# INFLATION, INTEREST RATES, & GROWTH
JULY 2023

JVL WEALTH STRATEGIES
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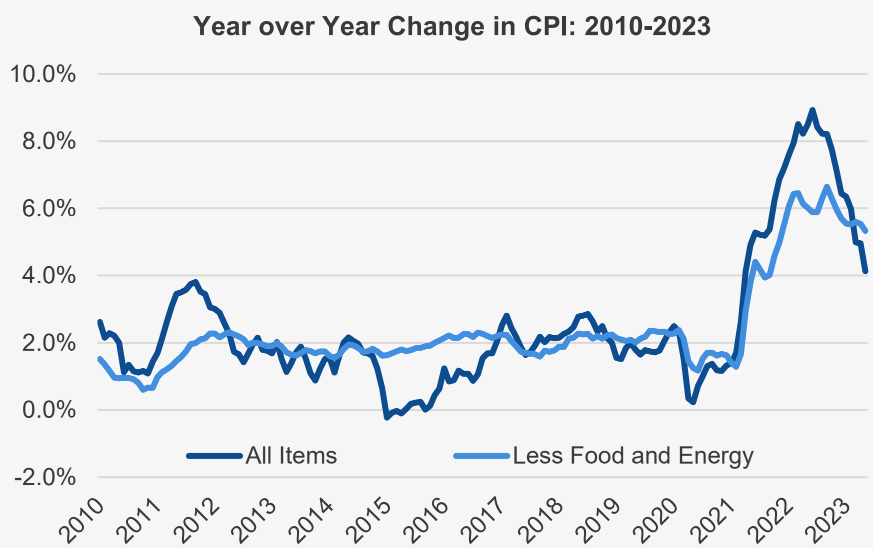
## INFLATION, INTEREST RATES & ECONOMIC GROWTH

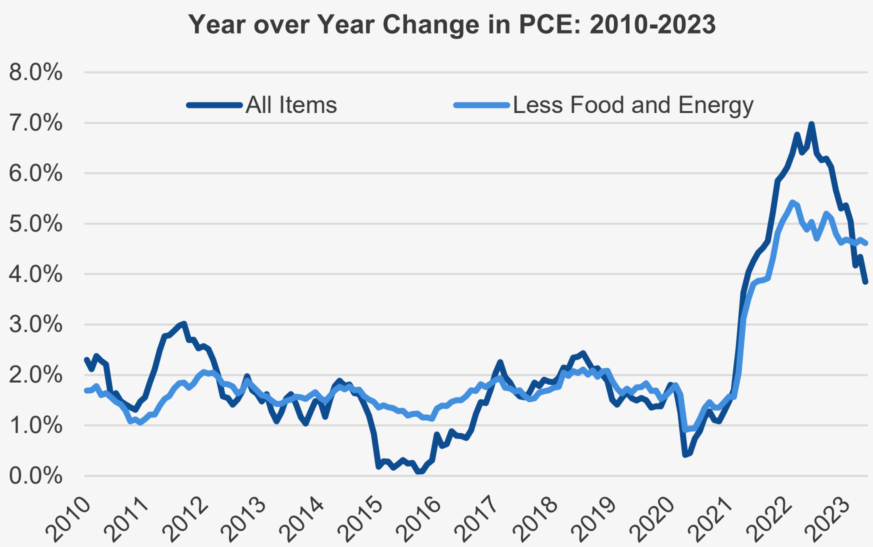
### INFLATION:

The rate of inflation has been headlining the financial news for the past 24 months. After over 20 years of low inflation we began to see it rise in early 2021. The rise was gradual, yet consistent, topping off at 9.1% in June, 2022. Since then, inflation has been on a slow and steady decrease.

Inflation is measured in multiple ways. The CPI (Consumer Price Index) is broken into Inflation All Items (Headline) and Inflation Excluding Food and Energy (Core) to take out the most volatile items from the computation. While the Headline CPI is very volatile on a month-to-month basis, Core CPI provides a steadier reading for economic analysis.

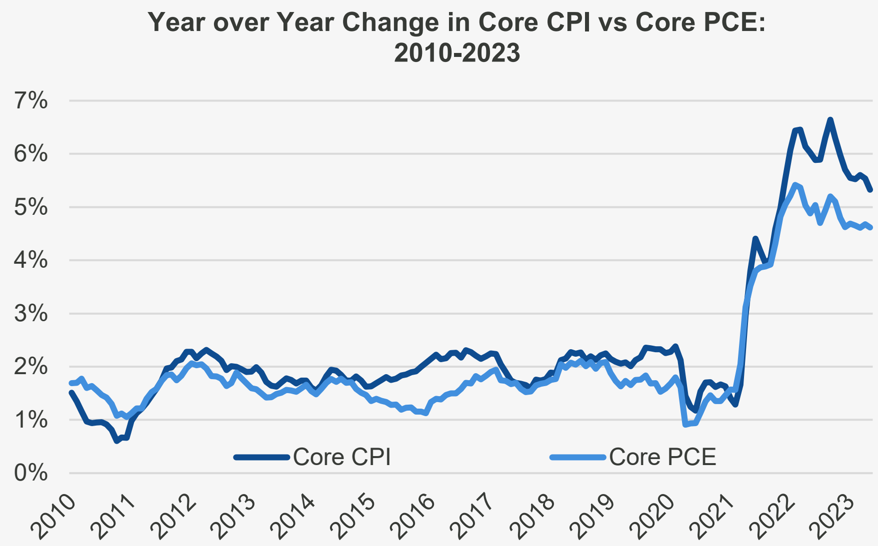



The Federal Reserve however has chosen to use the PCE (Personal Consumption Expenditures) Index to monitor inflation. The PCE includes a wider range of items, and gets data from a broader range of data sources than the CPI. The PCE Index is also broken into All Items or headline inflation and Less Food and Energy or core inflation.



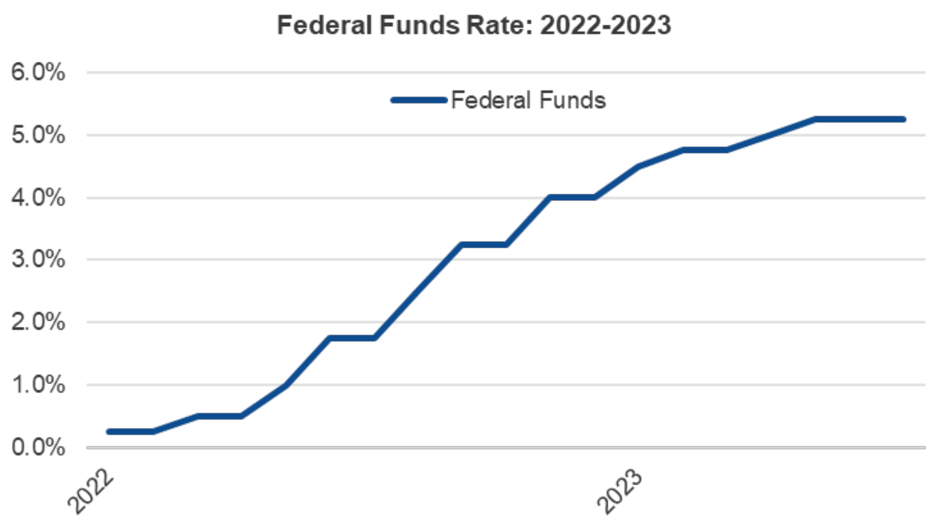
## INFLATION:

As mentioned previously, The Federal Reserve has chosen to use the PCE (Personal Consumption Expenditures) Index to monitor inflation. There are other underlying technical differences in how each index is computed but the direction of the indices is similar. While most news sources focus on the CPI, the Federal Reserve has chosen the PCE index for their decision-making purposes which has been lower than CPI over the last several years. The Federal Reserve have stated that their goal is to get the rate of inflation down to 2% per year.




## INTEREST RATES:

The chief tool the Federal Reserve uses to fight inflation is the Federal Funds Rate – the interest rate at which commercial banks borrow and lend their excess reserves to each other and the rate used to set the Prime Rate for lending to customers. The rate was cut to 0.25% in March, 2020 in response to the Covid economic collapse and remained there until early 2022. Since then, the Federal Reserve has increased the rate on ten occasions, raising it from 0.25% to 5.25% today. The Fed paused the hikes at their June meeting "to allow the Committee to assess additional information and its implications for monetary policy."(1) While the Fed has signaled more increases may be coming, it appears the Fed is getting close to the end. That should signal to the "market" that inflation is getting under control.

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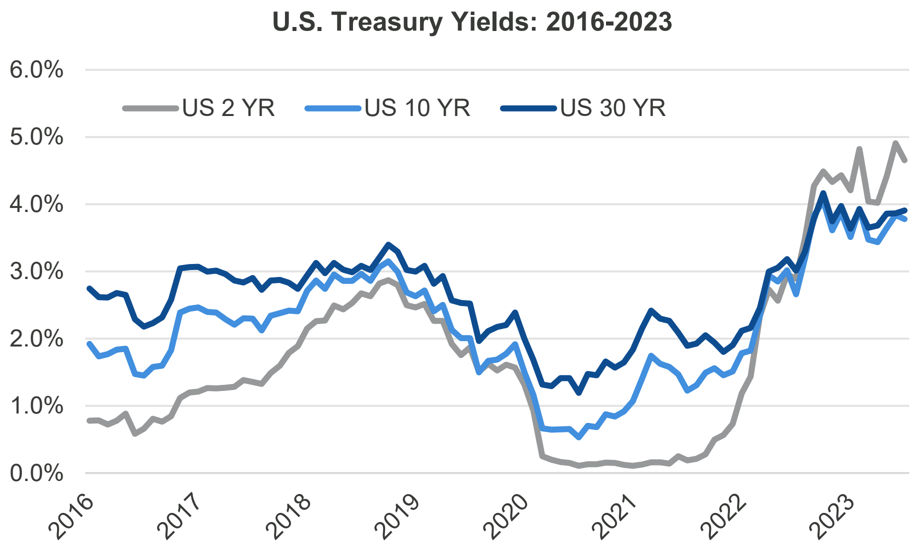
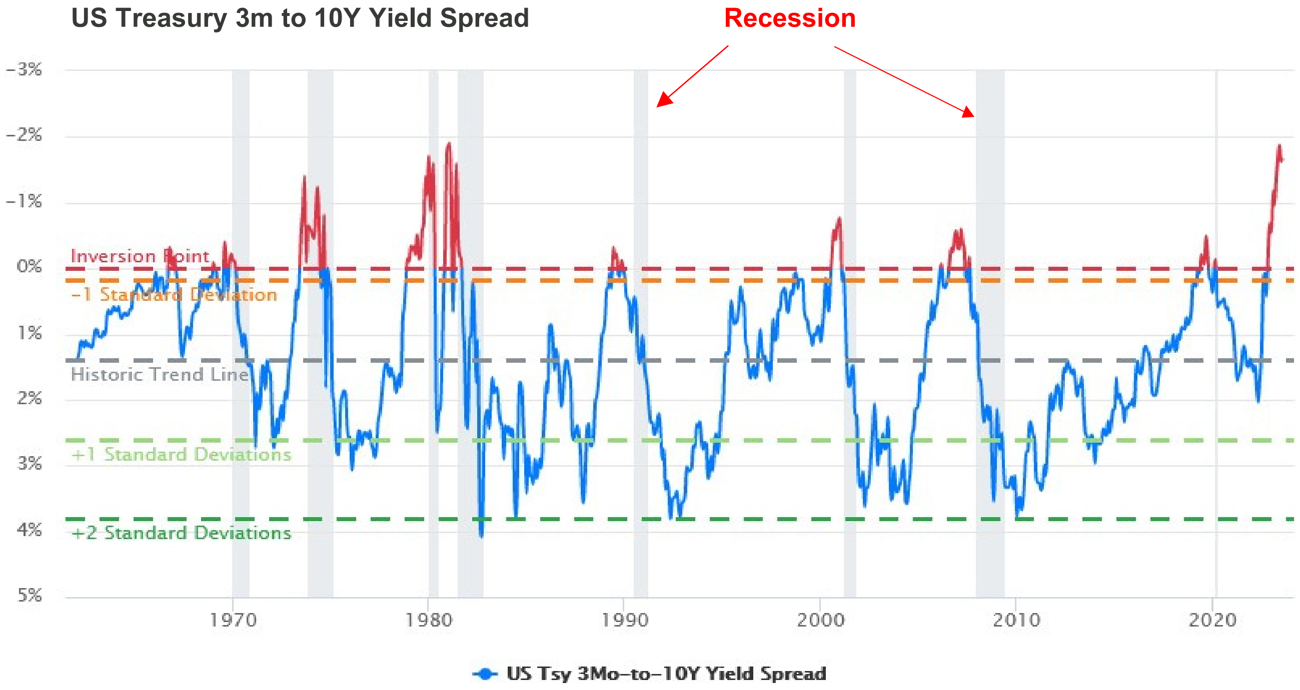
[1] Information obtained from the Transcripts of Chair Powell's Press Conference on June 14, 2023

While the Fed Funds Rate is set by the Federal Reserve, the rates for 2-year, 10-year and 30-year bonds are determined by the “market”. These rates are determined based on investors’ expectations for return from bonds. The “market” has its own ideas of future inflation and bids on bonds based on these views. In normal times, bond holders expect greater returns for holding longer term bonds, thus the 30-year rate is normally higher than the 10-year rate which is normally higher than the 2-year rate. However, with the high rate of inflation, shorter duration bonds actually have a higher interest rate than longer term bonds.

The current conditions create an **INVERTED YIELD CURVE** which historically has been a harbinger for a **RECESSION**




The current conditions, as mentioned above, create an inverted yield curve which has historically been a harbinger for a recession. “Since World War II every yield curve inversion has been followed by a recession in the following 6-18 months…” (2) The “market” is wrestling with whether this time is different. The Wall Street Journal recently reported “…underlying inflation has edged lower in recent months, even though the labor market has yet to weaken significantly. This suggests the odds of a soft-landing, in which inflation returns close to the Fed’s 2% target without a recession, are improving.” (3)




[2] Information obtained from The Yield Curve, Yield Curve Valuation Model www.currentmarketvaluation.com
[3] Information obtained from The Wall Street Journal 07-14-2023 Cooler Inflation Lifts Hope of Soft Landing - Page A2 - by Greg Ip

## ECONOMIC GROWTH:

The rise in inflation caused the rise in interest rates and higher interest rates promotes savings and hinders borrowing. Since consumption is a major ingredient in economic growth, higher interest rates should hinder growth. However, in the first quarter of 2023, GDP (Gross Domestic Product) increased by 2%, and preliminary estimates are for similar growth in the second quarter.


The Wall Street Journal recently reported "The U.S. economy remains resilient this year despite the Fed's rate increases, defying predictions of an economic downturn. Hiring slowed in June but was still strong and unemployment historically low." (4)

**Inflation, the direction of interest rates and economic growth are all uncertainties.**

At JVL Wealth Strategies our mission is to create a financial strategy that helps our clients withstand the ups and downs of the markets. Our role is to prepare our clients for all economic and market conditions. Our planning and strategies can withstand market uncertainties. While we cannot control the news or the events and actions that affect the markets around the world, we can control the strategies and the planning to prepare our clients for the uncertainties the world has to offer.

We deeply value the trust our clients place in us. If you know of someone who could benefit from our experience, please let us know. You can learn more about us at [www.jvlwealth.com](http://www.jvlwealth.com) Feel free to pass the link along.

By: Jerry VanderLugt CPA, CFP®, CVA

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[4] Information obtained from The Wall Street Journal 07-13-2023: Inflation Cools to Slowest Pace Since 2021 - Page A2 - by Gwynn Guilford & Nick Timiraos