Economic highlights from the week ending on January 14, 2022

Shelly Henbest, CFA Senior Credit Analyst

Inflation continues to run well above the Fed's longer-run target of around 2.0%. The Consumer Price Index (CPI) was up 7.0% year-overyear in December, versus up 6.8% year-over-year in November. Core CPI (CPI less food and energy) was up 5.5% year-over-year in December, versus up 4.9% in November. Pricing pressures were widespread in December, with notable gains for used cars and trucks, new vehicles, food, and rent. While we believe year-over-year inflation may be at or near a peak, we expect pricing pressure will remain elevated over the near-term. The ports of Long Beach and Los Angeles



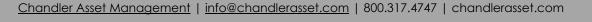
remain congested, and we believe the China's 'zero-Covid' strategy and the upcoming Chinese Lunar New Year holiday may also exacerbate global supply chain disruptions near-term. Meanwhile, we believe the current surge in US Omicron cases is likely putting additional strain on labor supply, fueling continued upward pressure on wages. However, we expect inflationary pressure will start to abate later this year, amid an improvement in the global health situation, easing supply chain bottlenecks, and a potential shift in consumer spending toward more services spending rather than goods. In addition, over the coming months, year-over-year inflation readings will also start to comp against rising inflationary pressures last year. Fiscal drag and normalizing monetary policy should also help to ease pricing pressures as we move through this year, in our view.

On a year-over-year basis, retail sales were up 16.9% in December versus up 18.2% in November. On a monthover-month basis, retail sales were softer than expected in December, down 1.9% versus expectations of down 0.1%, following a modest gain of just 0.2% in November. Excluding vehicles and gas, retail sales were down 2.5% month-over-month. In our view, the data suggests that consumers started shopping early in the holiday season and that high gas prices are likely taking some wallet share. We believe the surge in Omicron virus cases likely hindered December sales as well. We remain constructive on the outlook for consumer spending this year, but we believe the current surge in virus cases is likely to take a toll on January retail sales. Looking further ahead, we believe high levels of consumer savings along with improvement in the health situation and continued improvement in the labor market, should provide a healthy tailwind for consumer spending.



Next Week

Empire State Manufacturing, Housing Market Index, Housing Starts & Permits, Philly Fed, Existing Home Sales, Leading Indicators



Copyright © 2022. All Rights Reserved.

Ti

© 2022 Chandler Asset Management, Inc. An Independent Registered Investment Adviser. Data source: Bloomberg, Federal Reserve, and the US Department of Labor. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation, or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment. Fixed income investments are subject to interest rate, credit, and market risk. Interest rate risk: The value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low-rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market, in general, could decline due to economic conditions, especially during periods of rising interest rates.