Ropes Wealth Addresses Pervasive Prices

In today's news, inflation has apparently not peaked. The Consumer Price Index increased 1% in May on a seasonally adjusted basis after rising 0.3% in April, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, headline inflation increased 8.6% which is the largest 12-month increase since the period ending December 1981. The increase was broad-based, with component data rising across the board. Shelter, gasoline, and food were the largest contributors to price increases, but there were also notable surges in airline fares, new and used vehicles, medical care, household furnishings, and even apparel.

Economists and market participants were hoping for an 8.1% print, so this spike to 8.6% is most unwelcome news. Also, after a modest decline from March to April, the uptick higher in May is worrisome and perhaps confirms the market's worst fears that there is little recourse for inflation risk management. For sure, it dampens any ideas that the Fed will slow down the aggressiveness of their interest rate hiking plan. It also elevates the risk that a recession is in the offing.

U.S. stocks declined yesterday and are opening weaker today as a result. The late May pause in downward pressure for stocks has been definitively erased. Developed overseas markets are similarly under pressure, after the European Central Bank announced plans to raise interest rates and end quantitative easing when Europe, too, made headlines with an 8.1% increase in inflation for the month. Only China and related Asian equities have been a bright spot, as news of 16.9% jump in exports, signs of easing COVID lockdowns, and more friendly regulatory news for the battered technology sector supported some burgeoning gains.

Unfortunately, valuations are not likely to be a catalyst for a change in the market's direction. It is going to take some evidence of easing on the inflation front, and that did not happen today. Furthermore, it might be fair to say that even if we do experience modest easing in the months ahead, say from 8.5% to 7.5%, that may not be enough to shift sentiment. We likely need a path for inflation to be on its way to 5% and confidence the Fed's policy is working sufficiently to stabilize market conditions and move markets forward.

That said, market optimists point to factors like excessive inventory build among retailers and suppliers that will get flushed out, Chinese stimulus, exceptionally strong consumer and corporate balance sheets, oversold conditions, and poor sentiment (i.e. a lack of irrational exuberance) as potential catalysts.

These factors may play out, or they may not in the short-term. We find more compelling the reminder that the stock market is actually just a market of stocks. The individual companies we own for you and that our managers choose within their funds have been carefully selected for resilience across a full market cycle. The macroeconomic swirl is important to monitor and obviously impacts earnings outlooks and market sentiment, but at the core of our portfolio construction and security and manager selection is a fundamental focus on long-term growth and business model resilience. In this way, we strive to allocate capital for you in a manner that will stand the test of time. Our investment plans are sensitive to liquidity needs, objectives for growth, capital preservation, and compounding that have historically been the winning ingredients to a successful investment strategy. In other words, inflation's sinister grip is a challenge, but not the last straw for these chosen stocks and funds. Therefore, we urge a steady hand and commitment to long-term investing discipline, as challenging as that may be in these worst of times.

Your Ropes Wealth Team

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click here.

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