

## Weekly Market Commentary April 18th, 2022

### At 8.5%, Have We Topped Out On Inflation?

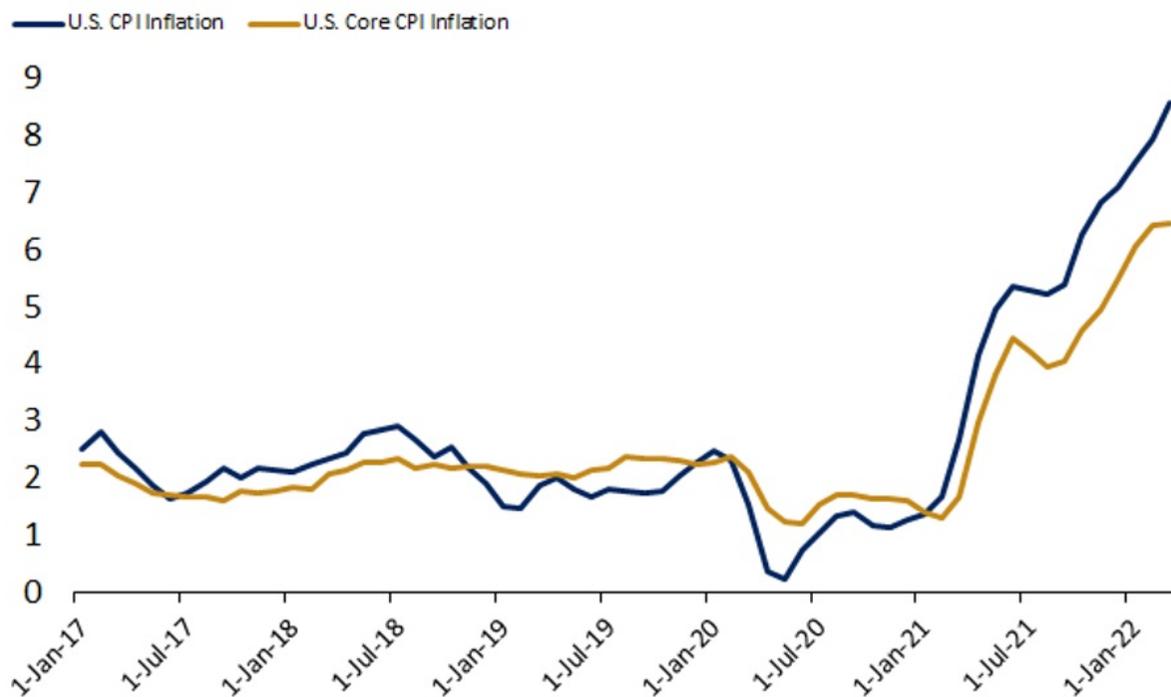
#### Headline inflation may be close to a peak

This week, investors digested two important inflation readings for the month of March – the U.S. consumer price index (CPI) and the producer price index (PPI). Both indicators remain at multidecade highs.

- The CPI figure came in at 8.5% year-over-year, in line with expectations and at a 40-year high, while core CPI (excluding food and energy), came in at 6.5%, slightly below forecasts of 6.6%.
- Meanwhile, PPI, which measures prices paid by domestic producers, came in at 11.2% year-over-year, the highest on record.

Figure 1. U.S. inflation comes in at multidecade highs

#### U.S. CPI and Core CPI Inflation (year-over-year %)

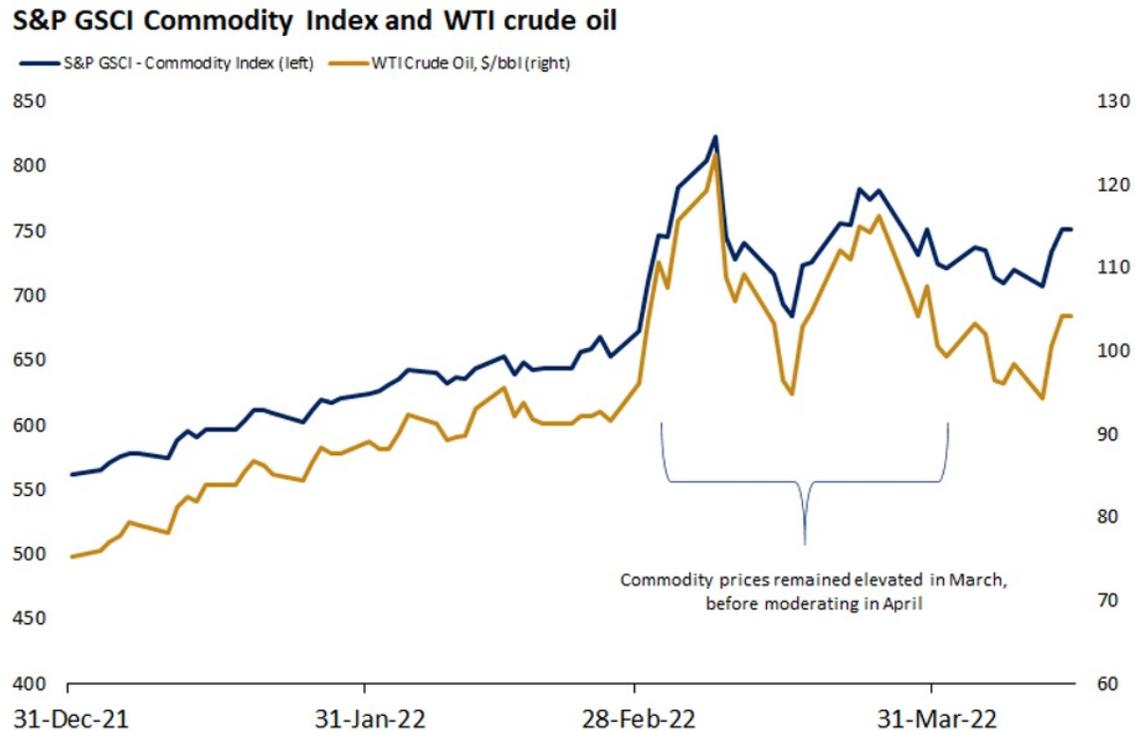


Source: FactSet

This chart shows the recent surge in inflation data that has been reported.

While headline inflation remains hot, you may be seeing early signals that it could peak in the weeks ahead. Most notably, the upward pressure on energy and commodity prices has shown some sign of abating, despite the ongoing crisis in Ukraine. For example, the average WTI crude oil price in March was \$108, while thus far in April the average price has been \$91. If this trend continues, you could see lower headline CPI inflation in the coming months.

Figure 2. Inflation could moderate if commodity prices continue to stabilize



Source: FactSet. Past performance does not guarantee future results. Indexes are unmanaged and cannot be invested into directly.

This chart shows the rapid climb in the commodity process as the Russian-Ukrainian conflict continues. However, prices moderated in April.

### How fast can inflation moderate?

While headline inflation may be able to moderate in the weeks or months ahead, the other key component of inflation, core inflation (excluding food and energy), tends to move slower. In particular, the shelter component of inflation, which accounts for about one-third of the CPI basket, has been stubbornly high, as home prices and rents have increased in the U.S. This comes as the housing supply continues to remain low even as demand is steady. However, as mortgage rates rise, we may start to see some reprieve in shelter pricing as demand softens, but this may take time to flow through to inflation figures.

Figure 3. Rising mortgage rates could soften demand for housing

## U.S. Fixed 30-Year Mortgage Rate (%)



Source: FactSet

This chart shows the recent rise in mortgage rates as the Federal Reserve starts its rate hiking cycle.

The other part of the core inflation basket to watch is auto and used car pricing. Here we have started to see prices come down in the March reading and may see more stability in the months ahead, particularly if financing rates rise and demand cools.

Overall, you will likely continue to see inflation moderating perhaps more meaningfully in the back half of the year. This would be driven potentially by not only more stability in commodity prices, but also better supply-and-demand dynamics overall, including tempered consumer demand and more labor and goods supply returning to the market. Historically, inflation moves from peak to bottom over a period of 24 to 36 months, but during this time you will tend to see steady downward movement. So, while you may not return to 2.0% core inflation for some time, the direction of travel should be generally lower.

(Source: oXYGen & Jones)

## Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,451	-0.78%
S&P 500 Index	4,393	-2.12%
NASDAQ	13,351	-2.63%
MSCI EAFE	2,114	-0.61%
10-yr Treasury Yield	2.83%	4.43%
Gold	\$1,975	1.39%
Bonds	\$103.97	-0.73%

Source: Reuters/Wall Street Journal

## 4 Bizarre Tax Deductions You Never Heard Of Before

It's no secret that people come into the office all the time asking the question, "Can I Take This As A Tax Deduction?". It's important to get a high-quality CPA on your side, as these will be the people who can give you the ultimate yay or nay. But, in order to even suggest a tax idea, you have to understand the nature of being creative. In 2022, many small tax deductions vaporized. But for those that own side hustles or small businesses, there are still opportunities to potentially use bizarre types of tax deductions.

1. Can you deduct plastic surgery? – One important tax deduction is completely gone since the tax rules changed a few years ago. It is from 2016, which is for unreimbursed employee expenses normally reported in the itemized deductions Schedule A of your tax return. That means all of the salespeople and executives who took deductions for mileage, meals, and entertainment not allowed by their employer are now officially out of luck. However, if you own a side hustle or a small business, you need to ask the question of whether the item you want to deduct helped you do your job better or is necessary for you to do your job.

A stripper, Chesty Love had her breasts enlarged to a size 56N which she argued helped her to do her job better. Since her job was being a professional stripper, she argued that plastic surgery should be a business expense and the IRS agreed. For most people, plastic surgery will not be allowed as a tax deduction, but you never know until you ask.

2. Deducting Cat Food? – Pets are one of the most expensive budget items for families. While you cannot normally deduct cat food or dog food, there may be extenuating circumstances that can get you that tax deduction. A California Cat Lady got national press for a decision allowing vet bills and cat food as charitable contributions. But after she beat the IRS, she faced animal cruelty charges. (Source: Forbes)

3. Can I Deduct My Live-In Girlfriend? – There should be no doubt that you can't deduct the jewelry you give your girlfriend for the anniversary you celebrate together. In *Bruce v. Commissioner*, Bruce hired his live-in girlfriend to find furniture, oversee repairs at rental properties, and run his personal household. The IRS said deducting her pay was not legit, but Bruce went to Tax Court and won. The court said \$2,500 of the \$9,000 he paid her was a business expense but paying for her housekeeping chores was nondeductible.

4. Can I Put The Kids On Payroll? – Now that each child qualifies for up to a \$12,000 standard deduction, you need to ask yourself whether or not putting your kids on payroll is a good idea. And, you may be wondering how old they need to be to legitimately be on the payroll?

Say you operate your business as a sole proprietorship, as a single-member LLC that is treated as a sole proprietorship for tax purposes, as a husband-wife partnership, or as an LLC that is treated as a husband-wife partnership. Great! That means you can hire your under-age-18 child (as a legitimate employee) and his or her wages will be exempt from Social Security tax, Medicare tax, and federal unemployment (FUTA) tax. In fact, the FUTA tax exemption lasts until your employee-child reaches age 21. You can hire your child part-time, full-time, or whatever works for you and the kid.

## Earnings Highlights This Week

**Wells Fargo:** Here are the numbers: earnings of 88 cents a share, vs. 80 cents estimate from Refinitiv. Revenue: \$17.59 billion vs. \$17.8 billion estimate. Wells Fargo reported home lending fell 33% from the year prior as mortgage rates have climbed.

**Goldman Sachs:** Here are the numbers: Earnings of \$10.76 per share, vs. \$8.89 estimate, according to Refinitiv. Revenue: \$12.93 billion, vs. \$11.83 billion estimate. “The rapidly evolving market environment had a significant effect on client activity as risk intermediation came to the fore,” CEO David Solomon said.

**Bed Bath & Beyond:** Bed Bath & Beyond missed analysts’ expectations for fourth-quarter earnings and revenue, as it struggled with out-of-stock merchandise. CEO Mark Tritton said the company is making progress with its turnaround, though, by welcoming back customers, remodeling stores, and expanding its private-label business. Along with its turnaround effort, the home goods retailer is competing for shoppers’ dollars as inflation is at a four-decade high and some consumers focus their attention outside the home.

**Delta:** Delta Air Lines expects to return to a profit this quarter thanks to a jump in bookings — and fares — that is helping offset soaring fuel costs. The carrier forecast second-quarter capacity at 84% of 2019 levels. Delta’s first-quarter fuel bill rose 6% from 2019 to \$2.09 billion, even though its capacity was down 17%.

**Rent The Runway:** Rent the Runway on Wednesday reported fiscal fourth-quarter revenue ahead of analysts’ estimates along with a narrower-than-expected loss. According to Chief Executive Jennifer Hyman, Rent the Runway is reaping the benefits of consumers seeking value and stability during times of inflation. “We’re entering into one of the strongest environments for rental we’ve ever seen,” the CEO told CNBC. “The inflationary environment is basically a competitive advantage for Rent the Runway.”

## News and Notes

### Are We Going To See a Secure Act 2.0 Soon?

#### Will 401(k) plans be getting a major overhaul soon?

- Very possible. By a vote of 414-5, the house recently passed a new bill referred to as SECURE Act 2.0 and it’s big for Americans.
- Employees would automatically be enrolled in their 401(k) plan at a 3% contribution, and then automatic increases of 1% a year until they hit 10% (think pay yourself first rule)
- With 1.8 trillion in student debt, employers can even put matching contributions in the 401(k) for those paying off student loans.

#### Would this new bill change when people have to take money out of a 401(k)?

- Yes, the new bill would change the Required Minimum Distribution rule from the age of 72 to 75.
- Americans wouldn’t be required to take money out of IRA’s or 401(k) until the age of 75 (under \$100,000 not at all)
- Also, the penalty for failure to take money out for an RMD would go down from 50% to 25%.

#### Are there any benefits for employers to set up a 401(k) plan?

- Many employers don’t set up a 401(k) because of cost.
- SECURE 2.0 would give employers a tax credit of up to \$5,000 for starting up a 401(k).
- There would also be a tax credit for a business that matches their employees up

to \$1,000 in the first year.

## From the team at J M Brown Financial Partners

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