

# Inflation and Its Impact on Your Family and Business

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Thursday, June 23, 2022



## WHITTIER TRUST COMPANY

**South Pasadena** 1600 Huntington Dr., South Pasadena, CA 91030 |

626.441.5111

**Newport Beach** 4695 MacArthur Ct., Ste 1500, Newport Beach, CA 92660 |

## WHITTIER TRUST COMPANY OF NEVADA INC.

**Reno** 100 W. Liberty St., Ste 890, Reno, NV 89501 | 775.686.5400

**Seattle** 520 Pike St., Ste 1415, Seattle, WA 98101 | 206.332.0836

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- Introduction by David Shaw, publishing director, *Family Business Magazine*.
  - There will be time for questions. Enter them from your computer anytime during the presentation.
  - Presentation materials will be emailed to all participants after the webinar.
  - The webinar will run no longer than 60 minutes.
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Sandip Bhagat  
Chief Investment Officer  
Whittier Trust



David Shaw  
Publishing Director  
*Family Business Magazine*

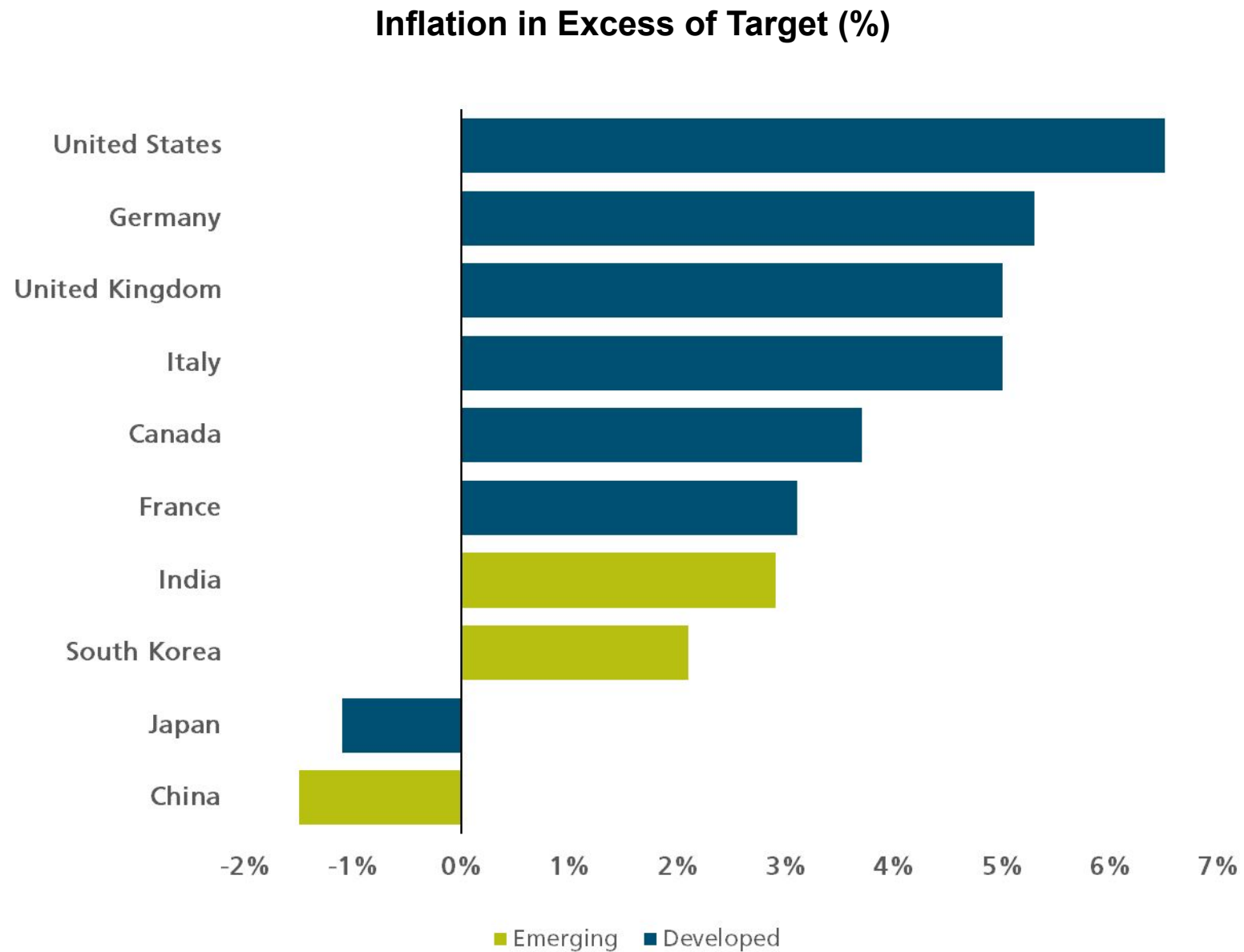


# Discussion Points

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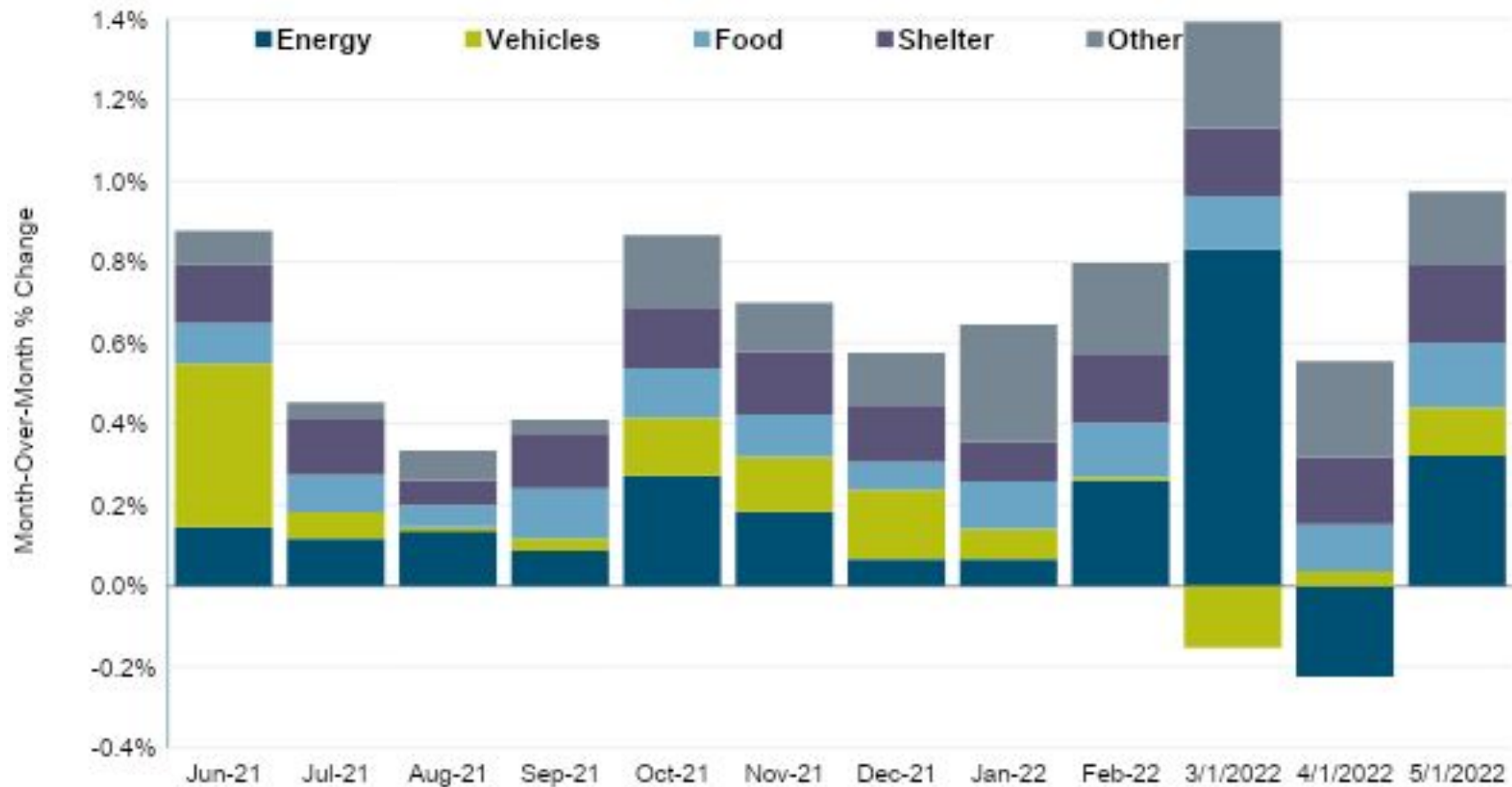
- Evolution and impact of inflation so far
  - Food and energy costs
  - Housing crisis?
- Inflation and the economic outlook
  - Fed policy mistake
  - Protracted recession and bear market?
- Inflation and my business

# Global Inflation Well Above Target



# Components of Headline CPI Inflation

**CPI Components – Contribution by Month**

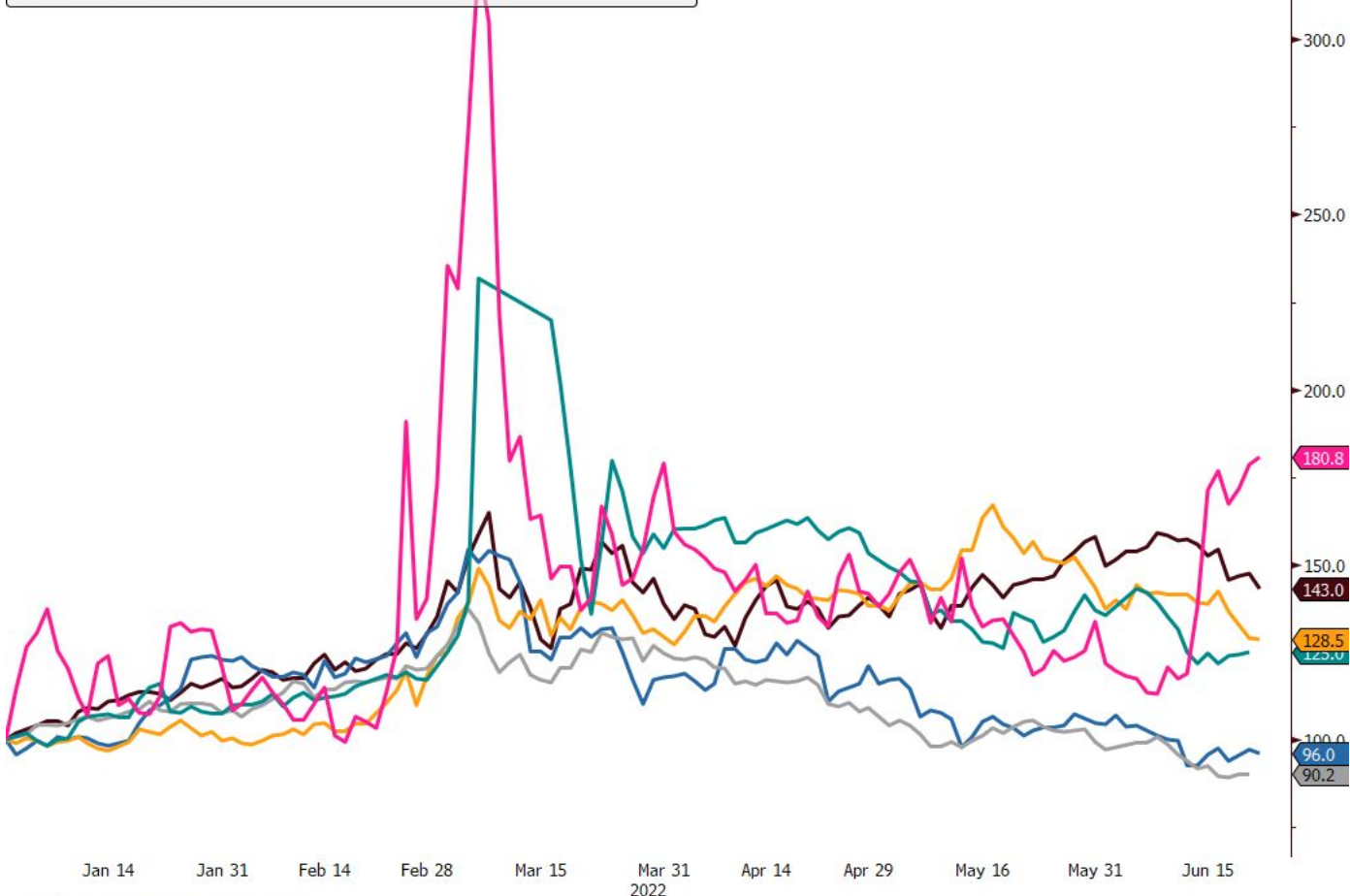


- Energy and vehicle prices have accounted for nearly 40% of CPI inflation over the past 12 months.

# Russian-related Commodity Prices

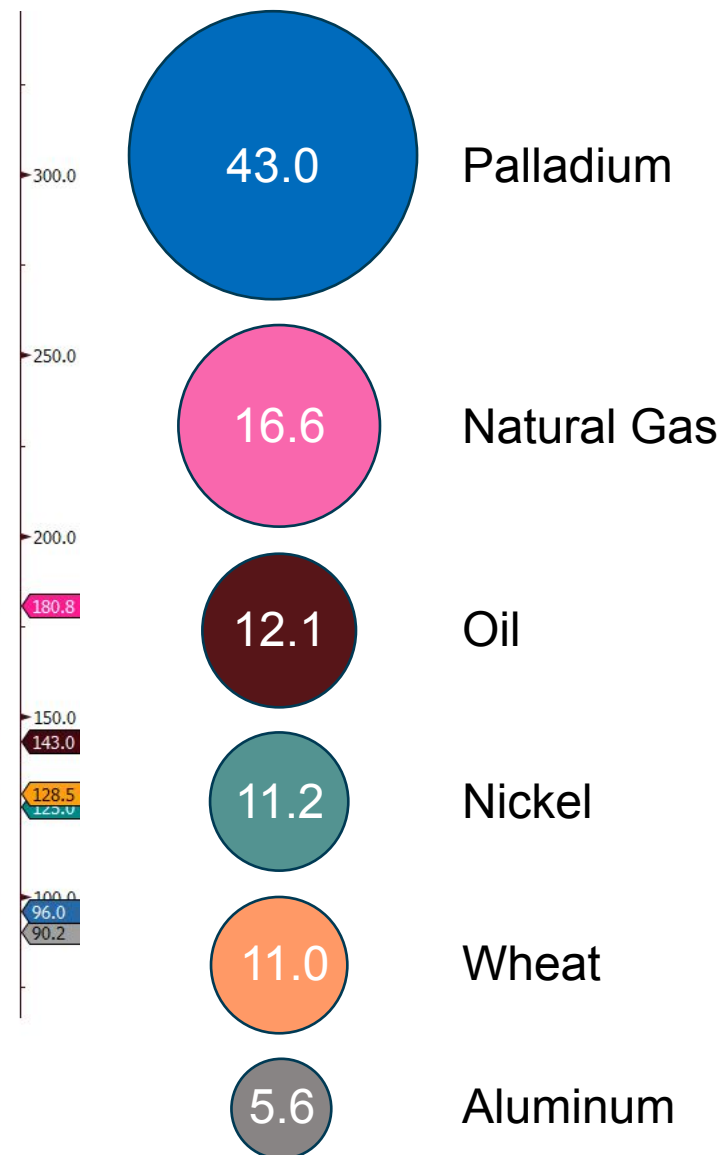
Commodity Prices, USD, December 31<sup>st</sup>, 2021 = 100

Normalized As Of 12/31/2021	Aluminum on 6/21/22	90.2
Crude Oil	143.0	
Nickel on 6/21/22	125.0	
Palladium	96.0	
Natural Gas	180.8	
Wheat	128.5	



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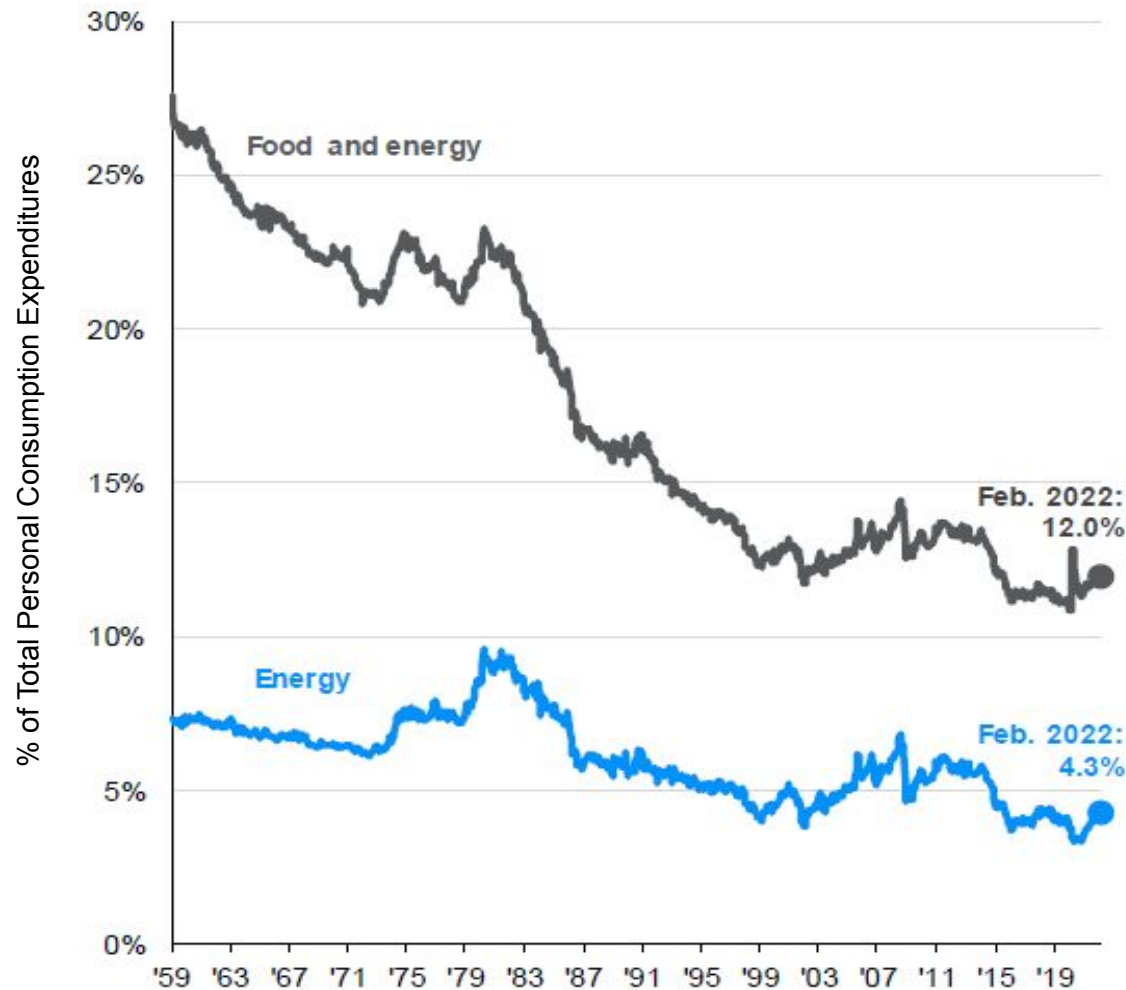
Russian share of global production, 2020, %



Source: Bloomberg, L.P., EuroStat, Statista

# Food and Energy are Smaller Components of Spending

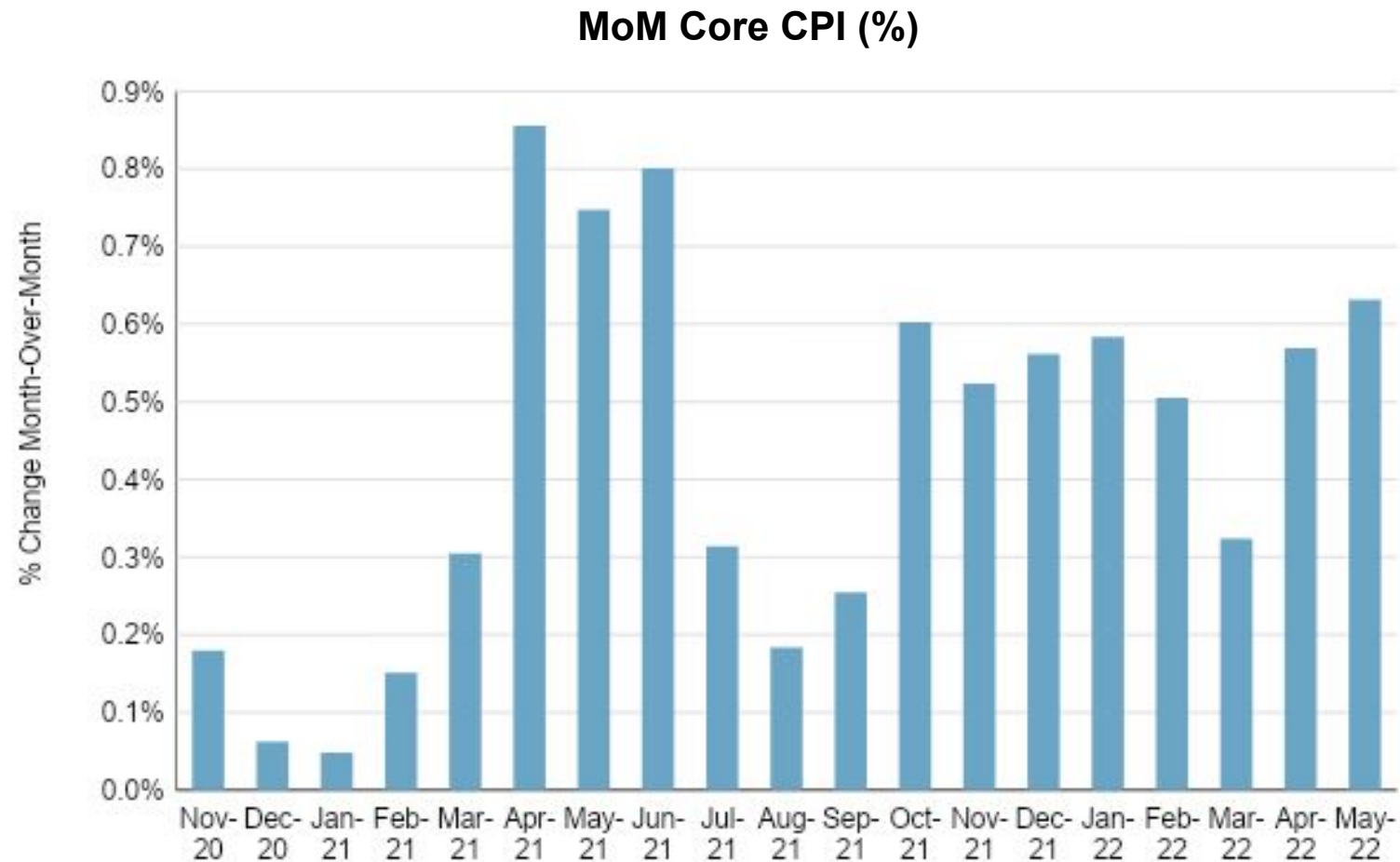
**Consumer Spending on Food and Energy**



- Consumer spending on food and energy is less than half of what it used to be.



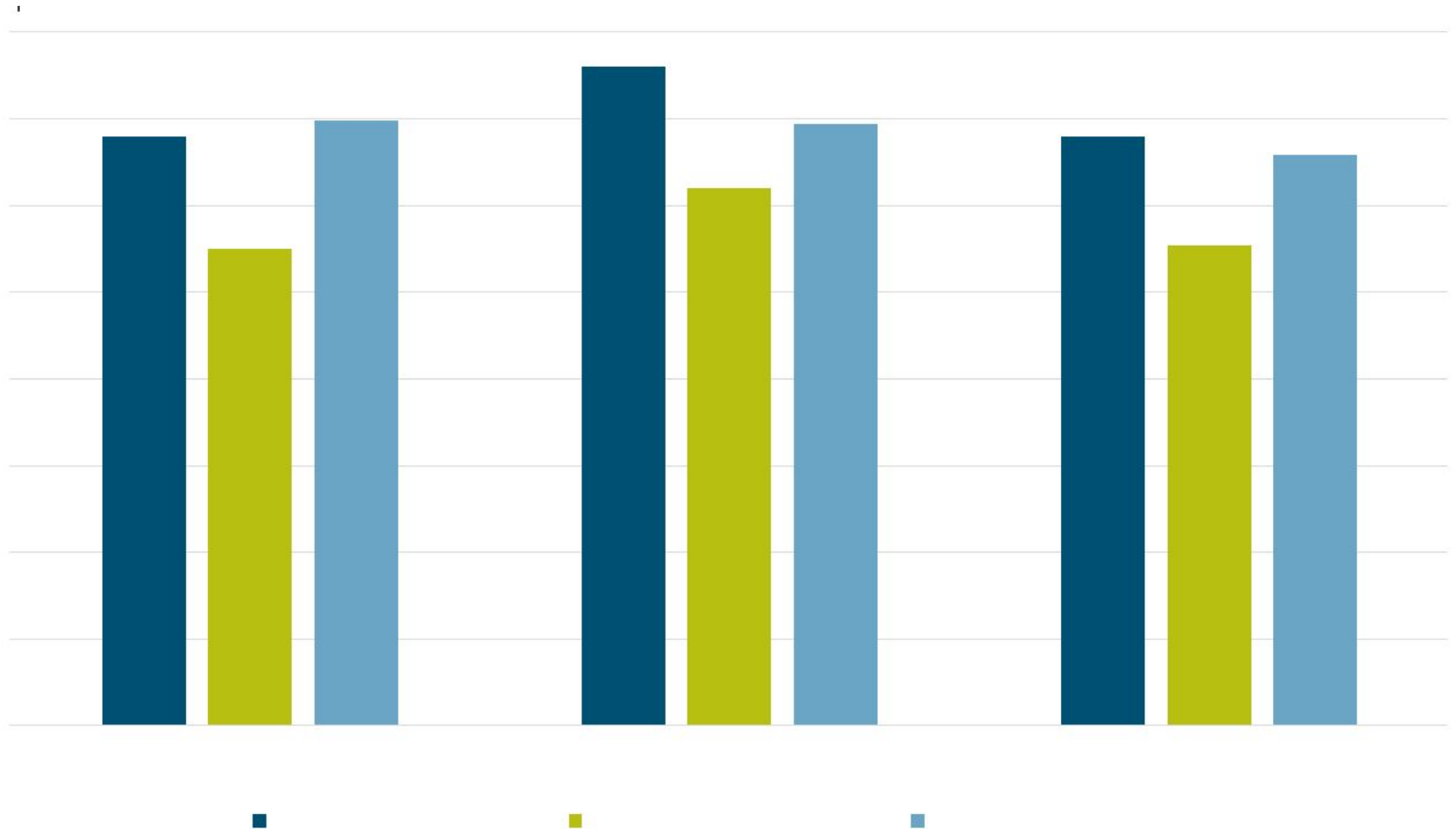
# Core CPI Stabilizing



- Month-over-month changes in Core CPI are likely to be lower than a year ago.

# Inflation and The Fed

## Federal Funds Rate Expectations (%)

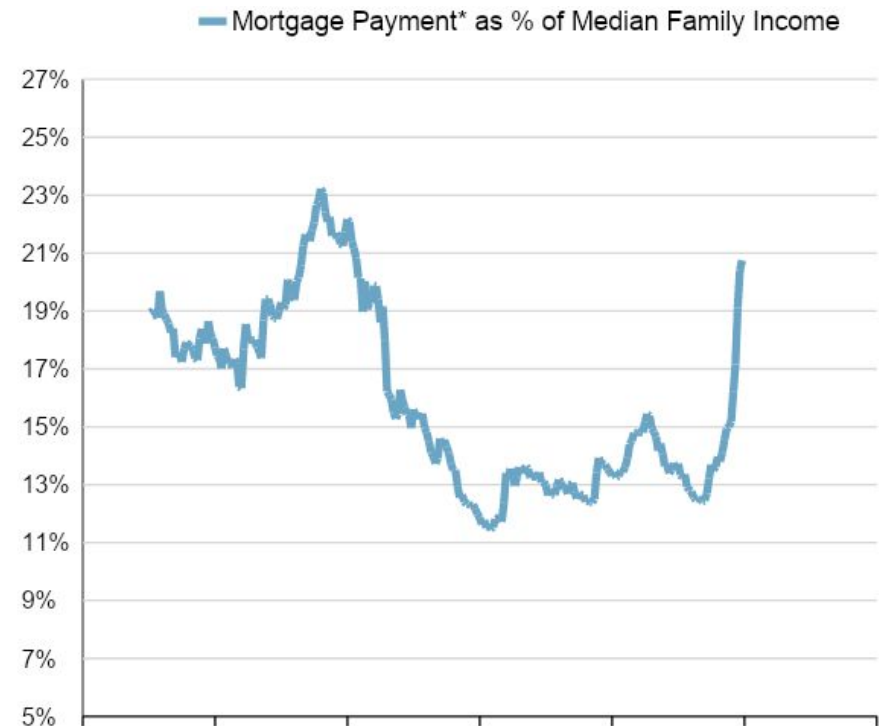


- Market and consensus expectations have moved higher than the Fed guidance from December 2021

# Housing Headwinds?

## Mortgage Rates

## Cost of New Mortgage for the Average Home



- Rising mortgage rates and housing prices have pushed mortgage costs to highest level since 2007.

# Housing: Not a Repeat of the Financial Crisis

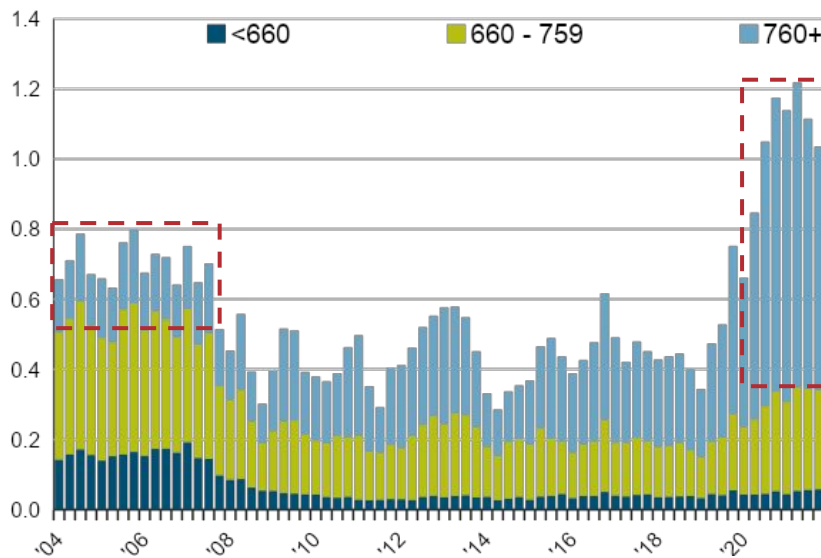
**Single-Family Home Inventory** (*months supply*)



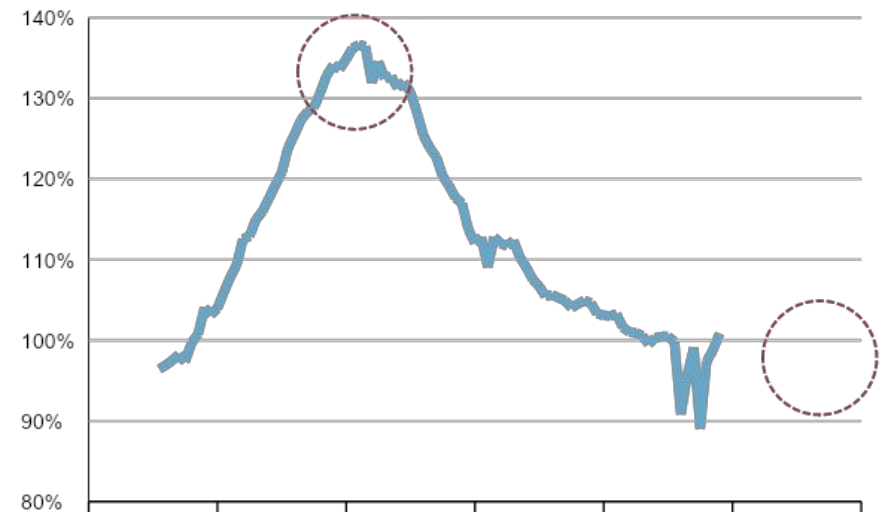
**ARMs as % of Mortgage Applications**



**Mortgage Originations by Credit Score (\$T)**



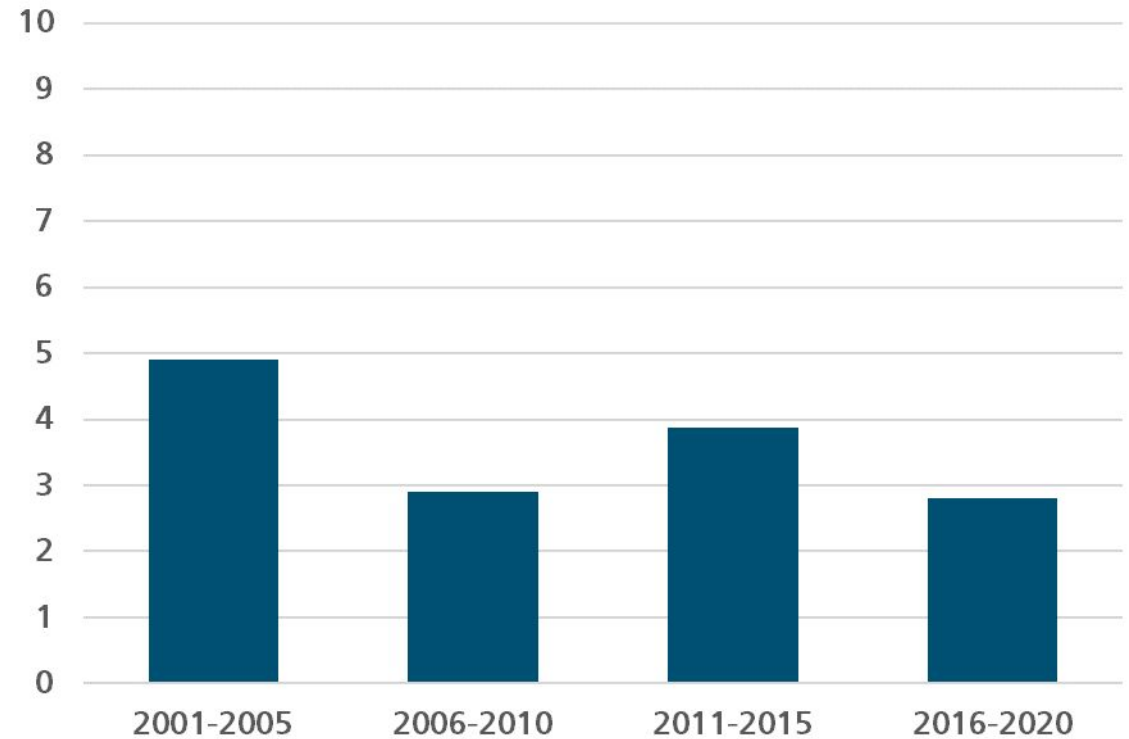
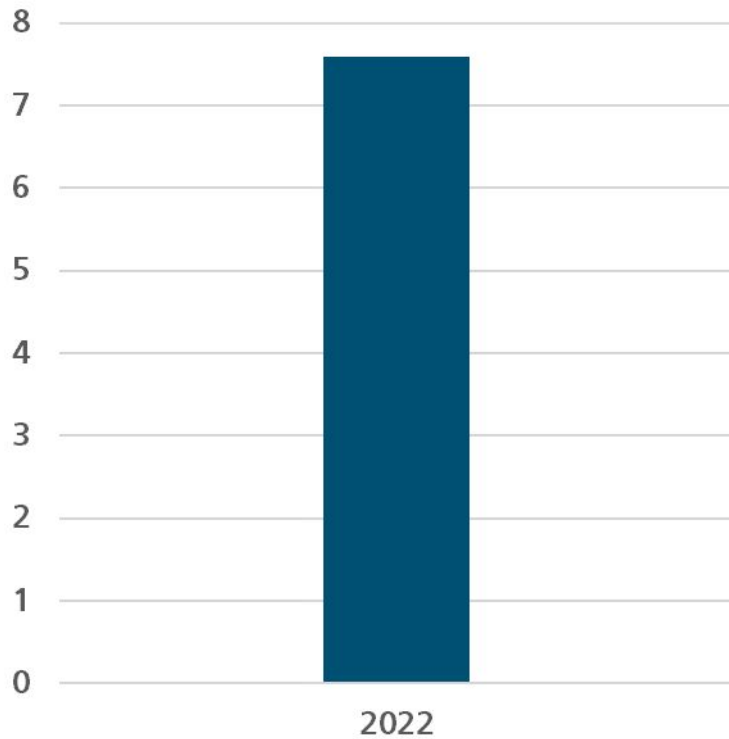
**US Household Debt-to-Income Ratio**



# Nominal Growth is Still Projected to be High in 2022

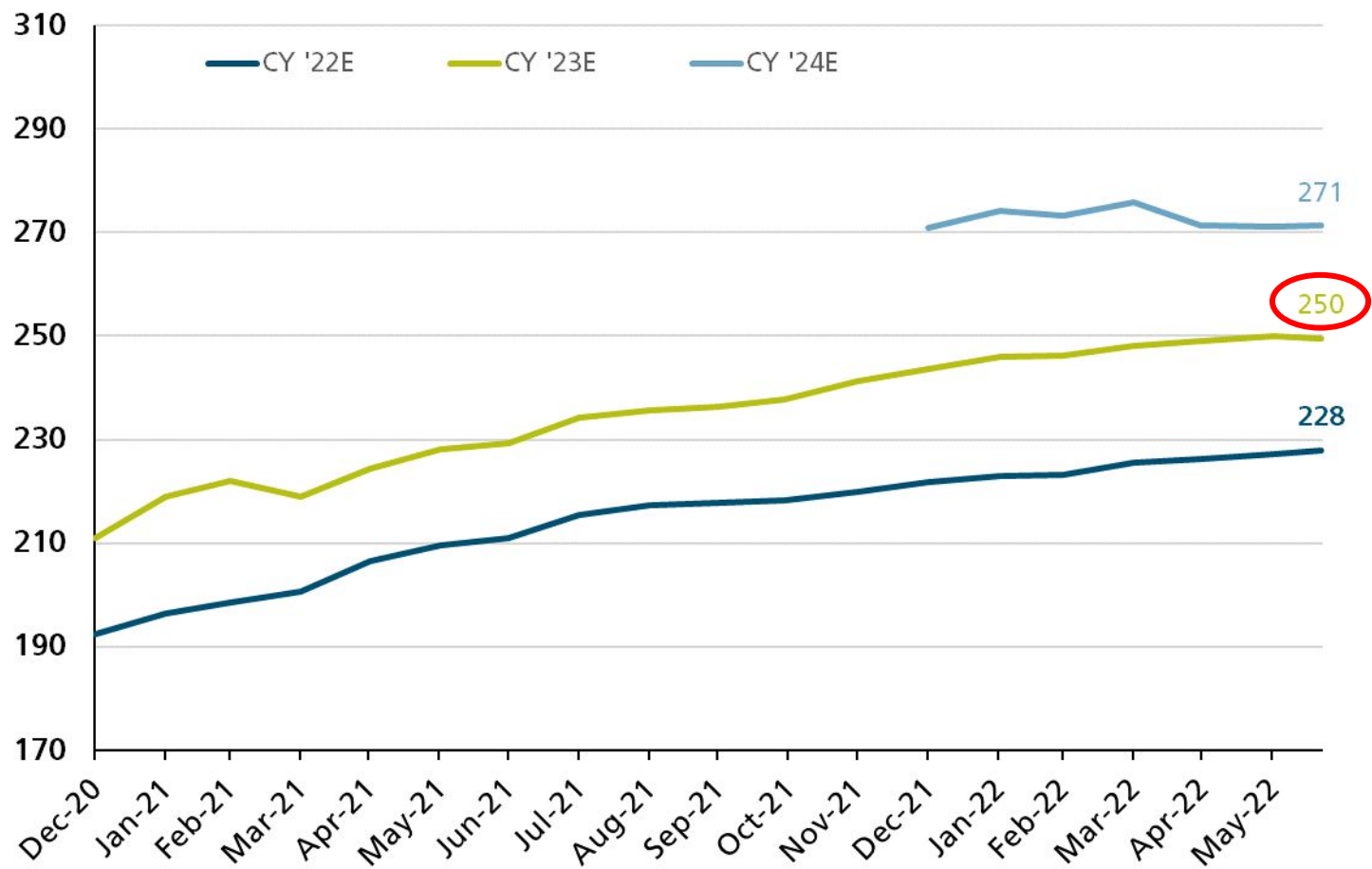
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**Expected and Historical Nominal US GDP Growth (%)**



# Earnings Continue to Grow

## S&P 500 Earnings Estimates Over Time



# Stock Valuations are Still Reasonable

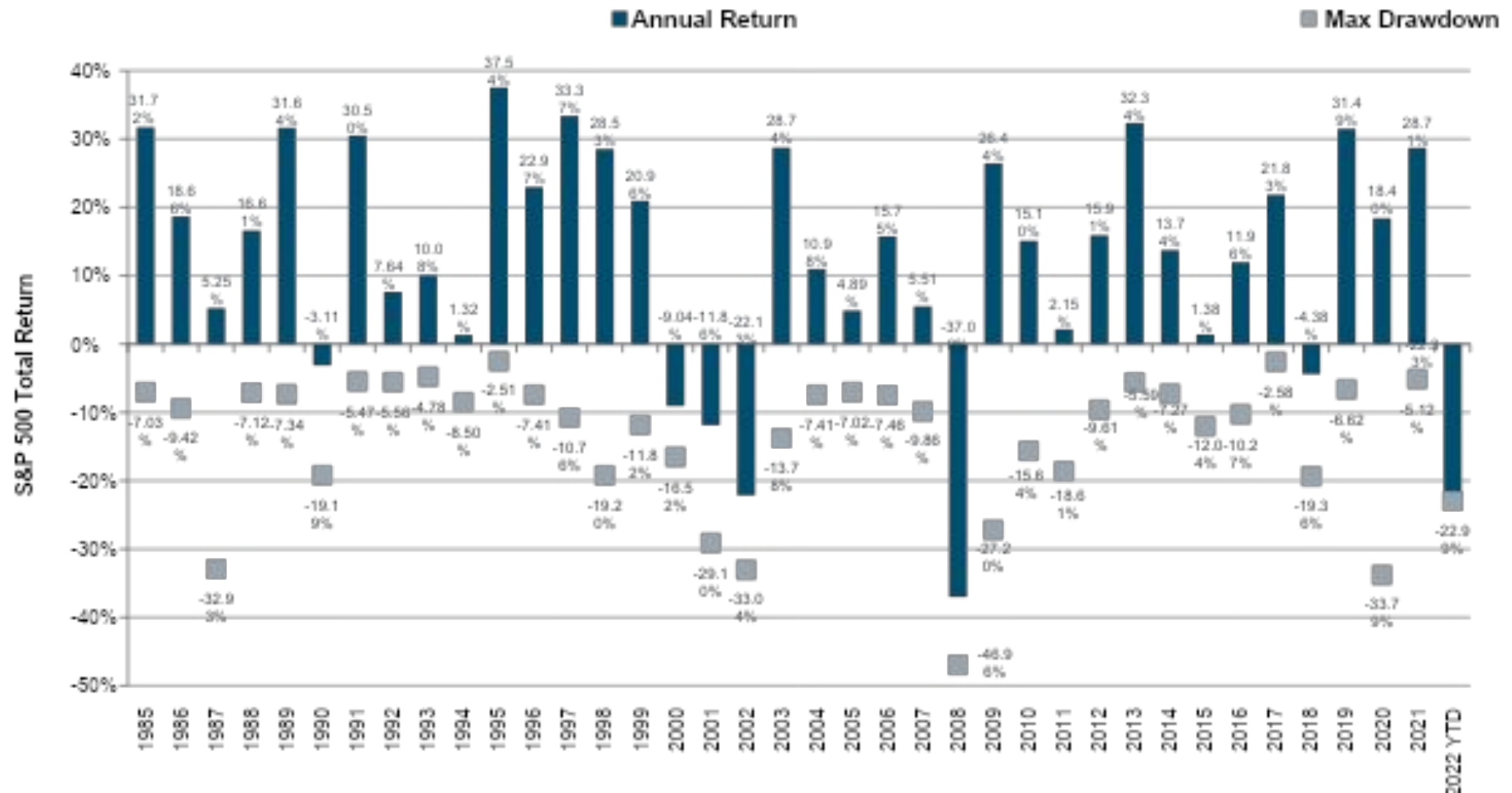
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## **S&P 500 Earnings Yield vs. U.S. 10Y Treasury**

# Drawdowns Are Not Unusual

## Intra-year drawdowns vs. year-end returns for the S&P 500 Index

*Despite an average annual correction of 14%, annual returns have been positive in nearly 84% of the past 37 years*





## Summary and Key Takeaways

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We believe:

- Inflation remains the biggest economic and market risk
- Inflation may peak soon but will remain well above target in 2022 and 2023
- Fed policy alone cannot lower inflation to target
- Fed signaling is key to managing longer-term inflation expectations
- A strong labor market and U.S. consumer provide support to the U.S. economy

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