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Wealth Management

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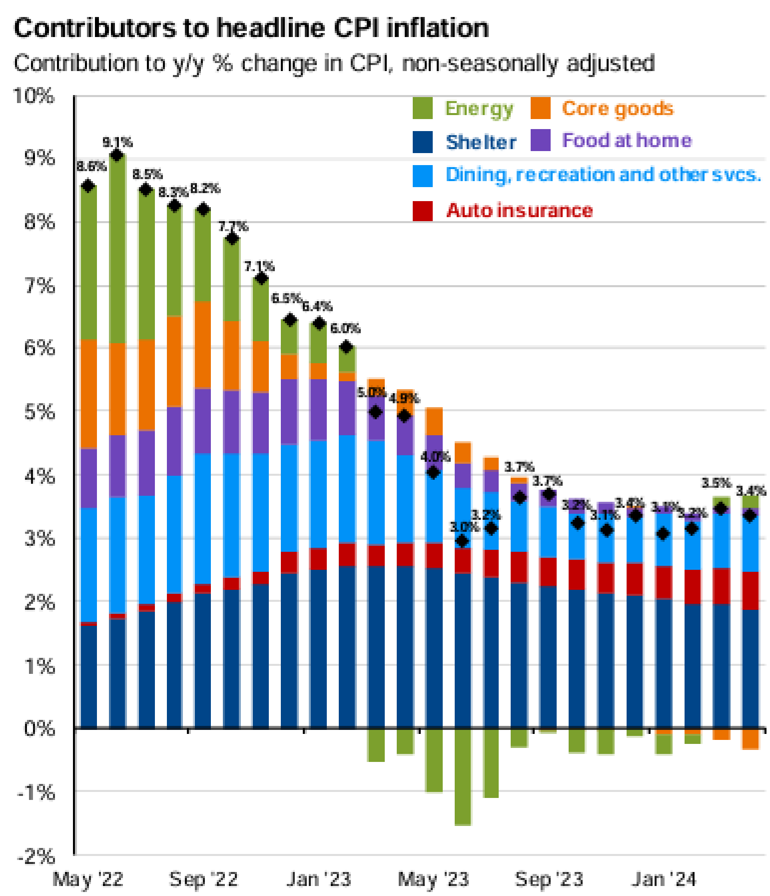
MARKETINSIGHT

Inflation Outlook: Headwind or Tailwind? There's an old market adage that says after a solid run up in the beginning of the year, investors should *'Sell in May and Stay Away'* from stocks during the Summer months. 2024 may surprise investors with market moving macro factors such as the Fed's actions and the path of inflation. The consensus is that inflation will continue to cool down and the Fed will cut rates by year end. However, recent data has shown that inflation is beginning to rise again.

After CPI peaked at 9.1% in 2022, and now at 3.4% (April 2024), many could make the argument that the fight against inflation has been successful - higher rates have indeed slowed down the post-Covid growth phase. This has fueled market expectations that the Federal Reserve will lower rates by year end, giving the green light for equities to go higher. However, while inflation has come down substantially, there is a long way to go until the Fed's 2% goal. This may not be an easy task, as the last 'sticky' components of inflation have remained steadfast and are not showing any signs of weakness.

The chart on the right shows the contributors to inflation by category. Shelter (housing), insurance, and dining/service sector have all been able to pass through the cost of higher rates and show no sign of giving up anytime soon. Note: the general downward slope of this graph shows the rate of change of inflation - NOT deflation or price reduction. The consumer has continued to pay a higher cost of living, causing many to fall behind on credit card payments. How much longer can the American consumer stay afloat, and will they be able to continue to drive business sales to meet already lofty expectations?



Our perspective is that these last components of inflation need to show solid signs of reduction before the Fed will cut rates. The timeframe for that to happen may not align with market expectations, stalling upward growth and may lead to some give back in equity prices. With the already solid positive returns for the year, we remain neutral/defensive on equity prices for the foreseeable future. We remained disciplined to our strategy and do not feel the need to add equity.

Sources: J.P. Morgan Guide to the Markets, CNBC Credit Card Balances

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