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# **2022 US Inflation and Interest Rate Outlook: Don't buy the inflation hype**

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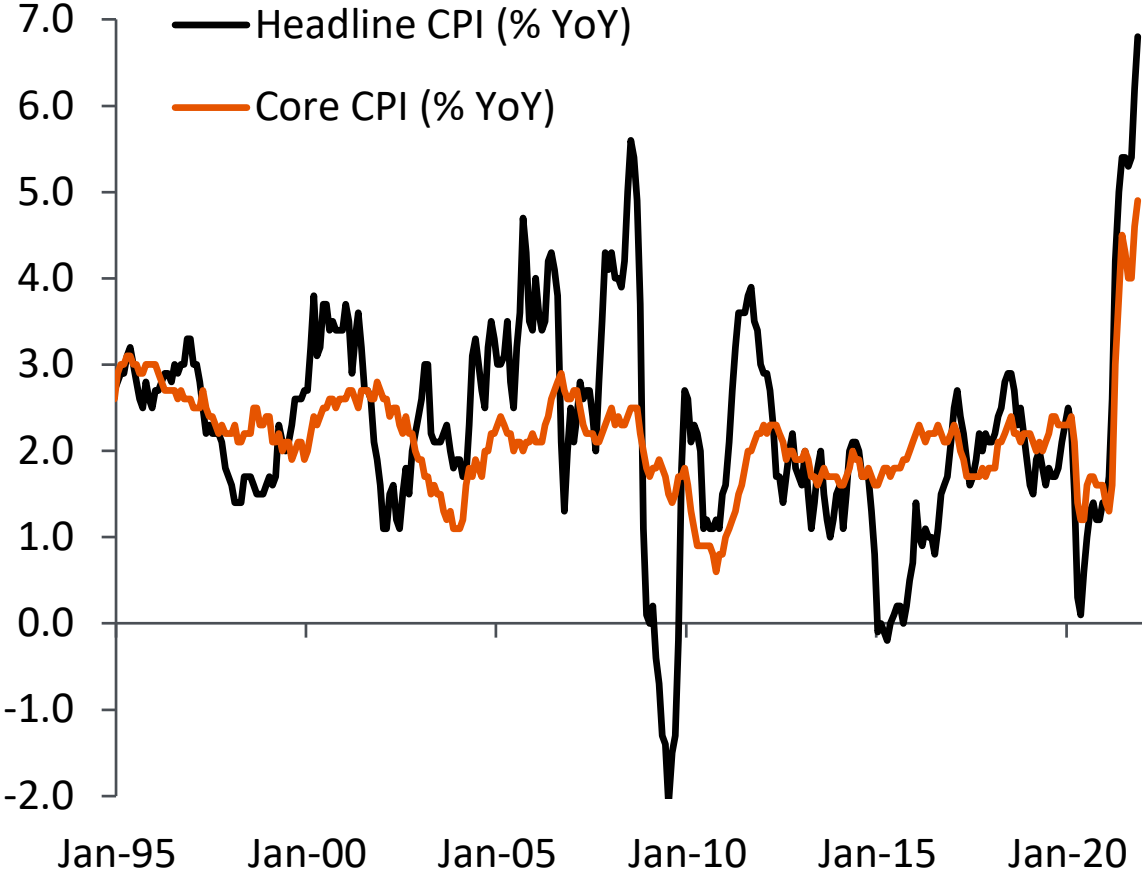
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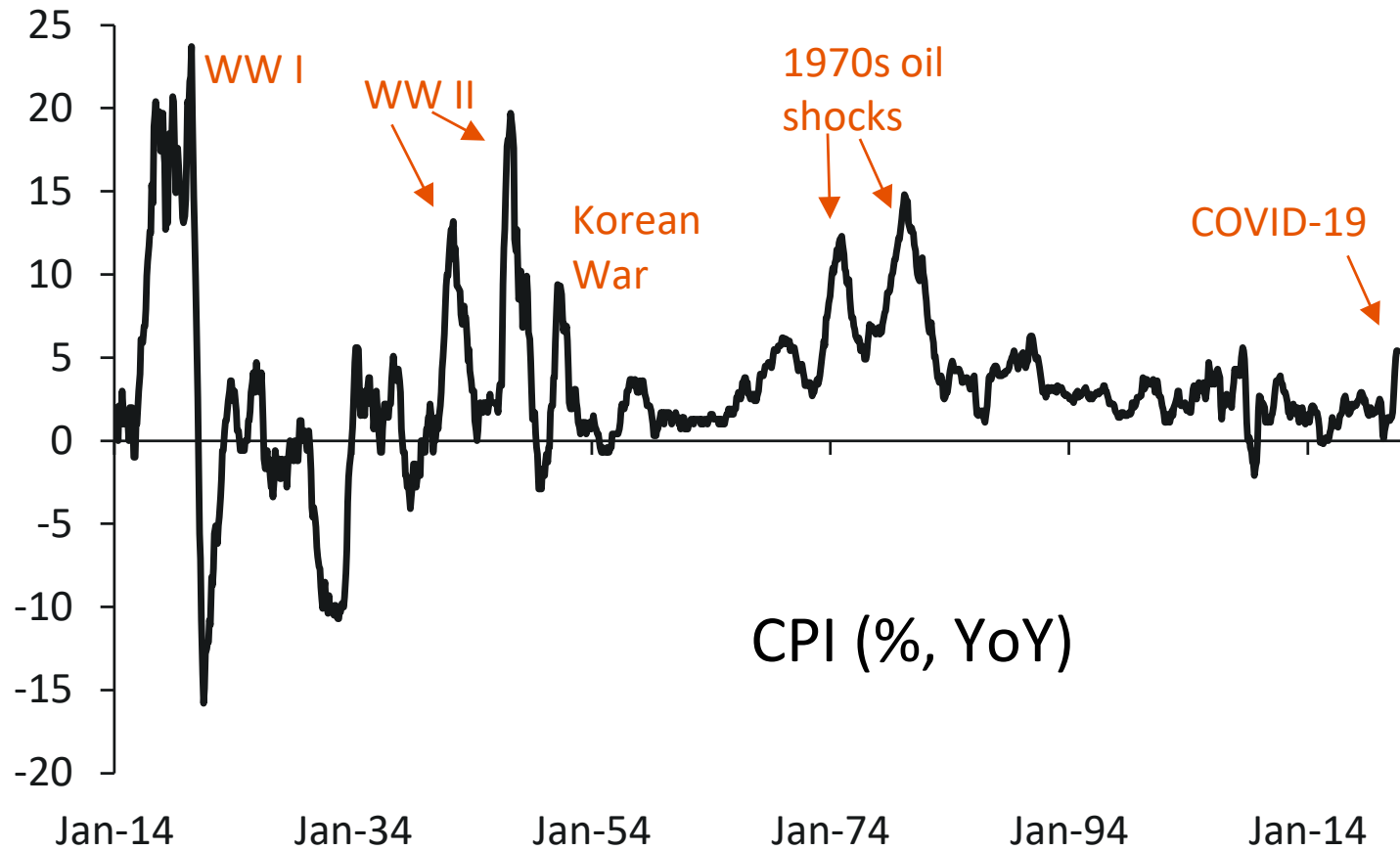
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- **Don't buy the inflation hype**
  - **(Lack of) Credit Creation Under the Fed**
  - **The relationship between wages and inflation**
  - **Low interest rates for years**
  - **Inflating the equity bubble**

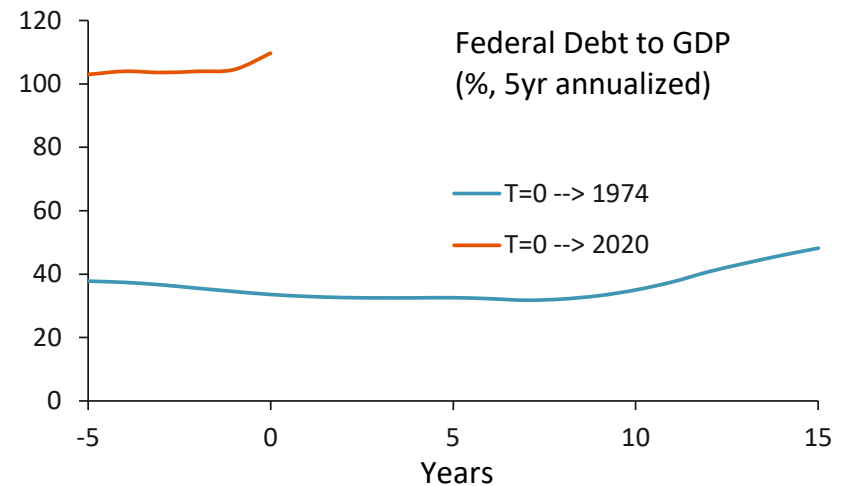
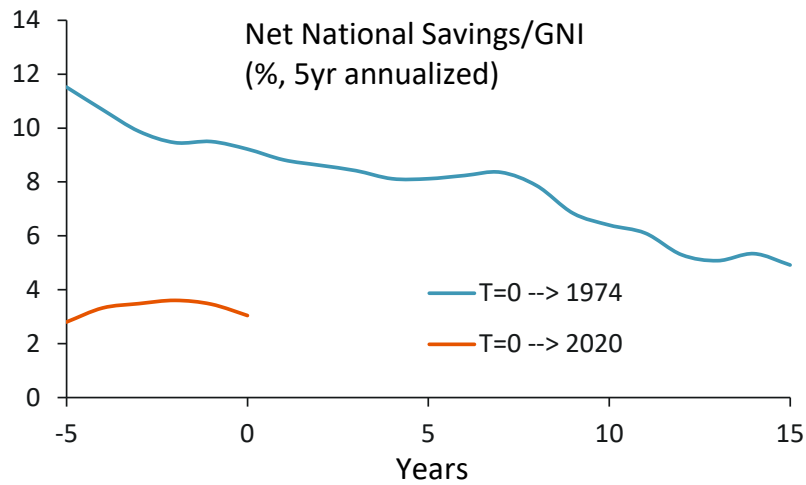
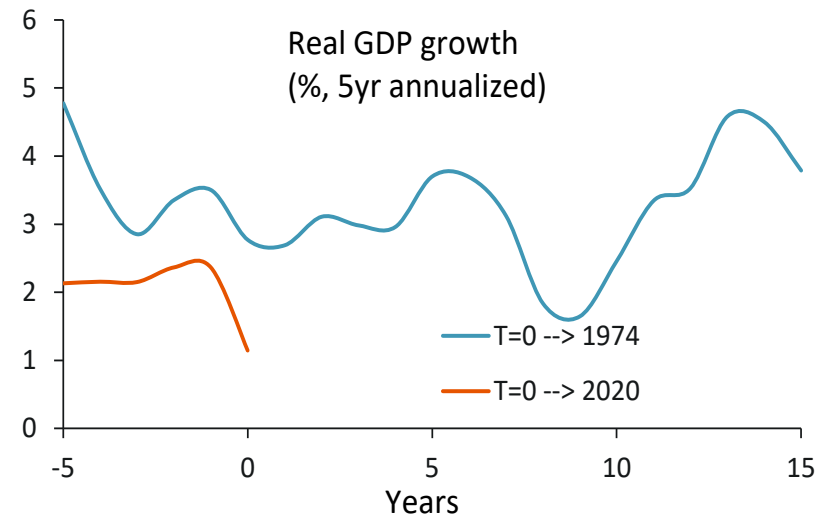
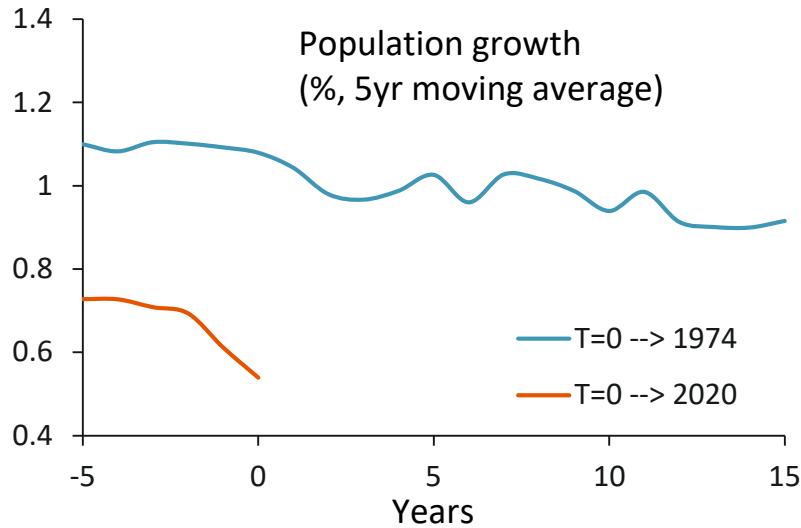
# Inflation has jumped higher, but....



## ...remains low by historical standards



# Today's economic conditions do not support sustained inflation as readily as they did in the 1970s



## What is driving inflation higher?

Categories	Nov-21 Weight(%)	Actual		Adjusted	
		CPI (%, YoY)	Core CPI (%, YoY)	CPI (%, YoY)	Core CPI (%, YoY)
<b>All items</b>	<b>100.0</b>	<b>6.8</b>	<b>4.9</b>	<b>3.4</b>	<b>3.2</b>
Shelter	32.4	3.8		3.8	
Food	14.0	6.1		6.1	
Transportation commodities	7.9	<b>19.2</b>		<b>2.0</b>	
Medical care services	7.0	2.1		2.1	
Energy	7.5	<b>33.3</b>		<b>2.0</b>	
Education and communication services	6.0	1.7		1.7	
Transportation services	5.0	3.9		3.9	
Household furnishings and supplies	3.8	6.0		6.0	
Recreation services	3.7	2.8		2.8	
Apparel	2.7	5.0		5.0	
Recreation commodities	2.0	3.9		3.9	
Other personal services	1.6	4.5		4.5	
Medical care commodities	1.5	0.2		0.2	
Other goods	1.5	4.3		4.3	
Water/sewer/trash collection services	1.1	3.5		3.5	
Alcoholic beverages	1.0	1.9		1.9	
Household operations	0.9	8.4		8.4	
Education/communication commodities	0.5	0.9		0.9	

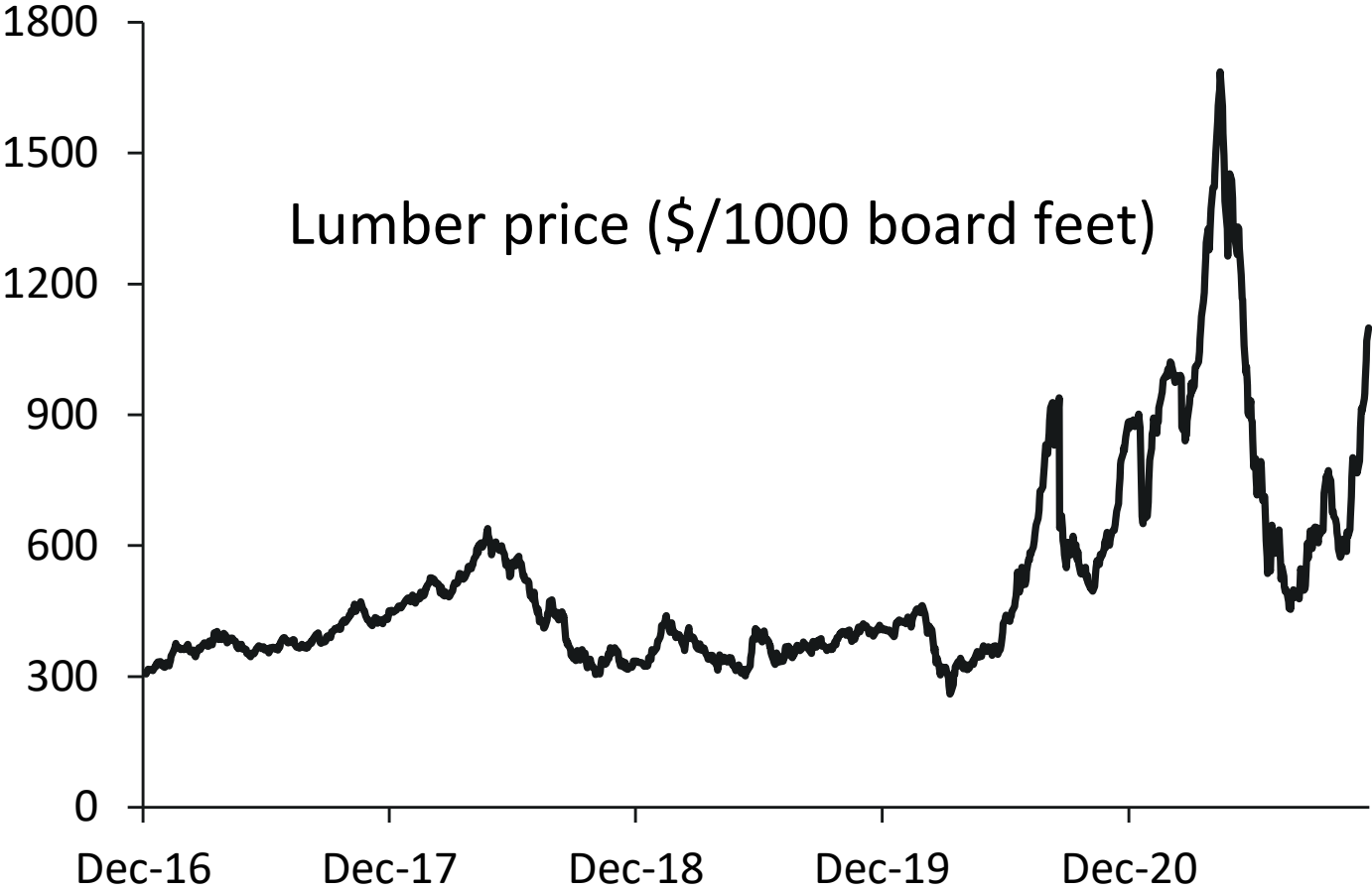
Used car and truck prices  
(up 31% YoY)

Gasoline prices  
(up 58% YoY)

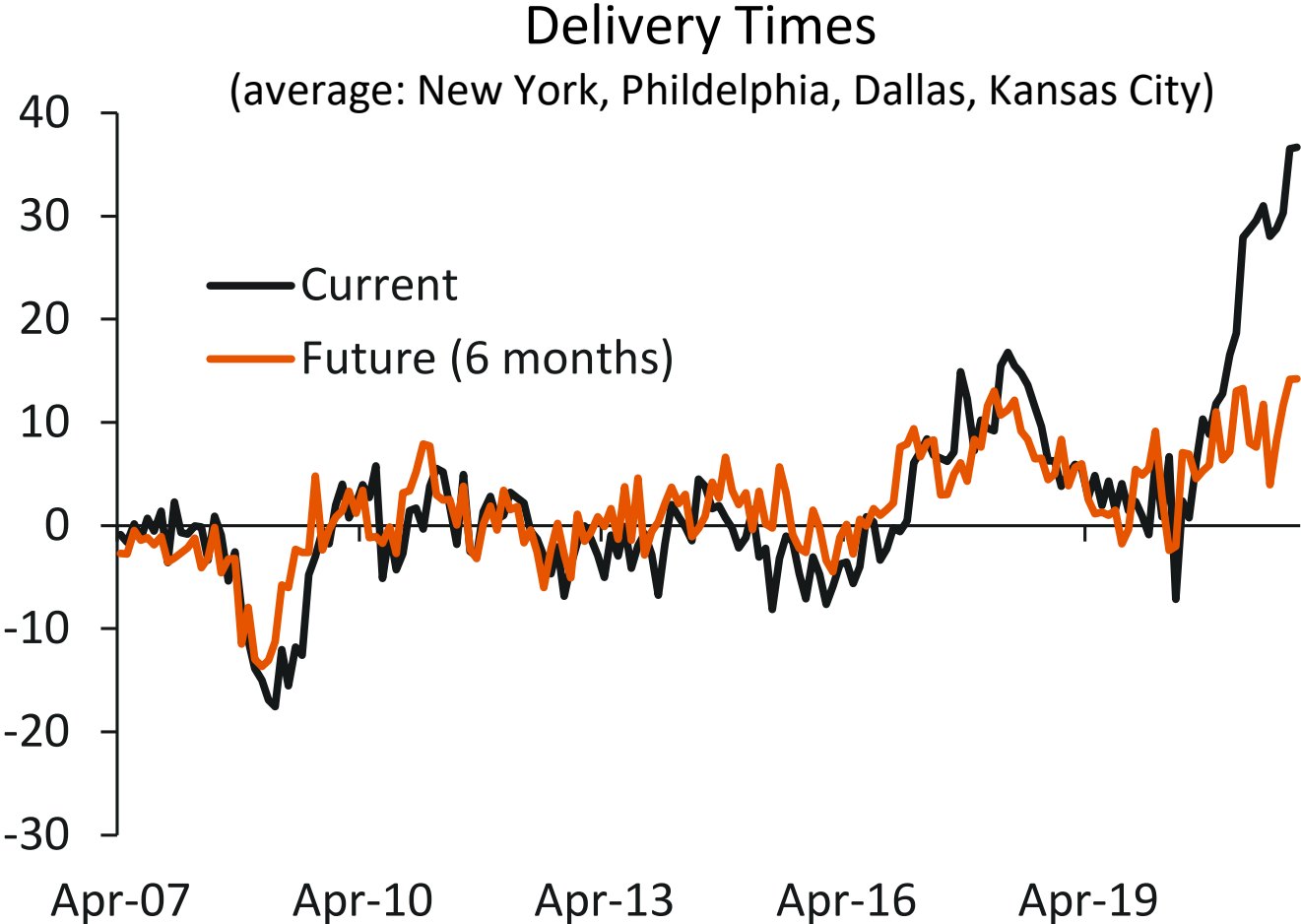
Car and truck  
rental prices  
(up 37% YoY)

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# The jump in lumber prices was transitory, but now is up again

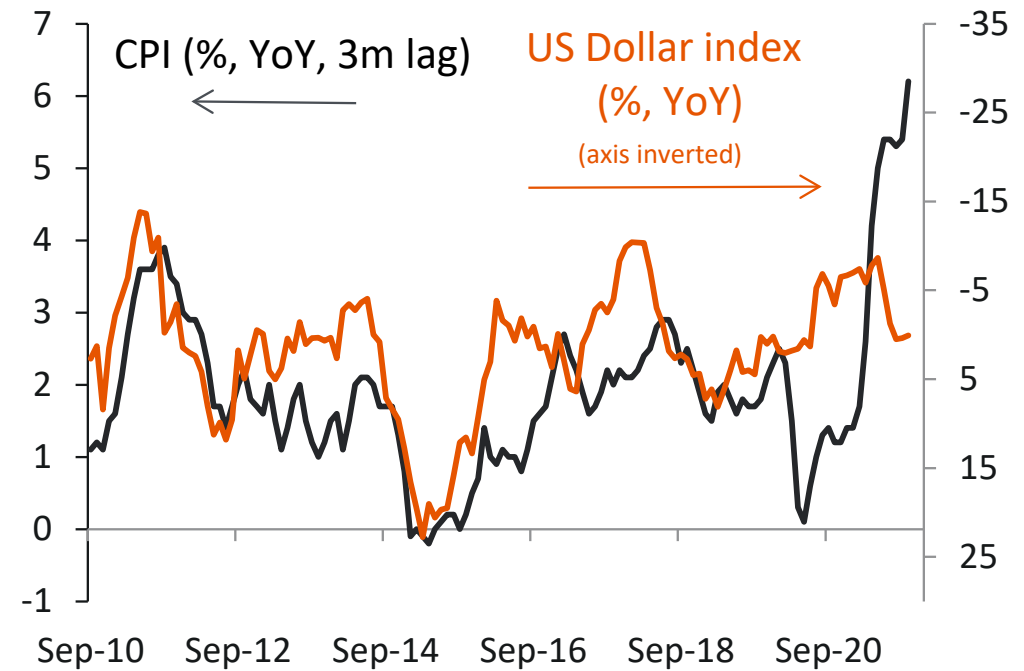
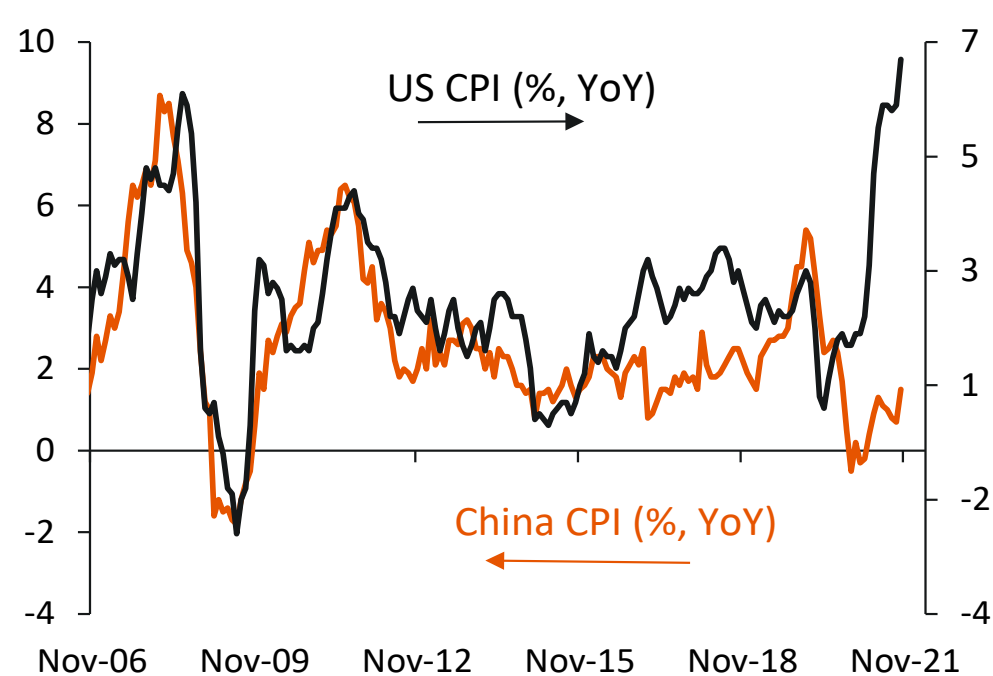


# Supplier delivery time is the longest in almost 50 years

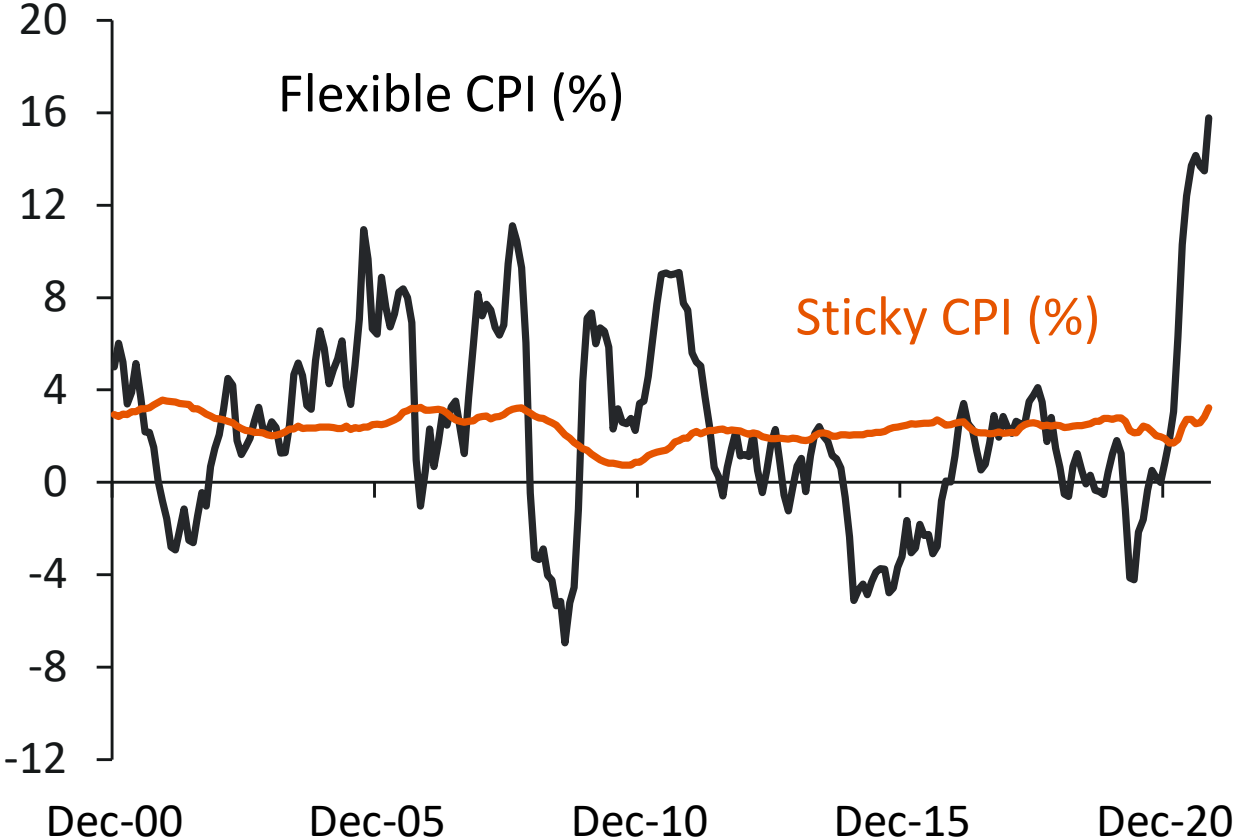




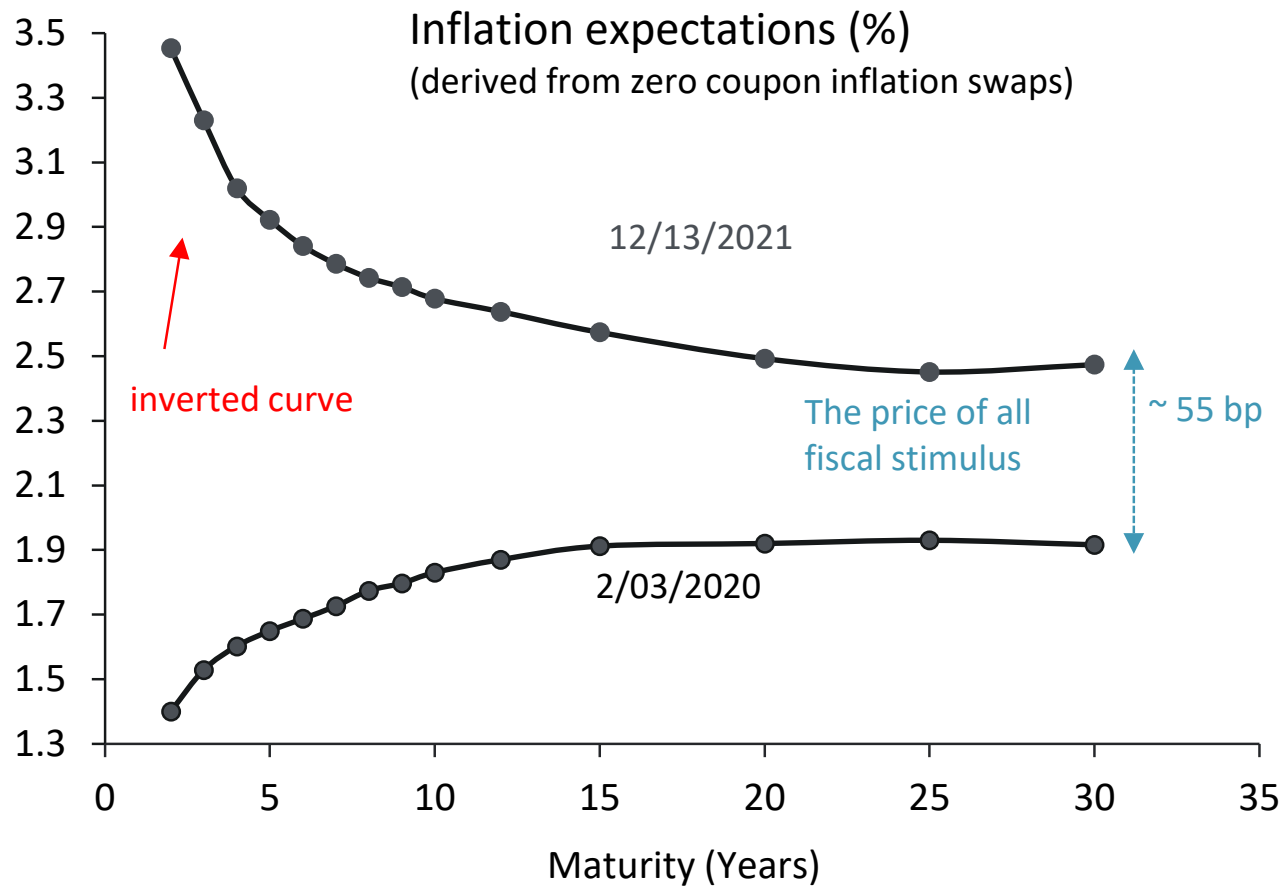
# Inflation to move notably lower as global supply chains normalize



# Sticky prices suggest inflation pressures may be transitory



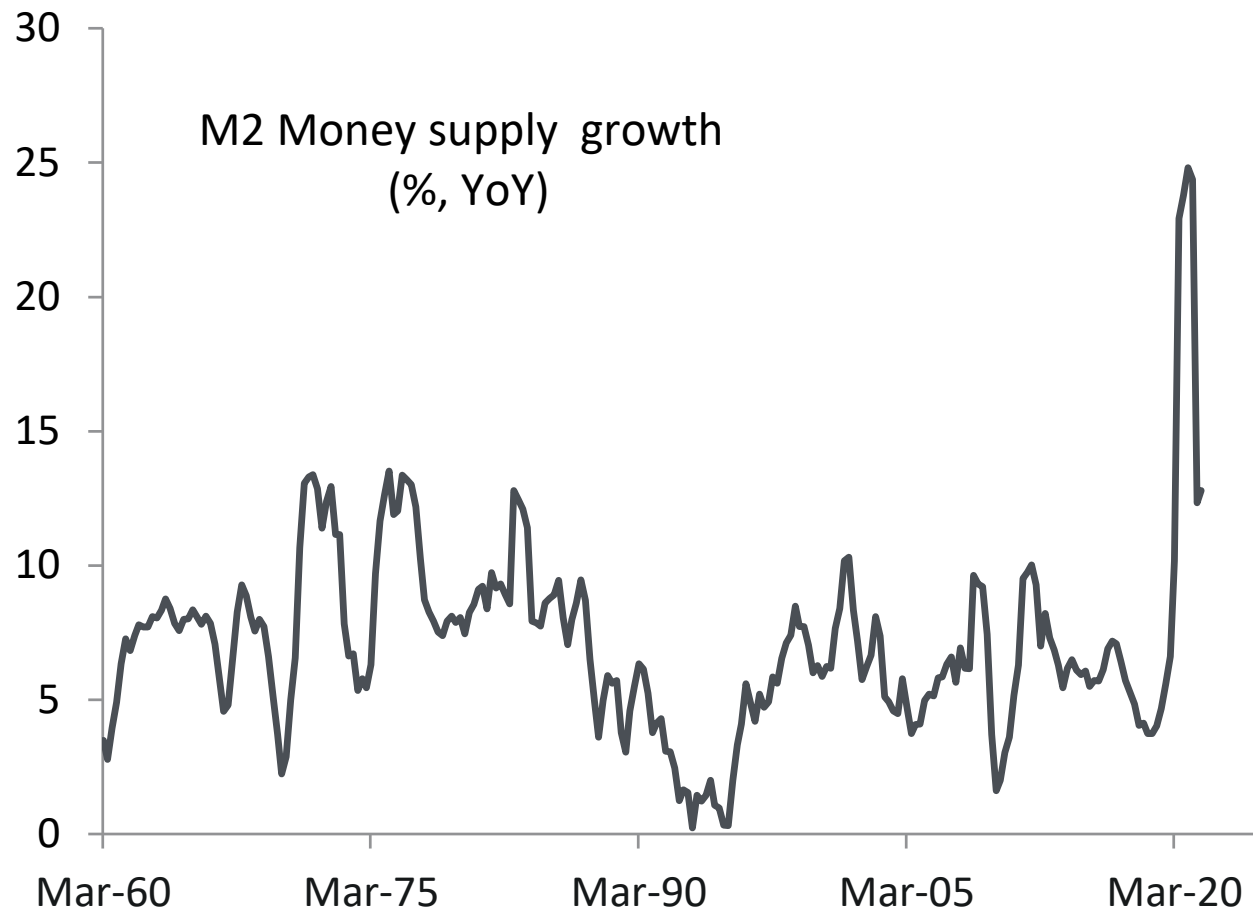
# The price of all fiscal stimulus may be worth only 55bp



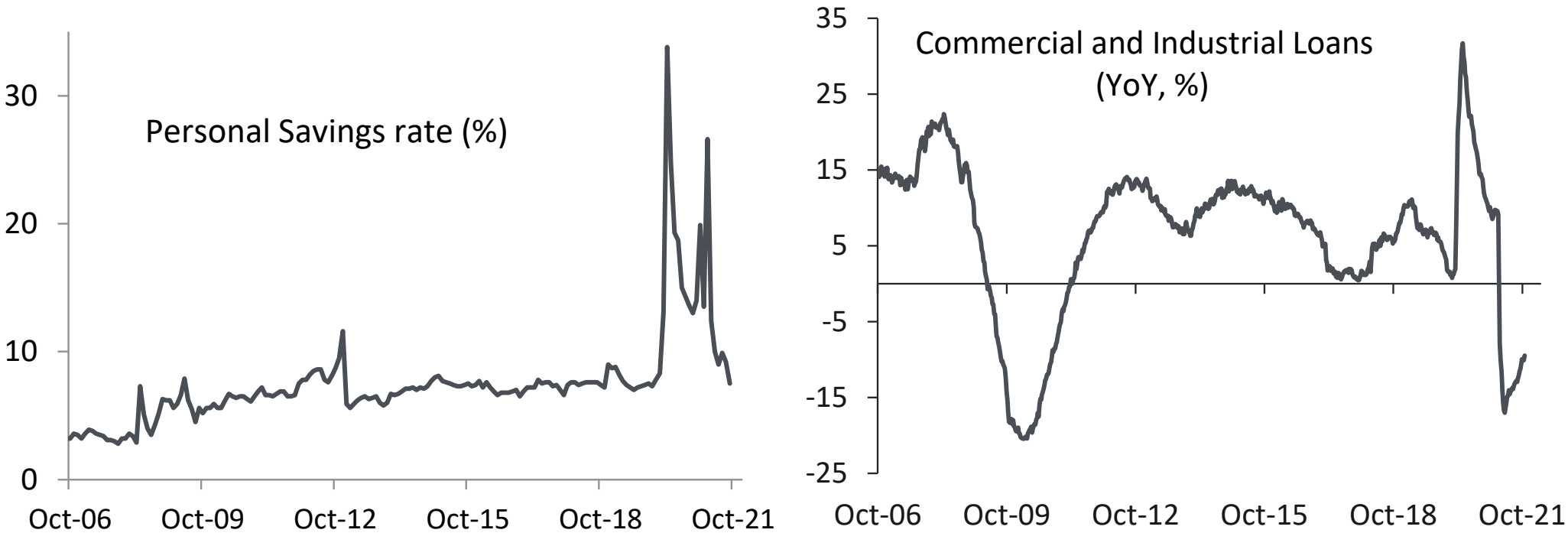
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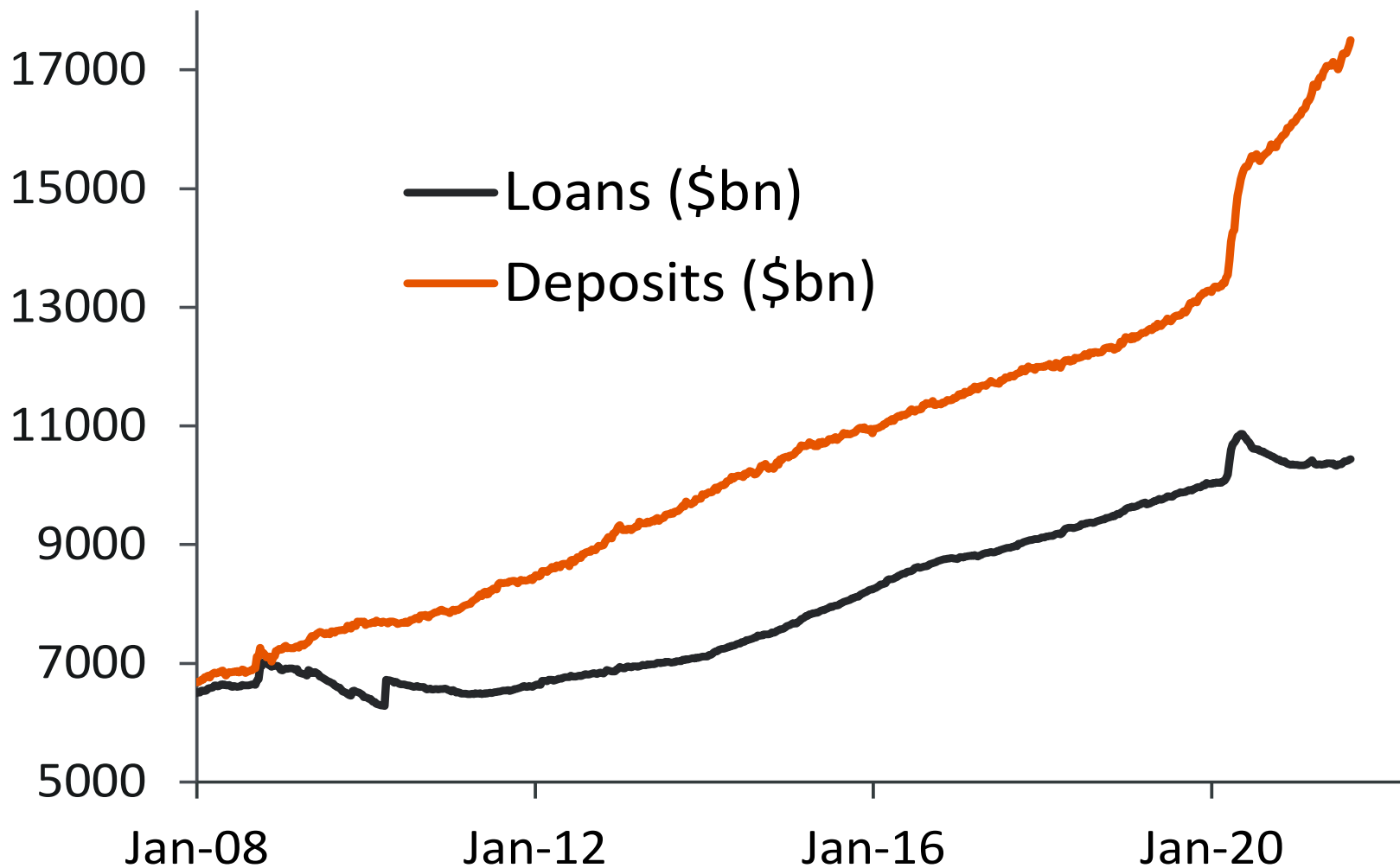
## M2 money supply increased at an unprecedented pace



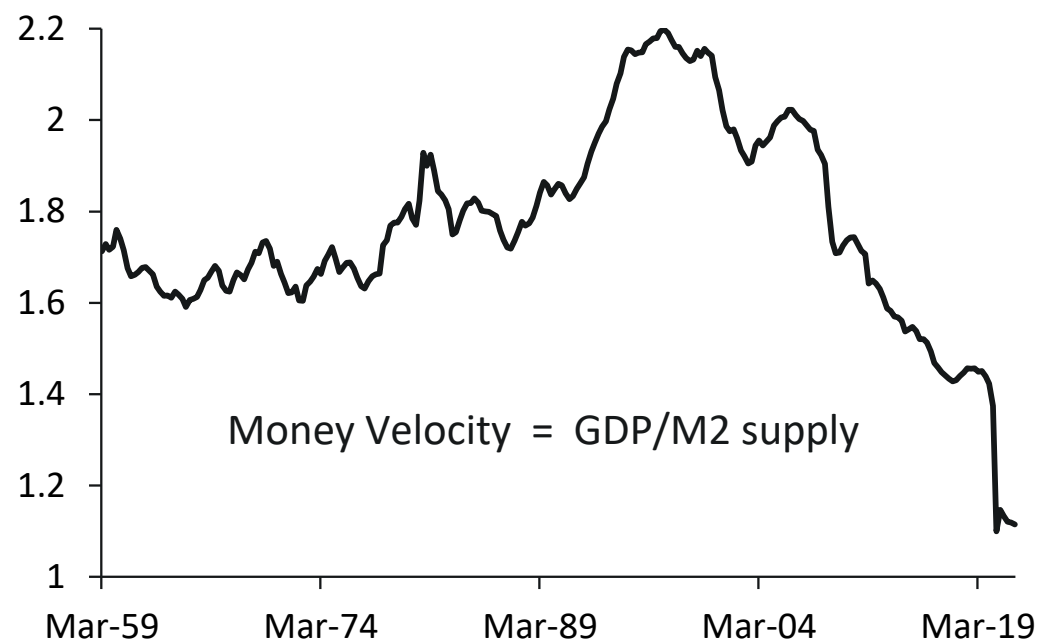
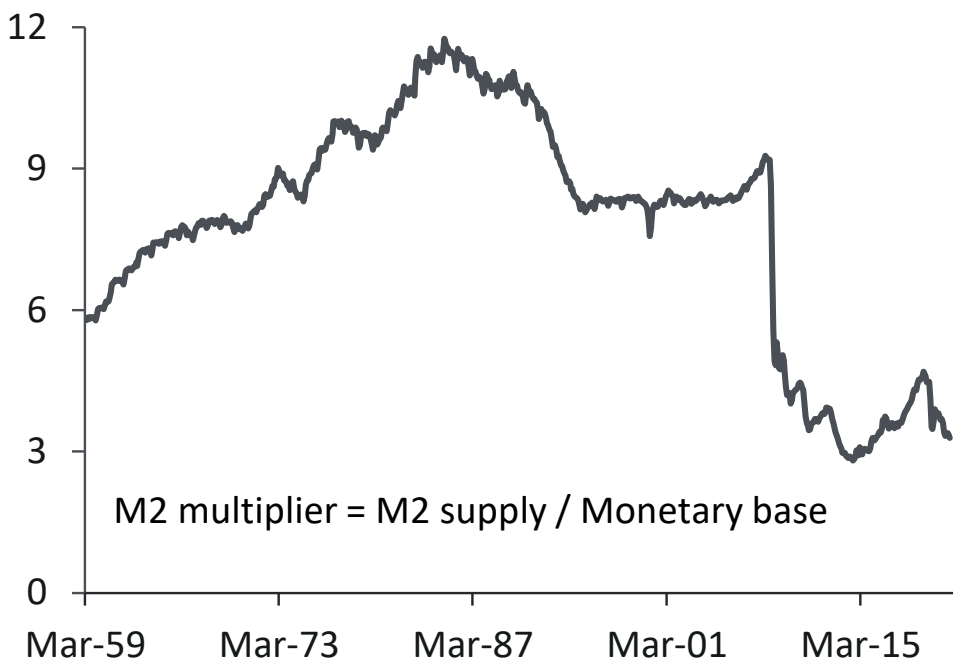
# The personal savings rate and C&I loan growth are falling



## Deposit growth has significantly outpaced the rate of loan production



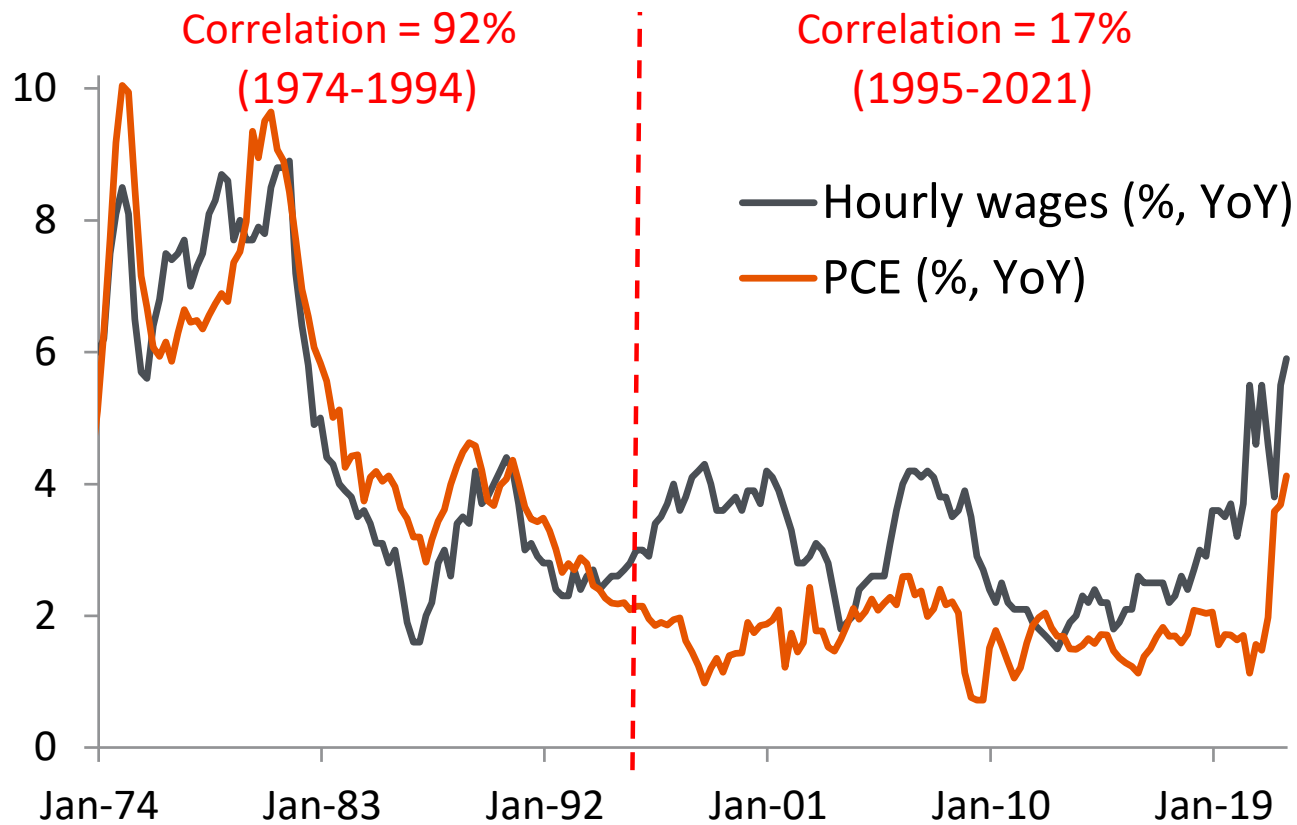
# Money creation and money circulation support a disinflationary view



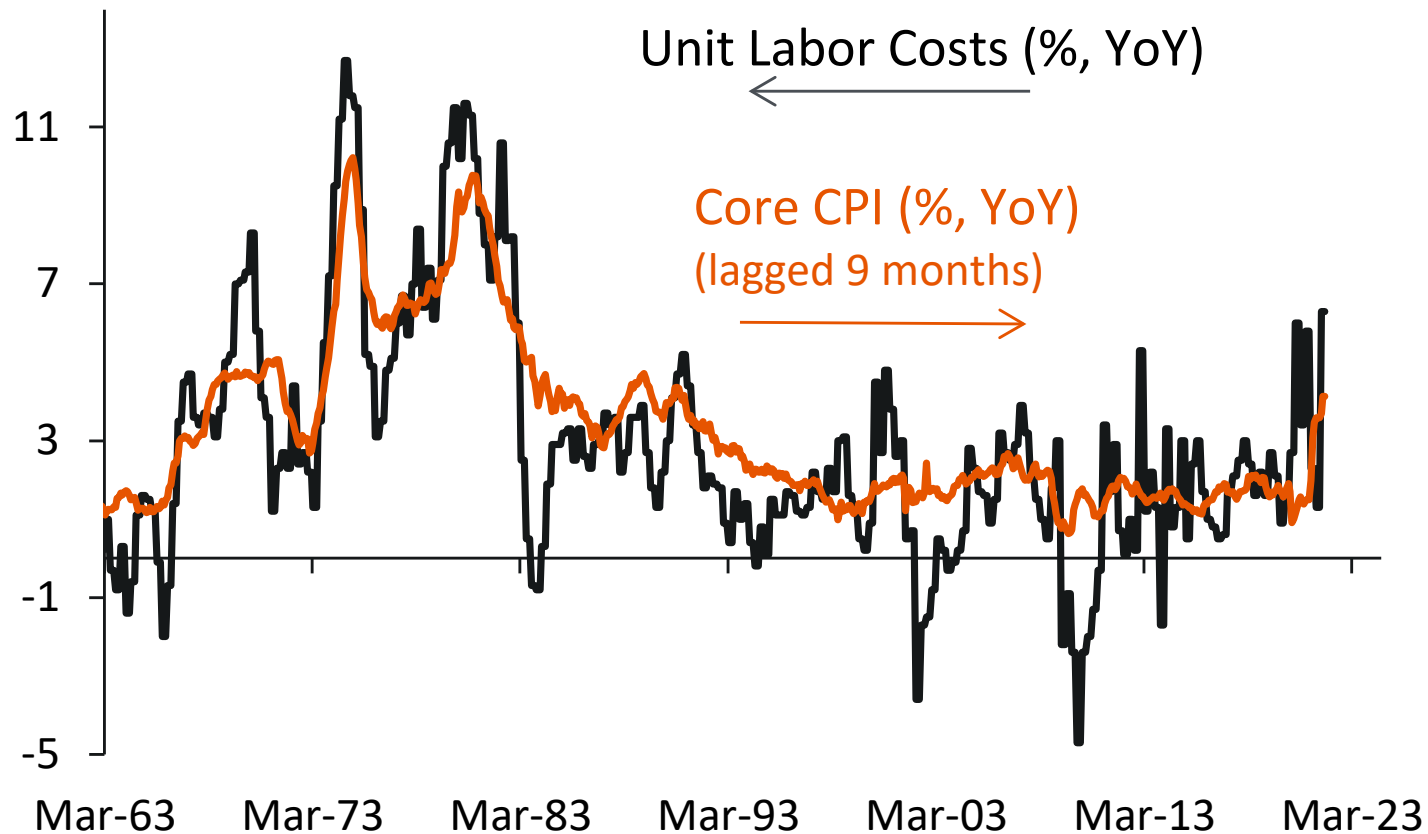


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# High nominal wages can coexist with low inflation

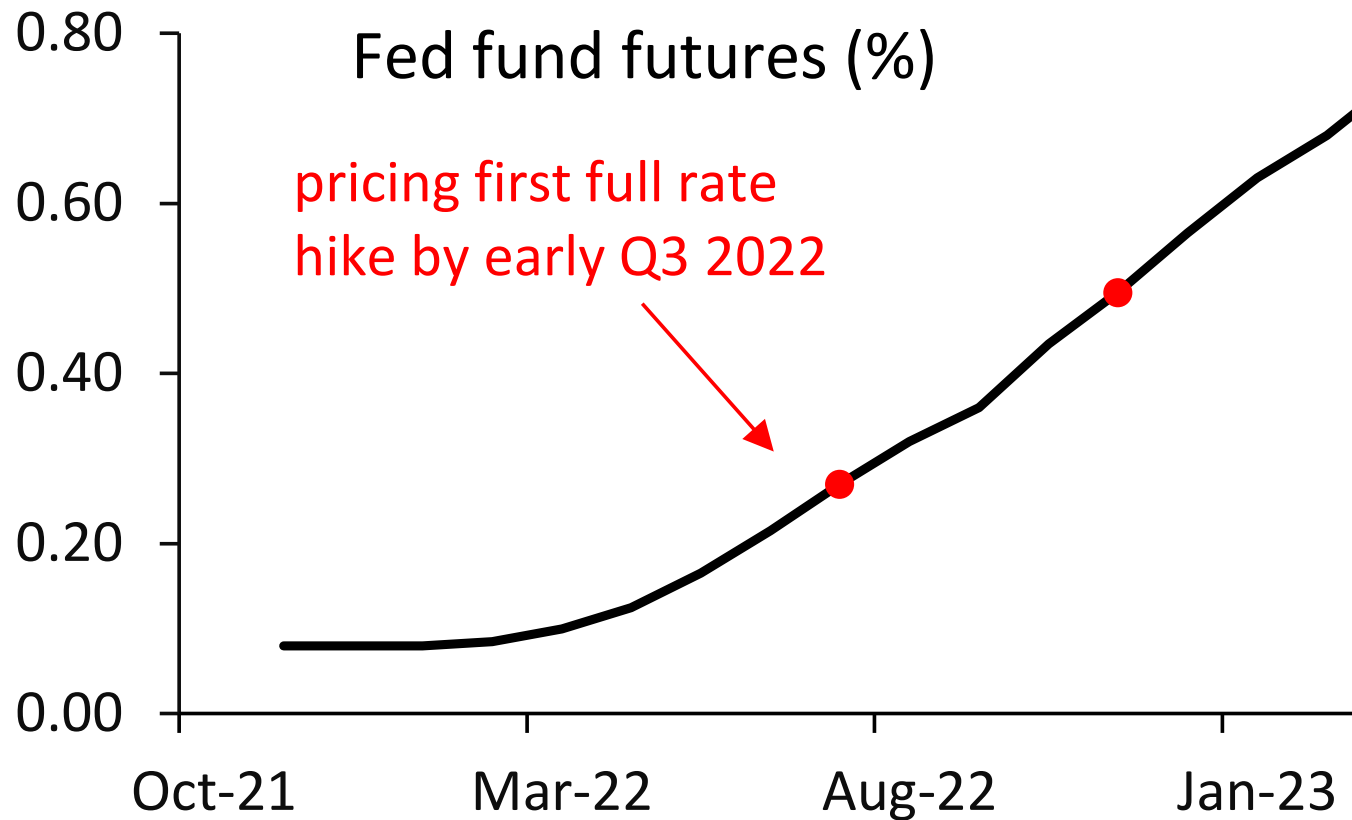


# Productivity adjusted wages are at the upper end of their 30yr range

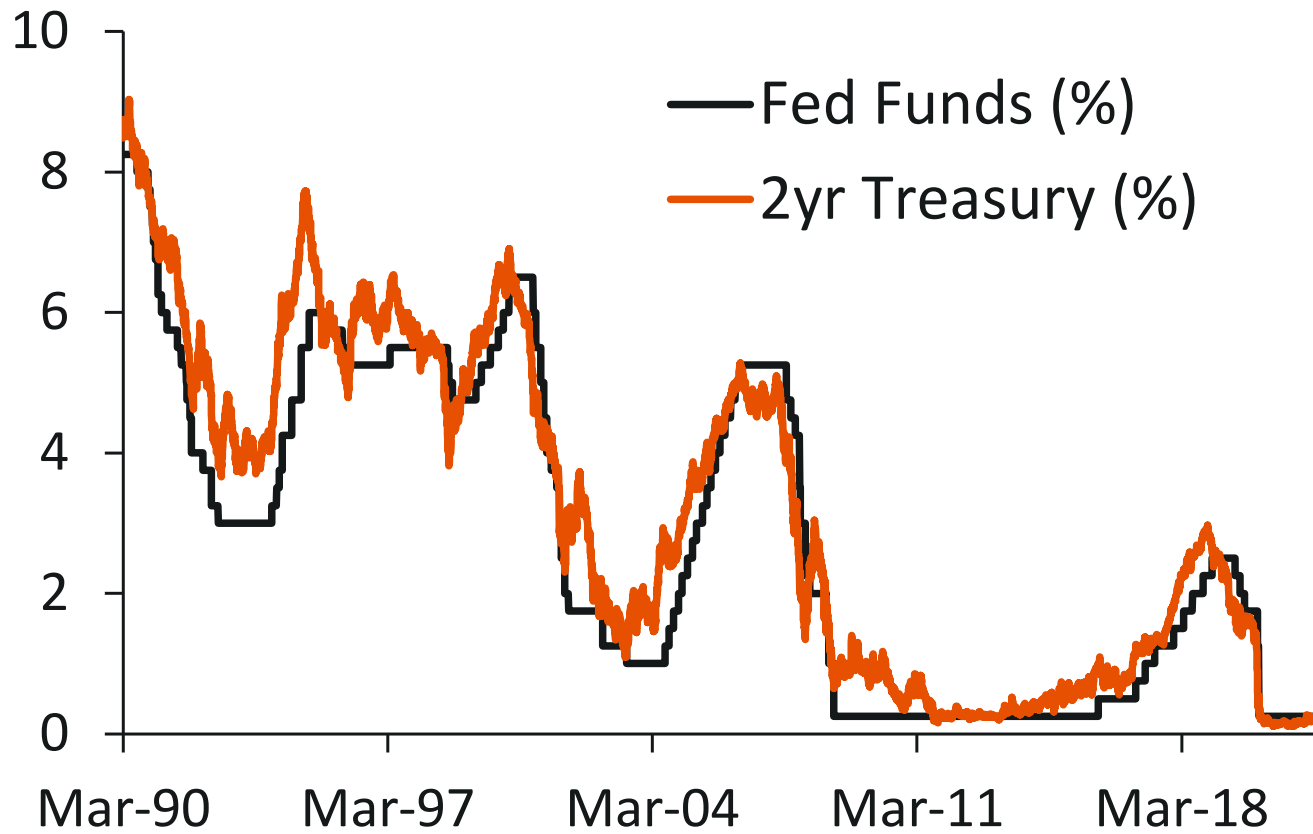


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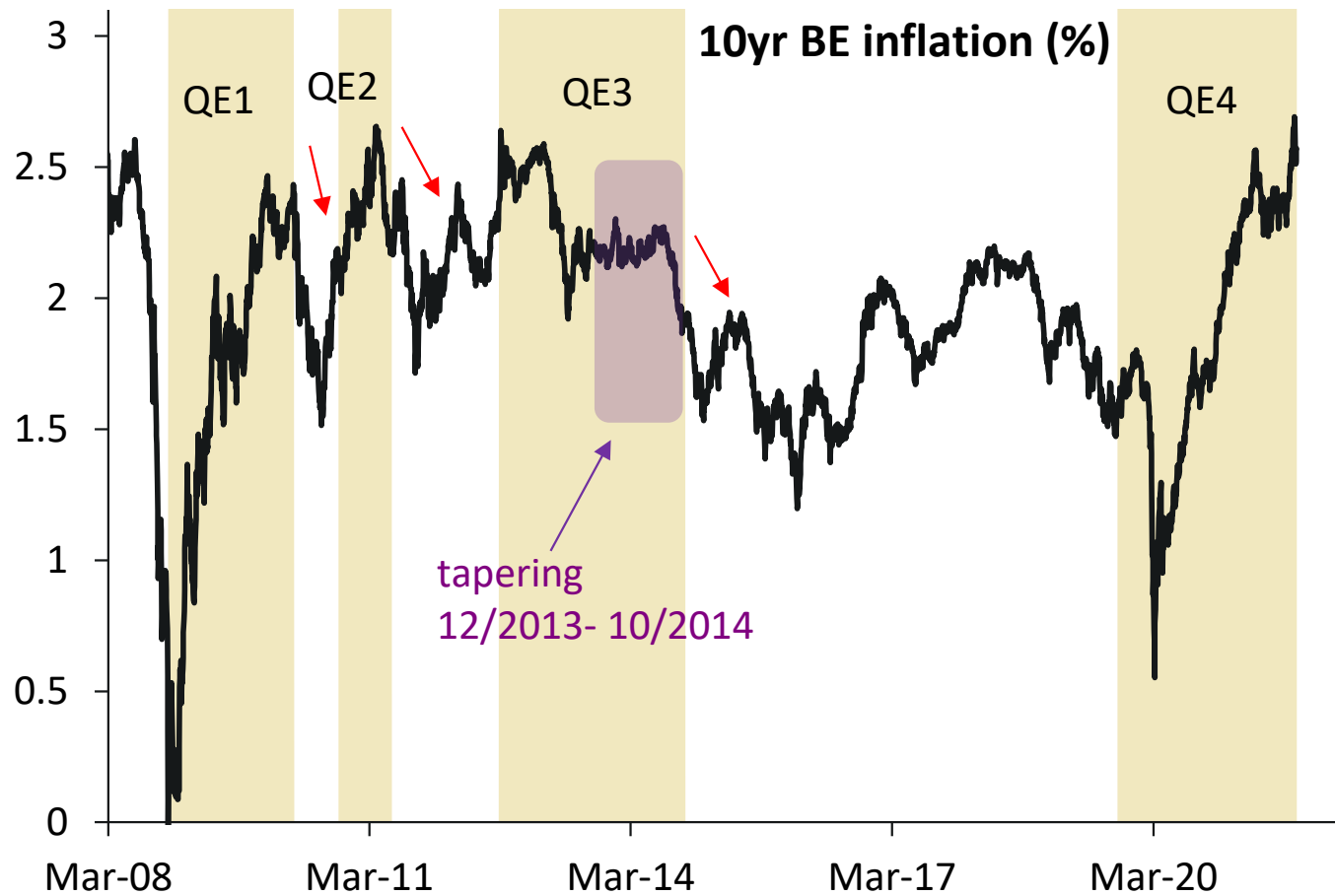
# The Fed may not hike rates until mid 2022



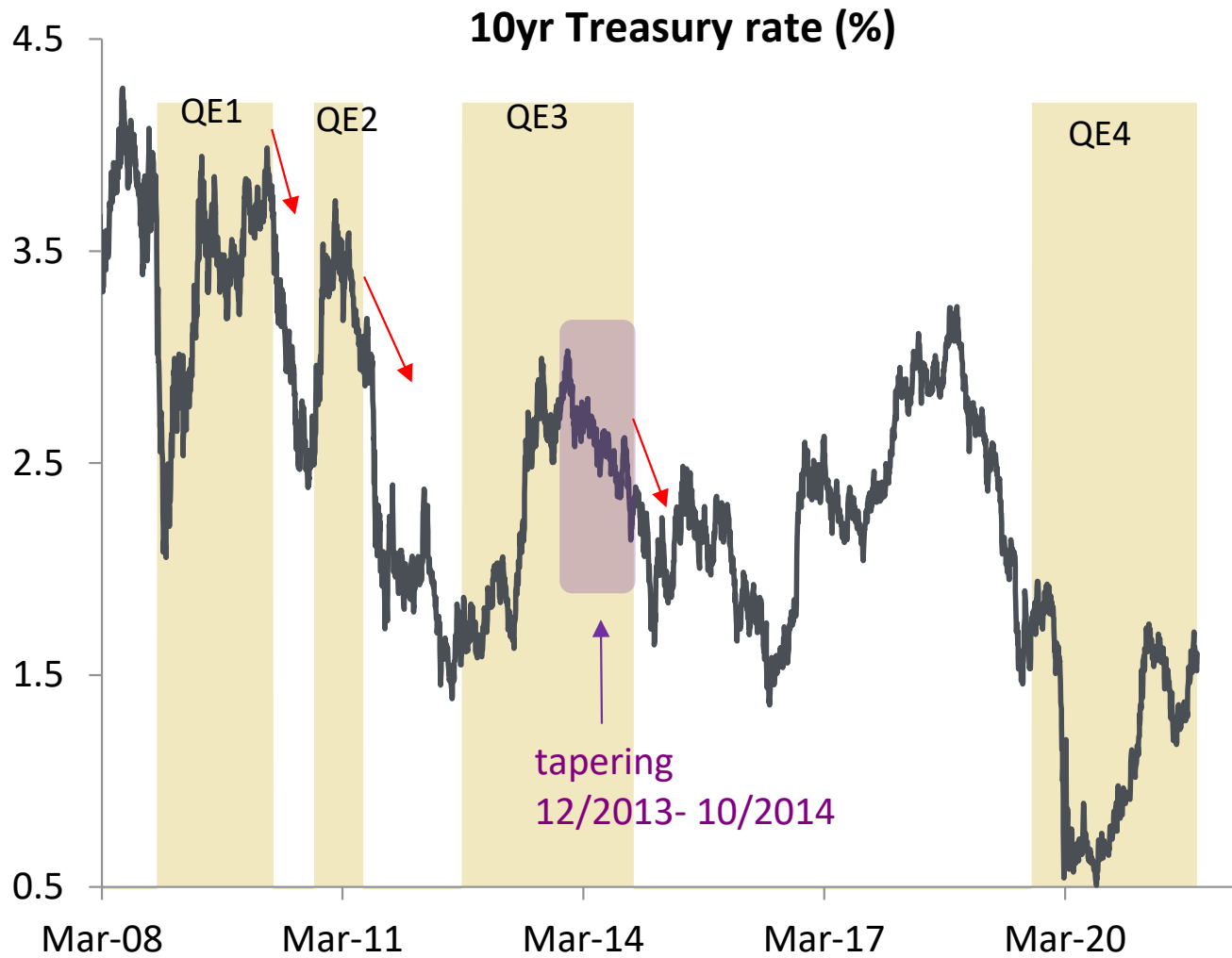
# The short end to move higher with Fed funds



# The end of QE may lead to lower inflation

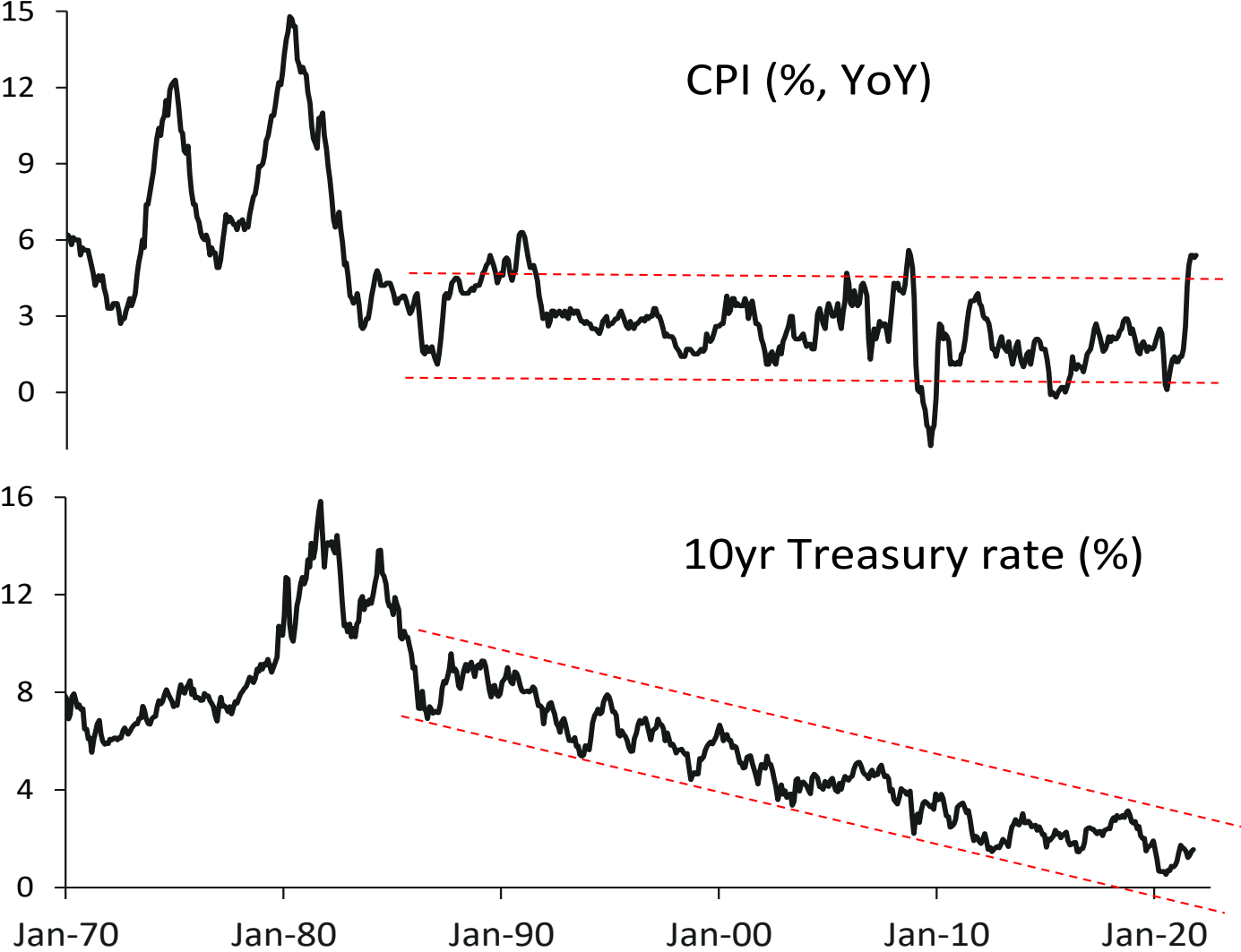


# The end of QE may lead to lower rates





# Long rates have been trending lower for decades as inflation remained flat



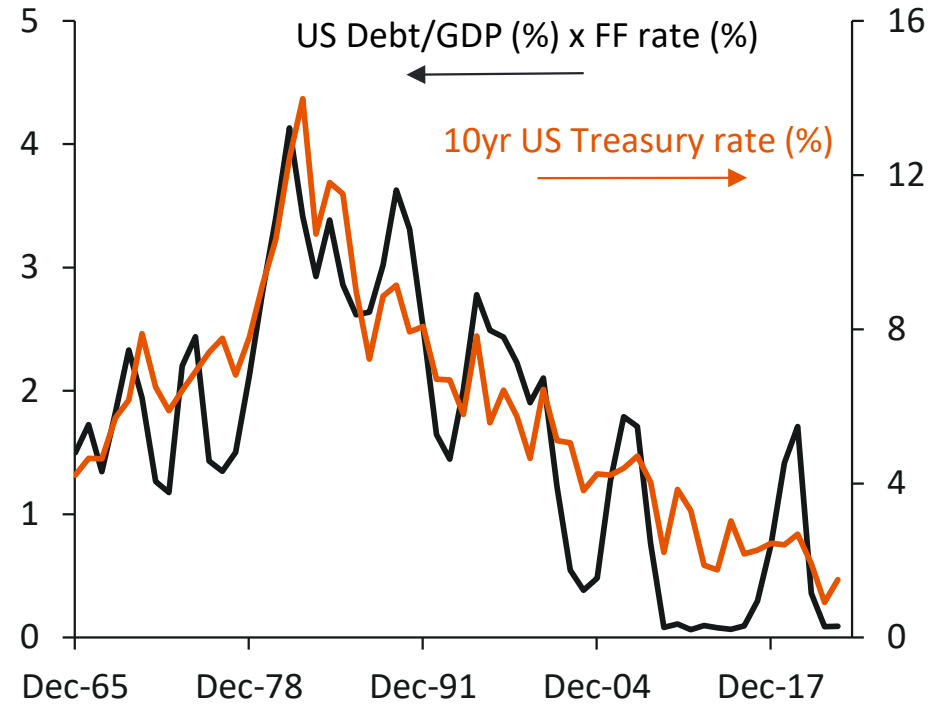
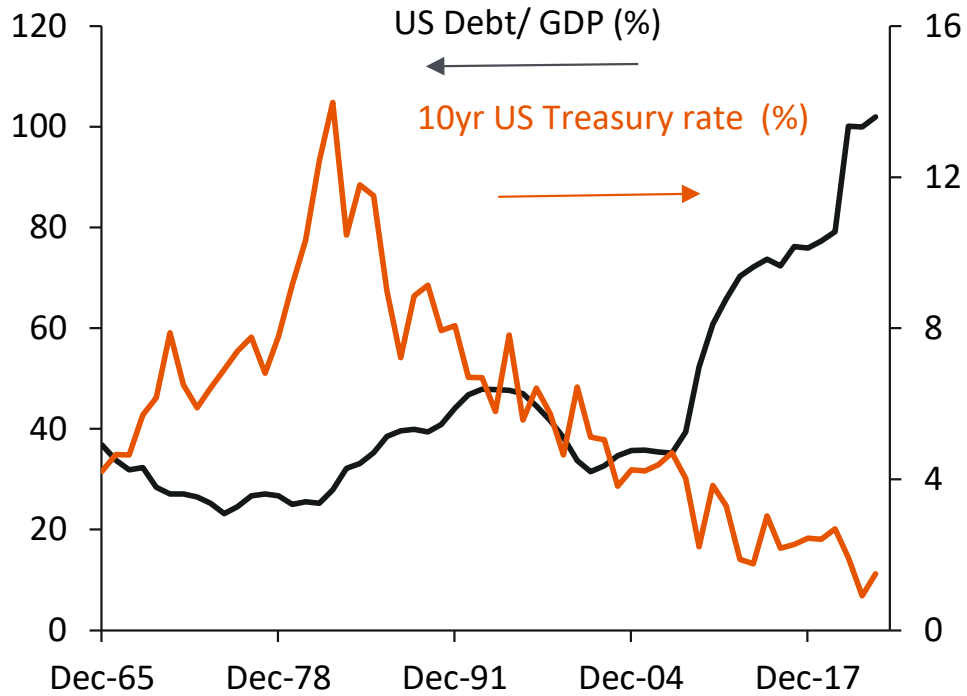
Source: Bloomberg, Piper Sandler.

## The US is one of the few developed countries that has positive rates across the entire yield curve

### Global interest rates (%)

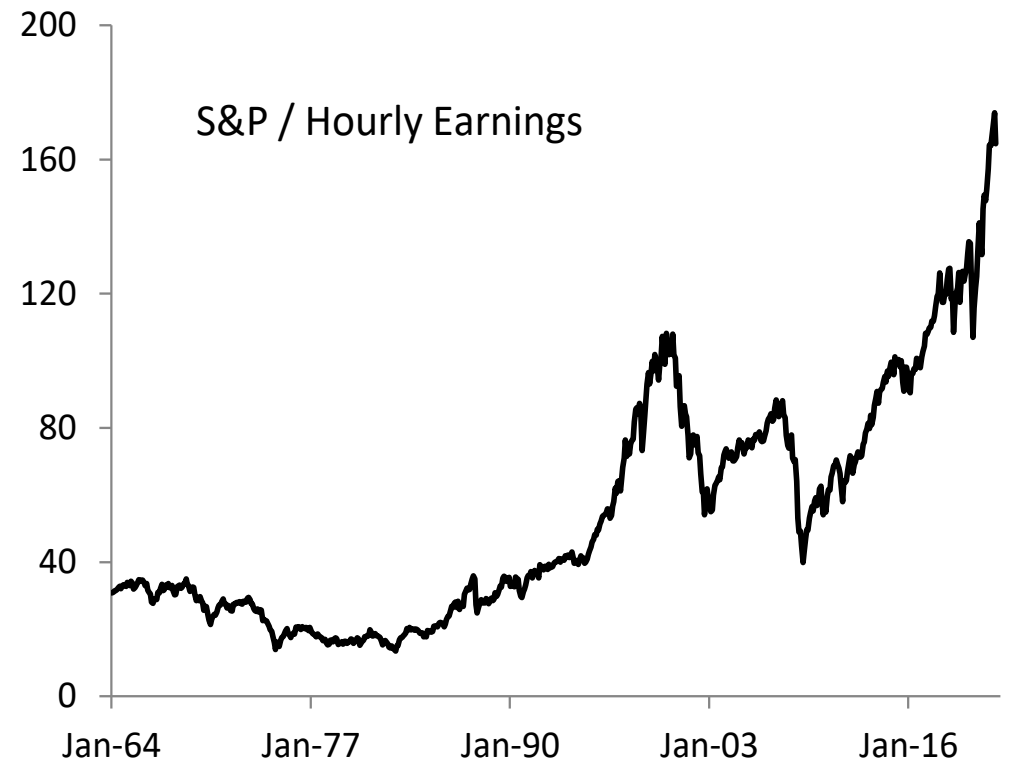
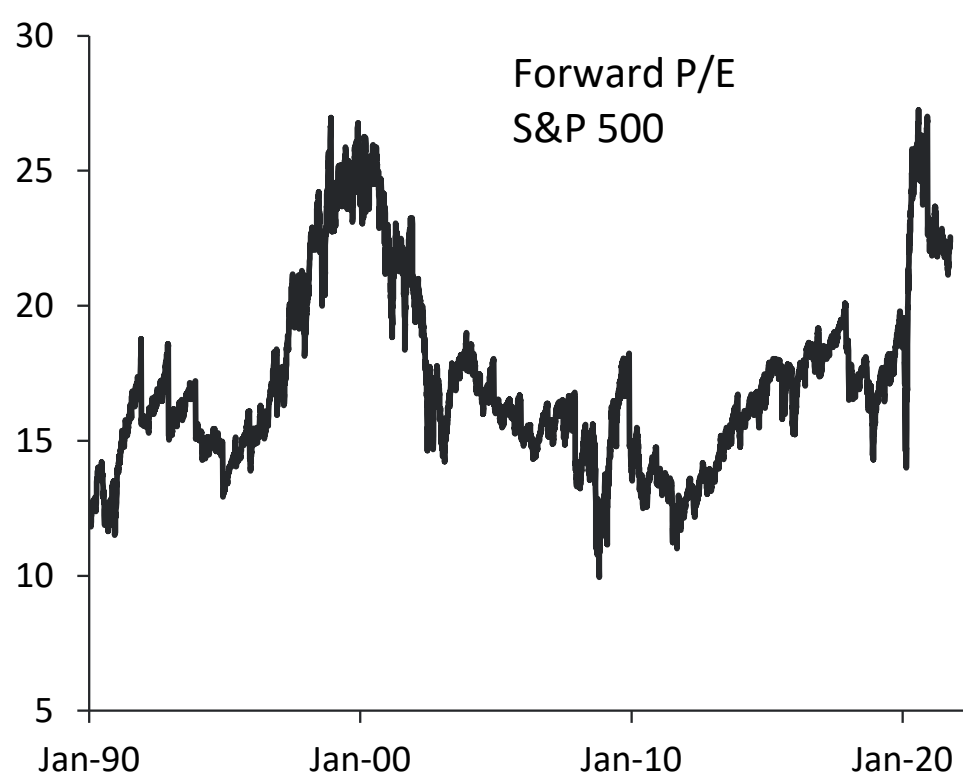
	2yr	3yr	5yr	7yr	10yr	30yr
Switzerland	-0.79	-0.69	-0.69	-0.69	-0.34	-0.27
Netherlands	-0.78	-0.68	-0.60	-0.47	-0.25	0.04
Germany	-0.71	-0.74	-0.61	-0.52	-0.39	-0.08
Finland	-0.68	-0.68	-0.50	-0.36	-0.14	0.24
Belgium	-0.71	-0.70	-0.53	-0.39	-0.05	0.61
France	-0.69	-0.66	-0.41	-0.32	-0.04	0.61
Austria	-0.71	-0.65	-0.50	-0.39	-0.13	0.36
Spain	-0.57	-0.45	-0.31	-0.06	0.31	1.08
Greece	-0.36	-0.25	0.42	-	1.32	1.89
Italy	-0.30	-0.20	0.15	0.45	0.90	1.73
Japan	-0.11	-0.12	-0.12	-0.09	0.05	0.66
UK	0.39	0.45	0.52	0.49	0.69	0.83
US	0.63	0.95	1.19	1.36	1.41	1.80

# The “cost” of debt explains changes in 10yr Treasury yields

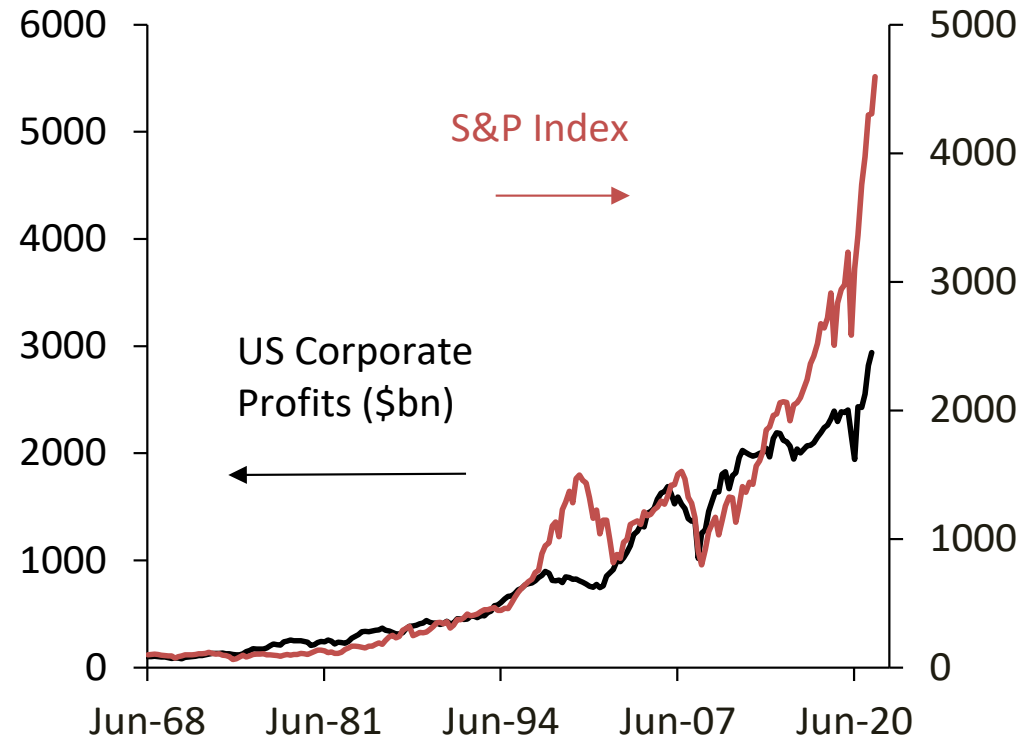
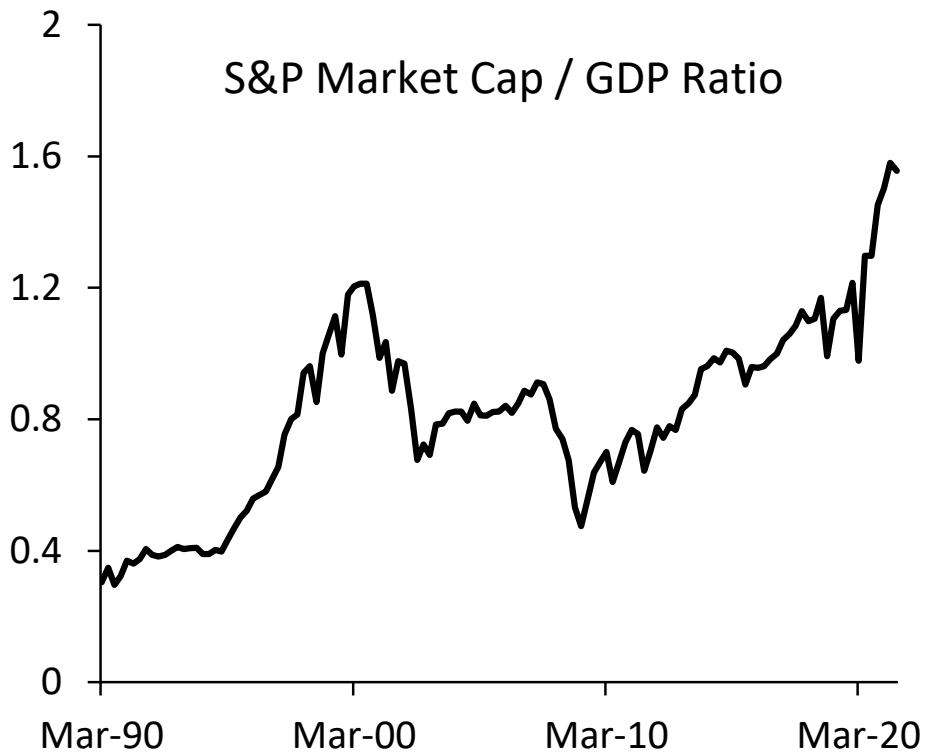


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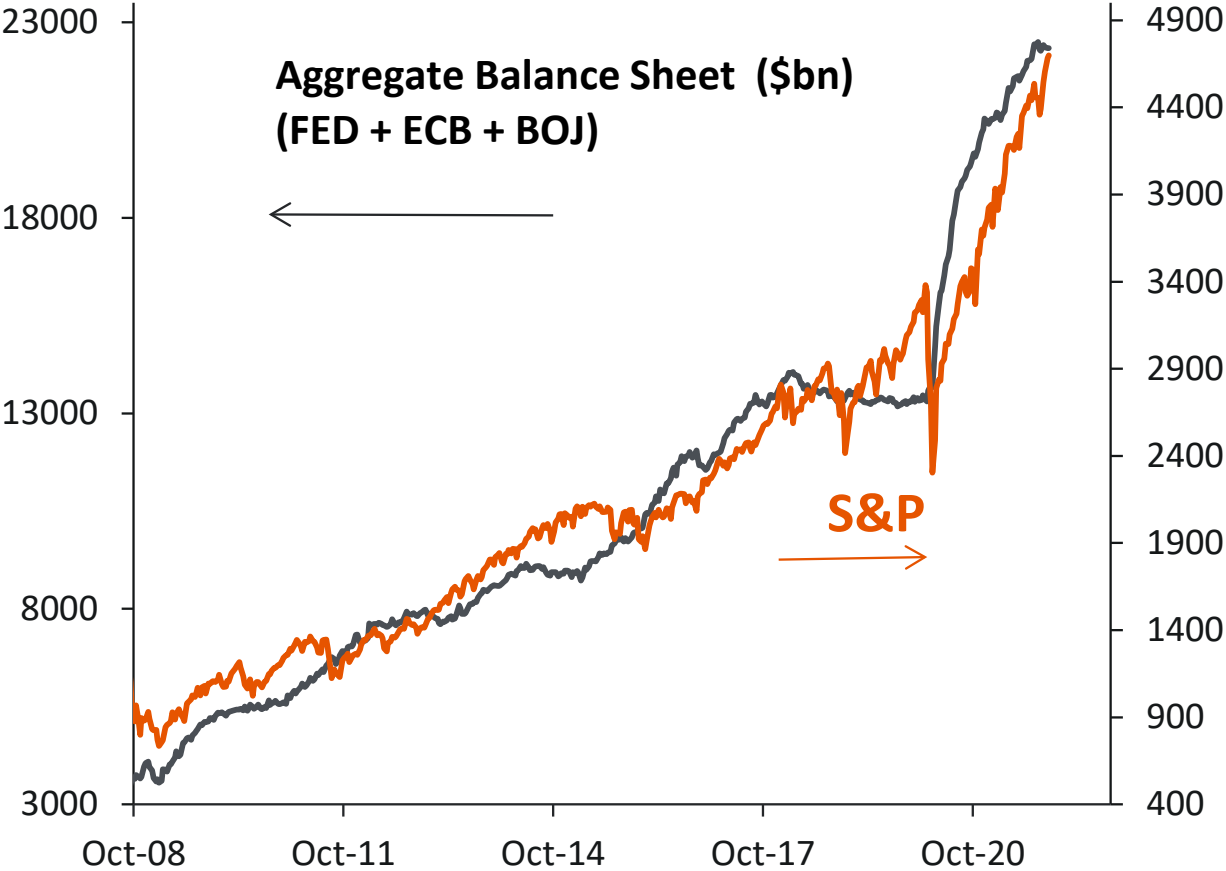
# US equities seem expensive relative to almost everything



# US equities seem expensive relative to almost everything (continued)

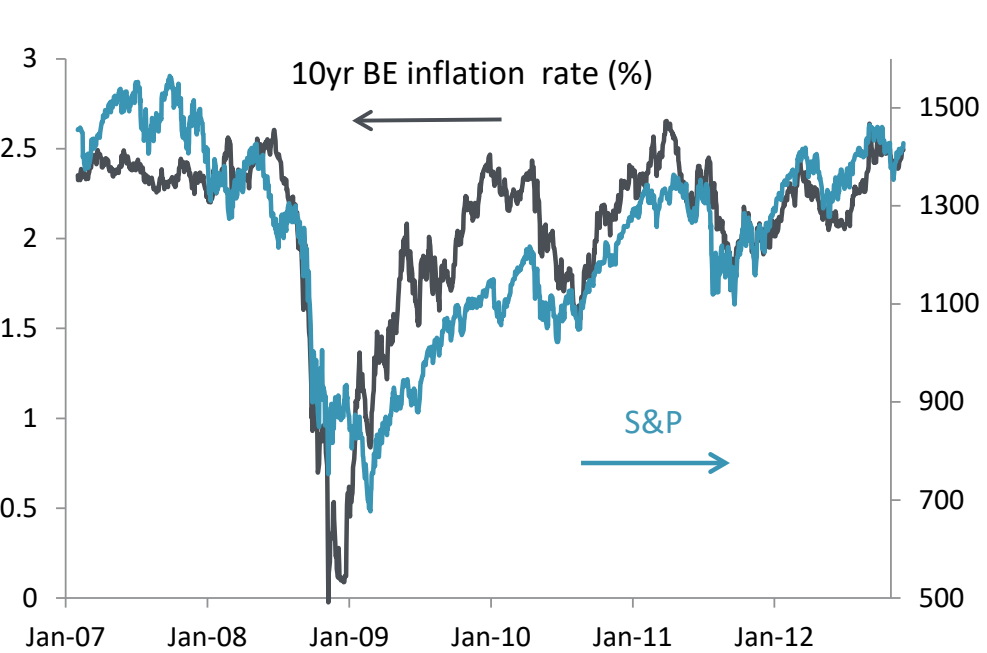


# Quantitative easing is supporting equities

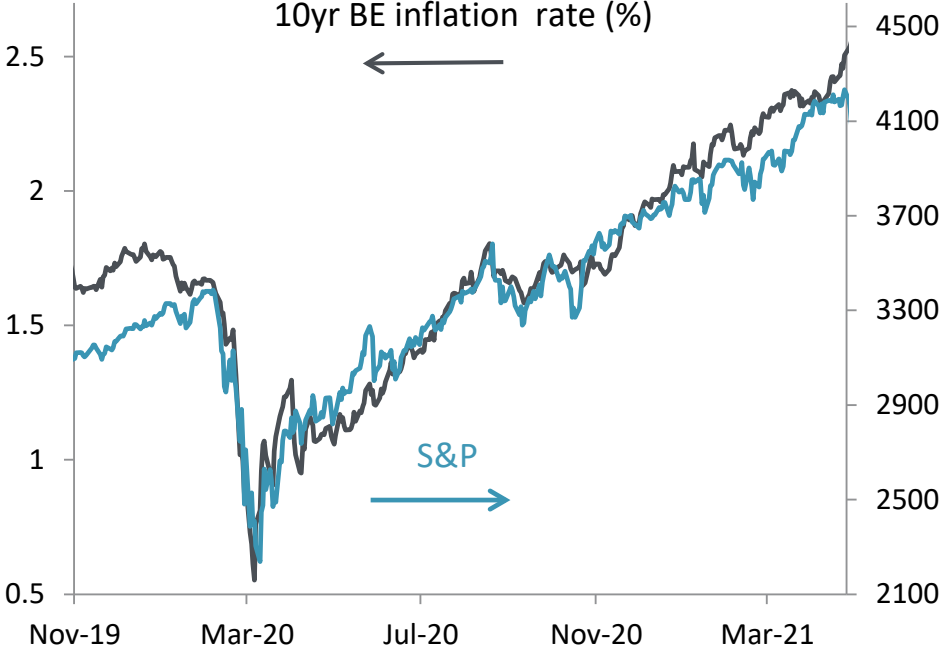


# A bubble burst will drive inflation lower

## 2008 Housing Crisis



## 2020 COVID-19 Crisis





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# Q & A

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