Macroeconomics

Inflation Outlook: the Macro, the Micro, the Transitory

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Uncertainty over inflation has been unusually high this year, as rapid economic growth has been accompanied by large increases in prices for many goods and services. While economists had long expected that reopening would feature some degree of upward pressure on prices, the magnitude of acceleration in U.S. inflation was unexpected by most forecasters.

Somewhat surprisingly, financial markets have had a relatively muted reaction to this bout of higher than expected inflation. What might explain their sanguine response?

In our view, many investors (and policymakers) appear to have concluded that the recent pace of inflation is, to use the buzzword of the day, transitory. While there *is* good reason think recent high inflation rates will subside somewhat, we believe there are several factors suggesting a return to low and stable ~2% headline CPI readings is unlikely in the near term.

Parsing recent data, we review these factors and what the investment implications might be if inflation proves more persistent than anticipated.

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