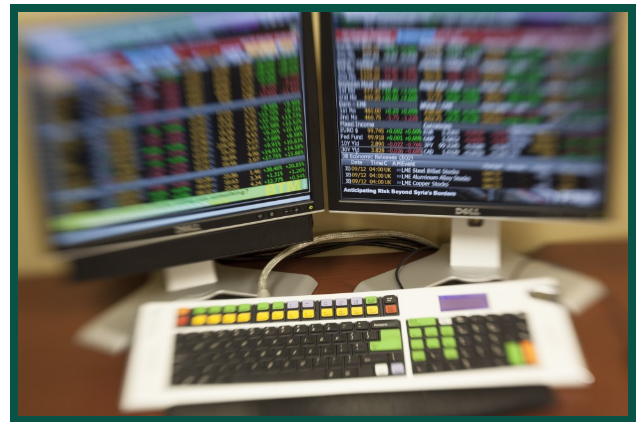
Wallington
ASSET MANAGEMENT

QUARTERLY NEWSLETTER

2024: FIRST QUARTER 141ST EDITION



" Central banks will stay the course in the fight against inflation, with the last mile to price stability the hardest."
~ BIS Annual Economic Report 2023

" The longest mile is the last mile home."
~ American Proverb

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CAPITAL MARKETS SCOREBOARD

Equities					
Indices	1Q24 Total Return (%)	2023 Total Return (%)	Index Characteristics		
Domestic			NTM P/E	P/B	Div. Yld. (%)
S&P 500	10.6	26.3	21.1	4.8	1.3
DJIA	6.1	16.2	18.6	4.9	1.8
NASDAQ	9.3	44.6	27.6	6.2	0.7
Russell 1000 Growth	11.4	42.7	27.8	12.4	0.6
Russell 1000 Value	9.0	11.5	16.1	2.5	2.1
Russell 2000	5.2	16.9	23.7	2.1	1.3
International*					
MSCI EAFE	5.9	18.9	14.4	1.9	2.8
MSCI Emerging Markets	2.4	10.3	12.1	1.7	2.3
MSCI United Kingdom	3.1	14.1	11.5	1.8	3.7
MSCI France	5.9	22.3	14.7	2.1	2.6
MSCI Germany	7.1	24.0	12.4	1.6	2.7
MSCI Japan	11.2	20.8	16.1	1.6	1.9
Global*					
MSCI All Country World	8.3	22.8	17.7	3.0	1.8

Fixed Income		
Indices**	1Q24 Total Return (%)	2023 Total Return (%)
Domestic		
U.S. Corp - Gov (1-3 Years)	0.4	4.6
U.S. Corp - Gov (3-5 Years)	-0.2	5.2
U.S. Corp - Gov (10+ Years)	-2.1	6.3
U.S. Treasuries Master	-0.9	3.9
U.S. Corporates Master	-0.1	8.4
U.S. Municipals Master	-0.3	6.5
U.S. High Yield Master	1.5	13.4
International*		
Developed Markets Sov Bond	-3.0	3.6

Commodities		
Resource	1Q24 Total Return (%)	2023 Total Return (%)
Precious Metals		
Gold	7.5	13.3
Silver	3.2	-0.6
Industrial Metals		
Copper	3.2	2.0
Aluminum	-2.8	-1.1
Energy		
Brent Crude Oil	12.0	-6.2
WTI Crude Oil	15.7	-10.3
Natural Gas	-29.9	-43.8

Key Rates				
Rates	3/31/2024	12/31/2023	3/31/2023	12/31/2022
U.S. Target Fed Funds Rate	5.50	5.50	5.00	4.50
2-Year U.S. Treasury	4.59	4.23	4.06	4.41
10-Year U.S. Treasury	4.20	3.88	3.48	3.88
30-Year U.S. Treasury	4.34	4.03	3.67	3.97
10-Year German Bund	2.29	2.00	2.33	2.53
10-Year Japanese Bond	0.70	0.61	0.32	0.42
30-Year Fixed Mortgage	6.82	6.82	6.54	6.36

Currencies				
Indices/ Exchange Rates	3/31/2024	12/31/2023	3/31/2023	12/31/2022
ICE U.S. Dollar Index	104.55	101.33	102.51	103.52
USD per EUR	1.08	1.10	1.09	1.07
USD per GBP	1.26	1.27	1.24	1.20
JPY per USD	151.35	140.98	133.09	131.95
CAD per USD	1.35	1.32	1.35	1.35

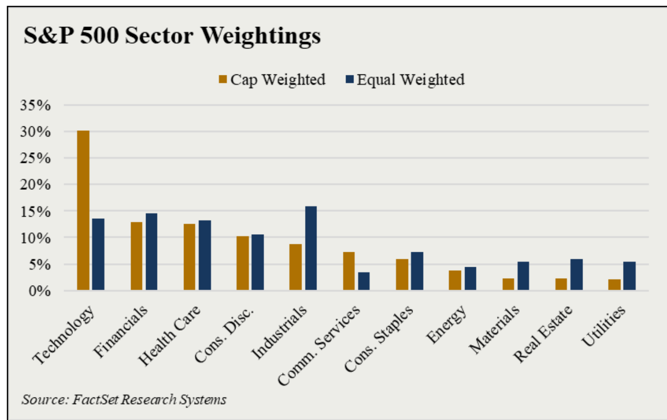
*Returns denominated in U.S. dollars

**ICE Bank of America Merrill Lynch (BofA-ML) indices

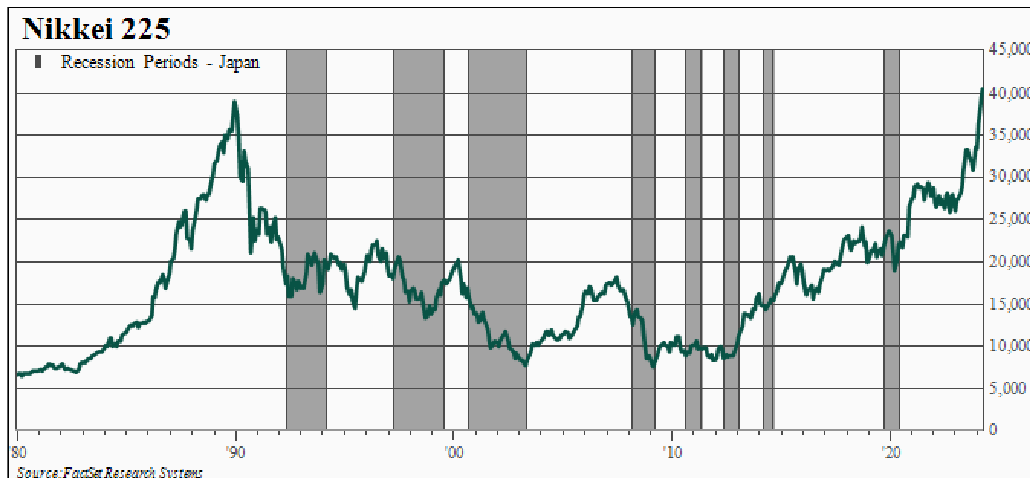
EQUITIES

- The Standard & Poor's 500 index (S&P 500) delivered a 10.6% total return (price change plus dividends) in the first quarter, its strongest start to a year since 2019. It hit 22 all-time closing highs in the quarter. All three major indices finished the quarter notching their fifth straight winning month, with the NASDAQ Composite Index and Dow Jones Industrial Average returning 9.3% and 6.1% respectively. The Russell 2000 Index, composed of small-capitalization stocks, returned 5.2%, continuing its momentum after a 14.0% gain in last year's fourth quarter.

- Growth stocks outpaced value stocks last year after a select few "Magnificent 7" names dominated the market. In the first quarter, the performance gap between growth and value stocks narrowed, as evidenced by Russell indices, which showed growth stocks returning 11.4% and value stocks at 9.0%. The anticipation of a dovish shift in monetary policy and a potential productivity surge from Artificial Intelligence (AI) technologies significantly broadened market performance in the first quarter. Ten of the eleven S&P 500 sectors were positive, with Communication Services (15.8%) and Energy (13.7%) Sector stocks leading the way. The Real Estate Sector was the only negative performer for the quarter (-1.1%) as investor concerns persisted over commercial real estate valuations. Despite broader performance to start the year, significant concentration risk remains, as shown in technology and tech-adjacent sector weightings.

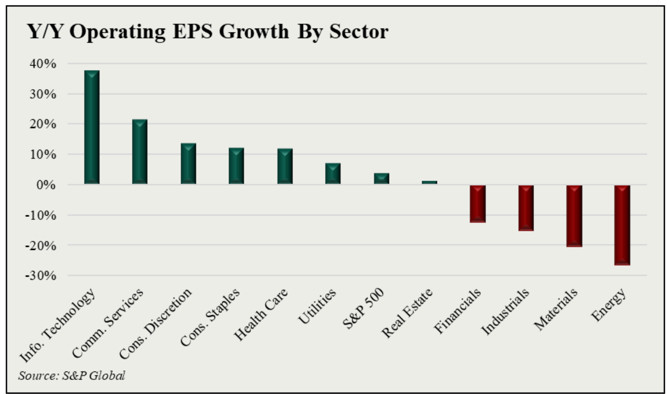


- The strong start to the year was not limited to U.S. markets. International developed markets stocks, as measured by the MSCI EAFE Index, returned 5.9% in the first quarter when denominated in U.S. dollars (USD). Japan led the way for developed nations as the Nikkei 225 index finally returned to all-time highs after 34 years. The MSCI Emerging Markets Index returned 2.4% (USD). Broad global equities, as measured by the MSCI All Country World Index (ACWI), returned 8.3% (USD).

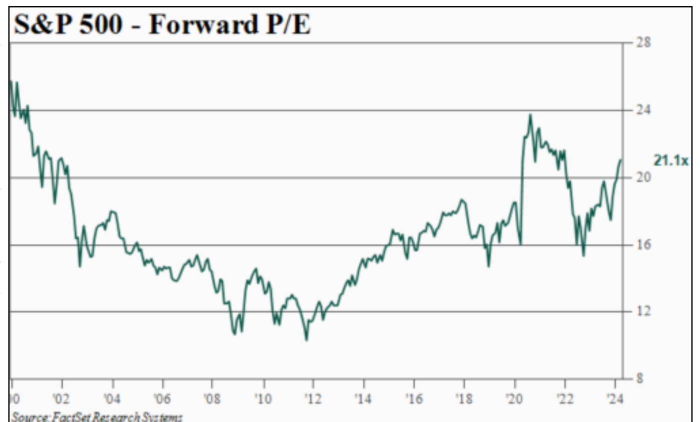


EQUITIES

- The S&P 500 is on track to report year-over-year (Y/Y) earnings growth for the third consecutive quarter despite facing initial pessimism from companies regarding their earnings outlooks. 71% of firms that provided forecasts now expect lower earnings growth in the quarter, surpassing the 5-year and 10-year averages. This cautious stance has led to a revised estimated S&P 500 earnings growth rate of 3.6% for the quarter, down from 5.8% at the beginning of the year. Despite downward adjustments, revenue forecasts remain positive, with the S&P 500 expected to achieve its 14th consecutive quarter of revenue growth at 3.5%. Looking forward, analysts remain optimistic about the earnings outlook for the remainder of 2024, predicting an 11% increase.

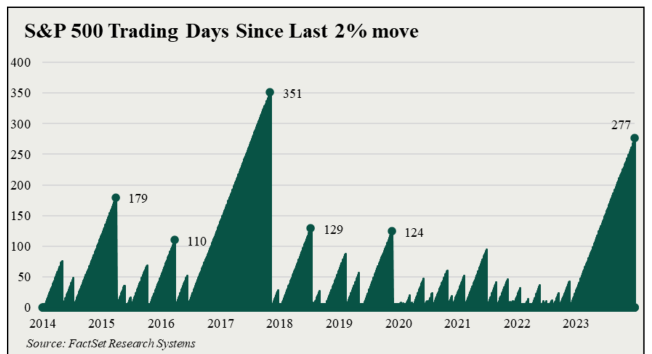


- Valuations marched higher as the S&P 500's price-to-earnings (P/E) ratio closed the quarter at 21.1x forward (next twelve months) earnings, above long-term norms. This caused heightened interest in the potential for a stock bubble, evidenced by a spike in related Google searches. While prices and valuations have risen, many criteria that characterize a bubble are still absent. In a letter to investors, Ray Dalio of Bridgewater Associates pointed out that market sentiment, leverage levels, and speculative cash flows on the mergers and acquisitions (M&A) front are still far from the high-risk levels typically associated with bubbles. Too, the benefits of AI may well warrant higher valuations due to its potential enhancement to productivity.



- The post-COVID rise in interest rates provided higher-yielding solutions for bank and other cash balances. Money market fund assets surpassed $6 trillion in 2023 and remain elevated, according to Federal Reserve (Fed) data. Many investors view these funds as untapped potential or "dry powder" for further capital flows into equities. However, a closer examination reveals a nuanced picture. According to Goldman Sachs, equities already constitute 48% of U.S. household assets, mirroring the peak observed in 2000 prior to the Technology Bubble and suggesting that the scope of potential growth in equity investment may be more limited than previously thought.

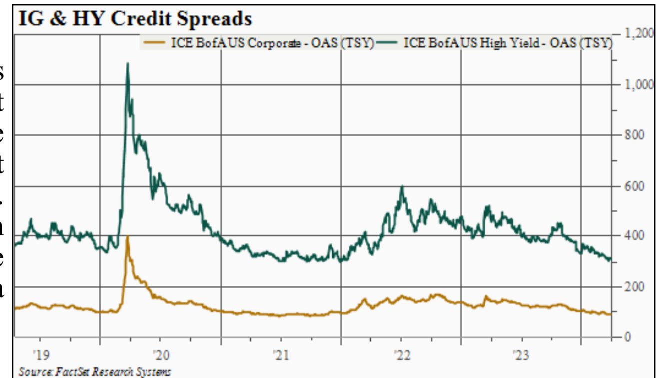
- Equity volatility has remained low by historical standards. The S&P 500 finished the first quarter with its 277th consecutive trading session absent a 2% drop in the index, marking its longest streak since 2018. The lack of daily volatility is in many ways surprising, as Goldman Sachs notes that the total value of shares controlled by options now exceeds the daily dollar volume of the stock market itself. The Chicago Board Options Exchange (CBOE) believes that increased dispersion (the spread of returns across different assets, sectors, and securities) and a positive turn in the economic outlook are behind the drop in volatility.



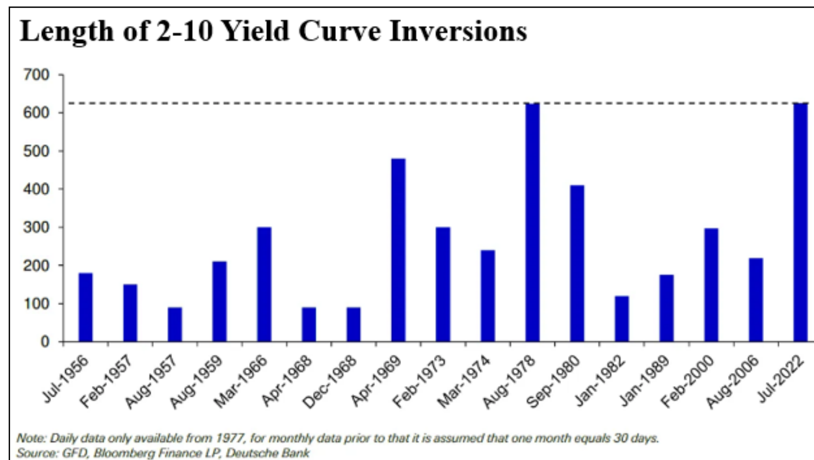
FIXED INCOME

- Following strong performance to the end of 2023, fixed income markets were relatively quiet to start 2024. Bonds with longer-dated maturities lagged their shorter-term counterparts as yields across the curve rose during the quarter. Rising yields lower the market value of bonds, which offsets returns from coupon payments. According to BofA-ML indices, corporate and government bonds with 1-3 years until maturity returned 0.4%, while those with 3-5 years and 10+ years until maturity finished negative, returning -0.2% and -2.1%, respectively.

- Corporate investment-grade and high-yield bonds outperformed U.S. Treasuries (USTs) as credit spreads (the yield differential between corporate and government debt) continued to narrow. Credit spreads reached their lowest levels since early 2022. These spreads imply investors now earn less than 1% of additional yield by investing in the average investment-grade corporate bond versus a comparable UST.



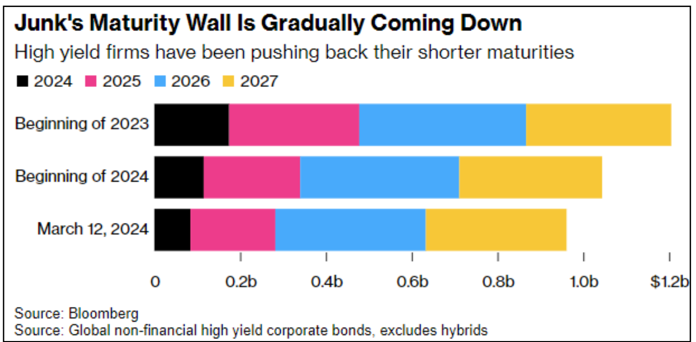
- The yield curve has officially passed the record for the longest consecutive inversion between 2-year and 10-year Treasuries. 10-year USTs have yielded less than 2-year USTs since July 5, 2022, which now exceeds the record 624-day inversion markets saw from 1978 to 1980. 10-year USTs finished the quarter yielding 4.20%, 0.42% basis points lower than the 2-year yield of 4.62%. Historically tracked as a recession indicator, the yield curve has remained inverted despite the continued calls from various economists predicting a recession which has yet to arrive.



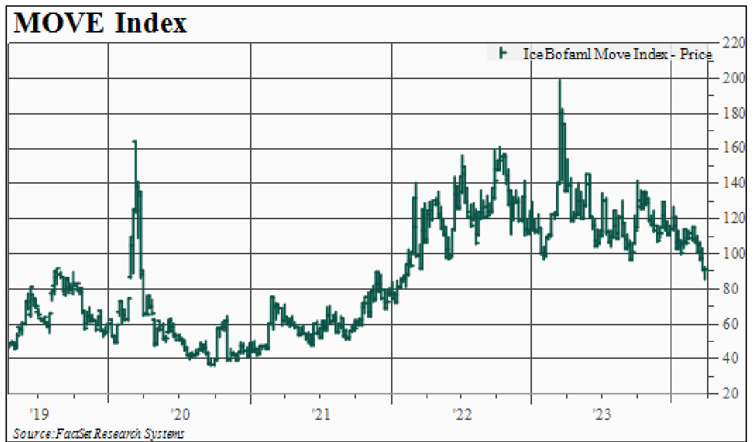
- At the year's onset, the bond market was pricing in seven 0.25% rate cuts by the Fed throughout 2024. That number has since moved down, and as of the end of the quarter, the fed funds rate futures market repriced to imply only three cuts for the year. The repricing is due to the continued strength in the labor market and higher-than-expected inflation readings. It has brought the bond market closer to the Fed's Summary of Economic Projections, released at March's Federal Open Market Committee (FOMC) meeting. Those projections show that the midpoint estimate of the 19 participants was for the federal funds rate to be between 4.50% and 4.75% by the end of the year, also implying three 2024 rate cuts. These expectations are unchanged from the previous summary of projections from December of 2023. Various economists and market participants have voiced concern over the Fed's rhetoric and the federal funds rate dot plot remaining unchanged despite members raising their expectations for future inflation and gross domestic product (GDP) growth.

FIXED INCOME

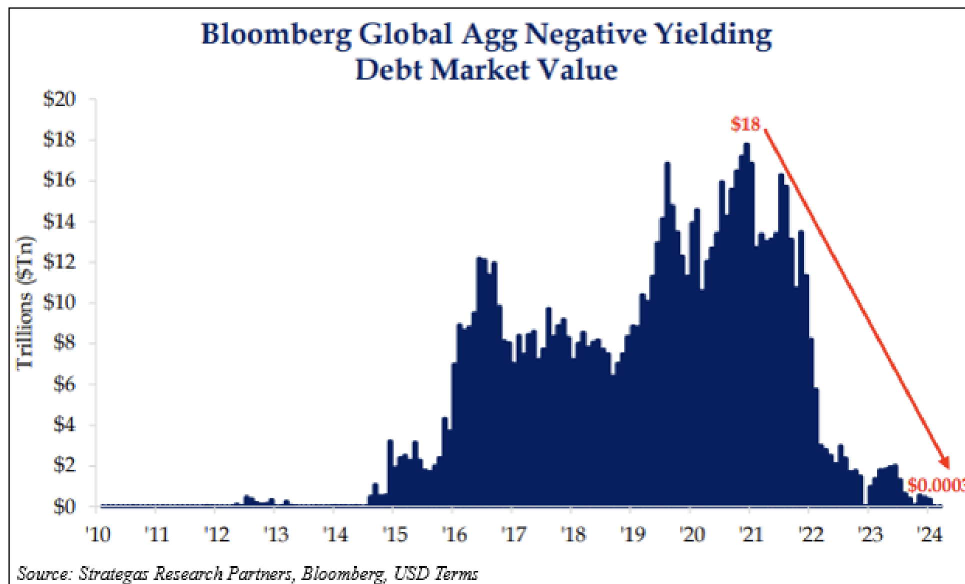
- One concern related to higher interest rates is the ability of companies to refinance their debt. According to an analysis by Bloomberg, corporations have been taking advantage of the lowest implied costs to refinance their debt since early 2022, helping to ease these concerns. High-yield companies refinancing their debt would now increase their annual interest costs by 1.8% compared to an increase of 4.6% in October 2022, based on the analysis. Globally, non-financial high-yield companies have decreased the amount of their debt coming due in 2025 from over $300 billion to under $200 billion.



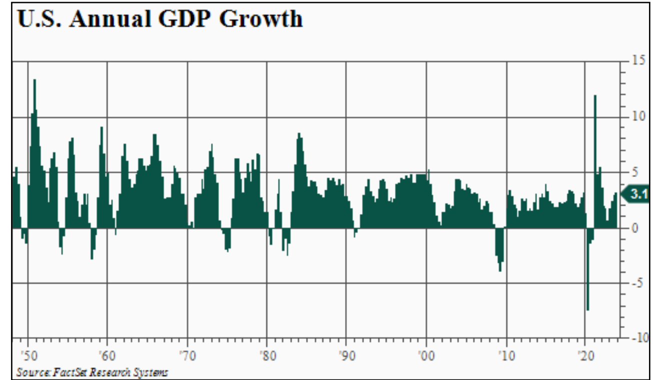
- In the past three years, fixed income markets have experienced increased volatility as bond traders dealt with global central banks raising interest rates. In recent months, there has been a drop in the MOVE Index, a gauge of interest rate volatility produced by Merrill Lynch, as central banks signal the rate hiking cycle is likely over. The index finished the quarter with a reading of 86.4, its lowest since early February 2022. For reference, during the March 2023 bank failures, the index touched 198.7. The fall of the MOVE Index is a good representation that investors are getting more comfortable with the future path of yields and other assets.



- On March 18, the Bank of Japan (BOJ) raised its short-term interest rates for the first time in 17 years as it exited its long-standing negative interest rate regime. Japan adopted a negative interest rate policy in February 2016 as the country struggled with deflationary concerns. After holding interest rates at -0.1% for eight years, the BOJ has set its new rate policy at 0.0% to 0.1%. At its peak at the end of 2020, total negative-yielding debt was over *$18 trillion*. As global economies struggled with inflation over the past few years, the amount of negative-yielding debt steeply declined, and this recent move by the BOJ appears to have marked the end of the negative interest rate era.

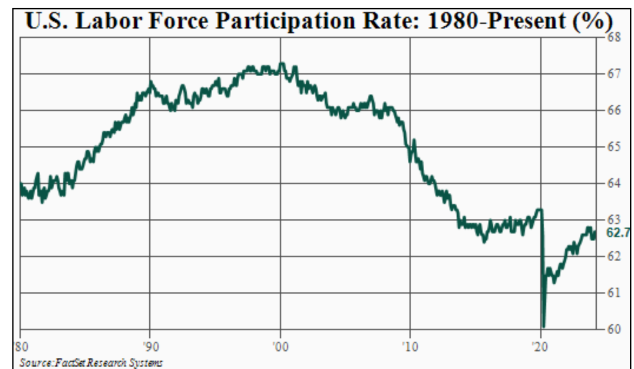


- The U.S. economy continues to defy forecasts. Contrary to expectations of a recession, it accelerated in the latter half of 2023. While below the 4.9% Y/Y seasonally-adjusted annualized growth rate registered for the third quarter, the final revision to GDP for the fourth quarter came in up 3.4% Y/Y. Both were significantly higher than the first two quarters of 2023 which showed Y/Y growth of 2.2% and 2.1% respectively. For the full year, the growth rate of 3.1% was one of the strongest globally among developed countries.



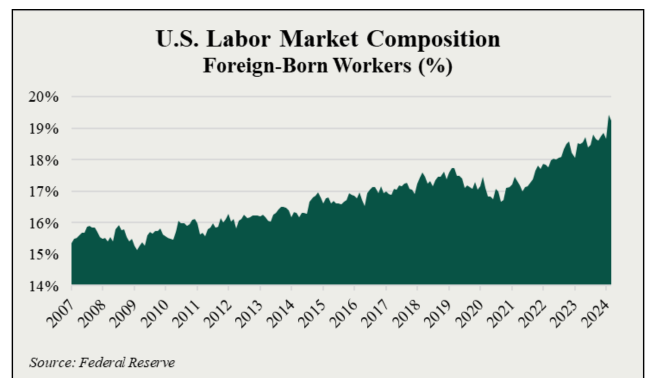
- Consumer spending, which accounts for roughly two-thirds of GDP, has been resilient, increasing 3.3% in the fourth quarter of 2023 and up nearly 30% since January 2020. After softening in January, up a scant 0.2%, it jumped 0.8% in February, its largest gain in over a year. The February increase caused the Atlanta Fed to move its estimate higher for first quarter GDP to a 2.3% Y/Y rate. Even with a strong, resilient economy and positive real (inflation-adjusted) average hourly earnings, the University of Michigan Consumer Sentiment Index was 76.5 in March, down from 101.0 pre-pandemic. Consumers' gloomy attitude, which bears watching given its potential to impact economic growth, has been attributed to persistent higher-than-normal inflation and high interest rates. While the inflation rate is declining, prices continue to increase, just at a slower rate.

- The labor market remains strong as 303,000 jobs were added in March according to the U.S. Labor Department. Healthcare and Social Assistance (81,300), Government, mostly local (71,000), and Leisure and Hospitality (49,000) accounted for two-thirds of the job gains in March, very similar to February's report. The unemployment rate dropped to 3.8% in March from 3.9% the prior month, despite the labor force participation rate increasing to 62.7%. This marked the 26th consecutive month the unemployment rate has been below 4.0%, its longest streak since the 1960s.



- Average hourly earnings rose 4.1%, well above the Consumer Price Index (CPI) inflation rate of 3.2%. Real wage growth remains positive as demand for workers continues to outpace supply. At the end of February, there were 8.5 million job openings, 1.4 times the number of unemployed workers.

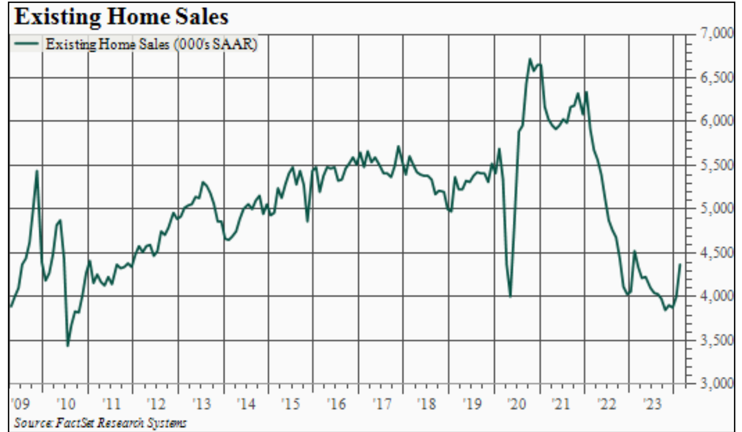
- The demographic composition of the U.S. labor force continues to change. At the end of 2023, 31 million workers in the U.S. (19.3%) were foreign born, a historic high since WWII. The number of foreign-born workers entering the workforce has far exceeded the number of native-born workers entering in recent years. Since the start of 2020, the native-born labor force has shrunk by more than 500,000 workers but the foreign-born labor force has grown by 4.3 million, and this may be under-counting. Net-net, this may benefit the U.S. economy because foreign-born workers fulfill many jobs native-born workers have been unwilling to perform, thus making the economy more productive.



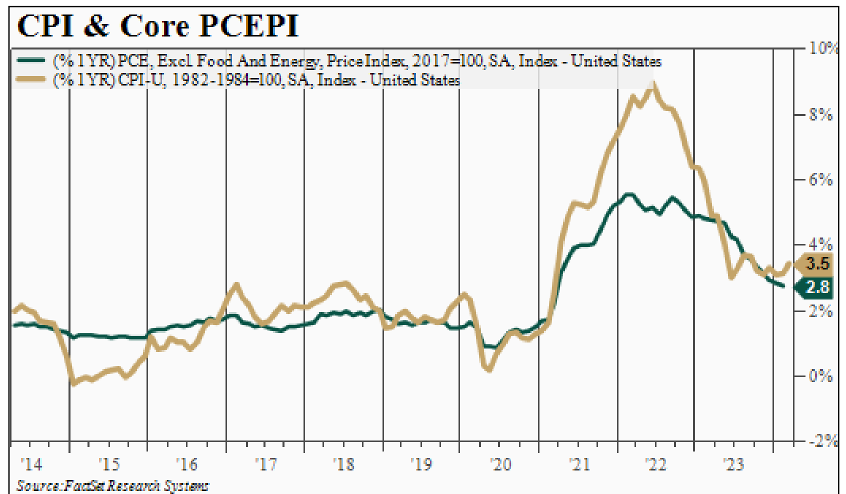
ECONOMICS

- One notable positive for the economy in 2023 was labor productivity increasing at an annual rate of 3.2% in the fourth quarter and 2.7% for the year. This compares to an average of 1.1% in the decade before the pandemic. Increased productivity and workforce expansion are important components of economic growth, and the proliferation of AI is expected to provide significant tailwinds to that growth.

- The housing market has faced a challenging combination of low inventory, high prices, and high interest rates. Existing home sales were 4.09 million in 2023, down 19% from 2022 and the lowest annual sales rate since 1995. Sales trended upward in the first quarter, though, as February results were 9.5% higher than in January, which rose over December, marking the first consecutive monthly sales increase in two years. Showing the most strength were higher priced homes. Sales for homes priced above $1 million were up 37% and homes priced in the $750,000 – $1 million range were up 23%. New home sales have been helping to alleviate supply constraints while the shortage of existing homes also eased in February, with inventory up 10% compared to a year earlier. Even with supply constraints easing and higher mortgage rates hurting affordability, home prices remain elevated. The median existing home price in February was $384,500, more than 40% higher than the level seen in January 2020. The S&P Core Logic Case-Shiller National Home Price Index showed home prices were up 6% for the 12 months ending in January, with the 10- and 20-City Composite indices rising 7.4% and 6.6% respectively. On a seasonally-adjusted basis, home prices continue to surpass last year's all-time highs.



- Inflation slowed steadily through November 2023, but the decline has plateaued since then. The CPI rose at an annual rate of 3.5% in March, up from 3.2% in February and 3.1% in January. Stripping out food and energy, the core CPI rose at an annual rate of 3.8%, the same as in the prior month of February and little changed from 3.9% in December. The service sector has been responsible for much of the elevated inflation and the Fed expects it to ease this year, but March saw no signs of that easing. The service sector index excluding energy increased 0.5% from the previous month, and at an annual rate of 5.4%. Combining this index with the index for gas contributed more than half of the monthly increase in prices for all items. Within the service sector, shelter costs were responsible for most of the inflation, up 5.7% for the 12 months ending in March. Annual inflation for core CPI goods was -0.3% in February, while core CPI services was 5.2%. The Fed's favorite inflation measure, the personal consumption expenditures price index (PCEPI), has run lower than the CPI because of a lesser weighting in shelter costs. This index was up 2.5% in February (latest reported data) on an annual basis, 0.7% below the February CPI annual rate.

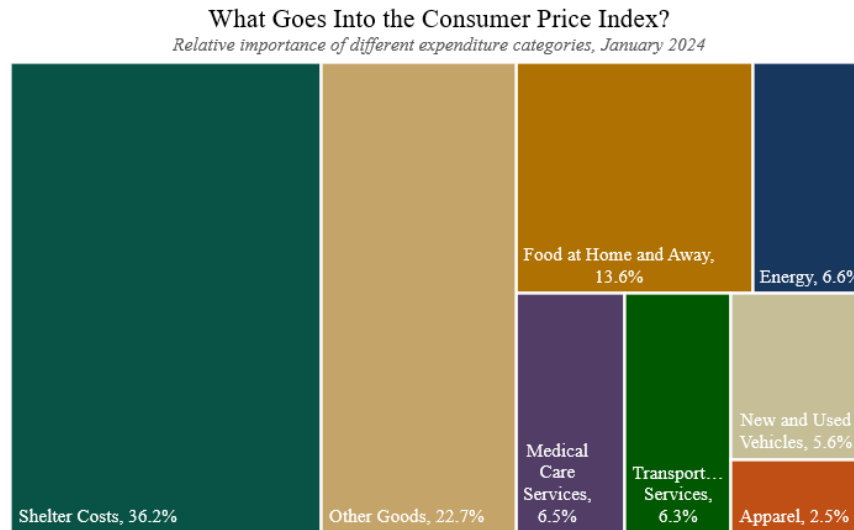


THE FED'S INFLATION DILEMMA: "THE LAST MILE"

The media and investors have been increasingly focused on inflation, much like they were in the decade of the 1970s, even though inflation now is not nearly as problematic. Understanding inflation and the data behind how it is calculated is essential, particularly when the risk of higher inflation exists. It is imperative that the Fed understands the numbers since it manipulates interest rates and employs monetary policy to adhere to its dual mandate of pursuing the economic goals of maximum employment and price stability. Individual consumers experience the effects of inflation first-hand, and understanding the numbers within the inflation reports is essential for personal financial management and investment strategies. Inflation erodes the purchasing power of money over time, impacting everything from the cost of goods and services and standards of living to the value of savings and investments. Specifically for investors, accurately gauging inflation and future Fed policy also provides the backdrop for adjusting portfolios to potentially capitalize on opportunities that might be created. And what may be just as important, if not more so, in a year of a Presidential election, particularly this upcoming election, is that the inflation rate matters greatly to candidates and their constituents.

The Primary Calculation Methodology in Reporting Inflation: Consumer Price Index (CPI)

The most familiar inflation measure used to report inflation is the CPI, prepared by the Bureau of Labor Statistics (BLS), which tracks only consumer out-of-pocket spending on a basket of 80,000 goods and services. There are many versions of the CPI, but the one quoted most is the CPI-U, where "U" refers to all urban consumers, covering 93% of the population. CPI measures are also available for consumers based on age, income, or metropolitan area. The 80,000 goods and services can be aggregated in many ways, but what is typically reported monthly are the following categories:



The weights, which currently total 39% for goods and 61% for services, are based on spending data obtained from the prior two years of consumer expenditure surveys the Census Bureau conducts on behalf of the BLS. Therefore, the CPI is designed to be a weighted average of prices for a basket of goods and services representative of consumer out-of-pocket spending.

Surprisingly, the BLS does not directly include home prices in calculating the CPI since it views housing as an investment, not a consumption good. However, since shelter costs are a large part of personal budgets, the institution attempts to measure the service component of shelter costs. This includes rent paid to landlords, weighted currently at 7.6%, and what homeowners estimate they could receive in rental income from their houses, referred to as owner-equivalent rent (OER), weighted at 26.8%. As mentioned in the

Economics section of this newsletter, housing prices have increased significantly since the onset of COVID, causing OER inflation to run higher and, therefore, overall CPI inflation to be higher.

Because the BLS is focused on the price changes of current consumption, they also do not directly include interest expenses when calculating the CPI. The BLS considers interest as the price paid for shifting the timing of consumption, even though the economic pain of paying higher interest, whether for a mortgage, auto loan, or credit card, is real. For example, obtaining a 30-year mortgage provides the ability to move into a home now instead of waiting until enough money has been saved to pay with cash. Interest rates do, however, affect the CPI indirectly as reflected in recent housing market price changes and the subsequent impact on OER, in addition to other price changes.

While the CPI is the most quoted inflation indicator, it is not a perfect indicator of inflation due to three main challenges. One is substitution bias; as prices change, consumers substitute like items. The CPI does not pick up substitutions because the weights of the basket of goods and services are not changed contemporaneously but annually. Another challenge involves OER since almost two-thirds of American households own their homes and one-third rent. If rents and OER increase, it adds to inflation and likely increases home prices, much to the delight of homeowners but not to renters. And third, the CPI lags in accounting for quality changes in goods and services, which can impact inflation in either direction.

What is Your Inflation Rate (or How is Inflation Impacting You?)

Inflation impacts people in different ways, and it is possible for an individual or family to compute a personal inflation measure based upon their own spending by categories. However, that measure may be materially different than inflation as reported by the CPI. For example, if the price of used cars increases, but the individual or family did not buy a used car, their personal inflation rate for the period will deviate from the aggregate inflation measure. It also matters where the individual or family lives. While the CPI was up 3.2% in the 12 months ending in February, it was up 4.9% in Miami and 4.3% in Seattle, versus 2.4% in San Francisco and 2.2% in Phoenix.

Whether inflation is a help or hindrance for an individual or family is likely based on household income and whether inflation is moderate or high. For most affluent investors, moderate inflation has often been a contributor to wealth creation. For example, for those owning a home, if the OER goes up, wealth may increase. Since 1960, the median selling price of an existing home has increased 2.4 times more than inflation. Additionally, stocks have historically generated returns more than three times the rate of inflation and bonds more than two times the inflation rate. Therefore, households with home and equity ownership will generally not be harmed nearly as much by inflation as those without such ownership. Further, lower-income households often feel the most sting of higher prices and higher interest rates as these consumers usually spend a higher proportion of household income on shelter, food, energy, and transportation than the weights in the CPI reflect. Since the pandemic, overall CPI inflation is up 20%, but grocery prices are up 25%, electricity 25%, used cars 35%, rent 28%, and auto insurance 33%. Everyday products such as baby wipes, bleach, cocoa, cooking oil, lattes, deodorant, dog food, eggs, nutrition bars, ramen, and many others are up more than 50% since February 2020. Lower income households also rely more on revolving credit, which has caused further pain as the interest rate on credit card debt reached a record high of 23%. These consumers are also more likely to purchase and finance a used car at higher interest rates. Accordingly, even moderate inflation can negatively influence these consumers.

The Fed and Inflation

The Bureau of Economic Analysis (BEA) calculates another measure of inflation, the personal consumption expenditure price index (PCEPI), which is preferred by the Fed over the CPI. In their calculation, the BEA attempts to measure the costs of everything households consume, even if not paid directly out of pocket. For example, the PCEPI includes all healthcare spending, including that paid by employers on behalf of workers as well as taxpayer-funded programs such as Medicare. Important differences exist in the calculation

methodology of the PCEPI compared to the CPI. The weighting for items in the PCEPI changes on a month-to-month basis as determined by data from the Commerce Department, designed to capture how consumers and others are spending their money now as opposed to the previous two years as with the CPI. The month-to-month weighting changes allow the substitution effect to be quickly factored into the data. Also, at 15% currently, the PCEPI gives less than half the weight as the CPI to housing costs but almost three times the weight to healthcare costs. It is for these reasons the PCEPI is the Fed's preferred inflation measure.

As mentioned, the Fed closely monitors inflation indicators to make informed decisions about monetary policy adjustments. By implementing measures to either stimulate or cool down economic activity, the Fed aims to maintain a target inflation rate conducive to sustainable economic growth and price stability. Since inflation causes people to spend more of their wealth, and Fed policy has been such a significant contributor to the wealth gap in the U.S., some people may wonder why the Fed does not set an inflation target of zero instead of 2%. The 2% target was formally adopted by then Fed Chairman Ben Bernanke in January 2012, which aligned the Fed with many of the world's other major central banks. The major concern with a zero-inflation target is the lack of margin between zero inflation and deflation. Deflation has historically only occurred during times of contraction or negative economic growth. Japan is a recent example. Following its stock market and real estate bubble bursting at the end of 1989, Japan experienced three decades of negative or stagnant economic growth and several years of deflation. Many periods in which the U.S. experienced deflation (1921-1922, 1930-1933, 1938-1939, and 2009, for example) are associated with recession or depression. Thus, the Fed feels a zero-inflation target would result in too many years of contracting or stagnant economic growth. Consequentially, they view moderate inflation of 2% as a less risky target.

Since the adoption of the 2% target in 2012, there were consecutive years in which inflation stayed below target. Beginning with 2013, the CPI stayed below target for four straight years and at one point (2015) registered just slightly above zero. Two more years (2019 and 2020) the CPI again did not reach target. Today, the environment is obviously very different. Consequently, the debate has now become focused on whether a 2% target is too low. Or in other words, in trying to achieve a 2% inflation target rate, are the risks too great of hindering the economy to the point of causing unemployment to rise appreciably? In the Federal Reserve Bank of Atlanta's Policy Hub No.1-2024 (January 2024), David Rapach notes the following:

> *U.S. inflation surged starting in spring 2021, with the CPI inflation reaching a 40-year high of 9 percent in mid-2022. Together with improving supply-chain conditions, policy tightening by the Fed decreased inflation to within 1 to 2 percentage points of its 2 percent target by late 2023 without a significant increase in unemployment. However, concerns have been raised that the last mile of disinflation to reduce inflation consistently to its 2 percent target will be more arduous than the previous miles. Close examination of such concerns indicates that they do not receive compelling support. Because the last mile is likely not significantly more arduous than the rest, it is unlikely that the Fed needs to exert extraordinary effort in terms of additional policy tightening as inflation nears its target. Such tightening unnecessarily increases the risk of a "hard landing."*

That was in January and since that time, inflation has shown signs of being more persistent than many thought. While expectations at the start of the year were for seven interest rate cuts of 0.25% starting sometime early in the year, economists and investors have become increasingly pessimistic that the Fed will be able to lower rates without lighting fire to inflation. While the Fed chose to make no changes to interest rates at their March meeting, Fed funds futures now reflect just three rate cuts, the yield on the benchmark 10-year U.S. Treasury has risen sharply this year, and the price of gold recently reached an all-time high and is nearly back to the inflation-adjusted high seen in 1980.

Recently, Minneapolis Fed President Neel Kashkari even commented that no rate reductions was a possible scenario if inflation continues to move sideways. Those still opining for rate cuts, like Mohamed A. El-Erian, Chief Economic Advisor at Allianz, have expressed thoughts that the Fed should adopt an inflation target of 2.5% or even 3% since they present a lot less risk than the Fed's current 2% target. Time will certainly tell what this "last mile" will look like for the Fed. Will they continue driving down the road toward a 2% target, or will they change course? All eyes (the media, investors, economists, and the like) will be glued to the road in the upcoming inflation reports, again as they were in the 1970s.

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