US inflation won’t drop below 8% until October – stock markets too optimistic

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By Nation World News Desk

After less than expected (for the first time since August 2021), the stock markets are partying after the final data on inflation in the United States was published: according to the thesis, peak inflation is now observed, which is why the US Federal Reserve interest rates will not rise as much, which in turn will prevent the US economy from falling into recession.
Inflation Is Falling, Equity Market Party Warrant?

So all the best, the "Goldilocks Scenario" for the stock markets! Really? No it’s not true. Because inflation in the United States will remain high for the foreseeable future. In the last publication on US inflation, inflation was -0.01% – so it practically did not change compared to the previous month, the increase was “only” 8.5% compared to the same month last year (after 9.1% in the previous month) . Lower inflation was triggered by a sharp drop in energy prices, especially gasoline prices (from $5 a gallon in mid-June to just $4 a gallon). However, without the drop in energy prices, inflation in the US would have risen +0.4% over the past month. It is certainly difficult to predict how these energy prices will continue to grow.

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Let’s assume that the data on inflation over the next two months will be the same as the previous data – i.e. -0.01% in the previous month. Then inflation would be 8.3% annually on 13 September (for August) and still 8.0% on 13 October (for September):
The prime interest rate in the United States is currently at 2.5% – much lower than the current inflation rate of 8.5%. However, the US Federal Reserve has now announced that it intends to adopt a slightly restrictive monetary policy to slow the sharp rise in prices. Should the Fed raise interest rates by 0.5% at its next meeting (which stock markets currently value as the most likely scenario), the base rate will still be well below the inflation rate. So one can't really speak of a restrictive monetary policy – the Fed has to significantly lower interest rates (as opposed to what the stock markets expect) in the coming months to reduce the gap between the key interest rate and inflation. Will have to increase

As many "speakers" the Fed has made it clear that this is what it intends to do – the stock markets alone don't believe it. Investors such as Jim Paulsen (Leuthold Group) are already saying that an "easing cycle" is imminent, that is, the Fed will lower interest rates again in the near future. This optimism fueled Wall Street stock markets.

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### Rent Factors in Inflation
In other words, increases in home prices and rents in the US will continue to be reflected in inflation calculations for months and years to come. Many landlords will continue to increase rental prices for their tenants – for example because existing leases expire and landlords are reacting to inflated real estate prices when renting out new properties.

Campbell Harvey effectively shows in the following video why the stock markets are “on the wrong foot” when they believe inflation will fall quickly:

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