

## Weekly Market Commentary July 18th, 2022

### 9.1% Inflation....Is the worst behind us or more surging ahead of us?

Inflation and central bank policy were in the driver's seat last week. June's stronger-than-expected rise in consumer prices pushed headline inflation to 9.1%, a 41-year high. This suggests the Federal Reserve has more work to do to achieve its price stability mandate.

While markets finished lower for the week, June's inflation surprise elicited a different market response from May's consumer price index (CPI) surprise. After this past Wednesday's inflation news, the S&P 500 rose while the 10-year Treasury yield fell, indicating markets might already be looking past the inflation peak to the likelihood of slower economic growth ahead.

**Inflation:** Another upside surprise triggers volatility, but some relief is on the way.

High energy and food prices are driving the story — Headline CPI increased 9.1% from a year ago, up from 8.6% in May and ahead of consensus expectations. Energy prices alone were 42% higher from a year ago and rose 7.5% from May, contributing to almost half the overall increase in inflation. Adding to the pressures, food prices had their highest monthly increase since 1981.

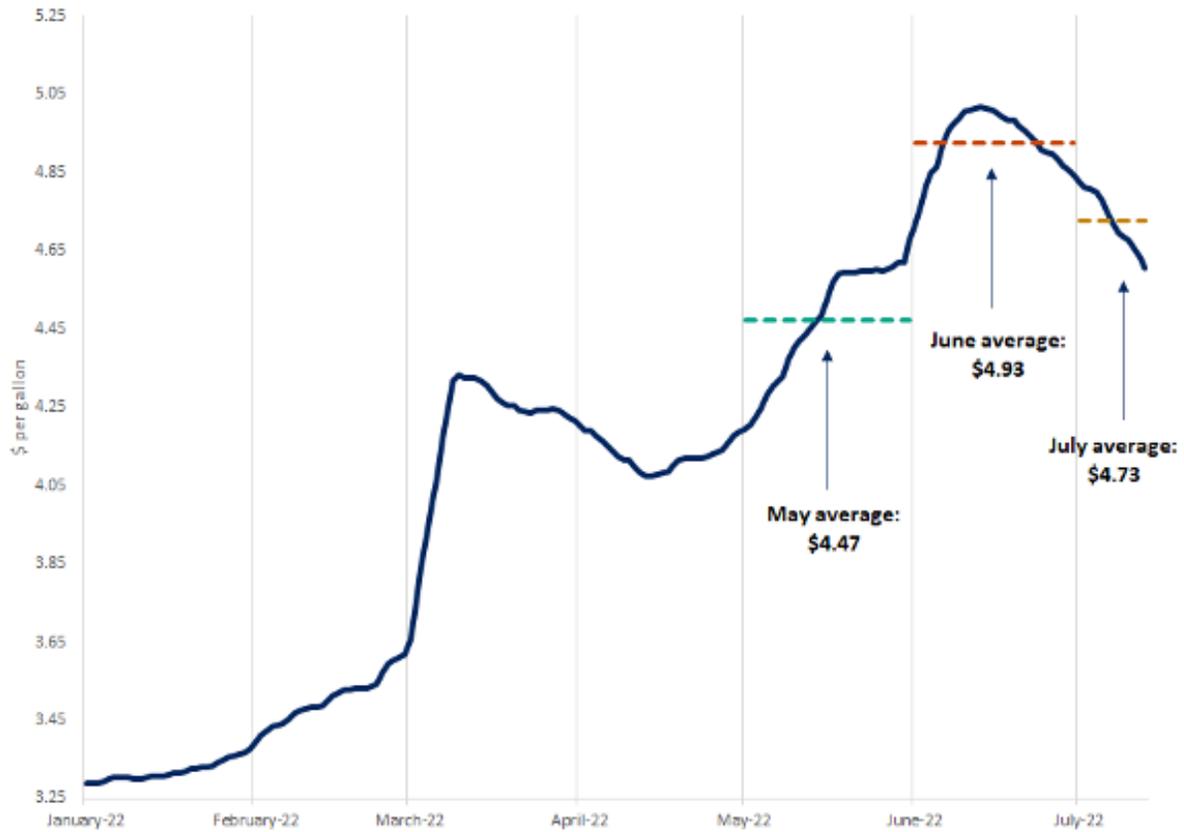
But since June, commodity prices have fallen sharply — Oil declined last week to its lowest level since the start of the Ukraine invasion, briefly trading at \$91 before ending the week at around \$98. Gasoline prices, a major contributor to inflation, were over \$5 a gallon in mid-June but have since fallen to a national average of \$4.58. While commodity prices remain elevated, we have recently seen broad-based weakness, supporting hopes that inflation is peaking. For example, oil is down 22% from its peak, natural gas is down 28%, copper is down 34%, lumber is down 62%, and wheat is down 44%.

Yet inflation is too broad for comfort — The core CPI index — which better reflects the underlying inflation trend because it excludes the more volatile food and energy prices — rose at a 5.9% pace over the past year, down slightly from the 6.0% pace reported for the past month.

This is the third straight month core inflation has cooled from its high of 6.5% in March. However, price pressures remain broad. Two-thirds of the CPI components are rising more than 5%, and rent — the biggest services component — recorded its largest monthly advance since 1986. With borrowing costs rising sharply, the housing market is starting to cool. But historically, a slowdown in home prices takes about a year before it's reflected in rents.

Expect pressures to moderate slowly — Inflation will moderate in the coming months, helped by lower commodity prices, more favorable comparisons, easing supply shortages, lower demand for goods as consumption shifts toward services, and an overall slowdown in economic growth. However, this moderation will likely be slow. For example, lower commodity prices will depend on easing geopolitical tensions. Shelter inflation is likely to stay high for the rest of the year, and a tight labor market continues to support strong wage growth.

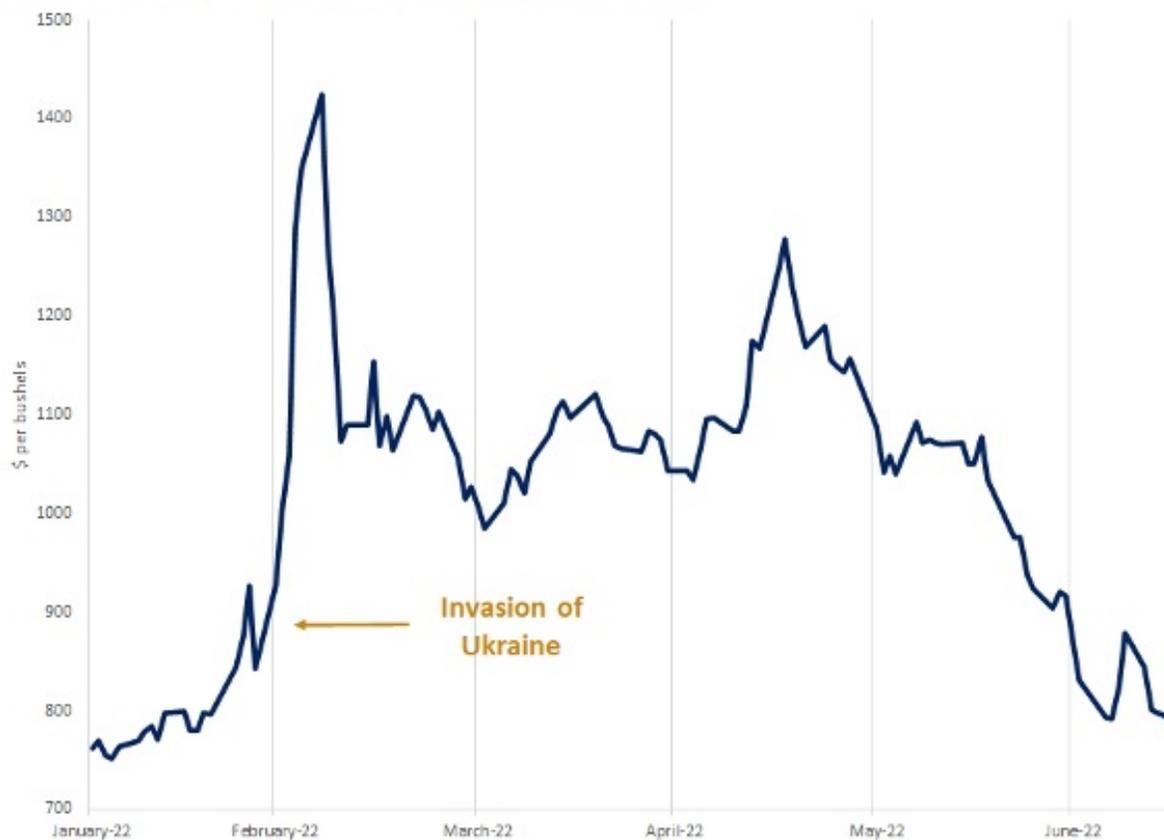
### Daily national average gasoline prices (regular unleaded)



Source: Bloomberg

The graph shows the national average prices for regular unleaded gas in the U.S.

## Wheat prices are now back to their pre-invasion levels



Source: Bloomberg

The graph shows the price of wheat futures which have recently erased their 2022 rally triggered by the war in Ukraine.

At this juncture, we think inflation is at or near its peak and should start to have some cooling off in the not too distant future. It's probably a good time to revisit your financial plan and make sure your inflation assumptions match your goals and objectives and overall plan.

(Source: oXYGen & Jones)

## Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	31,288	-.2%
S&P 500 Index	3,863	-.9%
NASDAQ	11,452	-1.6%
MSCI EAFE	1,785	-3.5%
10-yr Treasury Yield	2.82%	-.2%
Gold	\$1,707	-2.01%
Bonds	\$102.25	1.0%

Source: Reuters/Wall Street Journal

## What's Your Personal Inflation Rate?

Inflation jumped to a new 40-year high in June, the U.S. Bureau of Labor Statistics reported Wednesday. That means the prices Americans pay at the gas pump, grocery store, and elsewhere have been rising much faster than normal this year.

That may lead you to wonder: How much have my personal household costs increased, and how does that stack up against the average American's?

Calculating your personal inflation rate can help answer these questions.

The Consumer Price Index is a common inflation measure. Households paid 9.1% more money in June 2022 for a broad basket of goods and services relative to that same basket in June 2021 — the largest annual jump since November 1981.

However, your basket is likely different. For one, purchases and consumption habits vary from household to household, based on factors such as income, age, and geography, according to Brian Bethune, an economist, and professor at Boston College.

This means your personal inflation rate likely diverges from the U.S. average, too.

### *How to calculate your personal inflation rate*

Here's the simplest way to get a rough estimate of your personal annual inflation rate.

1. The first step is to determine how much of your spending falls into certain categories or buckets, such as food, energy, clothing, housing, and entertainment.

To do this, you'll need to consult your bank and credit card statements for the past year to find exact spending amounts. The U.S. Bureau of Labor Statistics publishes a [detailed list](#) that can help you itemize your purchases by category.

2. Calculate your category "weights." This weighting is basically the share of your spending devoted to specific buckets. The consumer price index calls this weighting "relative importance."

To do this, tally your total spending within categories. Divide each number by your aggregate annual spending to calculate the category weight.

For example, let's say my total household spending from June 2021 to June 2022 was \$50,000. I spent \$17,000 (or 34% of the total) on rent and \$6,000 (or 12%) on groceries. Their category weights would be 0.34 and 0.12, respectively.

3. Reference the BLS table of [detailed expenditure categories](#) again. The "unadjusted percent change" column shows the average annual percent increase in price for each item.

For example, rent payments increased 5.7% in the year through June. The price of food at home (groceries) rose 12.2% in the same period.

4. Multiply the category weights in step 2 by the annual percent change for those categories in step 3. Using the above example, you'd multiply  $0.34 \times 5.7$  for the rent calculation. Multiply  $0.12 \times 12.2$  for food. And so on for all other spending categories.

5. To determine your personal inflation rate, add up the category totals from step 4. (In the above example:  $1.938 + 1.464 + \text{etc.}$ ) This total is your annual inflation rate expressed as a percentage.

6. Compare your rate to the national average. For annual spending through this June, a percentage that's lower than 9.1% means your costs haven't increased as much as the average American.

A higher number means your costs have risen more in the past year. Of course, households generally think in terms of dollars and cents, not percentages.

(Source: CNBC)

## Earnings Highlights This Week

**JP Morgan:** JP Morgan earnings fell short of analyst expectations as the bank built reserves for bad loans by \$428 million. Shares of the bank fell nearly 5% in trading Thursday, hitting a fresh 52-week low. Chairman and CEO Jamie Dimon warned geopolitical tension, high inflation and waning consumer confidence could hurt the economy “sometime down the road.”

**Delta:** Delta is the first of the U.S. airlines to report second-quarter earnings this season. Delta posted a quarterly profit thanks to travelers willing to pay up to fly, more than making up for higher costs. The carrier said its third-quarter capacity would be 83% to 85% of 2019 levels.

**PepsiCo:** PepsiCo raised its revenue outlook for the year as consumers paid more for its Doritos chips and Gatorade. This marks the second consecutive quarter that the company has hiked its revenue forecast without updating its expectations for earnings. While higher costs weighed on its profits, the food and beverage giant saw a larger hit from the Russia-Ukraine war.

**Morgan Stanley:** Morgan Stanley reported second-quarter earnings and revenue that were below analysts’ expectations. The bank’s results were hurt by a steep 55% decline in investment banking revenue. The results confirm what some analysts had feared for Morgan Stanley, which runs one of the larger equity capital markets operations on Wall Street.

**TSMC:** TSMC, the world’s biggest chipmaker, posted a record net profit in the second quarter. However, TSMC CEO CC Wei said that some of the company’s capital expenditure would be “pushed out into 2023.” The strong results and outlook, but caution on spending, highlights the careful path chipmakers are walking at a time of concern about rising prices and the impact on consumer demand.

## News and Notes

### What’s Your Travel Personality?

#### What are the different types of travel personalities?

- Soul Searcher- this is about finding yourself
- City Slicker- shopping, fine dining, and nightlife
- Culture Vulture- local culture and cultural experiences
- Adventure Seeker- ‘pushing the limits’ is your motto
- Typical Traveler- like their trips organized and well planned

#### Can this help you with the dynamics of your relationship or even with your entire family?

- Yes. Let’s remember that travel creates memories and can help us bond closer with our family members.
- Knowing people’s travel personalities can allow you to have a balance on what you want to do together and where you might want to do things separately.
- Traveling can be stressful or fun. Happiness is about expectations met or unmet. You don’t want one person to be miserable.

#### Lots of people traveling this year, how can you keep your money safe when you travel (especially internationally)?

- Share your travel plans with your banks and credit card companies- they can

monitor for suspicious activity.

- Consider an anti-theft bag. PacSafe ([www.pacsafe.com](http://www.pacsafe.com)) and Travelon ([www.travelonbags.com](http://www.travelonbags.com)) are two of the best. Always split your cash up.
- Remember, hotel safes are generally safe, but not 100% secure because there must be a backdoor code (like 0000) to reset.
- Most importantly, always be aware of your surroundings.

**From the team at J M Brown Financial Partners**

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