

US INFLATION HAS STARTED TO SLOW THANKS TO CHEAPER FUEL AND AIRFARES

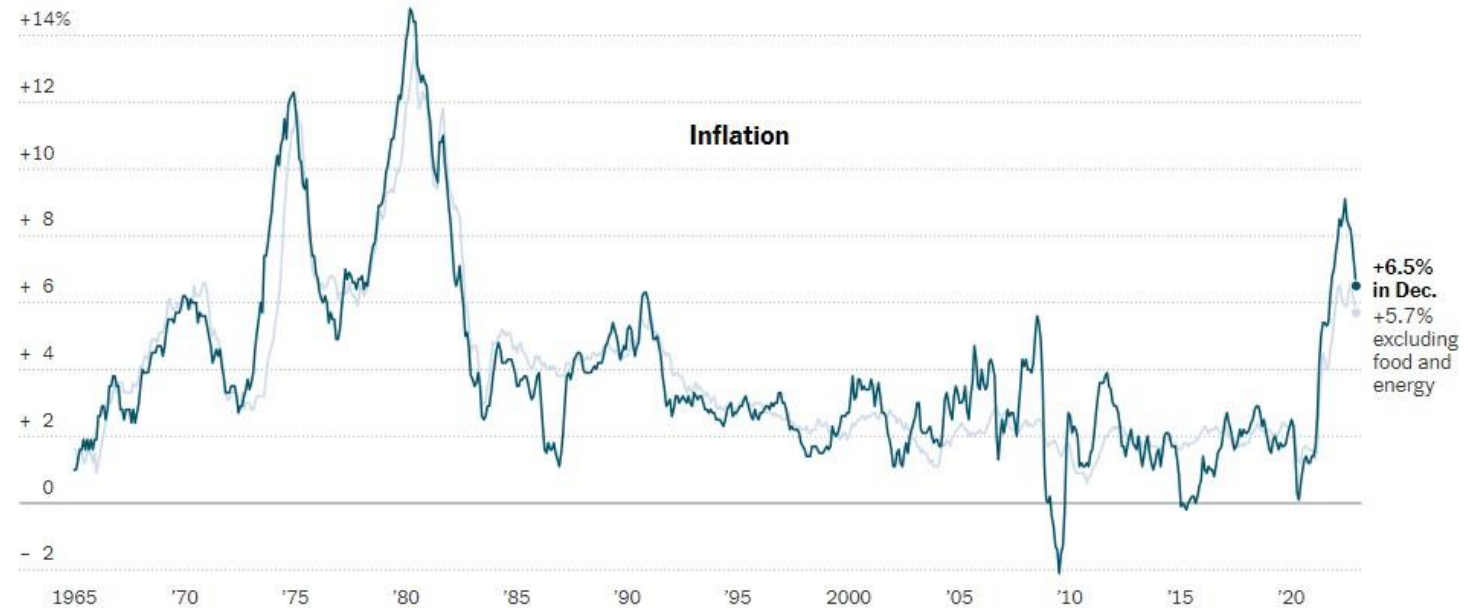
POSITIVE DEVELOPMENT FOR
POLICYMAKERS AT THE FEDERAL RESERVE

INTEREST RATES
ARE EXPECTED TO
PEAK IN 2023. THE
S&P 500
BOTTOMS AT THE
POINT OF “PEAK”
INFLATION AND
THAT LOOKS LIKE
IT HAS ALREADY
HAPPENED.

- ✓ U.S. December CPI slowed to 6.5% y/y. It was down 0.1% m/m with the 6-month annualised rate 1.89% compared with 11.1% in H1. The data has followed monetary growth with a few months lag.
- ✓ Policymakers signalled a slowdown in the pace of rate hikes but no easing. Federal Reserve has maintained its statement that it remains the “committee’s resolve to achieve its price-stability goal.”
- ✓ Short-term Inflation Expectations decline to the lowest reading since July 2021. Medium-term expectations remain at 3.0%. Survey of Consumer Expectations.
- ✓ Fed Futures indicates an expected cut in interest rates starting in 2023. See Chart.

CONSUMER
PRICE INDEX
INFLATION
MODERATED TO
6.5% IN
DECEMBER,
2022. HELPING
FED OFFICIALS TO
LEAN TOWARD
SLOWER RATE
MOVES.

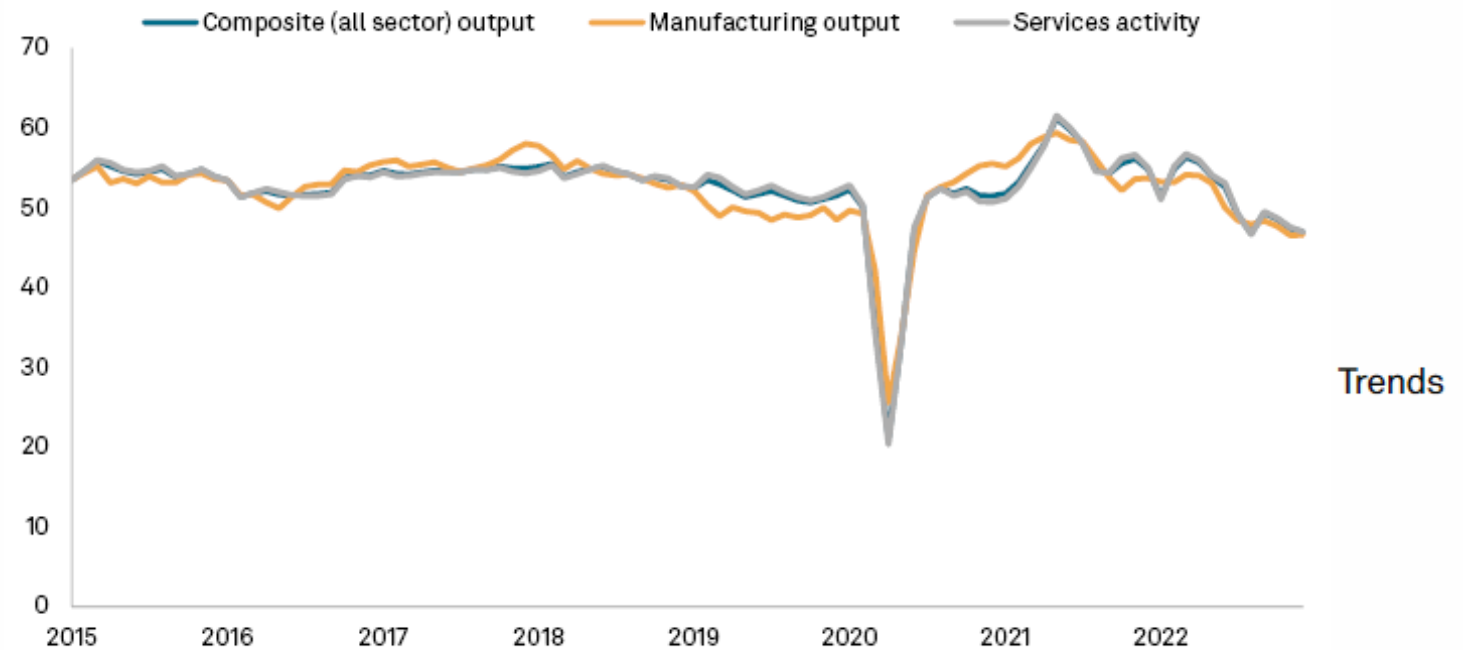
Inflation slowed last month thanks to cheaper fuel and airfares. [🔗](#)



Year-over-year percentage change in the Consumer Price Index • Source: Bureau of Labor Statistics

DECEMBER PMI'S
SIGNAL SLOWING
ECONOMIC
GROWTH AND
COOLING PRICE
PRESSURES.

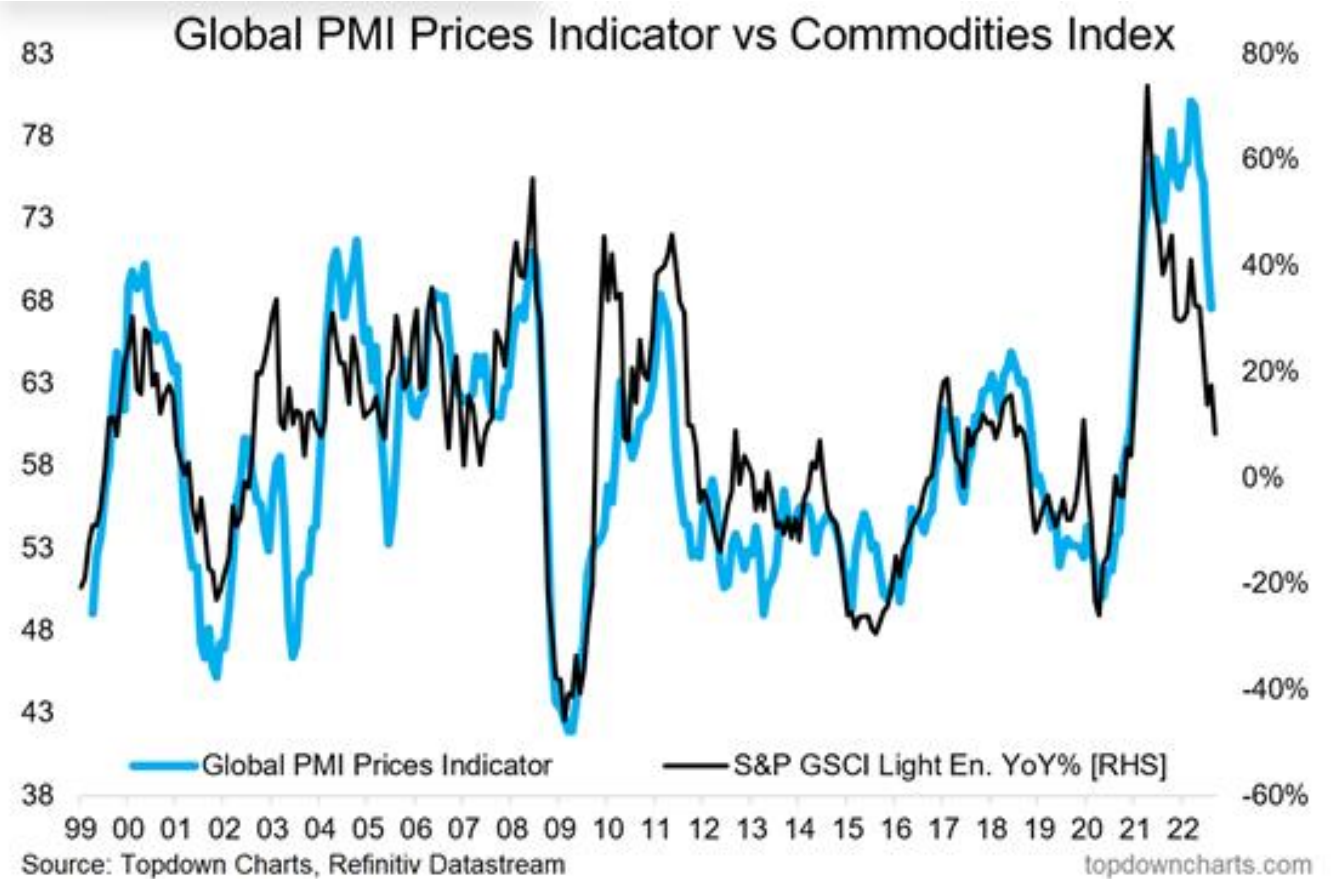
G-4 developed markets PMI output by sector



Data as of Dec. 21, 2022.
PMI = purchasing managers index.
PMI reading of 50 indicates no change in activity.
Source: S&P Global.
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Trends

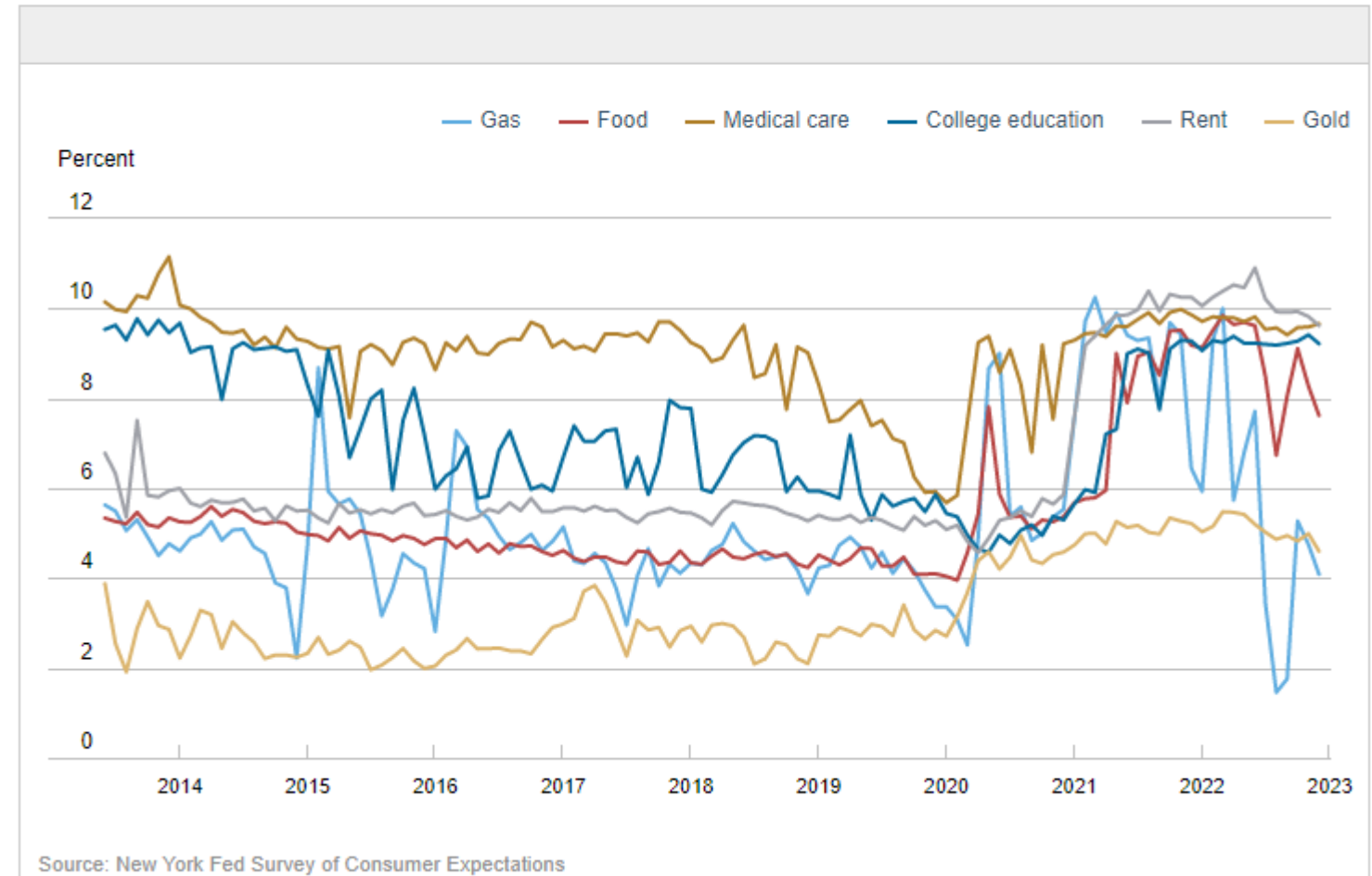
GLOBAL
PURCHASING
MANAGERS
INDEX HAS
PEAKED IN Q4,
2022



SHORT-TERM
INFLATION
EXPECTATIONS
CONTINUE TO
DECLINE INTO CY
2023.

Commodity price change expectations

Median one-year ahead point prediction

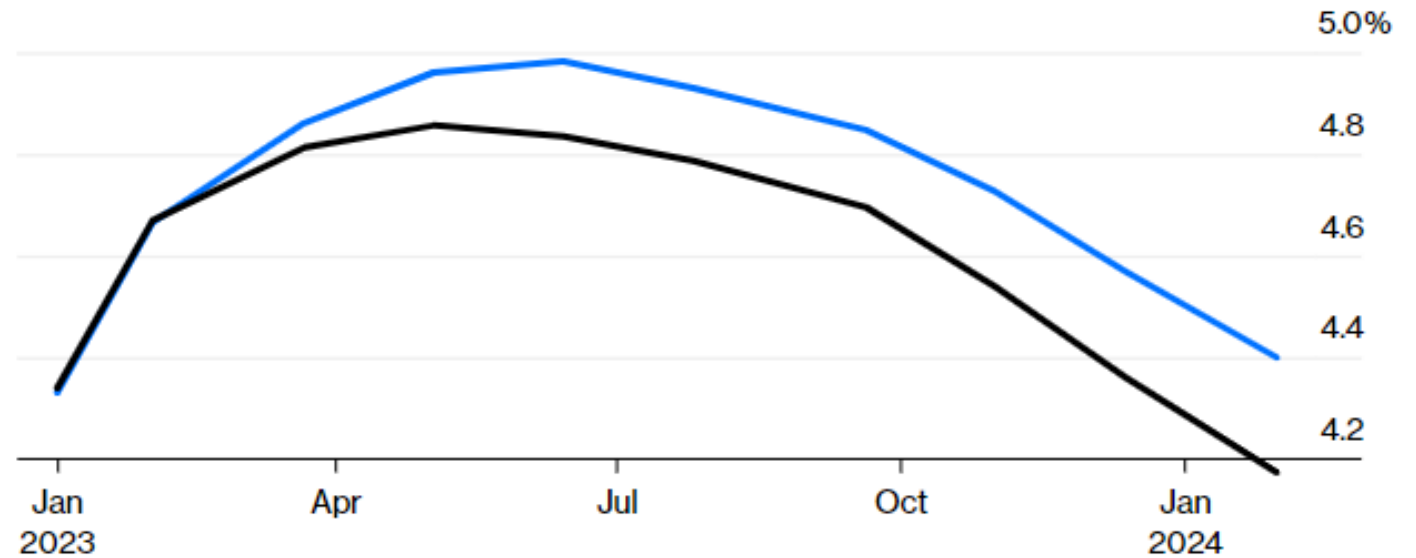


FEDERAL FUNDS
FUTURES
CONTINUE TO
IMPLY AT LEAST
TWO RATE CUTS
IN CY 2023.

Still Unconvinced

Fed funds futures continue to imply at least two rate cuts this year

Post-Minutes Implied Policy Rate (%) Pre-FOMC Implied Policy Rate



Source: Bloomberg World Interest Rate Probabilities

10 YEAR BOND IN
THE US LOOKS
LIKE IT ALSO
PEAKED (HIGHEST
YIELD) IN Q4,
2022

Yield | 3:51 AM EST

3.428% ▼ -0.019

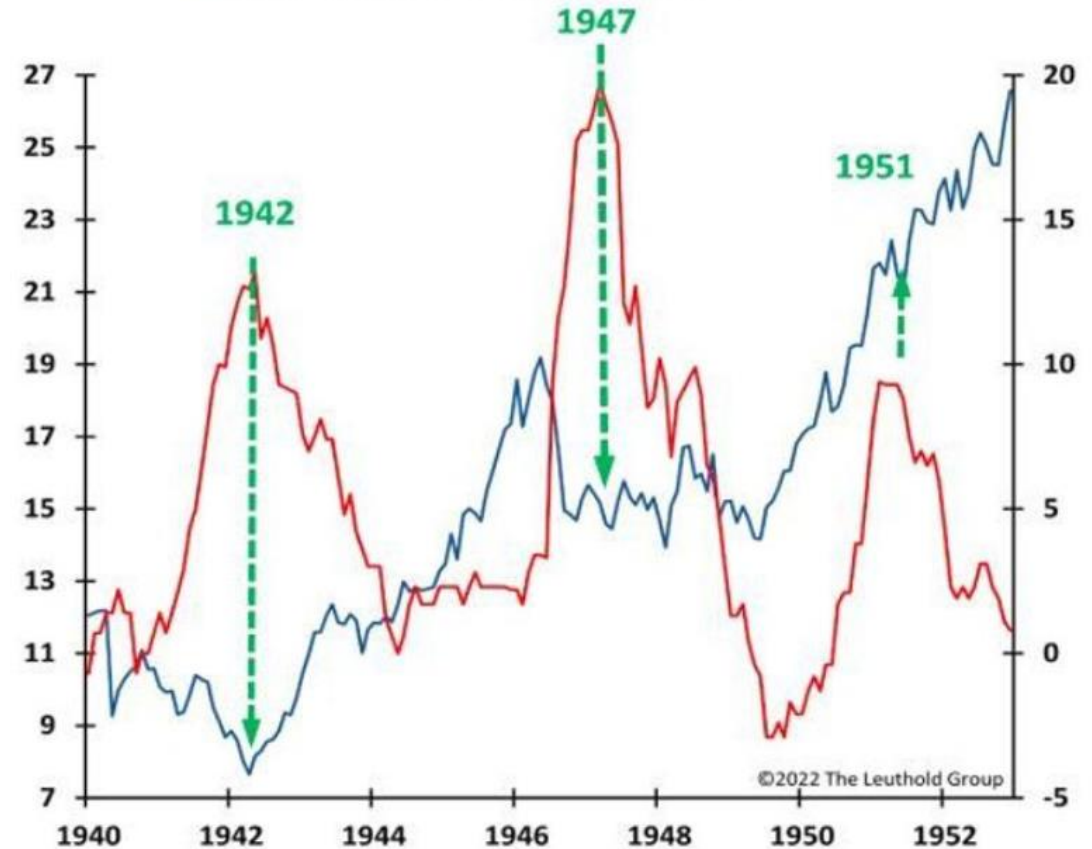
1D 5D 1M 3M 6M YTD 1Y 5Y ALL



THE S&P 500
LOOKS LIKE IT
EITHER
“BOTTOMED” OR
“IN ADVANCE OF”
THE ULTIMATE
INFLATION PEAK.

Chart 1
Major Inflationary Peaks & the Stock Market
1940 to 1952

— Left Scale: S&P 500 Stock Price Index
— Right Scale: Annual CPI Inflation Rate



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WORST CASE IN
THE 1970'S THE
S&P 500
DECLINED FOR
ONLY A FEW
MONTHS AFTER
INFLATION
PEAKED

Chart 2
Major Inflationary Peaks & the Stock Market
1968 to 1981

— Left Scale: S&P 500 Stock Price Index
— Right Scale: Annual CPI Inflation Rate



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