

IS INFLATION PEAKING?

by Dominic Lucente

One lesser-known indicator is called the Baltic Dry Index.

You see it in prices at the grocery store and the gas station. You feel it in your monthly budget. So why don't the financial markets seem too concerned about inflation?

Remember, financial markets are considered "discounting mechanisms," meaning they are looking six- to nine-months into the future. And by June 2022, the financial markets expect that inflation will lower than today.¹

One lesser-known indicator helps support that forecast is called the Baltic Dry Index. It measures the cost of transporting raw materials, such as coal and steel. The index has been trending lower for several weeks, which in the past has suggested that prices may be more manageable in the months ahead.²

No indicator is fool-proof. That's why the Baltic Dry Index is just one of the many indicators that our professionals follow when watching inflation. They also keep a close eye on the Fed, which is responsible for controlling inflation.³

With the economy improving, the Federal Reserve has indicated it will be tapering bond purchases this month. That may help with inflation. The Fed also has prepared the markets for higher interest rates in 2022. That, too, may help.⁴

Also, if you weren't paying close attention, you might have missed it. Fed Chair Jerome Powell dropped the word "transitory" when describing inflation during his recent testimony to Congress.⁵ Powell had told the story of transitory inflation for the past several months while the Consumer Price Index showed eye-popping, year-over-year gains of 5% to 6%.⁶

But now it appears that the Fed Chair has changed his tune.

Powell said that rising energy prices, higher rents, and strong wage gains could keep inflation elevated, though he maintained that inflation would decline sometime in 2022.⁷

So does that mean it's time for investors to prepare their portfolios? Inflation and interest rates are only two factors in an overall investment strategy. And at this point, the Fed has only provided a rough timeline about when to consider raising short-term rates.⁸ As hard as it can be, sometimes wait-and-see is the best approach. Recent market volatility has been making headlines, which can be unnerving. If you find yourself second-guessing your overall approach, speaking to your financial professional may be a smart move.

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