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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

High Inflation: Why Is It Happening And How Will It End?

In March 2022, the Consumer Price Index for All Urban Consumers (CPI-U), the most common measure of inflation, rose at an annual rate of 8.5%, the highest level since December 1981. It's not surprising that a Gallup poll at the end of March found that one out of six Americans considered inflation to be the most important problem facing the United States.

When inflation began rising in the spring of 2021, many economists, including policymakers at the Federal Reserve, believed the increase would be transitory and subside over a period of months. One year later, inflation has proven to be more stubborn than expected. It may be helpful to look at some of the forces behind rising prices, the Fed's plan to combat them, and early signs that inflation may be easing.

Hot Economy Meets Russia and China

The fundamental cause of rising inflation continues to be the growing pains of a rapidly opening economy — a combination of pent-up consumer demand, supply chain slowdowns, and not enough workers to fill open jobs. Loose Federal Reserve monetary policies and billions of dollars in government stimulus helped prevent a deeper pandemic related recession but added fuel to the fire when the economy reopened.

More recently, the Russian invasion of Ukraine has placed upward pressure on already high global fuel and food prices. At the same time, a COVID resurgence in China led to strict lockdowns that have closed factories and tightened already struggling supply chains for Chinese goods. The volume of cargo handled by the port of Shanghai, the world's busiest port, dropped by an estimated 40% in early April.

Behind the Headlines

Although the 8.5% year-over-year "headline" inflation in March is a daunting number to consider, monthly numbers provide a clearer picture of the current trend. The month-over-month increase of 1.2% was extremely high, but more than half of it was due to gasoline prices, which rose 18.3% in March alone.

Despite the Russia-Ukraine conflict and increased seasonal demand, U.S. gas prices dropped in April, but the trend was moving back upward by the end of the month. The federal government's decision to release one million barrels of oil per day from the Strategic Petroleum Reserve for the next six months and allow summer sales of higher ethanol gasoline may help moderate prices.

Core inflation, which strips out volatile food and energy prices, rose 6.5% year-over-year in March, the highest rate since 1982. However, the month-over-month increase from February to March was just 0.3%, the slowest pace in six months. Another positive sign was the price of used cars and trucks, which rose more than 35% over the last 12 months (a prime driver of general inflation) but dropped 3.8% in March.

Wages and Consumer Demand

For the 12 month period ending in March, average hourly earnings increased 5.6%: not enough to keep up with inflation, but enough to blunt some of the effects. Lower-paid service workers received higher increases, with wages jumping by almost 15% for nonmanagement employees in the leisure and hospitality industry.

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WIN A $25 GIFT CARD

to your choice of Powell's or Amazon! (See page 2 for details)

Congratulations to our most recent winner:

Michelle N. of DHM Research LLC

*Visit **thecommco.com/commerce-concepts** for the answer to last issue's question.*

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Retirement & Investment Services

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source:
Raymond James Financial Services

To be entered into a drawing to win a

$25 GIFT CARD,

email free@thecommco.com with the answer to this question:

Prior to June, when was the last time the federal funds rate was increased by 0.75%?

Market Update

Through June 30, 2022

		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	-10.78%	-9.05%	9.98%	11.70%
Large Company US Stocks	S&P 500	-16.10%	-10.62%	11.31%	12.96%
Small Company US Stocks	Russell 2000	-17.20%	-25.20%	5.17%	9.35%
Non-US Stocks	MSCI EAFE (Gross Div)	-14.29%	-17.33%	2.69%	5.89%
US Bonds	Bloomberg US Aggregate	-4.69%	-10.29%	0.88%	1.54%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	0.10%	0.17%	1.11%	0.64%

Economic Snapshot

Gross Domestic Product (GDP)
GDP growth is expected to continue to moderate.

Inflation
Elevated inflation remains the biggest risk for the economic outlook. The shift toward service consumption should help reduce price pressures on goods. However, oil prices remain the biggest inflation threat.

Monetary Policy
The Fed has become more aggressive with rate increases as expectations of longer-term inflation have started to move. This raises the risk of overdoing it, leading to a possible recession in 2023.

Housing and Construction
There are signs of slowing demand due to the increase in mortgage rates. However, inventories are still low, so there should be some support for the housing market.

Manufacturing
Growth has slowed in recent months, but exports growth remains supportive of continued expansion.

Employment
Nonfarm payrolls are still below where they were before the pandemic. Employment growth is expected to continue, but at a slower pace.

Investment Strategy Quarterly: Published by Raymond James and Associates, July 2022. For a complete PDF copy of the July 2022 issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

June Market Review

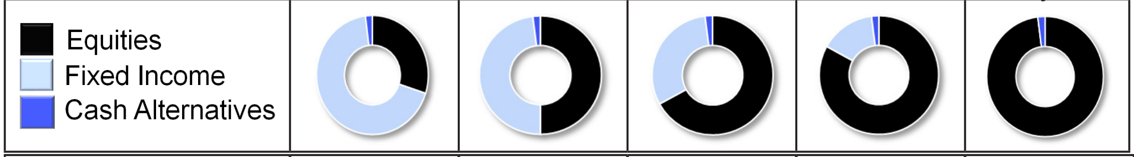
- As the Federal Reserve committed itself to battling inflation this year, one question looming large was how aggressively it would act. In June, we received an answer when the Fed raised the federal funds rate by 0.75% – the largest single bump to interest rates since 1994, and the third hike this year. Raising the rate affects the cost of lending across the economy, which the Fed hopes will cool the economy and put downward pressure on inflation. If inflation persists, expect further increases in the benchmark interest rate. This means that, unless some key narratives change, we should expect some challenging months ahead as the economy slows and we navigate what has become a bear market.

- There are positive signs as well. Strong job growth, wage gains and abundant savings support consumer spending, which makes up approximately 70% of the U.S. gross domestic product. Even as consumer confidence has decreased and retail sales have recently signaled a slowdown, consumers have shown a willingness to spend on services like air travel and hospitality. That's a good sign. Still, uncertainty remains high, which means volatility will also remain high.

For additional asset allocation and disclosure information, please [click here] or visit the Resources section of our website at thecommco.com

Strategic Asset Allocation Models

As of July 2022



	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**50%**	**67%**	**83%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	24%	31%	38%	45%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	8%	9%	11%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**48%**	**31%**	**15%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	52%	36%	24%	12%	0%
Investment Grade Short Maturity	6%	3%	2%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	5%	3%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. 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 Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date. Past performance may not be indicative of future results. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.

Source: Raymond James
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Although inflation has cut deeply into wage gains over the last year, wages increased at about the same rate as inflation over the two-year period of the pandemic. One of the big questions going forward is whether rising wages will enable consumers to continue to pay higher prices, which can lead to an inflationary spiral of increasing wages and prices. The official measure of consumer spending increased 1.1% in March, but an early April poll found that two out of three Americans had cut back on spending due to inflation.

Soft or Hard Landing?

The Federal Open Market Committee (FOMC) of the Federal Reserve has laid out a plan to fight inflation by raising interest rates and tightening the money supply. After dropping the benchmark federal funds rate to near zero in order to stimulate the economy at the onset of the pandemic, the FOMC raised the rate by 0.25% at its March 2022 meeting and projected the equivalent of six more quarter-percent increases by the end of the year and three or four more in 2024.

These moves were projected to bring the Fed's preferred measure of inflation, the Personal Consumption Expenditures (PCE) Price Index, down to 4.3% by the end of 2022, 2.7% by the end of 2023, and 2.3% by the end of 2024. PCE inflation (which was 6.6% in March) tends to run below CPI, so even if the Fed achieves these goals, CPI inflation will likely remain somewhat higher.

Fed policymakers have signaled a willingness to be more aggressive, if necessary, and the FOMC raised the funds rate by 0.5% at its May meeting, as opposed to the more common 0.25% increase. This was the first half-percent increase since May 2000. At its June meeting, the FOMC again increased the funds rate – this time by 0.75%, the largest increase since 1994.

The question facing the FOMC is how fast it can raise interest rates and tighten the money supply while maintaining optimal employment and economic growth. One extreme is the "hard landing" of the early 1980s, when the Fed raised the funds rate to almost 20% in order to control runaway double-digit inflation, throwing the economy into a recession. The ideal is a "soft landing," similar to what occurred in the 1990s, when inflation was tamed without damaging the economy.