

TO DIS OR NOT TO DIS, THAT IS INFLATION



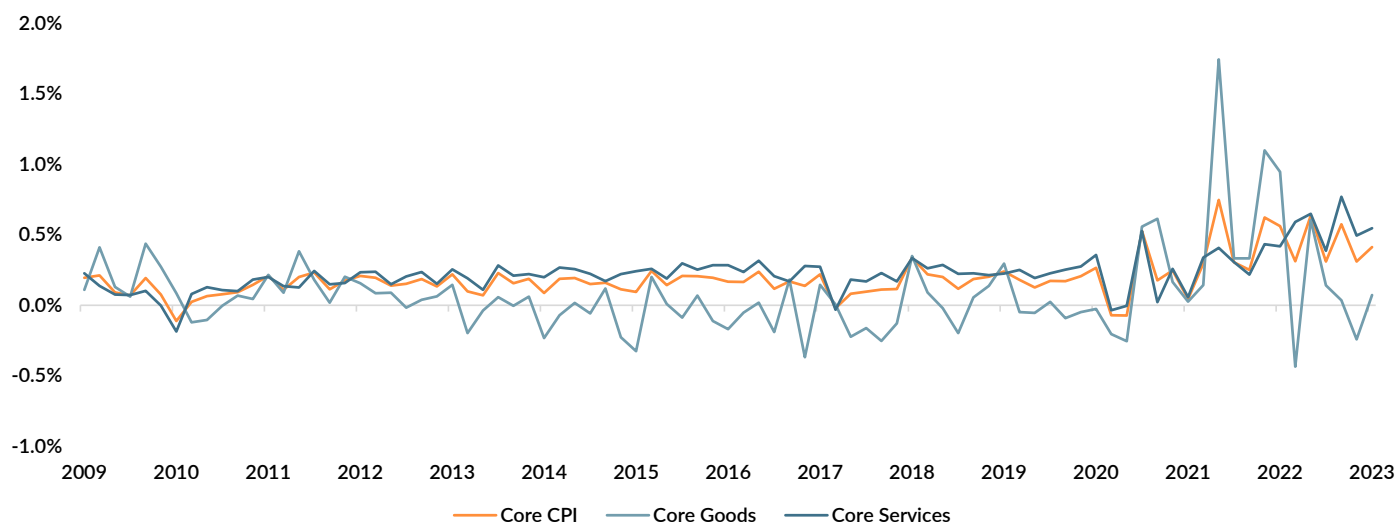
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Inflation turned higher to start 2023, as seen in the January reports for both the Consumer Price Index and the Producer Price Index. The PPI rose 0.7% month-over-month, above Bloomberg’s median expectation of 0.4%. The CPI rose 0.5% in January, with core prices higher after three months of decline and 6.4% year-over-year, also above Bloomberg’s median expectation of 6.2%.

We believe the January CPI report shows that the disinflationary momentum the market had been hoping for is dissipating, especially in core goods. Excluding food and energy, goods prices rose the most since August 2022 following three straight months of declines. Additionally, the report showed a lack of reprieve in services or housing inflation along with the abatement of goods deflation. Given the Federal Reserve’s Core Personal Consumption Expenditure inflation level for 2023 of 3.5%, we believe the disinflationary impulse will have to come from services, not core. This may prove difficult given the strong labor market will likely keep wage inflation elevated, which will impact CPI service inflation.

The signs of persistent inflationary pressures could push the Fed to potentially raise interest rates higher than market expectations. We believe the question is not how high the Fed raises rates, but how long it will keep the level of rates elevated. In our opinion, the length of time at the terminal rate will have more impact on financing costs and risk assets than the terminal rate moving a few hikes higher than 5%. We believe uncertainty will remain across asset classes as the impact of higher rates is realized in markets, which should continue to result in broader market volatility. The regime has shifted from ZIRP (zero interest rate policy) to TIRP (terminal interest rate persistence), and we continue to remain cautious on investments that thrived in a ZIRP environment.

Core CPI: Goods vs. Services (M/M %)



Sources: Glenmede Investment Management, Bureau of Labor Statistics, Bloomberg, FactSet
This represents past performance which is not indicative of future results.

All data is through 1/31/2023

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