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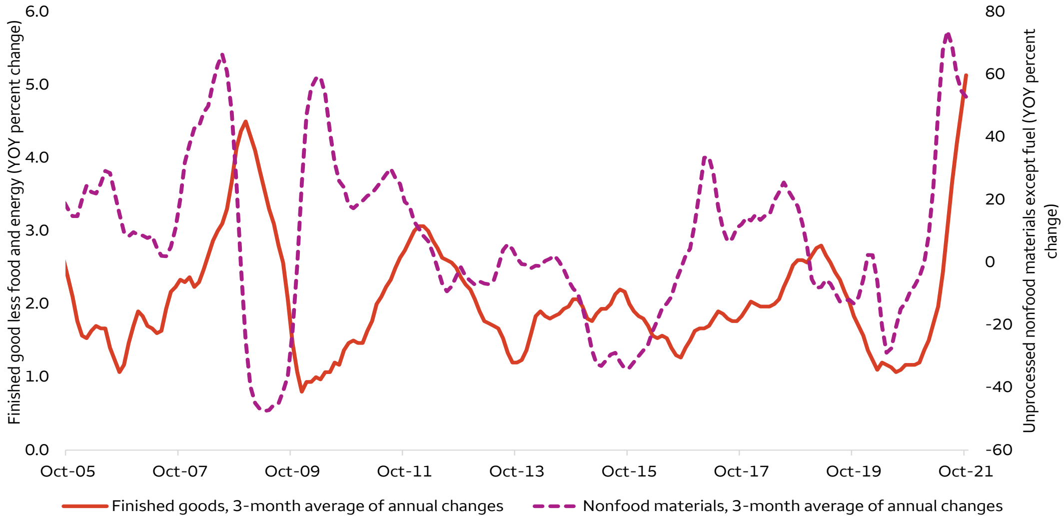
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes | November 23, 2021

Where we see inflation headed in 2022



Sources: Bureau of Labor Statistics and Wells Fargo Investment Institute. Monthly data, October 2005–October 2021. Data shows seasonally-adjusted, 12-month percentage changes, smoothed with a three-month moving average to show turning points more clearly. YOY = year-over-year.

Inflation in producer raw materials leads inflation in producer finished goods

We believe inflation is one of the most prominent risks to portfolios today. Strong demand for food, energy, and automobiles has aggravated global supply disruptions. Whether the result of policies in China (to cut coal usage); factory closures that limited microchips for automobiles and electronics; limited OPEC[1] oil supply; or transportation bottlenecks, the supply of goods has trailed demand and aggravated inflation.

From the suppliers' side, factories in Asia are reopening and some transportation costs are peaking.[2] Raw materials prices also are important because their changes have tended to predict consumer inflation 12 months ahead (see chart). Lumber, copper, and soybean prices, for example, are significantly lower than they were earlier in the year and holding.

What it may mean for investors

We expect consumer inflation to slow somewhat by midyear 2022 and materially by year-end. Our 2022 year-end target for U.S. Consumer Price Index (CPI) inflation is 4.0%. We expect profit margins to hold and for corporate earnings to rise with economic output, and have raised our 2022 target for the S&P 500 Index to 5,100-5,300.

Paul Christopher, CFA, *Head of Global Market Strategy*; **Scott Wren,** *Senior Global Market Strategist*
This chart was excerpted from the *Institute Alert* (Nov. 15, 2021), "Managing portfolios before inflation peaks".

[1] Organization of the Petroleum Exporting Countries.
[2] According to Bloomberg (November 12, 2021), international dry freight costs appeared to peak in October, and the U.S. cost of transporting grain by truck or barge also peaked in the past two months.

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Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

Definitions

An index is unmanaged and not available for direct investment.

The **Consumer Price Index (CPI)** produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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