



# A P O L L O N

**2022 Outlook: Inflation Focus**

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## Disclosure

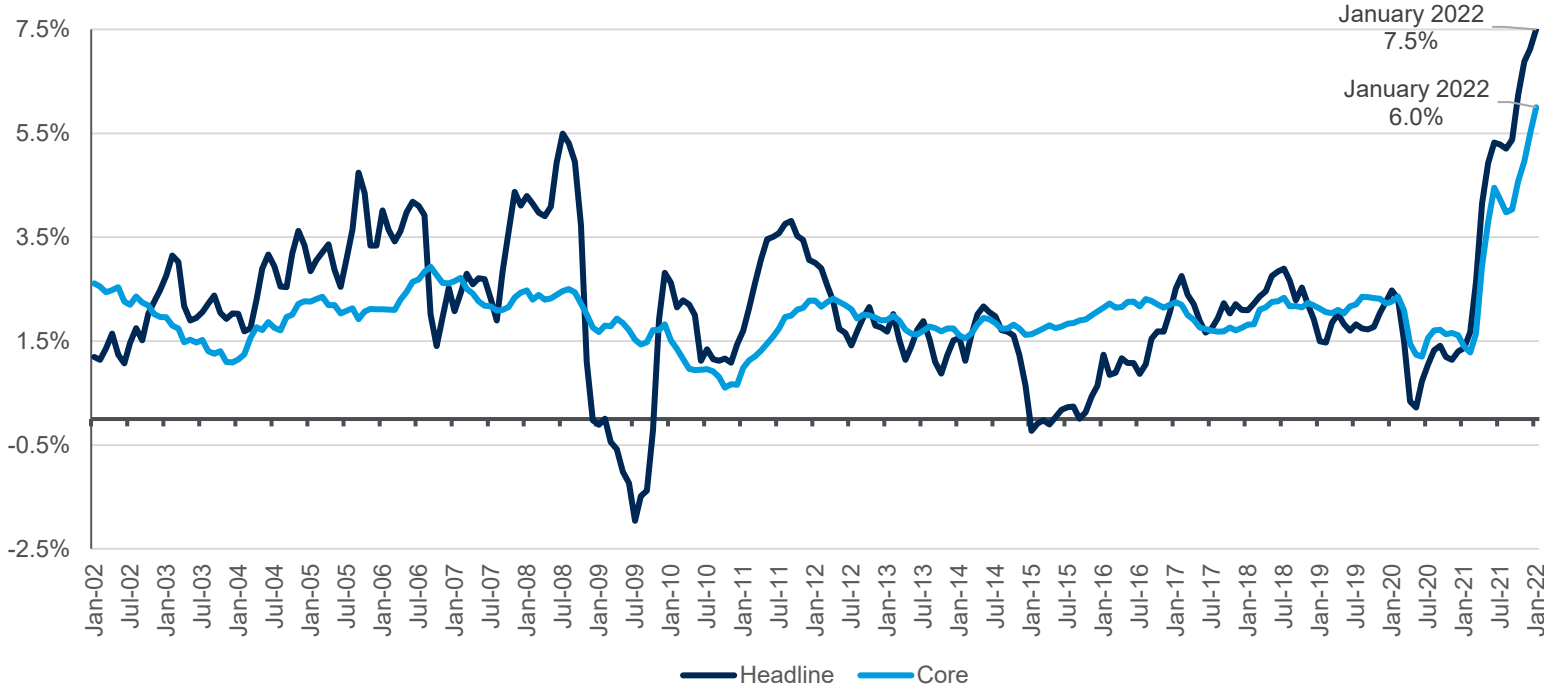
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# Inflation: Where We Stand Today

- Consumer Price Index (CPI) rose 7.5 percent year-over-year as of February 10, 2022. That is the largest annual gain in nearly 40 years. Recent headline figures were materially impacted by energy. Broad energy prices were up 27 percent, propelled by motor fuel prices rising 46.5 percent in the last year.
- In January, the Federal Reserve once again acknowledged elevated inflation levels and signaled a higher likelihood of increasing the Fed Funds Rate at its March 15/16, 2022 meeting, but only after eliminating the current Quantitative Easing (QE) program. The has priced a high likelihood of a 0.25 percent move but has not removed the possibility of a 0.50 percent move.

## CPI Reaching Levels Not Seen Since the 1980s



Sources: U.S. Bureau of Labor Statistics, Federal Reserve



# Inflation Coming or Going?

## Transitory

Energy Prices

Transportation (Autos)

Supply Chain Disruptions

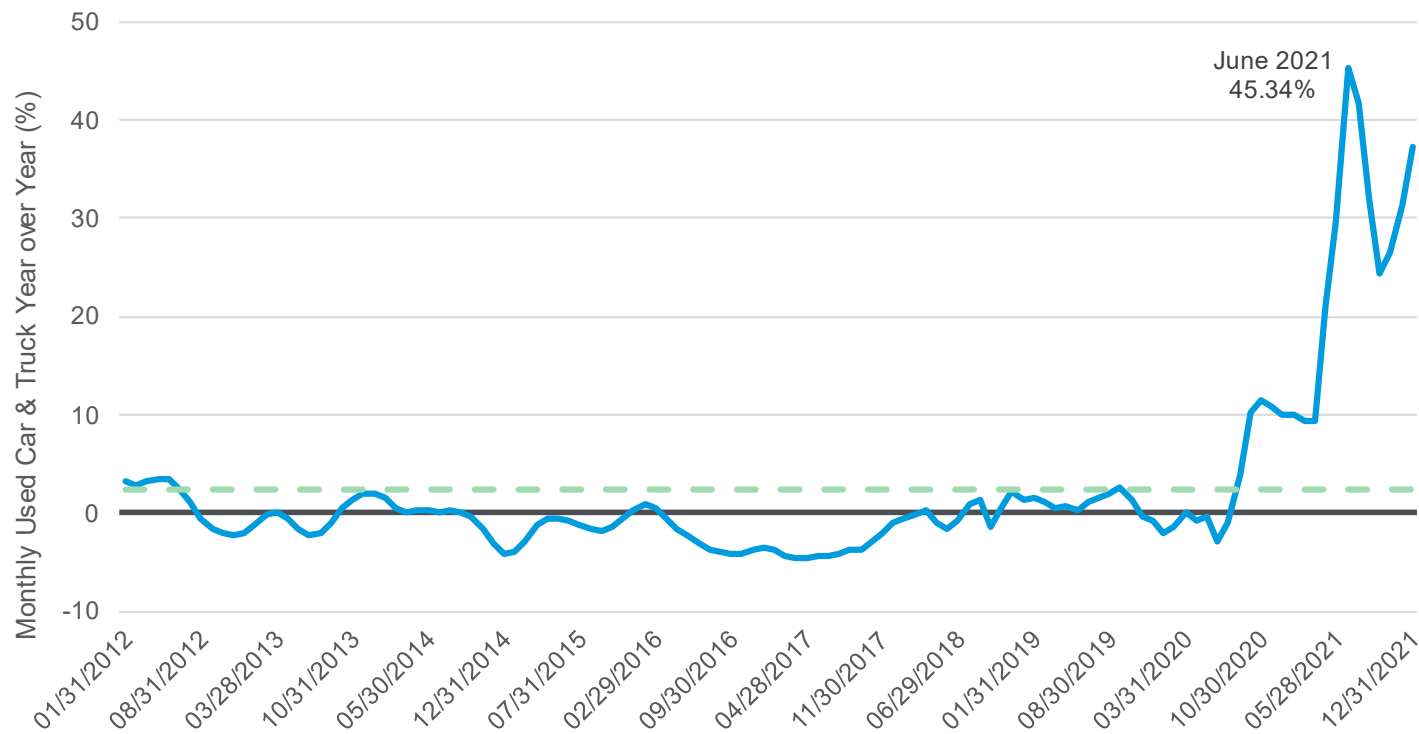
Semiconductor Shortage

## Persistent

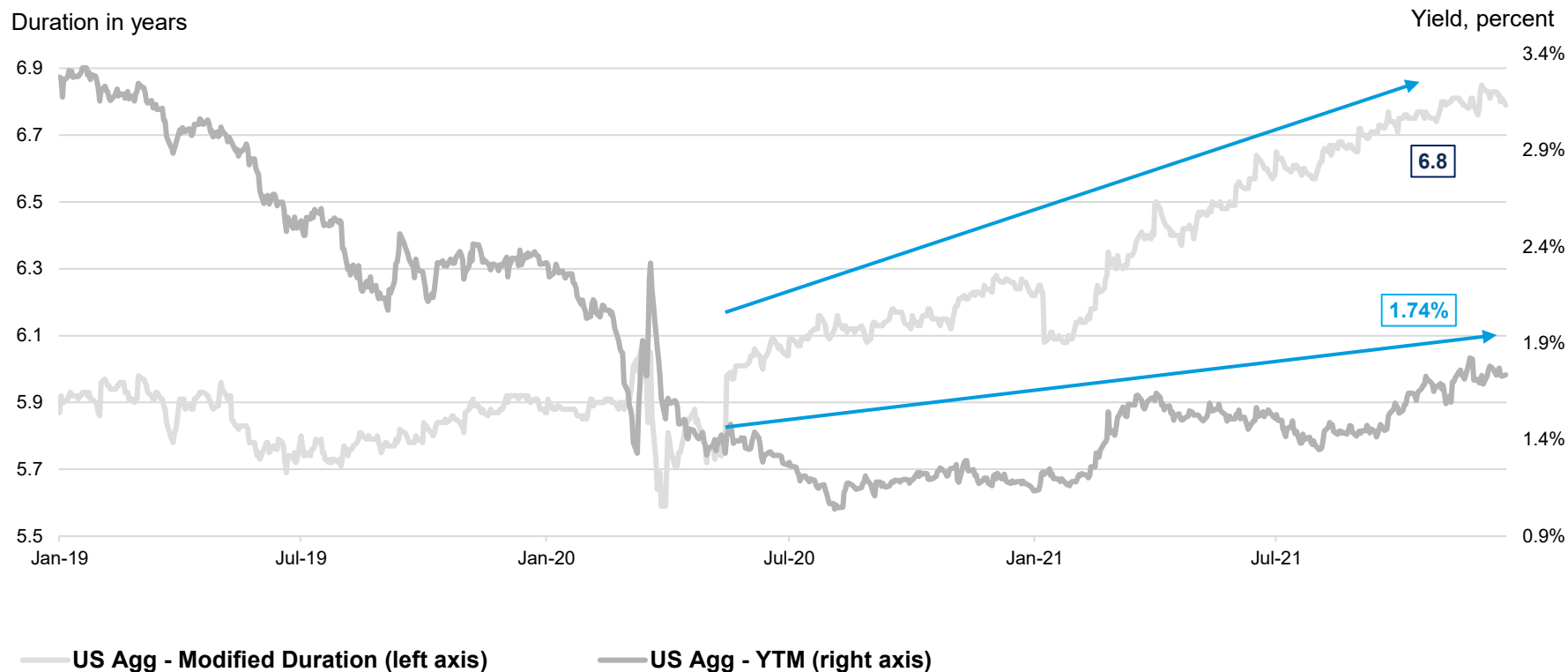
Wage Increases

Rents / Housing

### Price Changes in Used Cars & Trucks



# The Fed & Fixed Income

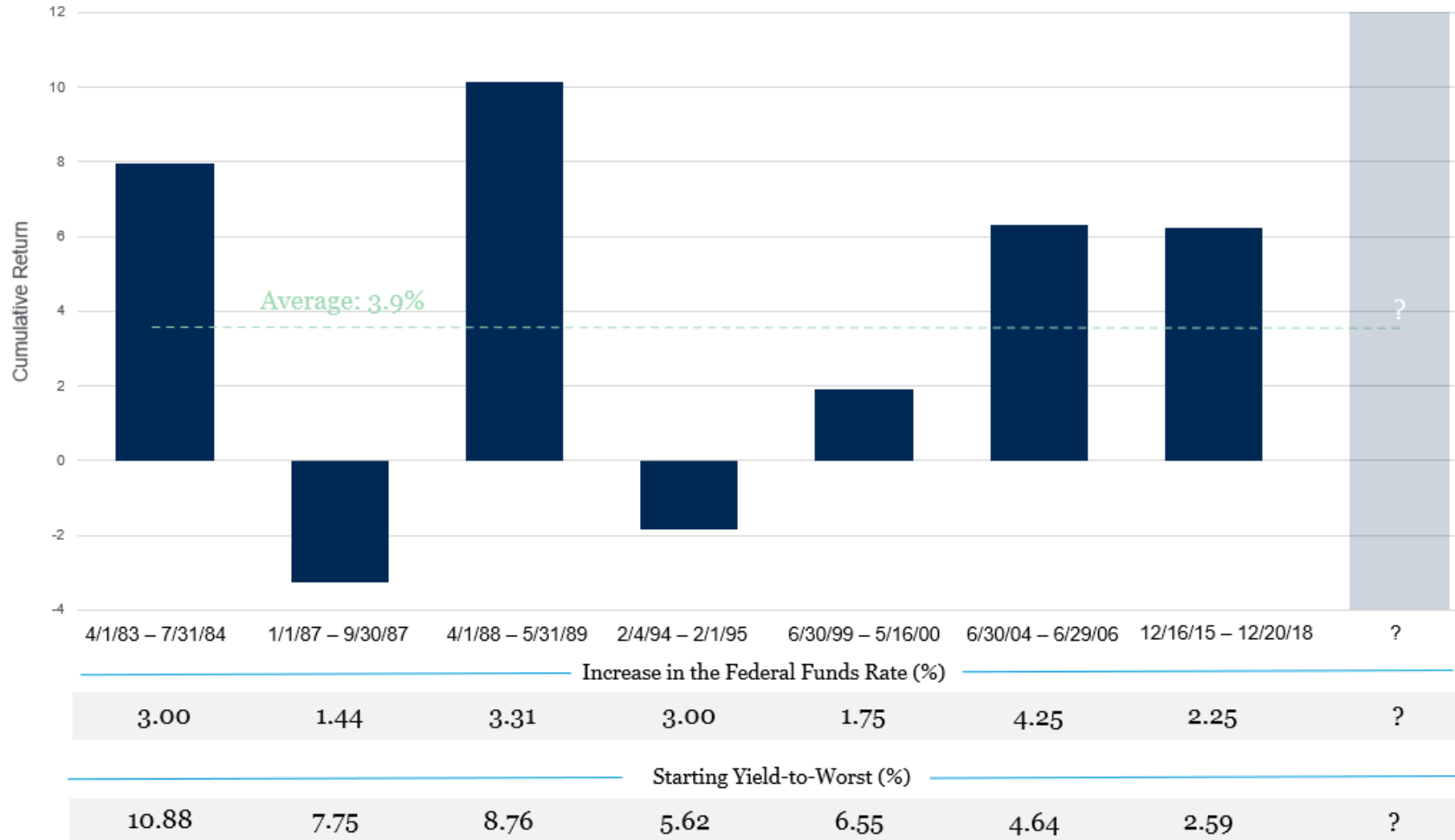


Source: FactSet, as of December 20, 2021. US Money Supply represented by US M2. US Agg represented Bloomberg US Aggregate Index. Use of Indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.



## Bloomberg U.S. Aggregate During Rating Hiking Cycles

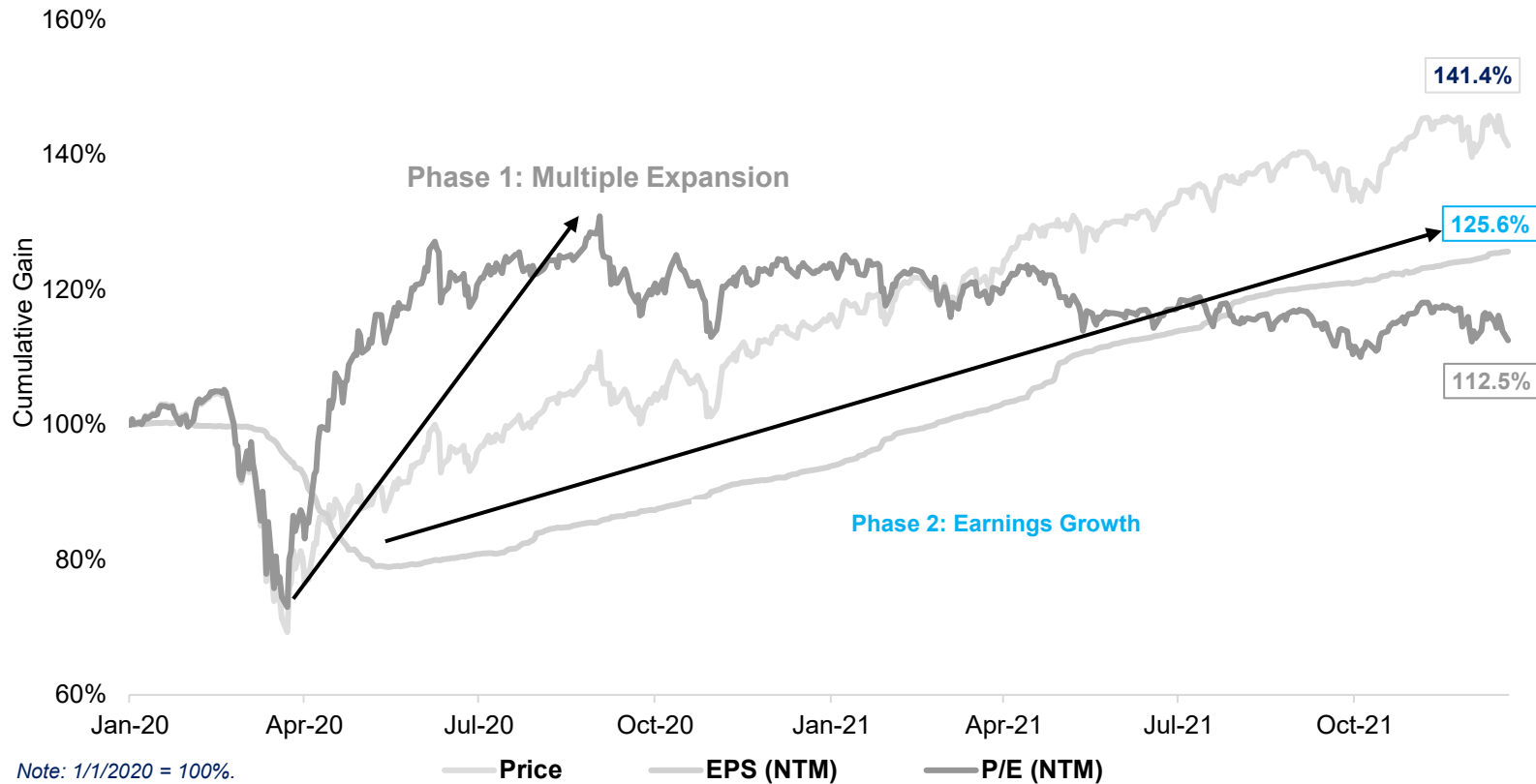
On average bonds have weathered previous rate cycles with positive performance. However, previous rate cycles had the benefit of much higher starting yields.



Source: Sources: Capital Group, Bloomberg Index Services Ltd., Morningstar, as of October 31, 2021. Daily results for the index are not available prior to 1994. For those earlier periods, returns were calculated from the closest month-end to the day of the first hike through the closest month-end day of the final hike. Starting Yield to Worst sourced from FactSet and is taken from the start of the month in period displayed.



# Equity Returns – One Index, Two Phases



Source: FactSet, as of December 20, 2021. Returns represented by S&P 500 Index. Use of Indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.

# Policy Maker Tightrope

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1

Healthy Environment for Active Fixed Income

2

Manage Interest Rate Risks

3

Likely Greater Reliance on Earnings

4

Emerging Markets May Shine

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# Disclosures and Definitions

All material and information is intended for Apollon business only. Any use or public dissemination outside firm business is prohibited. Information is obtained from a variety of sources which are believed though not guaranteed to be accurate. Any forecast represents future expectations and actual returns, volatilities and correlations will differ from forecasts. Past performance does not indicate future performance. This presentation does not represent a specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice.

When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. Each index is unmanaged, and investors can not actually invest directly into an index:

- **The S&P 500** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 1000 Growth** measures the performance of those Russell 1000 companies with higher P/B ratios and higher forecasted growth values.
- **Russell 1000 Value** measures the performance of those Russell 1000 companies with lower P/B ratios and lower forecasted growth values.



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