

**2022 Outlook – Fixed Income (Mike Cody)**  
**12/15/21**

Chris:

Welcome to Conversations with Commerce Trust Company. This is where our investment team covers some added insights from our annual outlook. Today, we have Mike Cody, our director of fixed income trading. Mike, how are you today?

Mike:

Doing well, Chris.

Chris:

Let's take a look at inflation. You can't avoid it in the news today. What's caused this recent spiking and surging inflation?

Mike:

Well, COVID could be pointed to as one of the big contributors. And with COVID, what we had occur is when COVID was affecting people back in 2020, consumers cut back on what they were purchasing. And when they did that, manufacturers slowed down on what they were purchasing. So, for a time period, the economy slowed down. And then as vaccines came out, business started to get back to where they were. We're opening the economy...starting to get back to normal. But when this happened, the producers of products weren't quite ready for meeting the demand. So, consumers had put off purchasing for a while and now they're ready to spend, but manufacturers weren't quite ready. And there were shipping challenges, material shortages, and then commodity prices were on the rise. With all that going on, producers found themselves needing to raise prices. And as a result, we have inflation.

Chris:

Mike, that was a good summary. Our listeners might not always know what some of the benchmark figures that the Fed uses to monitor inflation. Can you tell us what core CPI and core PCE is, really?

Mike:

Yes. When the Feds monitor inflation, those two indices core CPI (Consumer Price Index) and core PCE (Personal Consumption Expenditures), are looked at and core CPI... with the core part, when they're putting that number together, they exclude food and energy prices, but it's including prices on basically everything else. They exclude those two because of the volatile nature of them. So, it helps to give a better picture of where inflation is. And as of November, the year-over-year number reported for core CPI was 4.9%. Very high in terms of the last 30 to 40 years. Core PCE is just a little bit different than CPI. Tends to be just a little bit lower number over time. And it also has a health cost number that has a bigger effect on that indices. Also, the way these two are weighted impacts how they're different. But yes, 4.1% was the recent number on that number. And to give you a reference, at the start of 2021, we were at 2%. Since the start of the year we've doubled, so inflation is on the rise.

Chris:

Mike, I think we can all agree that spiking inflation is not helping anybody. Can you tell us what inflation does to the consumer?



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Mike:

Inflation affects purchasing power. So how much people, what the cost of goods and services that people face, is impacted by inflation, and persistent inflation erodes your paycheck. So, you end up getting less bang out of your buck when inflation is around.

Chris:

Thanks Mike. That was Mike Cody director of fixed income trading here at Commerce Trust Company. Thank you for that analysis.

Mike:

Okay. Thank you, Chris

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