GUGGENHEIM

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Macro Alert
Latest CPI Validates the Transitory Nature of Inflation Spikes

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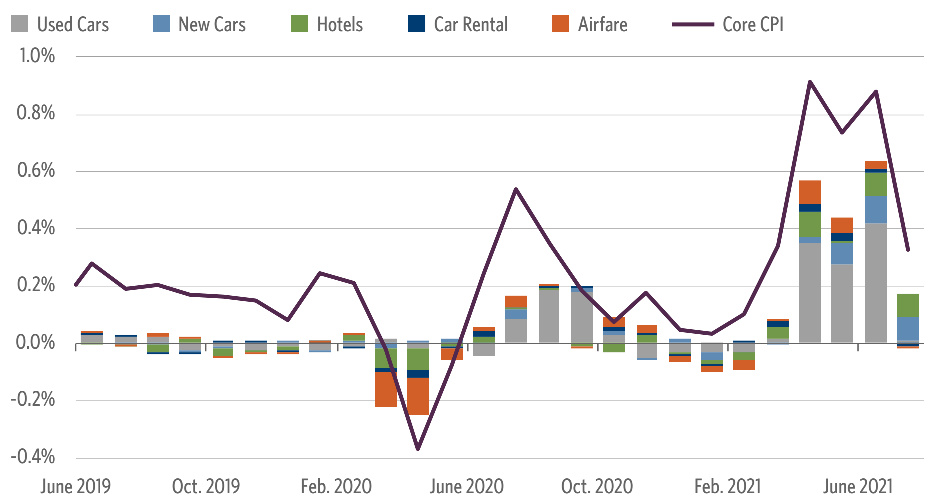
Bondholders are breathing a little easier as core CPI rose 0.33 percent in July, a big deceleration from the prior three months. A key reason for the slowdown was the softening in used car prices we have been anticipating, which rose just 0.22 percent after averaging 9 percent gains in the prior three months. Airfares and car rental prices, which had been spiking over the last three months, showed outright declines.

Transitory Categories Are Cooling, But Are Still a Significant Share of Inflation
Core CPI, Contribution to MoM% Change

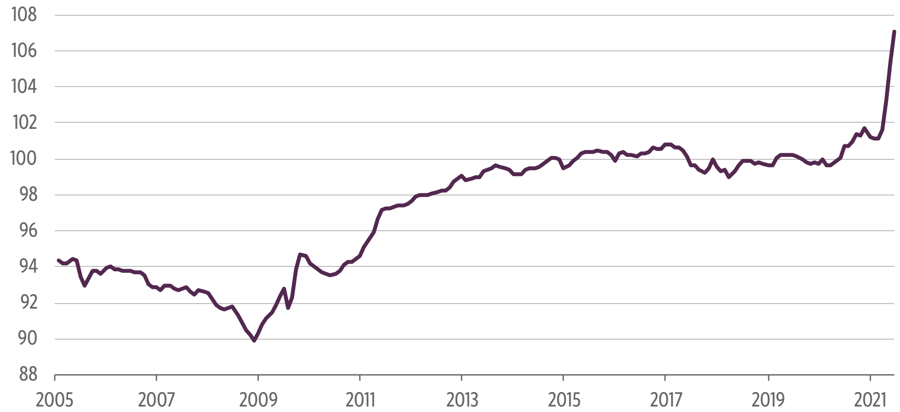


Source: Guggenheim Investments, Haver Analytics. Data as of 7.31.2021.

Wholesale used car auction data suggest further room for used car prices to fall, based on the typical lag between wholesale and retail prices. Despite the slowdown in used car prices, and declines in airfares and car rentals, the CPI components that we have been calling "transitory" still accounted for nearly half the monthly increase in core CPI. This was due to increases in hotel prices, which are now 5 percent above the pre-COVID peak, as well as new car prices. New car prices continue to be affected by low inventories amid the semiconductor shortage, leading to a sharp spike after years of moving sideways. That shortage has been trending in the right direction, as seen in recent PMI data, but recent COVID outbreaks in Asia threaten to delay supply chain normalization.

Spike in New Car Prices Shows Extent of Supply Chain Disruptions

CPI New Car Index, Feb. 2020 = 100

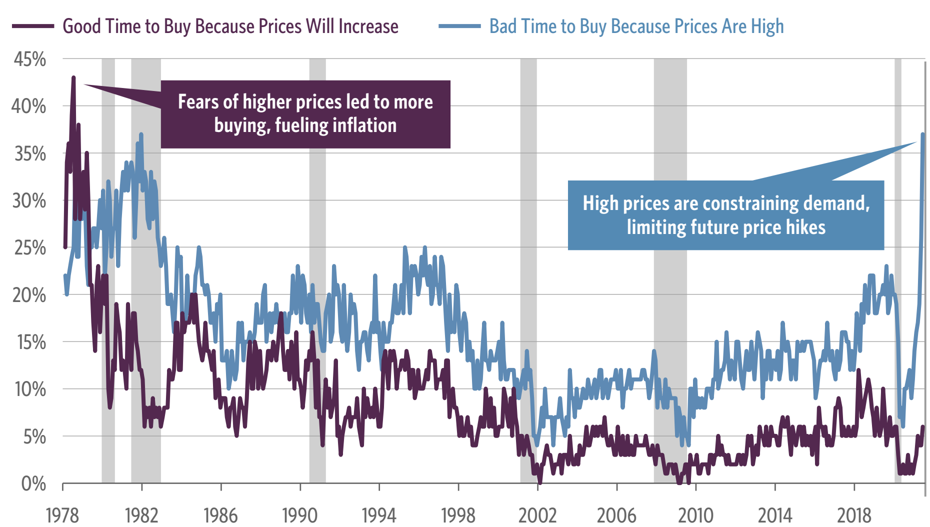


Source: Guggenheim Investments, Haver Analytics. Data as of 7.31.2021.

While supply may remain constrained for several more months, consumers are showing a lot of price sensitivity, suggesting falling demand will help limit the extent of more price increases. It's interesting to compare this to the 1970s when consumers exhibited inflationary behavior by increasing demand to get ahead of price hikes. That is clearly not the dynamic today, where it appears that consumers may be delaying purchases in the expectation that prices will fall again.

This Is Not the 1970s: High Prices Are Weighing on Demand

Consumer Sentiment Survey: Buying Conditions Vehicles



Source: Guggenheim Investments, University of Michigan. Data as of 6.30.2021.

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