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Brevity Series – August CPI

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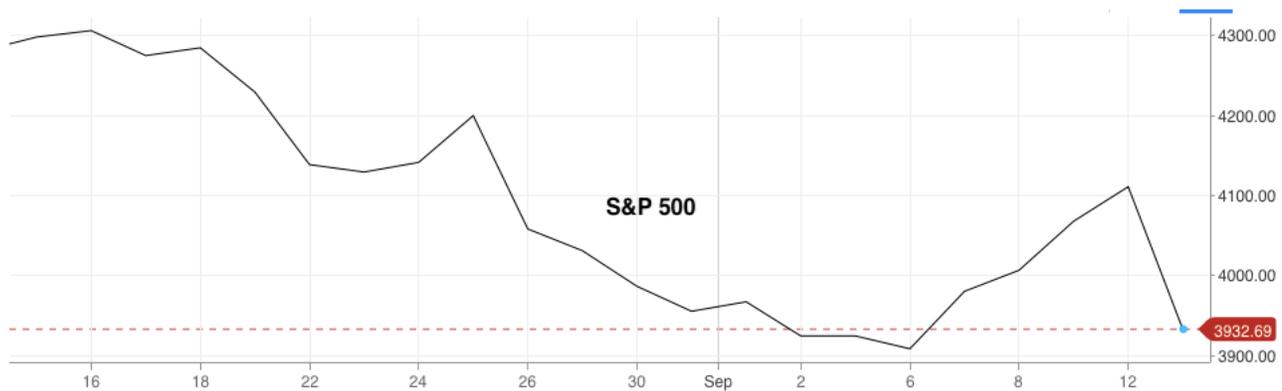
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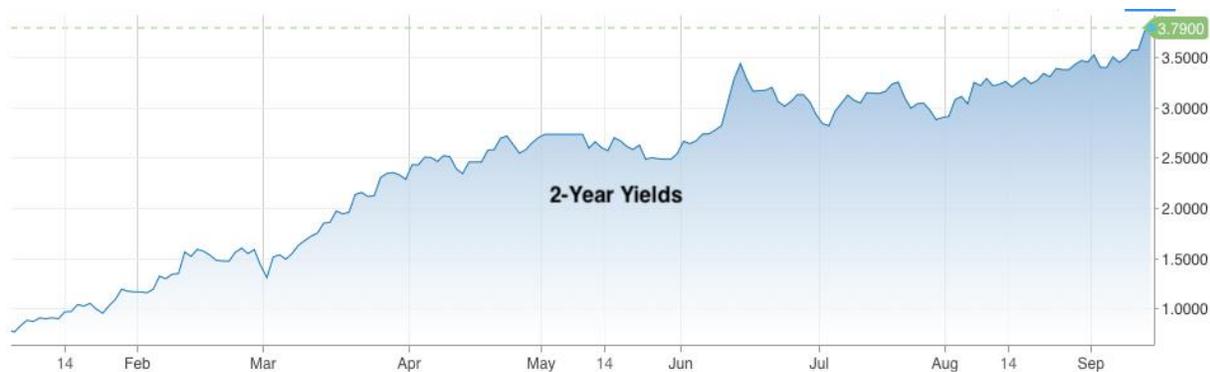
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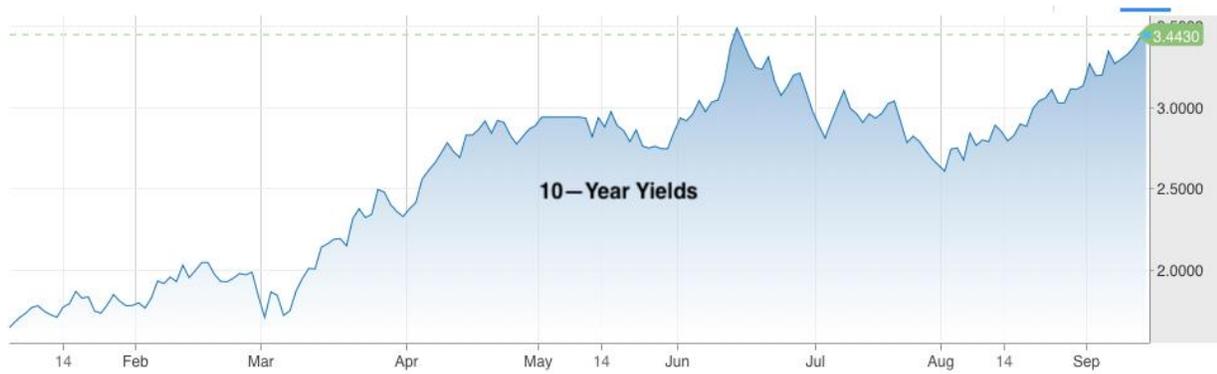
Financial Advisor

Stocks had their worst day in over 2 years, selling off more than 4% yesterday after the Bureau of Labor Statistics released its August reading of the Consumer Price Index. Stocks had rallied 5% the week before in anticipation that August CPI would show inflation was cooling. It didn't.

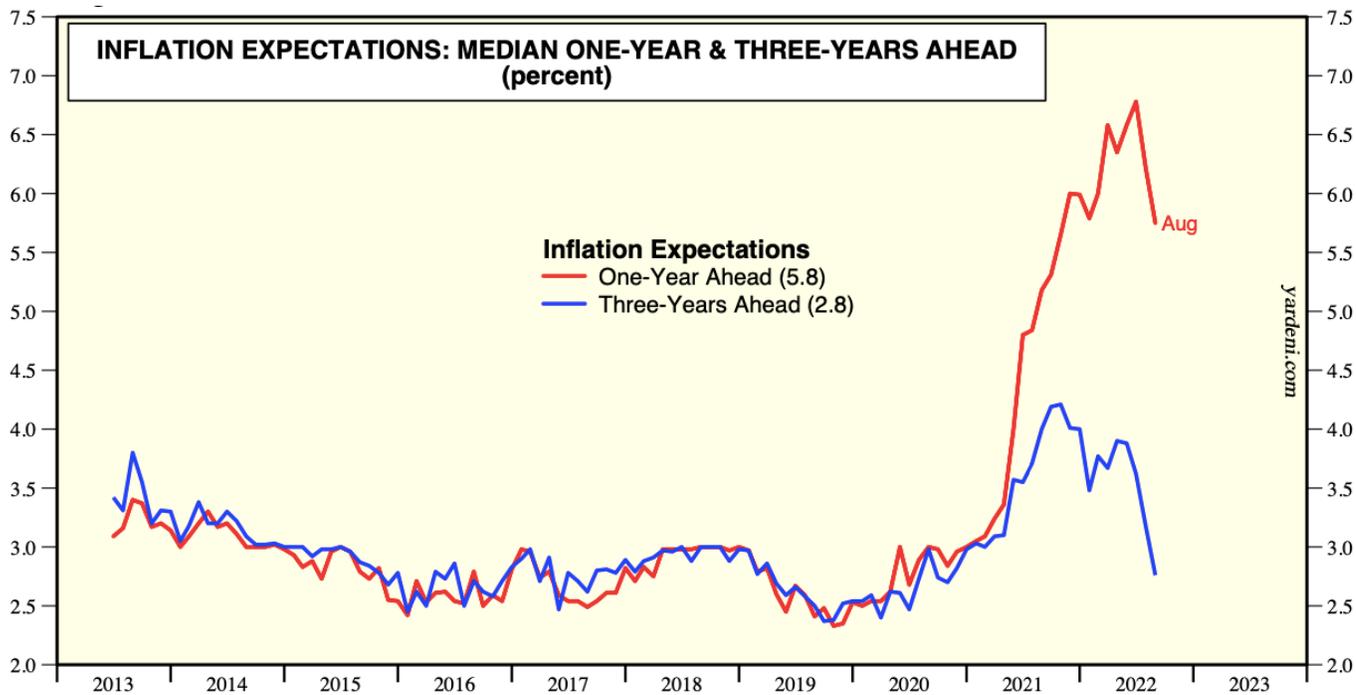


Bond yields also rose considerably on the inflation reading. 2-Year Yields rose to 3.8% in anticipation that the Fed would now raise the Fed Funds Rate by 1% next week instead of the prior consensus expectation of .75% 10-Year Yields also rose to 3.45%, near their highest levels of the year.





The primary reason that inflation came in higher than expectations was that the cost of Energy Services increased significantly, offsetting our most visible daily observation of inflation, gasoline prices. Lower gas prices drove consumer inflation expectations lower before the August release.



The tight labor supply increased the cost of delivering the energy, making the overall drop in energy prices far less than expected. Additionally, Food prices did not drop as much as expected and the cost of Medical Services increased.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Aug. 2022
	Feb. 2022	Mar. 2022	Apr. 2022	May 2022	Jun. 2022	Jul. 2022	Aug. 2022	
All items.....	0.8	1.2	0.3	1.0	1.3	0.0	0.1	8.3
Food.....	1.0	1.0	0.9	1.2	1.0	1.1	0.8	11.4
Food at home.....	1.4	1.5	1.0	1.4	1.0	1.3	0.7	13.5
Food away from home ¹	0.4	0.3	0.6	0.7	0.9	0.7	0.9	8.0
Energy.....	3.5	11.0	-2.7	3.9	7.5	-4.6	-5.0	23.8
Energy commodities.....	6.7	18.1	-5.4	4.5	10.4	-7.6	-10.1	27.1
Gasoline (all types).....	6.6	18.3	-6.1	4.1	11.2	-7.7	-10.6	25.6
Fuel oil ¹	7.7	22.3	2.7	16.9	-1.2	-11.0	-5.9	68.8
Energy services.....	-0.4	1.8	1.3	3.0	3.5	0.1	2.1	19.8
Electricity.....	-1.1	2.2	0.7	1.3	1.7	1.6	1.5	15.8
Utility (piped) gas service.....	1.5	0.6	3.1	8.0	8.2	-3.6	3.5	33.0
All items less food and energy.....	0.5	0.3	0.6	0.6	0.7	0.3	0.6	6.3
Commodities less food and energy commodities.....	0.4	-0.4	0.2	0.7	0.8	0.2	0.5	7.1
New vehicles.....	0.3	0.2	1.1	1.0	0.7	0.6	0.8	10.1
Used cars and trucks.....	-0.2	-3.8	-0.4	1.8	1.6	-0.4	-0.1	7.8
Apparel.....	0.7	0.6	-0.8	0.7	0.8	-0.1	0.2	5.1
Medical care commodities ¹	0.3	0.2	0.1	0.3	0.4	0.6	0.2	4.1
Services less energy services.....	0.5	0.6	0.7	0.6	0.7	0.4	0.6	6.1
Shelter.....	0.5	0.5	0.5	0.6	0.6	0.5	0.7	6.2
Transportation services.....	1.4	2.0	3.1	1.3	2.1	-0.5	0.5	11.3
Medical care services.....	0.1	0.6	0.5	0.4	0.7	0.4	0.8	5.6

We do not consider the August CPI reading to be a game changer, although it does confirm that the labor market remains tight and is negatively impacting the cost of services. "Goods" inflation has peaked and is starting to move lower.

Despite yesterday's violent drop in stock prices, the S&P 500 only retreated to its September 6th levels. We continue to expect stocks will remain range bound with exceptionally high levels of volatility through the remainder of 2022, and then start recovering in 2023. We expect bond yields to also remain range bound, but see current yields on the highest end of that range. We will likely add duration to the portfolios soon. The Dollar should remain strong as a result of the more aggressive Fed.

The MMFS Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed \$12Bn in both retail and institutional assets.

Jason Rolling, Financial Advisor: Jason has been in the financial services industry for the past 15 years. His financial experience includes retail banking, consumer & commercial lending, bank management at the local, regional and SVP level, wealth management, and financial planning.



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