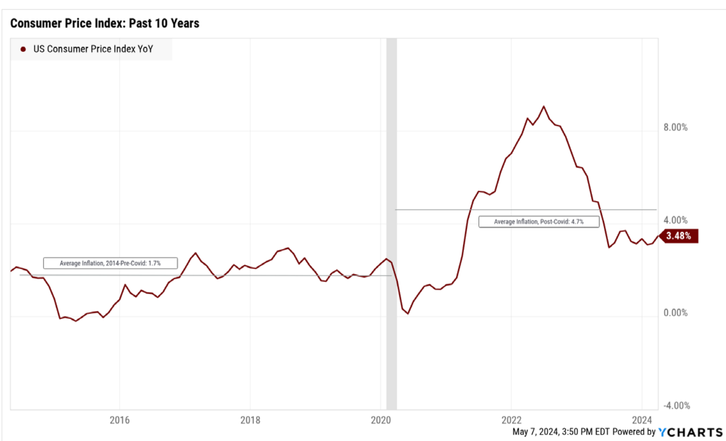
Capital Market Review

By: Joe Clark, CFA, Director of Research

Improving inflation? It depends on your point of view.

Despite volatile returns, the narrative has not changed; inflation, interest rates, and the Federal Reserve (Fed) remain the market's top concerns. Markets are hoping for some indication that the Fed will commence cutting interest rates. Still, each inflation and most labor market updates push the timeline further into 2024. If expectations from the start of 2024 were held, we would have experienced one, if not two, rate cuts. However, inflation has been stubborn and moving in the wrong direction, with prices increasing a bit faster now than where we started the year.

Of all the hot-button issues, inflation maintains its position on the list. Depending on whose opinion is presented, inflation is said to be lower and improving, while others express frustration that prices continue to rise. Economists typically fall in the former's camp, preaching about lower inflation and how great the economy is doing. Consumers tend to be in the latter camp, with some groups struggling to meet basic needs. Unfortunately, there is no clear answer and both viewpoints can be correct.

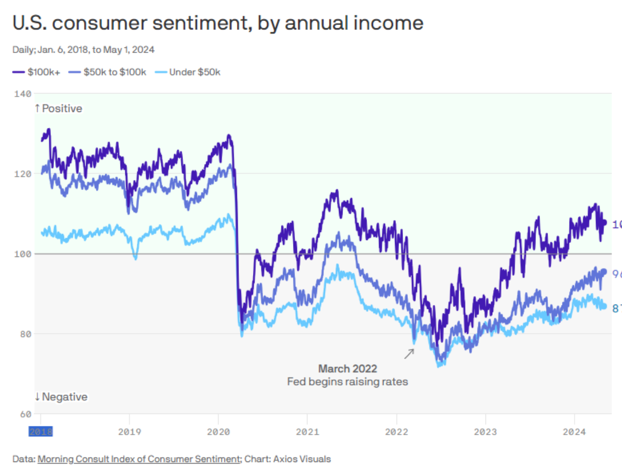


Source: YCharts

Economists tend to focus solely on the data, which shows an improvement from June 2022's 9% inflation to the current 3.5% price increases. Many economists and journalists will say inflation is "lower." While that might be true in "econ speak," it can fall into an irresponsible categorization for the audience. Prices certainly are not lower; instead, they are increasing at a slower rate. Economists tend to focus on year-over-year inflation changes and that it is moving towards the 2% goal, even though it is taking longer to get there.

Consumers tend to disagree with economists because they are still digesting the price increases since 2022 and are personally experiencing their wallets hit harder each time they go to the store. We are coming off of an over a decade period where annual inflation of over 2.5% was a big deal, and consumers have become accustomed to relatively stable prices. Since inflation bottomed during the COVID era, inflation has averaged 4.7%, ranging from a high of 9% and a low almost a year ago of 3%.

Everyday items suddenly experienced massive price shocks, impacting consumers in different ways. Egg prices might be the most dramatic example, having decreased from their 2023 peaks but remaining 50% above pre-COVID prices. However, many other food items have experienced similar trends. Oil's volatility has directly impacted gas and heating prices. Home insurance is not included in inflation calculations but has seen prices rise over 50% since pre-COVID. Auto insurance is included in calculations and has increased by more than 20% during the past year.



Source: Axios Markets

Depending on household income and where consumers fall on the socioeconomic spectrum, the past two years of inflation have imposed various challenges. Some consumers have had to dramatically change their spending patterns, sacrifice certain purchases, or even increase debt to meet basic needs, as others might save less but maintain relatively similar spending patterns. As investors, we must follow the data. However, we acknowledge that reported data can sometimes be flawed, and looking at the entire picture is important. Our goal is for clients to always maintain their purchasing power by building a portfolio that adds value after inflation, regardless of where it might go.

Allegheny Financial Group · Allegheny Investments

811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com