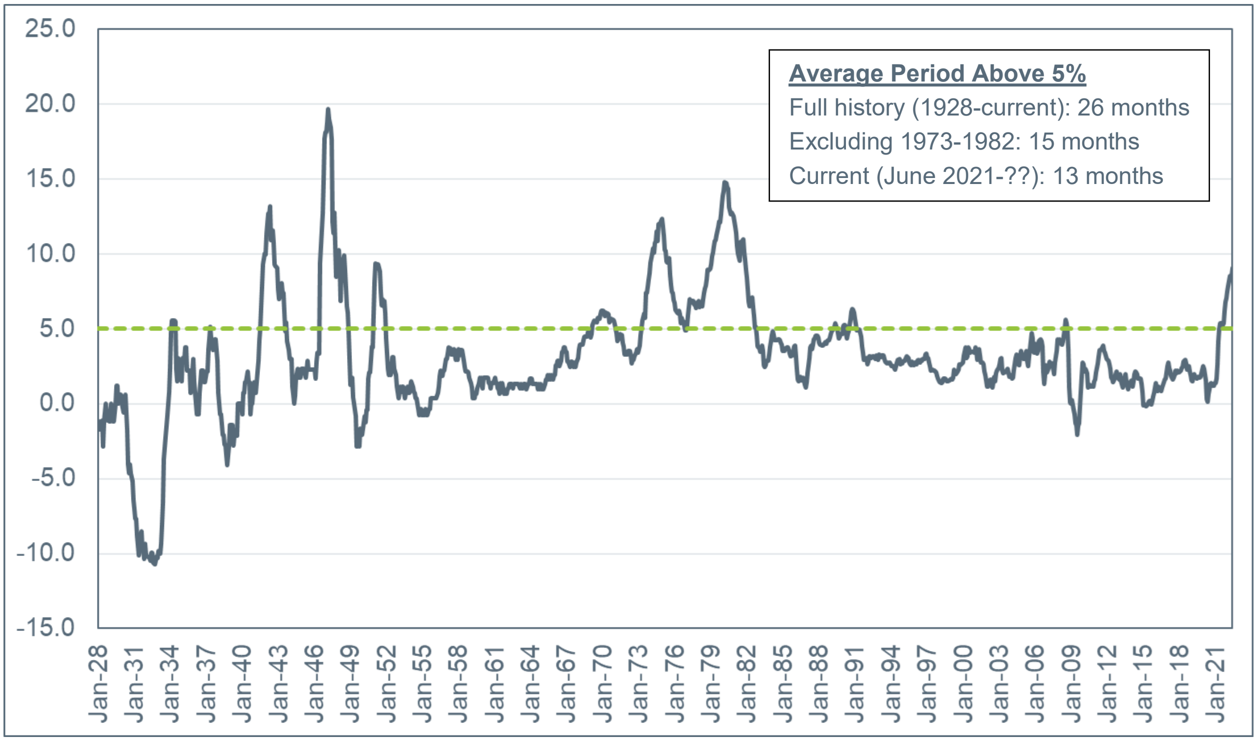
Current Inflation in Context

The US Consumer Price Index (CPI) increased by 9.1% over the past 12 months ending June 30, 2022. While inflation has been elevated in the US over the past several months, the June inflation report was the largest 12-month increase since April 1980.

Historical data shows that annual CPI increases above 5% are unusual and typically do not stay elevated at that level for very long. On average, periods of elevated inflation remain above 5% for about 26 months before declining below that threshold. This historical average is heavily skewed by 1973-1982, where CPI was above 5% for the better part of a decade. Excluding this period, the average falls to about 15 months. The current period of inflation above 5% has lasted 13 months.

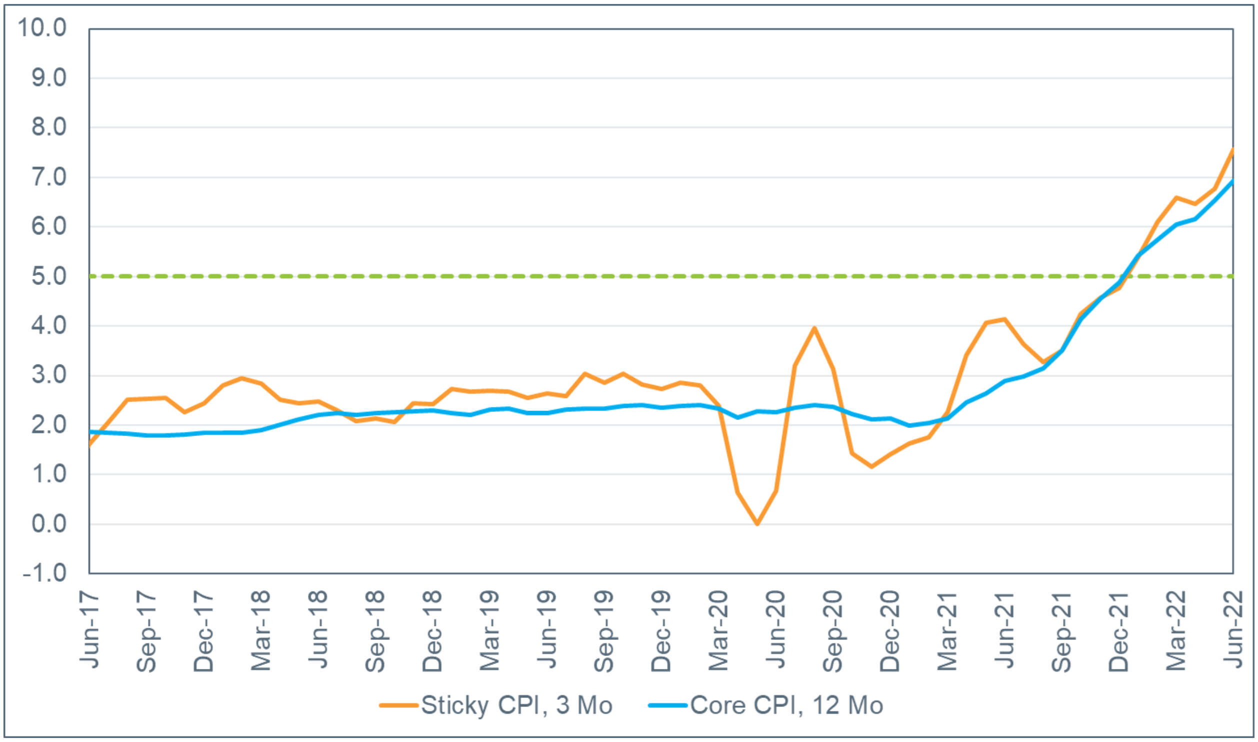
Figure 1
Historical US CPI (12 Month, %)



Source: US Bureau of Labor Statistics.

During the first initial months of elevated inflation in 2021, many experts posited that it was transitory, meaning a temporary byproduct of the economy coming out of the pandemic and one that would likely dissipate before the historical average period of 26 months. And for those first initial months, the data largely supported this hypothesis. The current inflation spike was initially driven by more volatile goods and services in the economy, such as energy and food, while core (trimmed mean) CPI and "stickier" inflation basket price changes remained muted. Prices for goods and services like housing and medical care are often categorized as "core CPI" or "sticky," as they tend to change much more slowly.

Figure 2
"Core" and "Sticky" US CPI (%)
5 Years Ending June 30, 2022



Source: Federal Reserve Bank of Cleveland and Federal Reserve Bank of Atlanta. Core CPI is represented by the Revised FRB Cleveland Trimmed Mean, 12-month. Sticky CPI is represented by the FRB Atlanta Sticky-Price Index, 3-month.

However, inflation has more recently moved into these "stickier" pricing segments of the economy, as shown in Figure 2, indicating that inflation has now become more entrenched in the US economy. This is particularly concerning for the Federal Reserve as they try to control inflation. We are certainly not attempting to predict how long this current period of elevated inflation will last, but the current data suggests the US economy could see a period of elevated inflation (above 5%) closer to, or longer than, the historical average.

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[1]Between July and October 2021, Coalition Greenwich conducted phone interviews with 811 individuals from 661 of the largest tax-exempt funds in the US–including corporate and union funds, public funds, and endowments/foundations with either pension or investment pool assets greater than $150 million. Study participants were asked to provide quantitative and qualitative evaluations of their asset managers and investment consultants, including qualitative assessments of those firms soliciting their business and detailed information on important market trends. RVK is one of three firms recognized in the large investment consultant category. The ratings may not be representative of any one client's experience with RVK; rather they are representative of those clients that chose to participate in the survey. The results are not indicative of RVK's future performance. To read the Greenwich press release, please refer to the following URL: https://www.greenwich.com/institutional-investing/investment-consultants-strengthen-role-top-advisors-us-asset-owners.