation fears growing
- Federal debt and deficits have ballooned

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As Partner and 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 and 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.

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