June 13, 2022

Beacon Weekly Investment Insights

Inflation, as defined in the Webster's Dictionary is the persistent increase in the general level of prices, usually caused by the over-issue of currency. This would attribute inflation solely as a monetary event. The Oxford Dictionary however, simply defines inflation as the rate of increase in prices over a given time period. This definition stays clear of the monetary cause and basically just states the fact. The point here is regardless of the definition or cause, which we can debate, inflation means rising prices. As Friday's Consumer Price Index report revealed, prices in the US rose 8.6% on a year over year basis in May. This is the fastest pace of inflation since 1981, and as consumers, we agree that it is broad based.

Inflation for this period of time is simply not just a monetary phenomenon. Yes, the US Government provided plenty of pandemic related fiscal stimulus to keep the economy afloat, but we are all familiar with the other forces at play pushing prices higher. Energy prices are spiking due to the ongoing conflict between Russia and Ukraine. Domestically, the national average for a gallon of gasoline rose to $5.00, representing an increase of 49% for the year. Strained refining capacity in the US is partially adding to the cost, but primarily it is the rise in the price per barrel of oil.

Supply chain bottlenecks continue as China had shut down some key industrial and financial centers due to their very restrictive COVID policies. They have announced some re-openings of these regions, but that will come with a double edge. While it will over some time ease the supply shortages, it will in the short run pressure commodity prices with increased demand. Food prices, globally have been effected by pandemic related processing shutdowns, bird-flu outbreaks, weather, rising energy prices, especially diesel for transport, and of course the conflict in Ukraine.

The third largest contributor to overall inflation is rising rent and home prices over the past year. Home prices have risen in excess of 20% over the past year and rents have been escalating. Last week the median rent in Manhattan exceeded $4,000 per month, and the national average exceeds $2,000 per month. We are beginning to see evidence of a slowdown in housing as mortgage rates climb. Still, demand remains strong for housing, with supply low.

The Federal Reserve will be in the spotlight this week when the Open Market Committee meets to determine the next interest rate hike. They have already telegraphed a 0.50% raise to the Fed Funds target rate, which would bring the range to 1.25% - 1.50%. Given the stronger than expected CPI release, some speculate the Fed needs to be more aggressive and raise rates by at least 0.75%. We will see on Wednesday at 2:00 PM when their meeting concludes and the decision is published. Our expectations are that the increase is 0.50% and guidance for future meetings will remain for 0.50% increases to the range.

Our thinking as we have described in previous writings and other communications, is that inflation is likely to moderate over the course of the year. Not an immediate decline to the Fed's target of 2%, but as some of the non-monetary forces subside, the rate of inflation should moderate. The Fed will continue their cycle of raising interest rates at the Open Market Committee meetings throughout the year with a keen eye on economic data.

As stated above, the FOMC meeting is the key focus this week with the announcement coming Wednesday at 2:00 PM. Other economic data points that we will also monitor include the Producer Price Index release on Tuesday, a measure on wholesale pricing, consumer retail sales data on Wednesday, and housing starts/ building permits on Thursday.

Market Scorecard:	6/10/2022	YTD Price Change
Dow Jones Industrial Average	31,392.79	(13.61)%
S&P 500 Index	3,900.86	(18.16)%
NASDAQ Composite	11,340.02	(27.52)%
Russell 1000 Growth Index	2,248.07	(26.89)%
Russell 1000 Value Index	1,489.22	(10.06)%
Russell 2000 Small Cap Index	1,800.28	(16.13)%
MSCI EAFE Index	1,992.38	(19.82)%
US 10 Year Treasury Yield	3.15%	164 basis points
WTI Crude Oil	$120.45	60.15%
Gold $/Oz.	1,871.50	2.35%

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