



### ***Ropes Wealth Sees Inflation Peak, Though Significant Pressures Remain***

The U.S. Bureau of Labor Statistics reported an 8.3% increase in the consumer price index (CPI) in April. This marked a slight slowdown from March, cementing the view that the worst inflation in 40 years has peaked and is beginning its descent.

Markets were less than impressed. While there were some positive parts to the report, and areas to conveniently blame for sticky inflation, such as the 33.3% surge in airline fares, we have to concede price increases are now broad-based and spreading from goods to service-related prices.

Inflation is a self-fulfilling prophecy. When consumers and businesses stop believing it is well-anchored, it can stay higher for longer. Companies facing higher wage pressures raise their prices, prompting consumers to then ask for more wage increases to offset their costs in a feedback loop that buoys inflation. Adding to current pressures is Russia's invasion of Ukraine for its impact on global energy prices and the course of the pandemic in China for prolonging disruption of global supply chains.

We have a long way to go to get back to 2% inflation, and maybe it will take a recession to get us there. Stock markets are certainly pricing for that possibility and have become untethered from fundamentals as they seek to understand corporate earnings and revenue growth targets in a world of 4%-6% inflation instead of the 1%-2% that has been our more recent norm and the Fed's target.

We are all asking ourselves the question, when will this end? Markets are at or close to -20% corrections in many segments and continue to slide. Should we hold still, buy more, sell out?

There is no one-size-fits-all answer to that question. The same response would have held true when the S&P 500 hits its peak on November 22, 2021. For that kind of all-or-nothing investing to be successful, you must have perfect timing, to be able to get out and get back in with flawless precision. Know when to hold them, and know when to fold them, as they say, except the stakes are much higher than a card game.

Maintaining composure and discipline is challenging in turbulent markets like these, but relief may be on the way. There is some growing evidence that we are seeing the kind of washout capitulation in measures like sentiment that may point to an end of selling. The significant negative price action we have already experienced may have priced in the downside worst case recession scenario and powerful catalysts like a strong U.S. consumer are being counted out when they could keep a recession mild and short-lived.

For sure, this is not a time for excessive risk-taking, and we must remember disciplines around diversification and rebalancing. Often it is the most unloved sectors that pop back to life first, and we have started to witness a bit of this kind of price action in smaller cap stocks just this week. Forsaking market segments can be as challenging as trying to time the market itself, so better to maintain a stake in large and small, U.S. and non-U.S., and growth and value because the risk of a whipsaw is real.

This week's news gave us hope that inflation is peaking, but we are not out of the woods yet. Our task is to continue to focus on reviewing and renewing our conviction in our recommended holdings for you, and appropriately implement shifts that bolster the quality of your portfolio and take advantage of market dislocations with a prudent eye. This is always our task, and we do so today with great gratitude for the trust and confidence you place in us to manage through these turbulent times.

***Your Ropes Wealth Team***

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click [here](#).

---

*The information set forth in this communication is presented by Ropes Wealth Advisors LLC ("Ropes Wealth") a wholly owned subsidiary of Ropes & Gray LLP. The contents are for informational and educational purposes only and are not intended as investment, legal or tax advice. Please consult with your investment, legal or tax advisor concerning any specific questions you may have. Ropes Wealth cautions the reader that past results are not indicative of future performance. The historical return of markets generally and of individual assets classes or individual securities may not be an accurate predictor of future returns of those makers, asset classes or individual securities. Ropes Wealth does not guarantee the accuracy and completeness of any sourced data in this communication.*

Ropes Wealth Advisors LLC  
800 Boylston Street Boston, MA 02199-3600