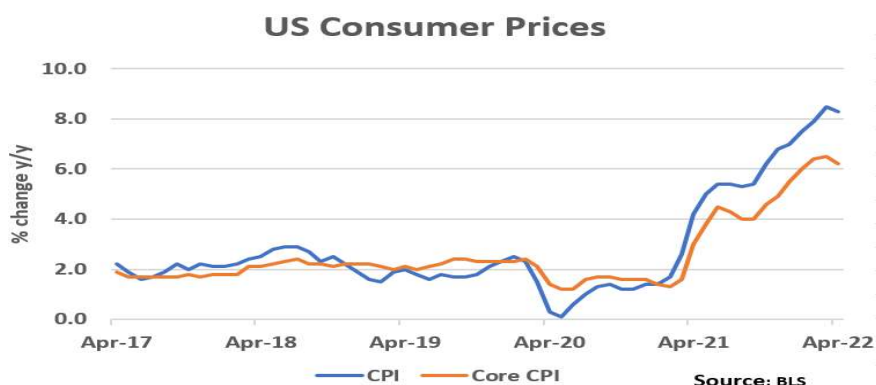


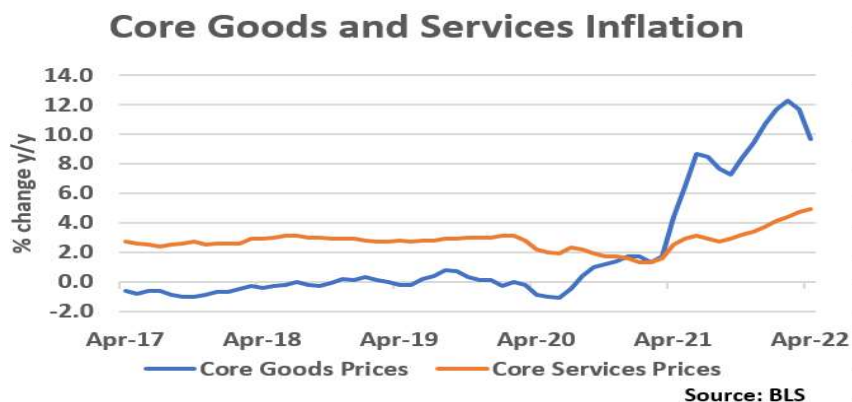
Monthly Fixed Income Insight
May 2022

US Inflation: Past the peak but a long descent ahead

Consumer prices moderated in April as the annualized headline CPI fell from 8.5% to 8.3% and the Core CPI, which excludes food and energy, slipped from 6.5% in March to 6.2%. The decline, however, provides little consolation to consumers, as price increases are proving more persistent and are rising at the fastest pace in 40 years. While we may have reached the peak in inflation, the descent from the summit back to the Federal Reserve's 2% target could be a long and difficult journey.



The April headline CPI decreased notably from 1.2% to 0.3% as energy prices declined but food prices continued to rise sharply. Food prices are now running at a 9.4% annual pace. The core CPI increased 0.6% versus consensus estimates for only a 0.4% rise. The stronger than expected core increase was primarily attributable to the pandemic reopening rebound in airfares (+18.6% m/m) and lodging (+1.7% m/m). The record increase in airfares alone contributed 0.13% to the overall increase in core CPI. Goods prices, which recorded outsized demand and price increases during the pandemic, did soften but are proving less transitory than originally expected. As consumers shift away from goods spending, service prices saw broad based gains and are now up by 4.9% over the past year. Shelter inflation, which tends to be slower moving but more persistent, continued its upward momentum with a 0.5% increase in April to a 5.1% annual pace.



We do believe inflation has reached a peak for the economic cycle, but unfortunately will stay hot for the remainder of the year. We see core CPI declining from the current 6.2% to 4.5% by the end of the year. Price pressures have become broader based and entrenched in the price setting for the economy. We do expect improvement to come from cooling goods prices as supply chains normalize and reopening pressures fade. Risks and uncertainties to the supply chains, however, have increased with the Russia-Ukraine conflict and covid lockdowns in China. Energy prices improved in April but have started to rise again ahead of expected strong summer demand. Rent prices move with a lag, which indicates upward shelter prices in the pipeline even if home prices begin to moderate. Lastly, inflation pressures may also remain stubbornly high due to the overheated labor markets. Wage pressures, with robust demand and record job openings, continue to build and average hourly earnings rose at a 5.5% annual rate in April.

Past performance is no guarantee of future results.

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