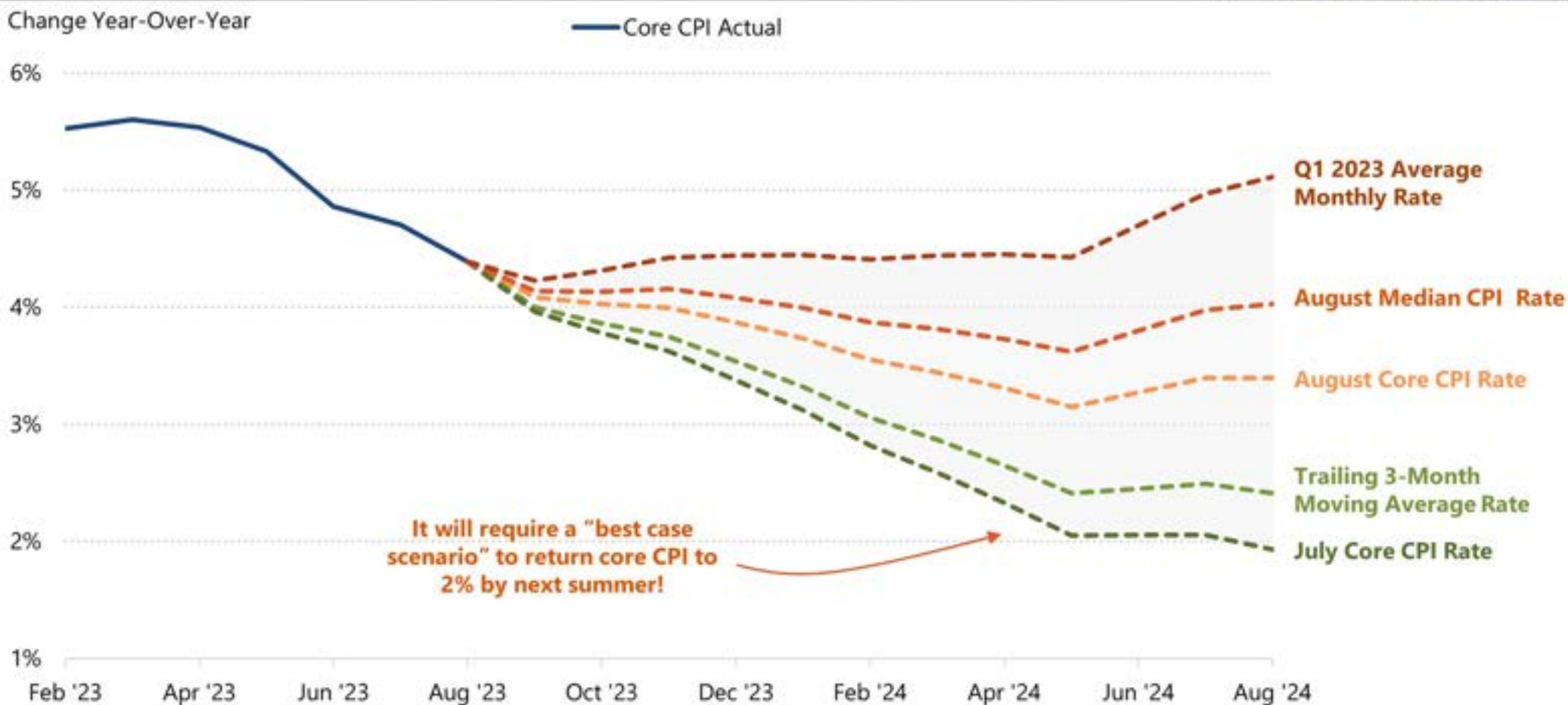


Beyond The Crystal Ball

U.S. Core CPI* Inflation Path Based On Various Month-To-Month Growth Rates

For The Week Ending 09/15/2023



Source: Federal Reserve Bank of Cleveland, Bureau of Labor Statistics, Payden Calculations

*Consumer Price Index, "core" excludes food and energy

Market consensus has coalesced around a view that central banks, whether we're talking about the ECB or the Fed, are done hiking. The argument is predicated on the belief that inflation is fading. Fed funds futures also imply that the Fed will begin to reduce its policy rate next year, "normalizing" policy rates by ~70 basis points over the next year. We're skeptical. While we acknowledge the progress made on the inflation front, the future is hazy. The August U.S. Consumer Price Index (CPI) report released this week showed core inflation (which excludes volatile food and energy prices) accelerated, up 0.28% month-to-month after rising just 0.16% in July. Core services "ex. housing" were up 0.37% in August, the fastest since March. More pertinently, if the August core CPI reading were to persist, core CPI would still be well above 3% by next summer, far too high for the Fed's taste. Worse, what if inflation accelerates, like we experienced in Q1 2023? Instead of impressing you with our crystal ball, we aim to convince you that there are many possible outcomes.