
“TRANSITORY” INFLATION HAS GONE MAINSTREAM

Kevin Flanagan — Head of Fixed Income Strategy

11/17/2021

Without a doubt, [inflation](#) has become perhaps one of the most talked-about topics in the media. A few months ago, elevated price pressures seemed to be more of a market-related subject, but arguably, one could now say that inflation has gone mainstream.

It seems as if with each passing day there are more articles, social media posts and television coverage given to the topic at hand. In addition, inflation has now become a sort of political football, with the recent higher-than-expected print for the October [Consumer Price Index \(CPI\)](#) serving as fodder for the debate about whether the U.S. economy can handle another trillion-dollar-plus spending package.

Don't worry, there's no going down the “political rabbit hole” in this blog post. But it is way past time to define just what the term “transitory” means. Remember, the “transitory” view has been what the [Federal Reserve \(Fed\)](#) has been clinging to ever since the first outsized CPI print was recorded back in May. According to Merriam-Webster, “transitory” is defined as being “of brief duration: temporary: tending to pass away: not persistent.” Pick whichever definition you want, and you get the picture.

I guess from the Fed's point of view, these definitions offer some cover. For example, in each case, one could essentially measure the time frame in days, weeks, months or—dare I say it—a year or two. However, the money and bond markets appear to be tiring of this “word game” if recent price action is any indication. What they are witnessing is a continuing upward trajectory, and patience with Fed policy could soon be wearing thin.

Let's take a look at the aforementioned October CPI report. Once again, the Bureau of Labor Statistics (BLS) is using language such as “the largest 12-month increase since” to describe its latest findings for both headline and core inflation. Here are the numbers: overall CPI surged at an annual rate of +6.2%, while ex-food and energy rose +4.6%, the highest readings since November 1990 and August 1991, respectively.

We are now seven months into this “transitory” bout of inflation, and not only is the trend moving higher (as per the October CPI report), but the breadth of price pressures is expanding. The data clearly indicates that higher food and energy prices are now being joined by elevated costs for services and other goods, not to mention an upward trajectory for wages.

It is becoming increasingly apparent the Fed could be in for a rather “sticky” situation. Sure, it announced the beginning of tapering at this month's November [FOMC](#) meeting, but according to its current schedule, the policymakers would still be adding \$420 billion to its balance sheet over the next seven months. If inflation stays at 6%, or even moves back to 5%, you have to ask the question: why is the Fed providing just shy of a half-trillion dollars in additional stimulus through mid-2022?

Maybe that's why the money and bond markets are, perhaps, beginning to lose patience. Last week, the [Fed Funds Futures](#) implied probability pushed up the timing for the first [rate hike](#) closer to June while once again moving in the direction of three rate hikes next year, not two.

Conclusion

You want proof of inflation going mainstream? I just ordered my turkey for Thanksgiving and the butcher told me to expect the price to be up versus last year. Unfortunately, don't be surprised if inflation is one of the topics being discussed at the dinner table in two weeks.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

- + [Wages Pose a Threat to 2022 Profit Margins](#)
- + [Higher Growth Globally at Lower Valuations](#)
- + [We Aren't Done with Inflation](#)

Related Funds

- + [WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund](#)
- + [WisdomTree Interest Rate Hedged High Yield Bond Fund](#)
- + [WisdomTree Floating Rate Treasury Fund](#)

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Inflation : Characterized by rising price levels.

Consumer Price Index (CPI) : A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Fed fund futures : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.