

Weekly Market Commentary April 18, 2022

The Markets

Here's a riddle: How can inflation be 8.5 percent and 6.5 percent at the same time? The answer is that it depends on how you measure it.

Determining how quickly prices are rising or falling – and where they may be headed in the future – is not simple. In the United States, millions of goods and services are bought and sold every day – shelter, food, transportation, energy, water, education, childcare, equipment and tools, medical care, furnishings, apparel, trash removal, and much more.

The government relies on two indexes: the Consumer Price index (CPI) and the Personal Consumption Expenditures Index (PCE). Each index has two versions: headline inflation and core inflation.

Last week, the Bureau of Labor Statistics (BLS) reported that CPI headline inflation was up 8.5 percent in March, and CPI core inflation was up 6.5 percent.

The BLS does not collect every price in every part of the United States. It gathers prices in 75 cities, collecting data from about 6,000 households and 22,000 department stores, supermarkets, hospitals, gas stations, and other establishments. So, the CPI is a measurement that reflects the experience of urban consumers.

CPI headline inflation

Last week, the CPI showed that headline inflation, which includes all price changes collected, was up 1.2 percent from February to March, and up 8.5 percent for the 12-month period that ended March 31. The largest increases in the CPI were:

- Used cars and truck prices +35.3 percent
- Energy prices(fuel oil, gasoline, natural gas, etc.) +32.0 percent
- New car prices +12.5 percent
- Food prices (groceries and eating out) + 8.8 percent

CPI core inflation

The BLS also reported on core inflation, which is the CPI minus food and energy prices, and was lower than headline inflation. The core CPI was up 0.3 percent from February to March, and up 6.5 percent for the 12-month period that ended March 31.

Why would anyone want to exclude staples like food and energy from inflation?

The answer is that food and energy prices are volatile – food and energy are commodities that trade on exchanges – and can distort inflation readings. “Trying to manage monetary policy with gauges that fluctuate wildly would

be like driving a car where the speedometer was constantly fluttering between 30 mph and 60 mph. Taking a long-term average may reduce the effect — but only for looking at the past history. Policymakers are forward-focused. They need guidance on where the inflation trend is headed. High volatility obscures that trend,” explained George Calhoun of *Forbes*.”

To sum up: headline CPI reflects Americans’ cost increases in the recent past, while core CPI is a better indicator of where inflation may be headed, reported Joseph Haubrich of the Cleveland Federal Reserve.

It’s important to note that the Federal Reserve relies on the PCE when making policy decisions. The PCE is a broader measure of inflation than the CPI. The PCE includes measurements taken in urban, non-urban, and rural areas, as well as spending by members of the military and a wider range of organizations. PCE data for March will be released on April 29.

Last week, major U.S. stock indices declined, reported Al Root of *Barron’s*. The yield on 10-year Treasury notes rose last week.

Data as of 4/15/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-2.1%	-7.8%	5.3%	14.8%	13.3%	12.4%
Dow Jones Global ex-U.S. Index	-0.9	-8.8	-9.2	3.5	3.8	3.4
10-year Treasury Note (yield only)	2.8	N/A	1.5	2.6	2.3	2.0
Gold (per ounce)	1.1	7.9	11.7	15.2	9.0	1.7
Bloomberg Commodity Index	4.8	33.6	53.0	17.2	9.0	-0.5

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

TALKIN’ ‘BOUT MY GENERATION... In the United States, we often describe groups of people by applying generational labels – Baby Boomers, Gen X, Millennials, and so on. Researchers use these generational cohorts to better understand formative experiences, world views, aging processes, and other issues. See what you know about generational demographics by taking this brief quiz.

1. How many generations live in the United States today?
 - a. Four (Gen Z, Millennials, Gen X, and Baby Boomers)
 - b. Five (Gen Z, Millennials, Gen X, Baby Boomers, and the Silent Gen)
 - c. Six (Gen Z, Millennials, Gen X, Baby Boomers, the Silent Gen, and the Greatest Gen)
 - d. Seven (Gen Alpha, Gen Z, Millennials, Gen X, Baby Boomers, the Silent Gen, and the Greatest Gen)

2. When surveyed, which of the following events did Millennials, Gen X, Boomers, and Silent Generation respondents agree occurred during their lifetimes and had a powerful impact on our country?
 - a. Moon landing
 - b. Civil Rights movement
 - c. Berlin Wall/ End of Cold War
 - d. The tech revolution

3. Which generation currently has the most economic and political power?
 - a. Gen Z
 - b. Millennials
 - c. Gen X

- d. Baby Boomers
 - e. Silent Gen
4. Which generation owns the most small businesses?
- a. Gen Z
 - b. Millennials
 - c. Gen X
 - d. Baby Boomers
 - e. Silent Gen
5. Which generation is the most influential on digital platforms?
- a. Gen Z
 - b. Millennials
 - c. Gen X
 - d. Baby Boomers
 - e. Silent Gen

The answers are below.

Weekly Focus – Think About It

“Finish each day and be done with it. You have done what you could. Some blunders and absurdities no doubt crept in; forget them as soon as you can. Tomorrow is a new day. You shall begin it serenely and with too high a spirit to be encumbered with your old nonsense.”

—Ralph Waldo Emerson, philosopher and poet

Answers: 1) d; 2) d; 3) d; 4) c; 5) b

Best regards,

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- * Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
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- * You cannot invest directly in an index.
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