

July 14, 2021

Macro Alert

Still No Reason to Panic About Inflation

From the Office of the Global Chief Investment Officer, Scott Minerd

By the Macroeconomic and Investment Research Group

Brian Smedley
Chief Economist and Head of Macroeconomic and Investment Research

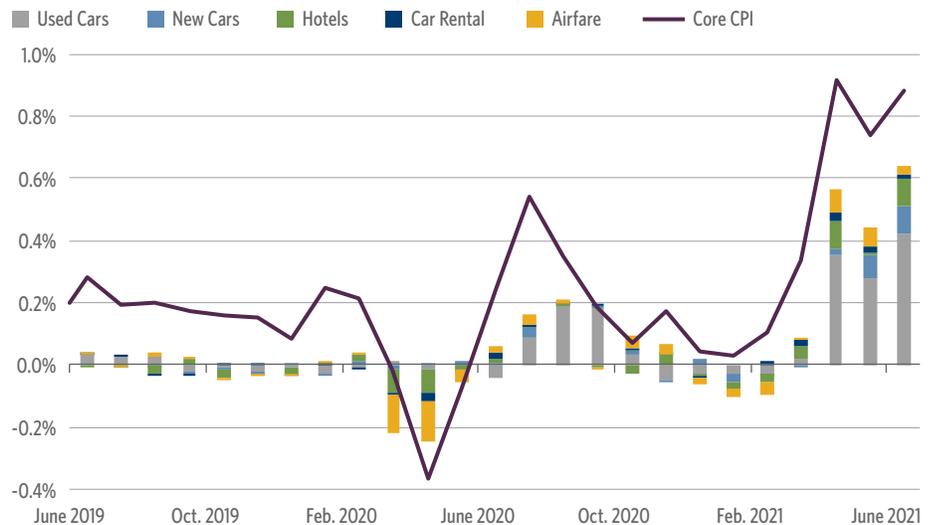
Matt Bush, CFA, CBE
U.S. Economist, Macroeconomic and Investment Research

June’s Consumer Price Index (CPI) again surprised to the upside, adding fuel to headline-writers’ panic about inflation spikes and market speculation that the Federal Reserve (Fed) will need to act soon to rein in prices. We are not nearly as concerned.

The upside surprise, while sizeable, continues to be driven by a few small categories seeing outsized price increases. 64 of the 88 basis point month-over-month increase in core CPI was due to new and used autos, car rentals, hotels, and airfare. By far the largest driver among those categories was used car prices, which grew 10.5 percent over the month and contributed 42 basis points to the month-over-month core CPI print, despite having a weight of just 4 percent in the core CPI basket. This is not the picture of widespread, runaway inflation.

Autos and Reopening Sectors Still Explain Most of the Inflation Spike

Contribution to Monthly Percent Change in Core CPI

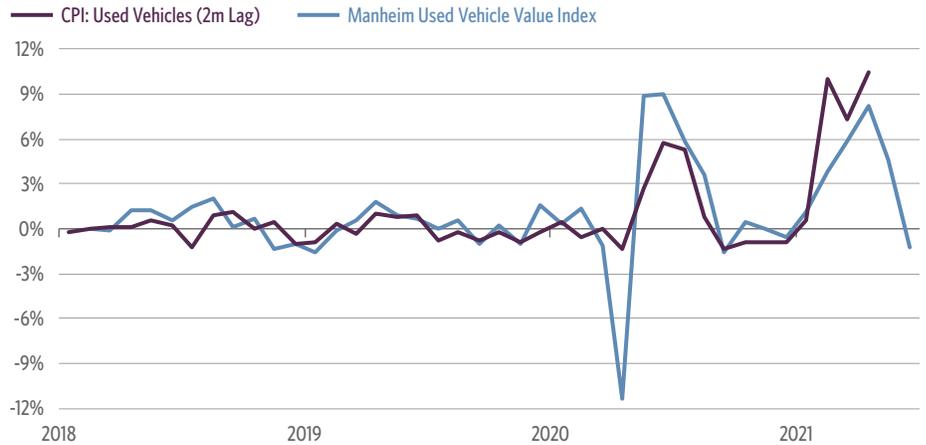


Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2021.

Those in the “non-transitory” inflation camp are betting not just that these categories will continue to see high prices, but that a rapid pace of price increases will continue. Sequential inflation is much more likely to moderate from here. Hotel prices have now risen above pre-COVID levels, and wholesale used car prices have already peaked, which will soon show up in the CPI data.

Used Car Inflation Set to Cool

Month-over-Month Percent Changes

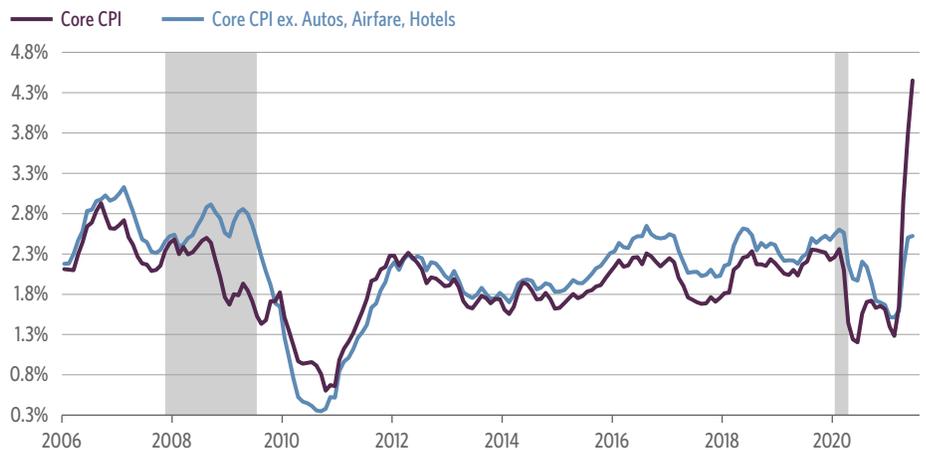


Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2021.

For inflation to stay elevated on a more sustained basis that could pull forward Fed hikes, we’ll need to see more economy-wide price increases, especially in the categories with larger weights such as healthcare and housing. The June CPI data suggest no reason for panic there: Healthcare prices were flat over the month, while rents and owners’ equivalent rents showed no acceleration from May.

Inflation Surge Is Not Widespread

Year-over-Year Percent Changes



Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2021. Note: Autos include new and used autos and auto rentals.

IMPORTANT NOTICES AND DISCLOSURES

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility.

Basis point - One basis point is equal to 0.01 percent.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the author, but not necessarily those of Guggenheim Partners or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. Past performance is not indicative of future results.

Guggenheim Investments represents the following affiliated investment management businesses: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Fund Management (Europe) Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management

© 2021 Guggenheim Partners, LLC. All rights reserved.

48856