

Inflation Roundup

January 11, 2023

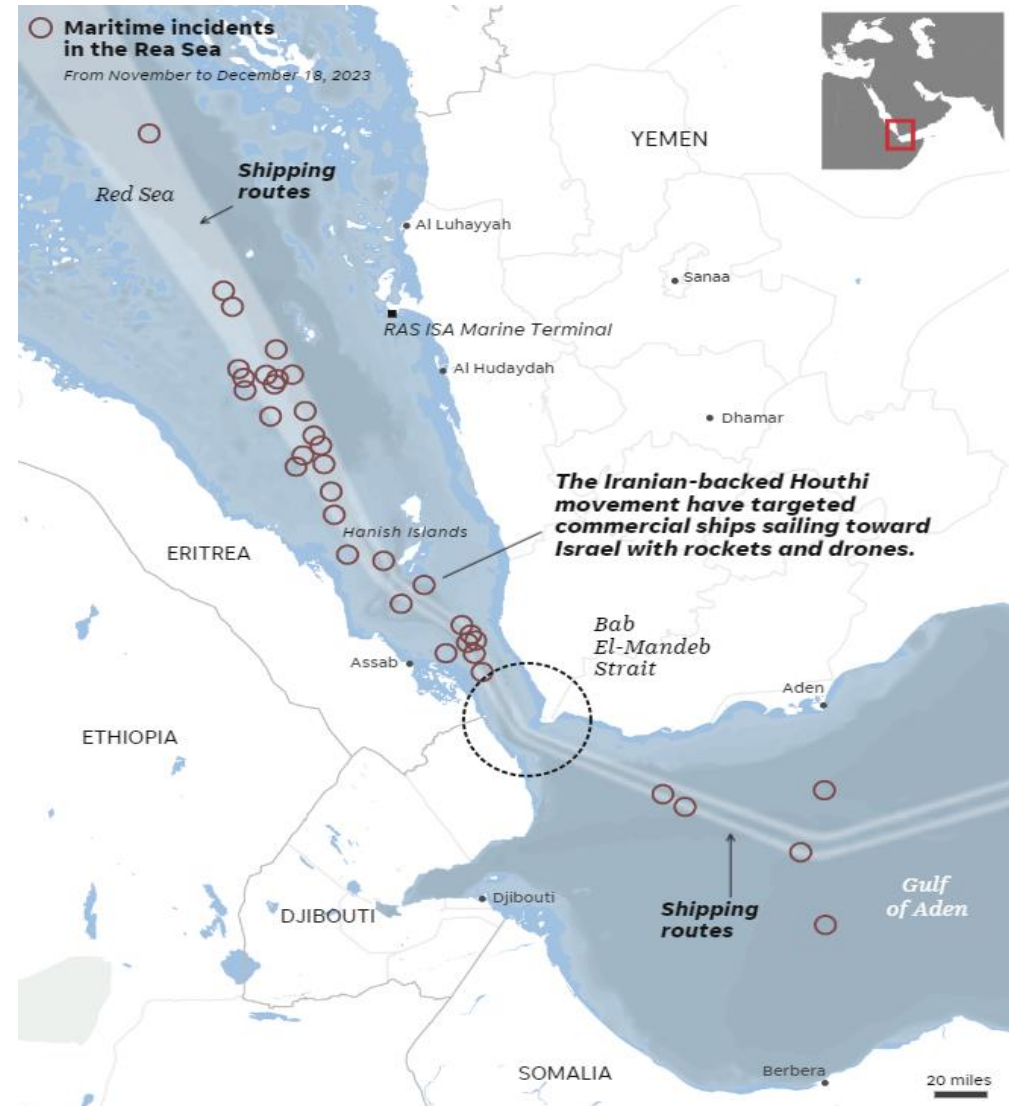
- The Red Sea
- Total Returns and Seasonality
- The State of Inflation
- Market-Based Expectations
- SPY Fund Flows
- Energy and Commodities

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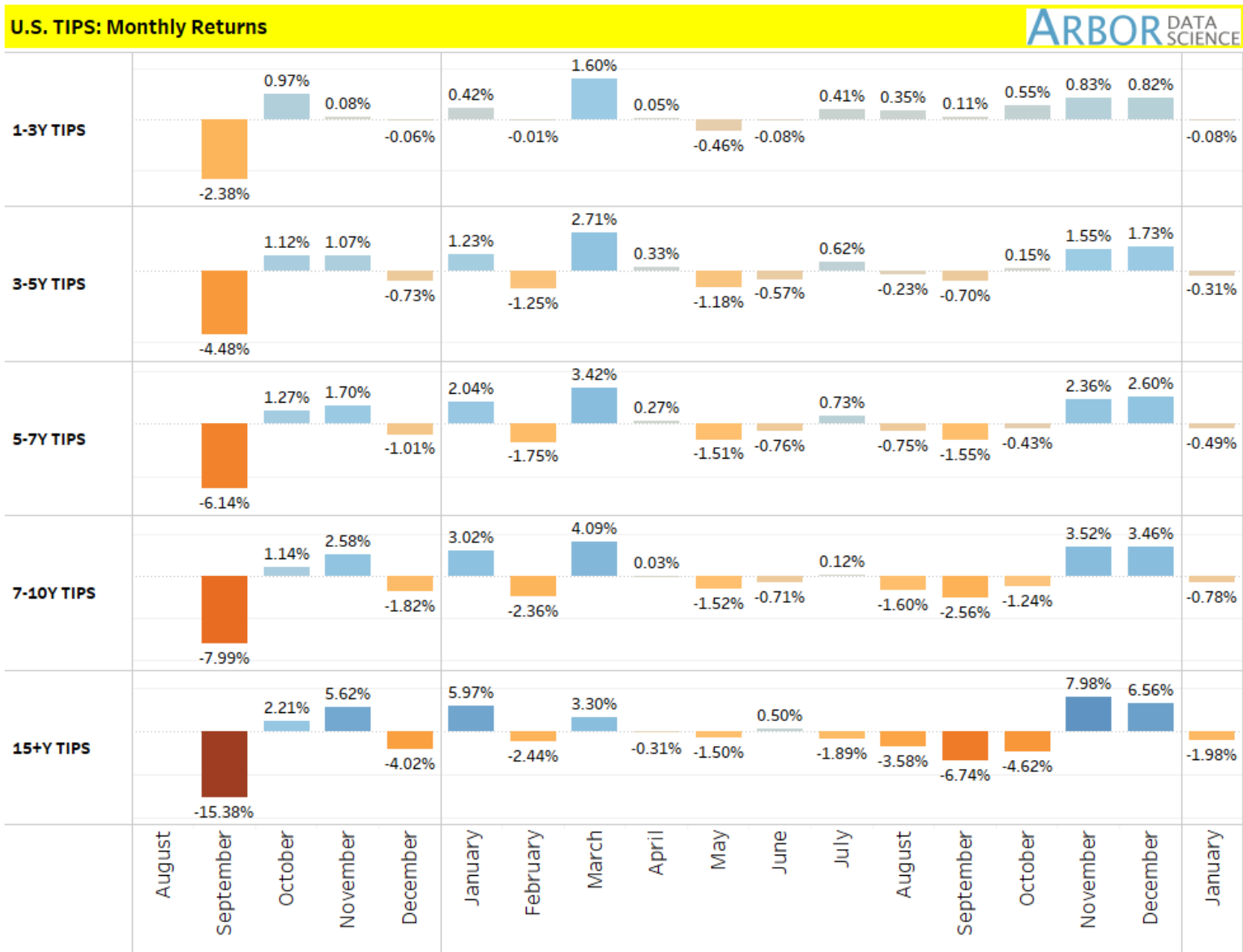
The Red Sea

- On Tuesday, January 9th, the Houthis [launched their largest attack](#) on commercial ships. The attack was fought off by 4 warships from Operation Prosperity Guardian.
- The US and UK were able to [defend against](#) 21 drones and missiles overnight. The attack consisted of 18 drones, 2 cruise missiles, and 1 ballistic missile.



Red Sea Attacks Nov-Dec 2023
Source: USA Today

TIPS TOTAL RETURNS:

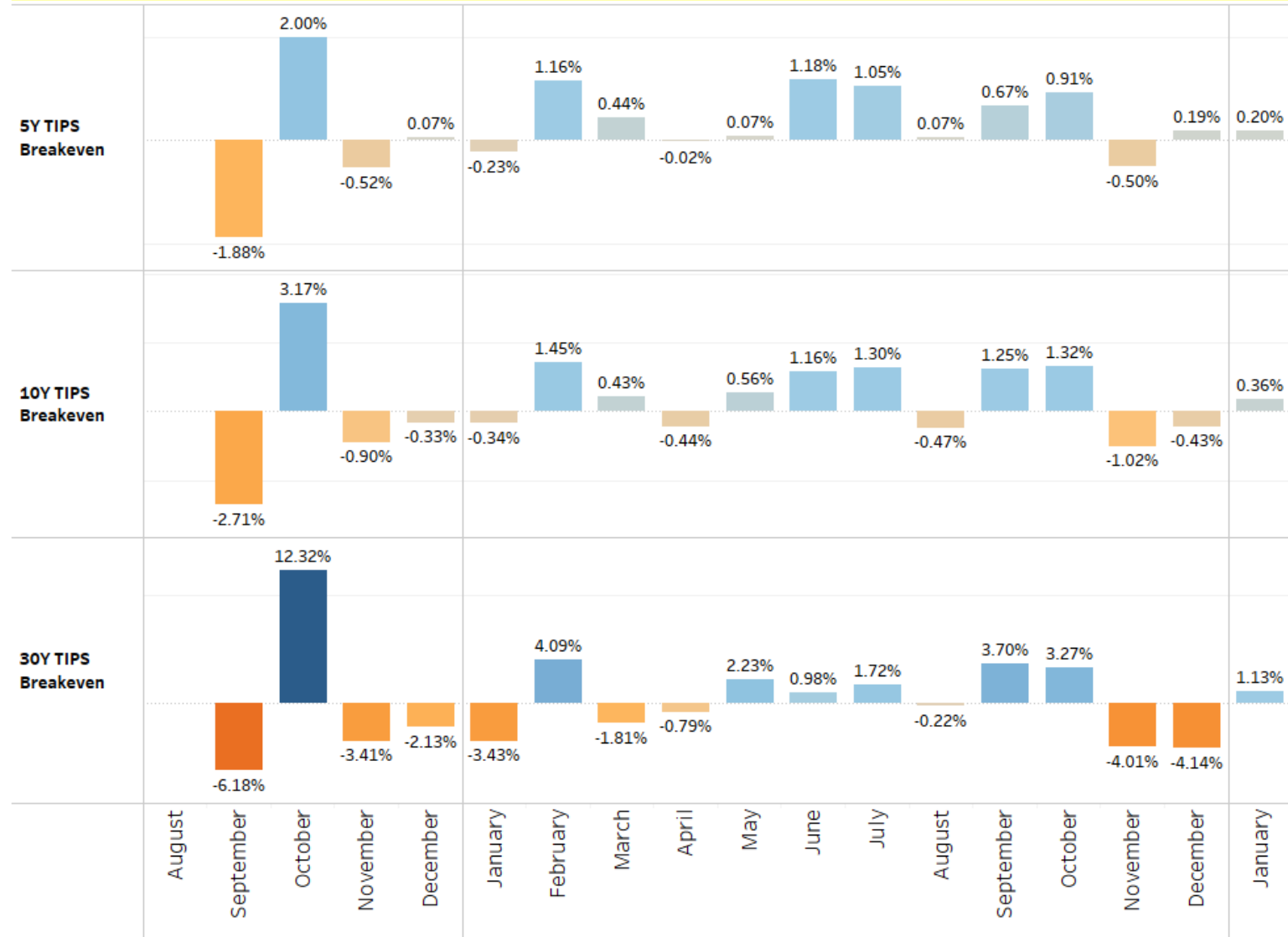


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TIPS BREAKEVENS TOTAL RETURNS:

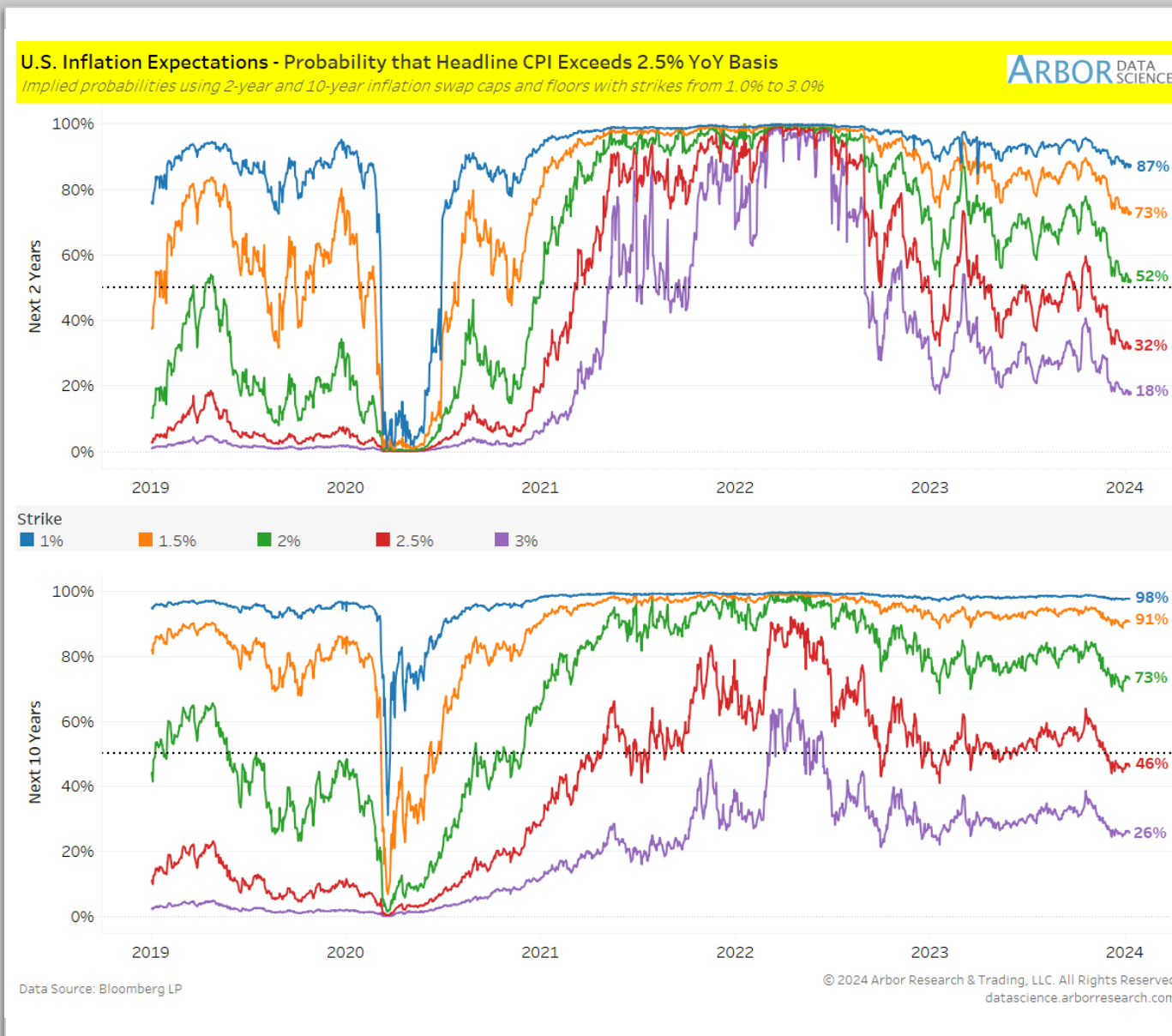
U.S. Inflation Expectations (duration weighted): Monthly Returns



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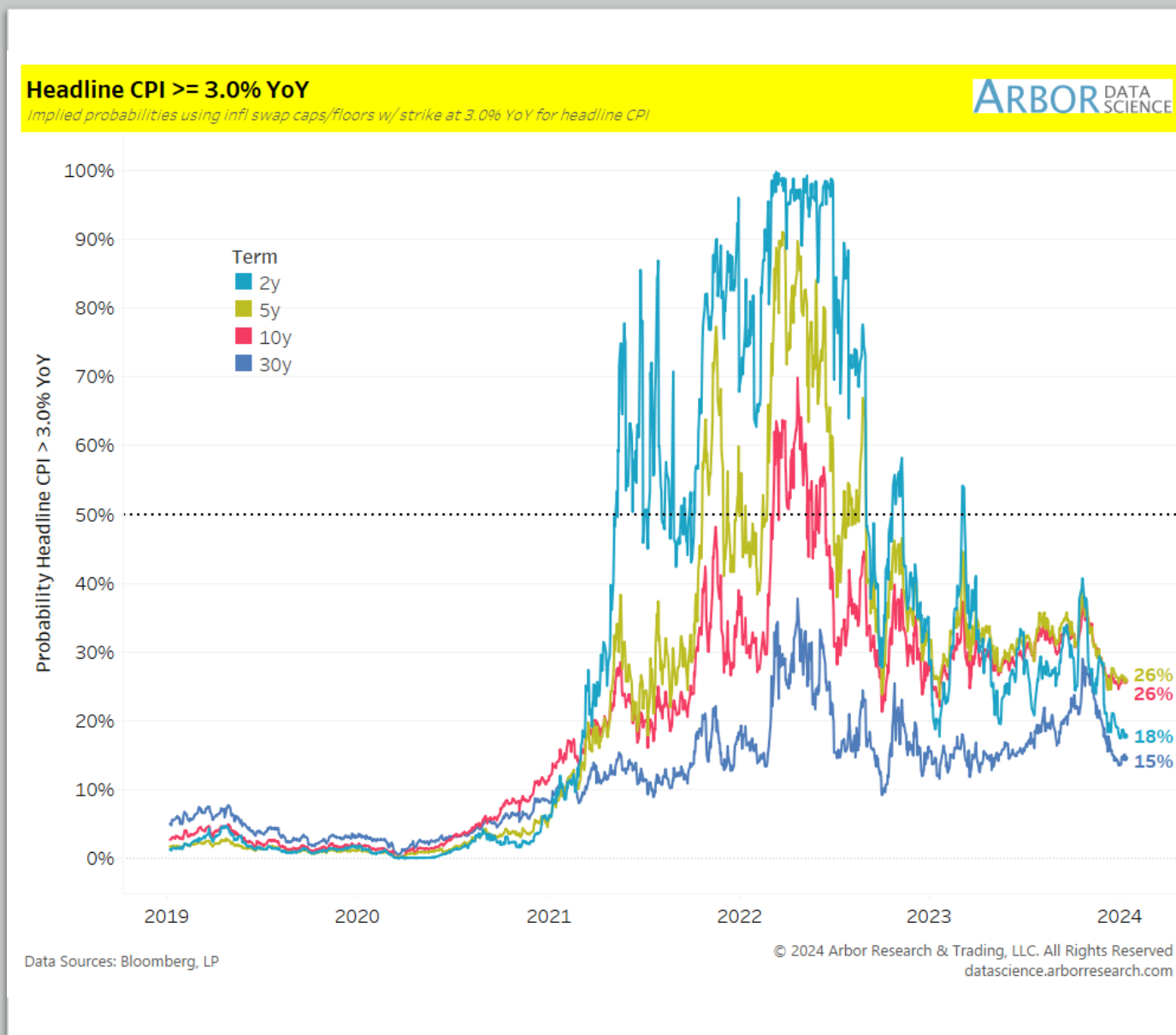
U.S. Inflation Swap Caps and Floors

- Over the past week, inflation expectations for the next 2 years have all decreased, except for 3%, which stayed the same. 10-year expectations decreased, except for 1%, 1.5%, and 3% projected inflation, which stayed the same.
- The probability of 2.5% headline inflation for the next 2 years fell from 33% to 32% over the past week.
- The 10-year probability of a 2.5% headline fell from 47% to 46% over the past week.



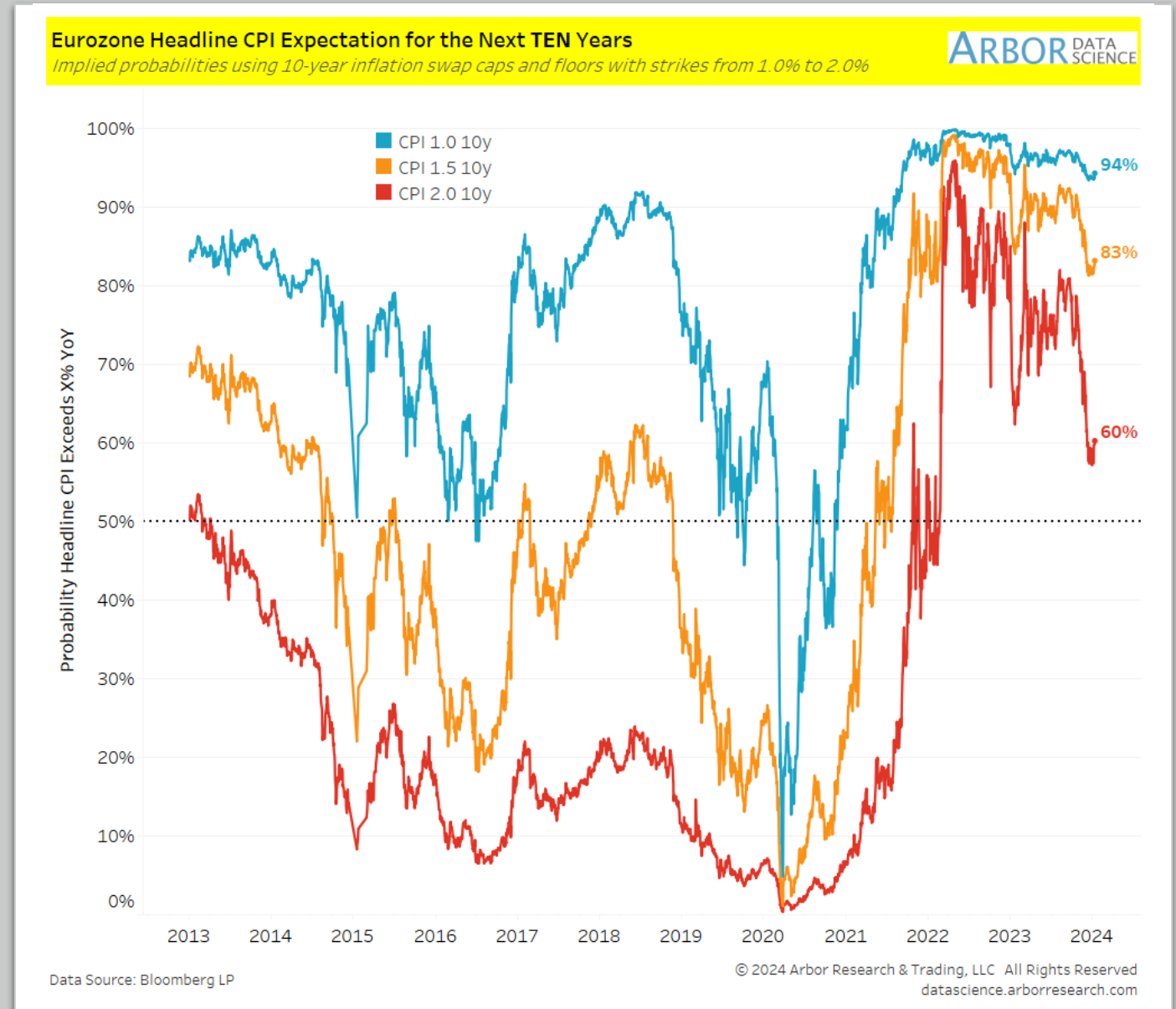
U.S. 3% Headline Expectations

- 3% inflation probabilities decreased for 5y, while the other terms stayed the same.
- Based on swap cap/floor probabilities for the next 2 years, the market gives this outcome an 18% probability, unchanged from last week.



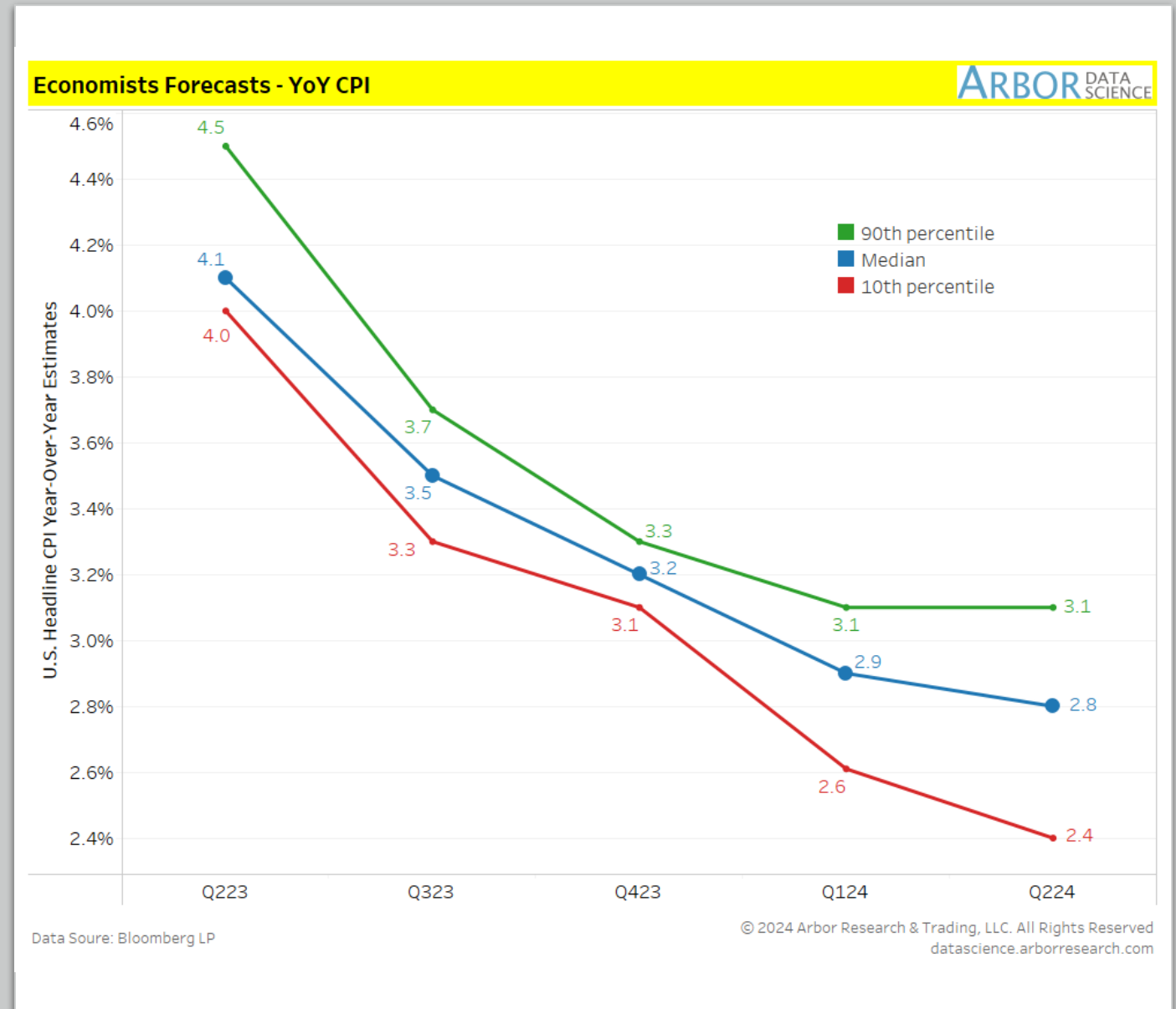
Eurozone Inflation Expectations

- 10-year Eurozone inflation expectations rose for 1.5% and 2% expectations, while 1% expectations stayed the same over the last week.
- The probability of 2% headline inflation over the next decade rose to 60% from 59%.



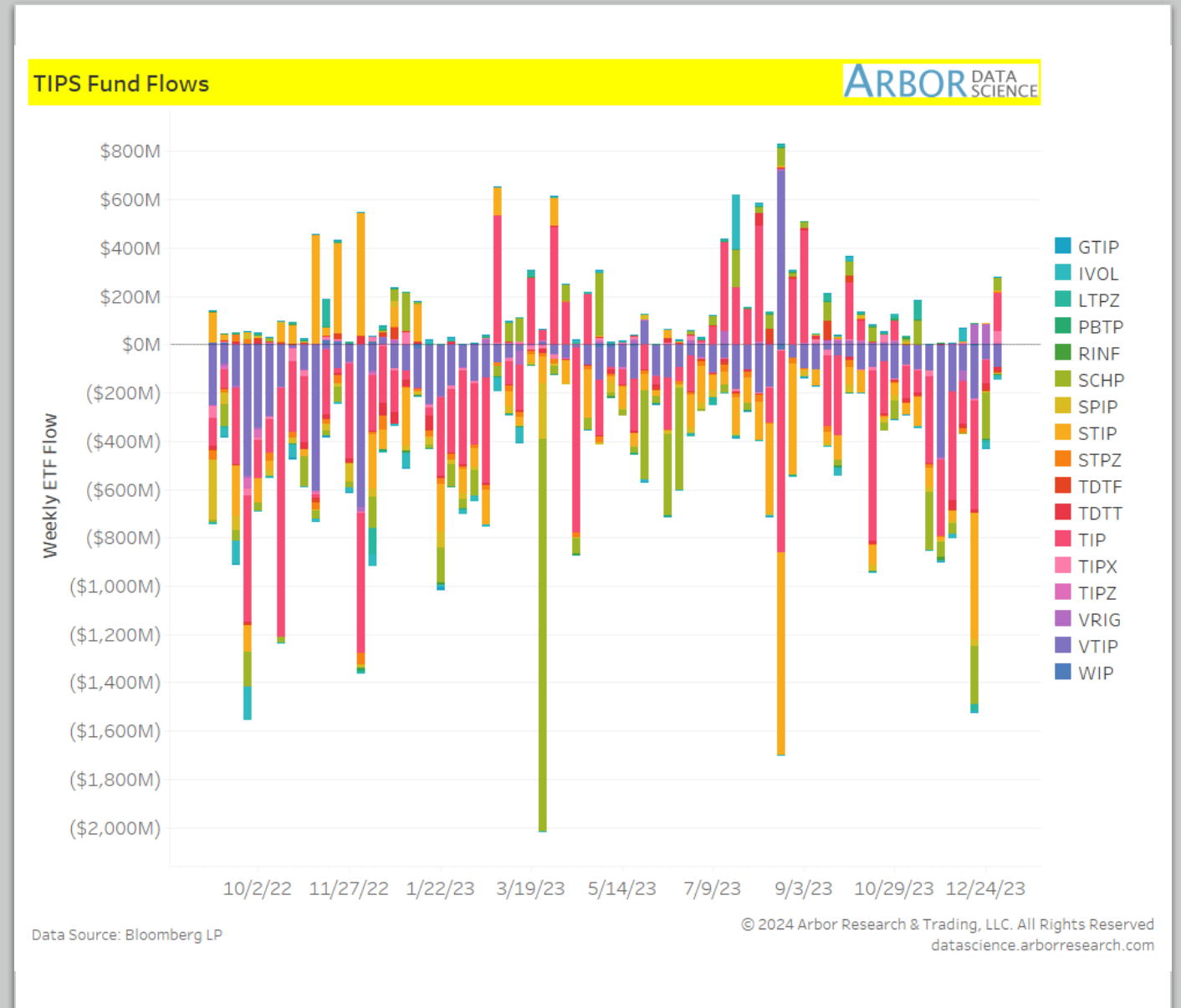
Economist Inflation Forecasts

- The median economist's forecast from big banks (BOA, PNC, JPM, UBS, etc.) suggests US inflation will average 3.2% YoY in Q4. More pessimistic forecasters predict 3.3%, while optimistic estimates are as low as 3.1%.
- Inflation is expected to drop below 3% at the earliest by Q1 2024, going by the median forecast.
- Final University of Michigan inflation expectations data showed Americans expect a 3.1% inflation rate over the next year.

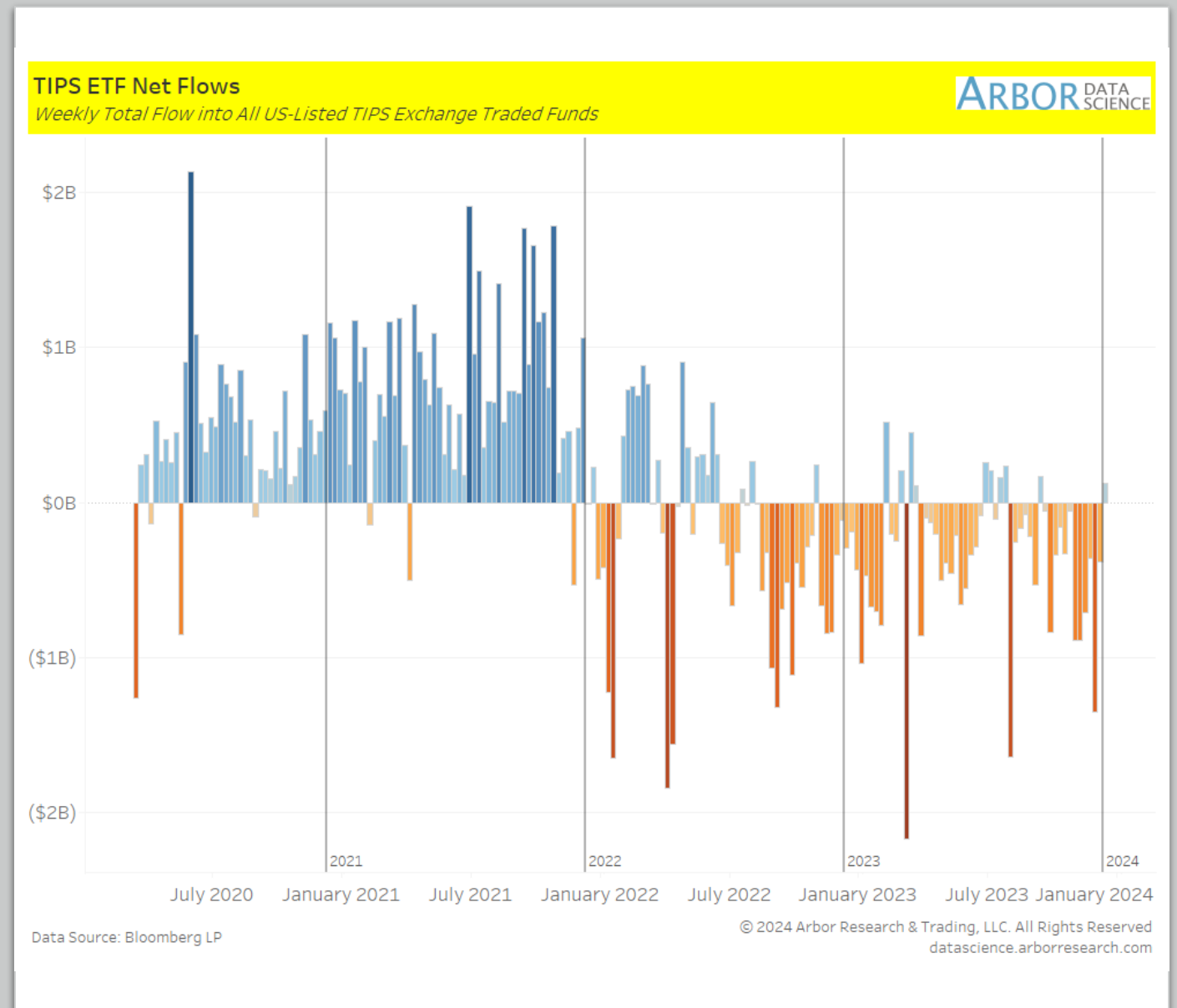


TIPS Fund Flows

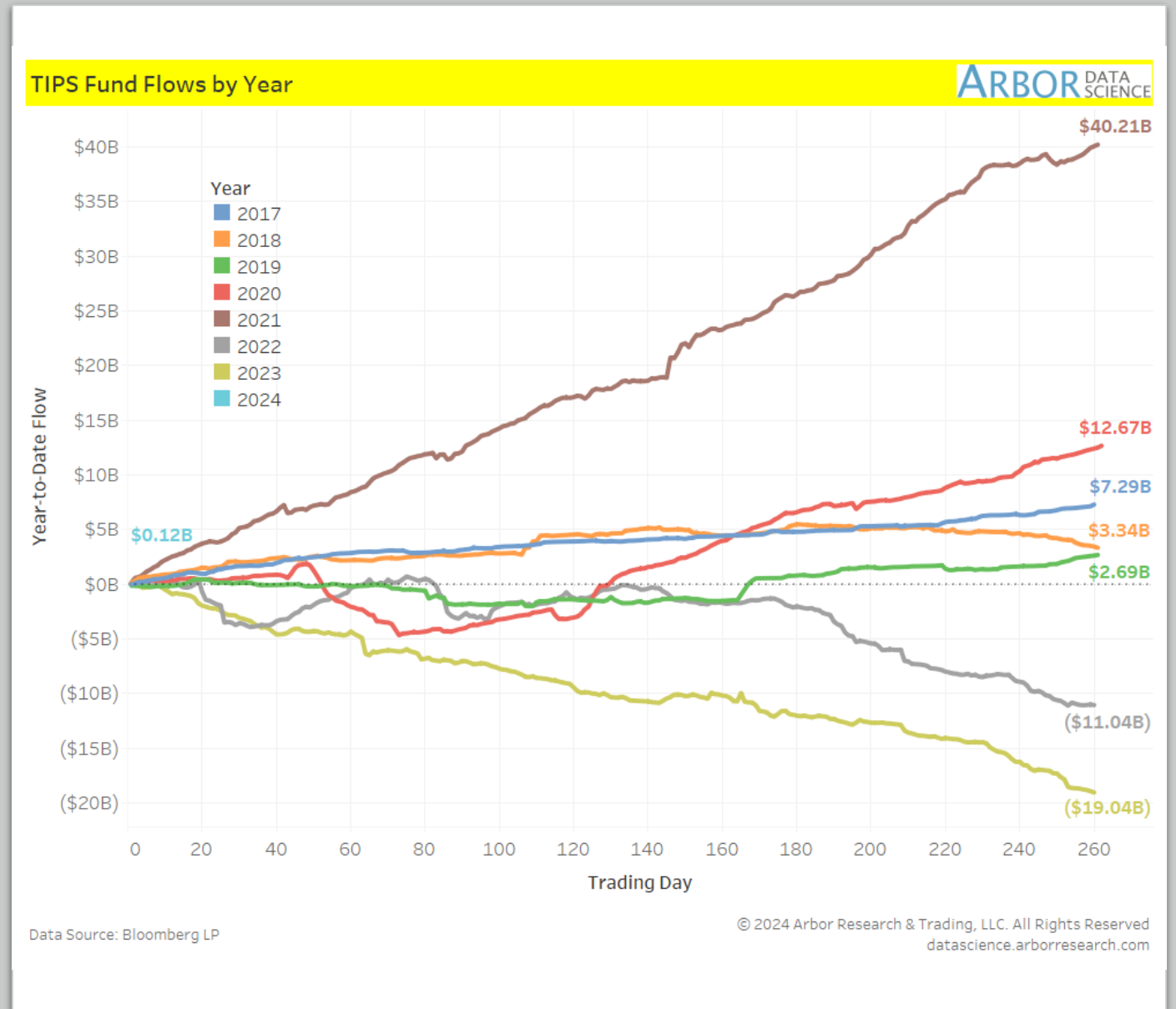
- The majority of flows last week were positive while concentrated in two funds (rounded value):
- iShares TIPS Bond Fund, \$161 million
- Schwab US TIPS Fund, \$55 million
- Bloomberg 1-10 Year TIPS Fund, \$50 million
- Notable outflows:
- Vanguard Short-Term TIPS Fund, -\$95 million



Last week's total flows for all US-listed TIPS ETFs had inflows of \$120.6 million.



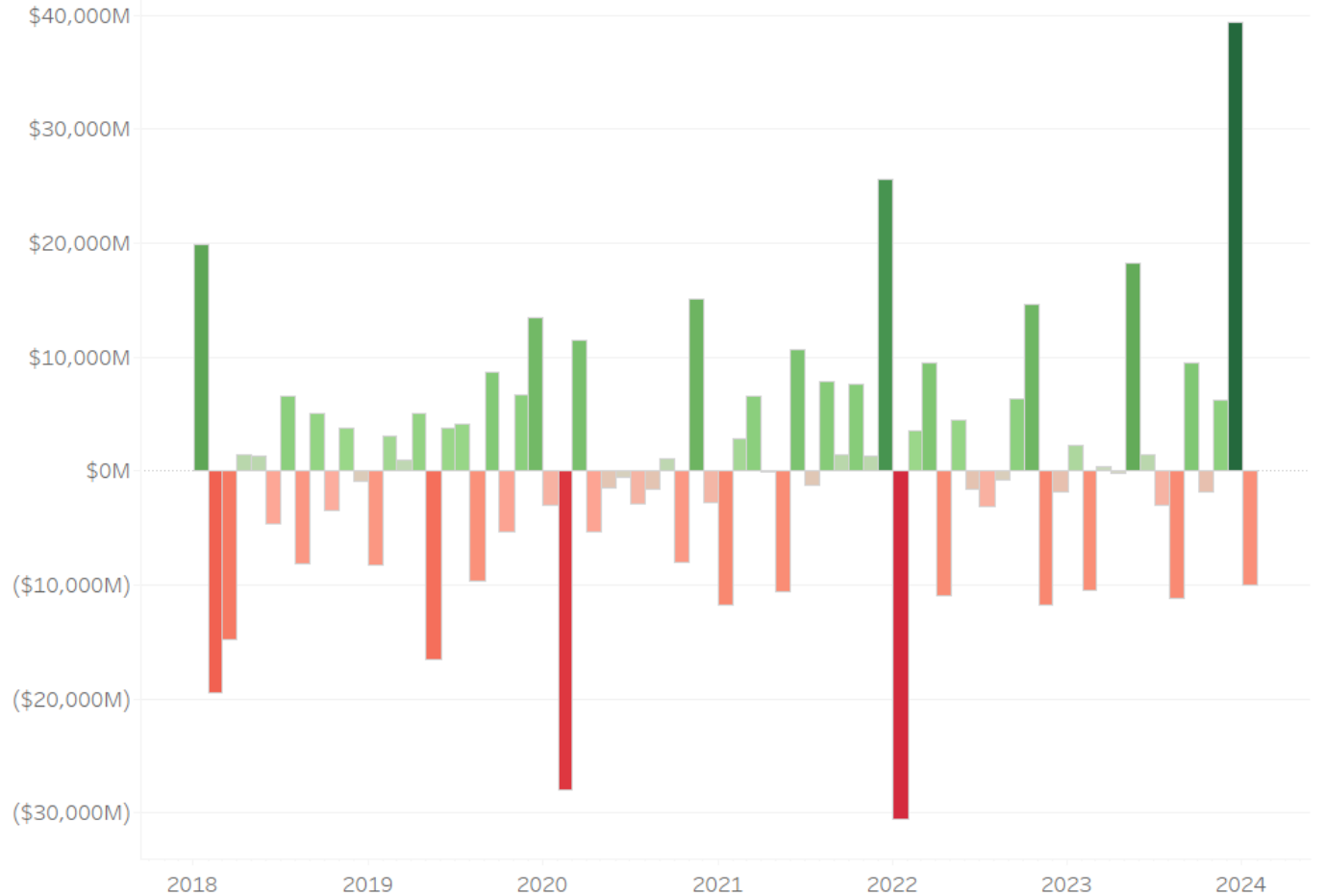
Year-to-date total flows for all US-listed TIPS ETFs have seen inflows of \$120.6 million.



The SPY ETF has outflows of approximately \$10.06 billion month-to-date for January.

SPDR S&P 500 ETF Monthly Flows

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Brent Crude is Back Below \$80 a Barrel

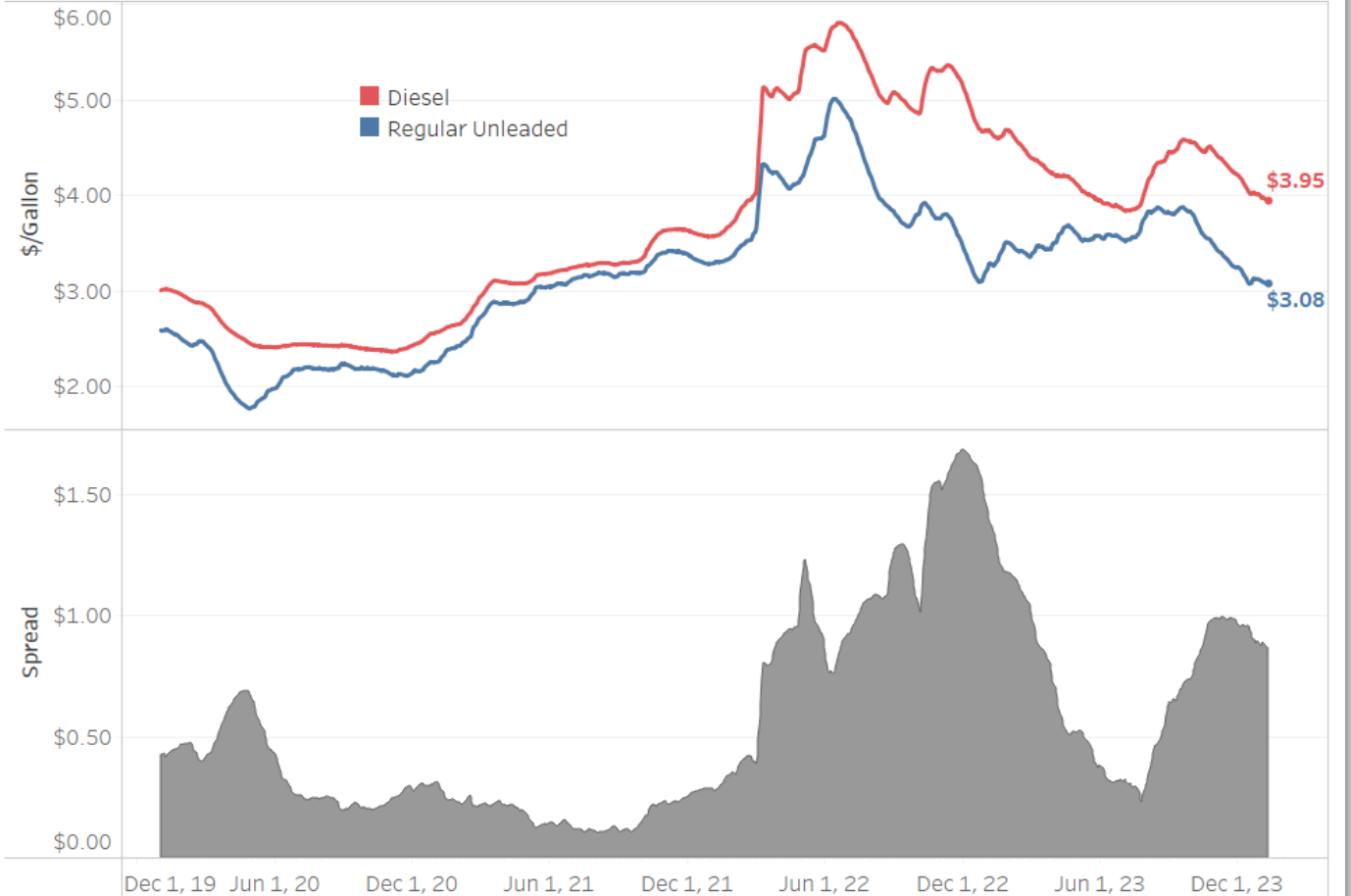


Average Diesel/Gas Spread Drops to \$0.87

U.S. Gasoline Prices - Regular and Diesel

AAA Daily National Average Cost per Gallon

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Data Source: American Automobile Association

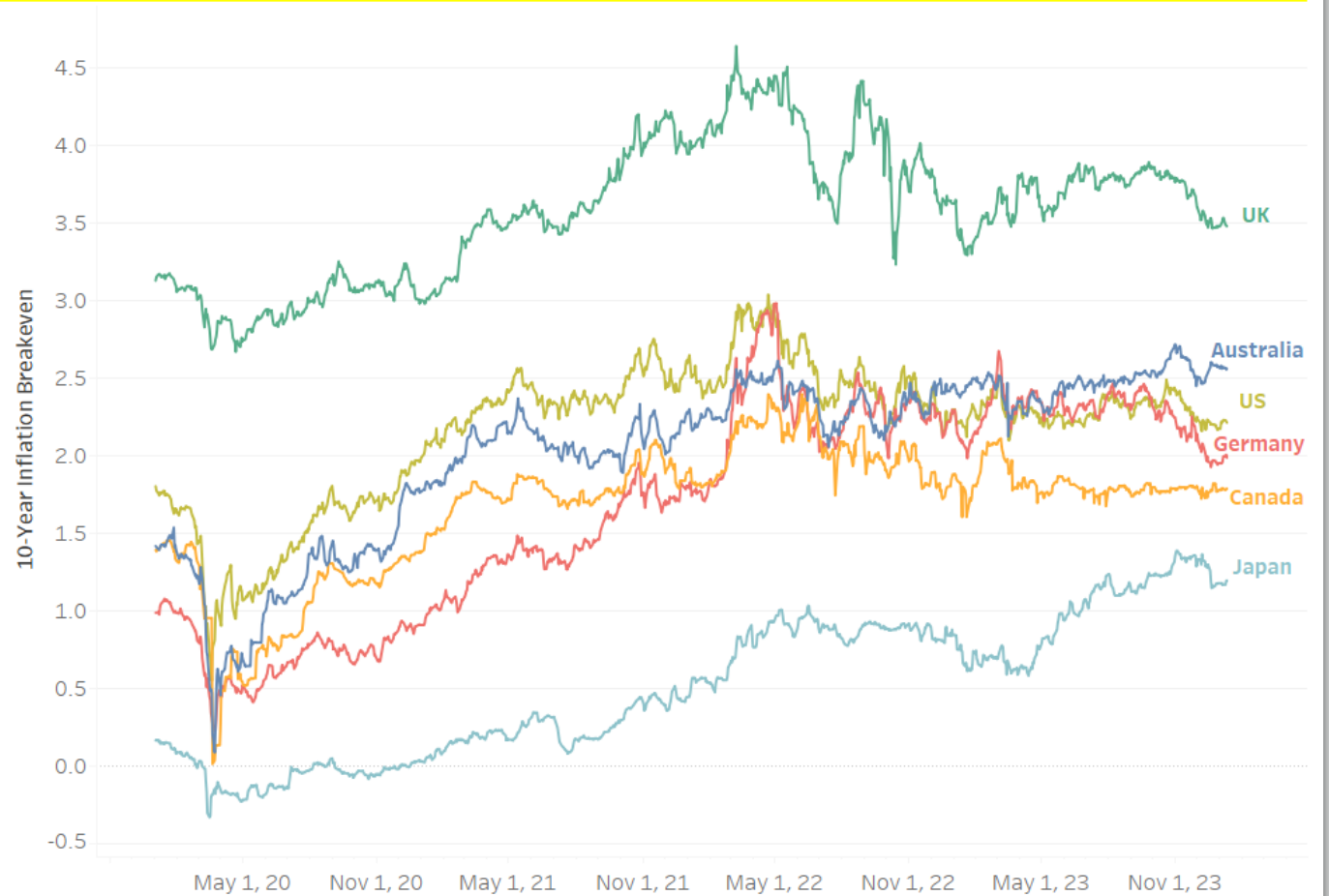
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10-Year Global Breakevens

10-Year Inflation Expectations Global Breakevens

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The image shows three large, stylized letters: a large blue 'A' on the left, a grey 'D' on the right, and a grey 'S' below the 'D'. The letters are bold and sans-serif.

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