

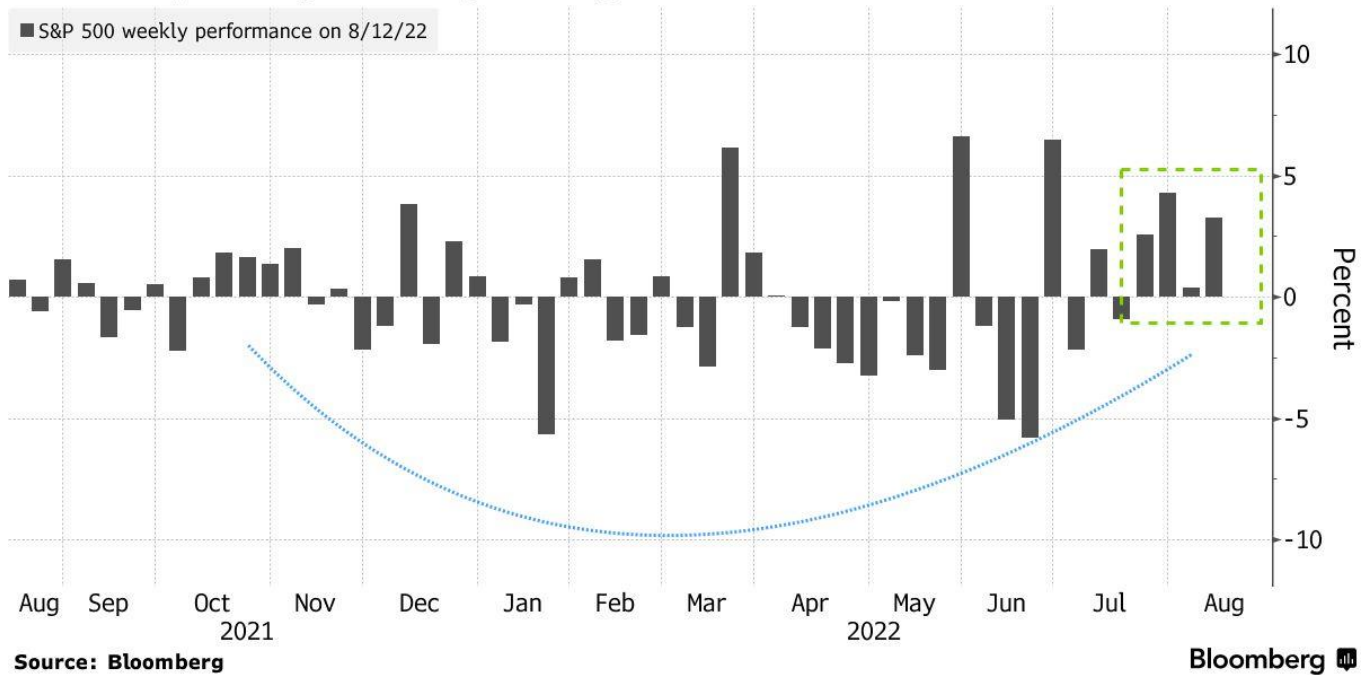
As another summer week goes by, we get served fresh hope and promise that this too has passed. The 'this' here is inflation, and for those looking for silver linings they are starting to find them. The question though remains, is this risk on bacchanal a short-lived small gathering, or the kind you want in on for its longevity. Either way, we get the chance to use again of our all-time favorite phrases as it relates to animal spirits, 'let the wild rumpus start.'



With a few good weeks under its belt, the S&P 500 has managed to claw back 50% of the year's losses so far. Which of course has stoked a mighty [bull v. bear debate](#). On Monday, JP Morgan said it's a green light through the end of the year. At the same time, Morgan Stanley's once bullish and now bearish, Michael Wilson, opined that the cross currents were too strong right now. Should rallies be sold? Probably. Does this mean you can't make money on the long side now? Probably not.

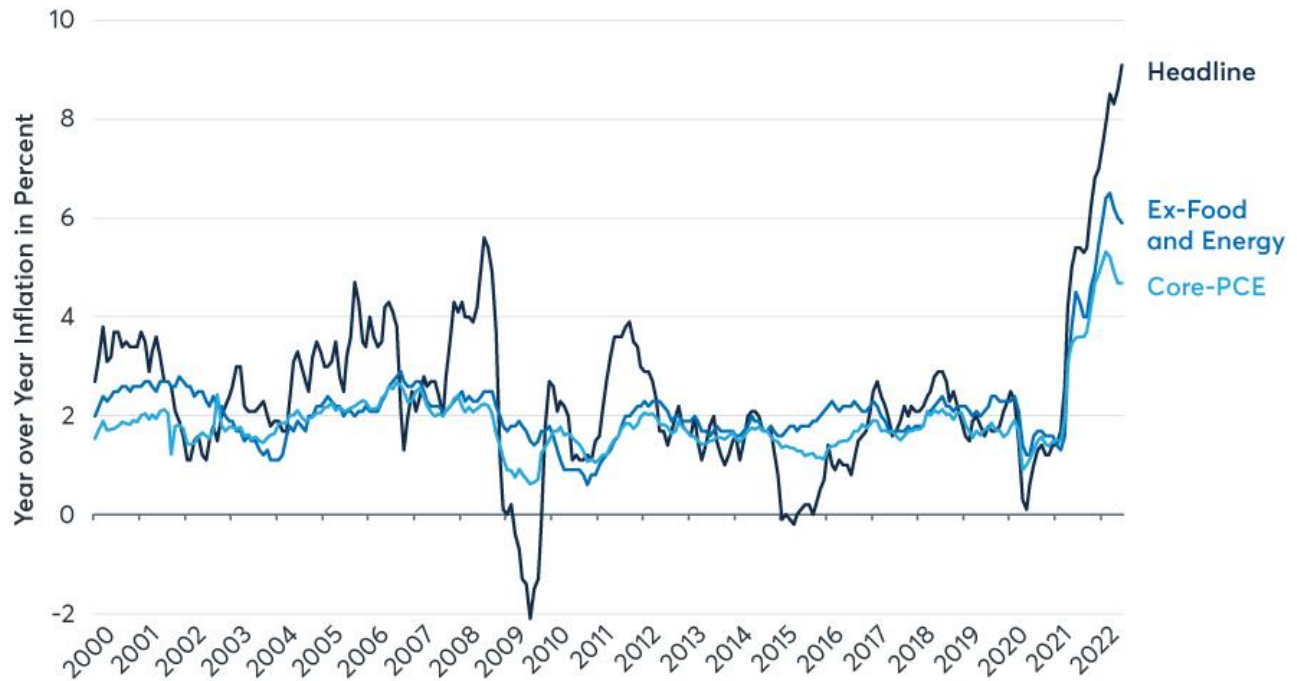
Rally Builds

US stocks post longest weekly winning streak since November



One reason for some bullishness out there is that the Boogieman is no longer hiding under the bed. It's been out there for the world to see since the theory that ultra-loose monetary policy would lead to inflation proved to be something worth banking on. It took a little while longer than us smart guys thought it would, but when it did, the monster that emerged has some serious teeth. We know it's getting repetitive talking about this stuff, but man, it's everywhere these days.

U.S. CPI: Headline, Ex-Food and Energy, and Core PCE



Source: Bloomberg Professional (CPI YOY, CPI XYOY and PCE CYOY)

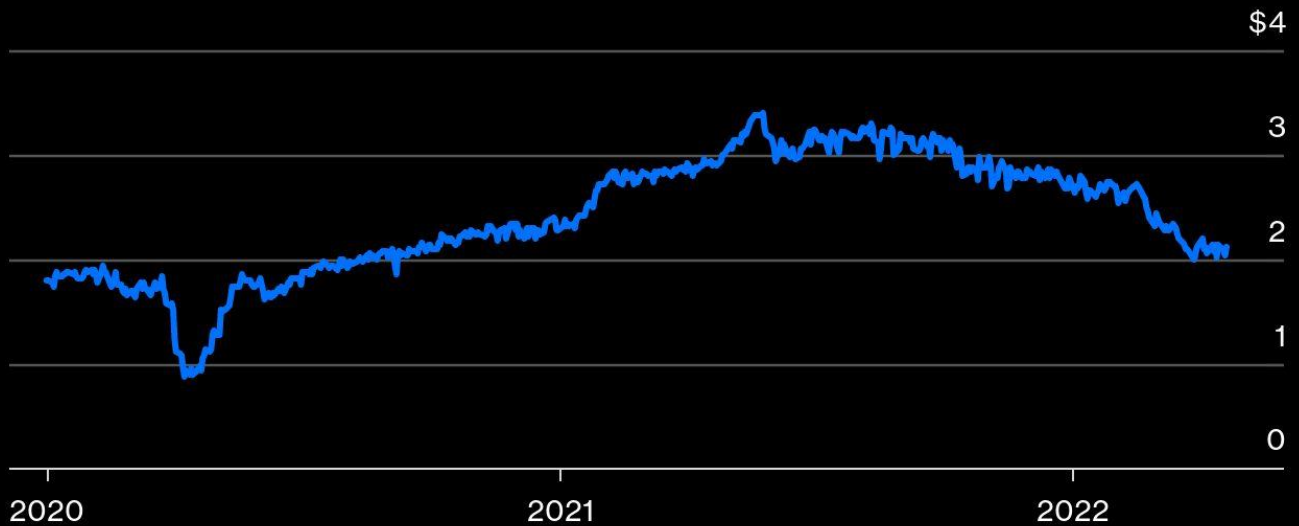
One of the most brutal areas where inflation has taken hold, and we can't see it going away soon, is in the cost of food and dining out. I don't think I'm alone in scrutinizing prices today far more than ever did in the past. The ever-positive New York Times ran this chart last week, and while it only includes a small slice of what is out there, the trend is the same for almost everything. If this global heatwave keeps up, even water is going to see a price hike.

FOOD	2019	2022	
Canola oil (35 lb.)	\$22	\$57	+159%
Scallops (10 lb.)	\$17	\$37	+118%
Gochujang (5 lb.)	\$15	\$29	+93%
All-purpose flour (50 lb.)	\$18	\$29	+61%
Beef strip loin (1 lb.)	\$9	\$14	+56%
Duck breasts (1 lb.)	\$9	\$14	+56%
Pork butt (1 lb.)	\$4	\$6	+50%
Mussels (10 lb.)	\$20	\$27	+35%
Arugula (5 lb.)	\$18	\$24	+33%
Quail (36)	\$85	\$97	+14%
Carrots (25 lb.)	\$21	\$24	+14%
Heavy cream (12 qt.)	\$46	\$52	+13%

Quick boots on the ground story from Silicon Valley, where we are calling home for the next two weeks; prices for dining out are through the roof. If you stick to a large chain operation, chances are you are maybe safe. But venture off into anything that looks like a local proprietorship or small chain and get ready for a pocketbook beat down. At least chicken wing prices have come back to baseline.

The Pandemic Wings Boom and Its Aftermath

Wholesale price per pound, chicken wings, Northeastern U.S.



Sources: Bloomberg; U.S. Department of Agriculture

BloombergOpinion

I've been keeping a loose tally of the cost for a modest meal. Most are in the high teens, venturing into numbers that start with a two. My Sunday lunch of savory Mongolian barbecue with an iced tea ran me \$25.00. As much as I like a good stir fry, that's not a small number. And sadly, it's everywhere. But the 'tea eggs' were indeed as divine as a tea egg can be.

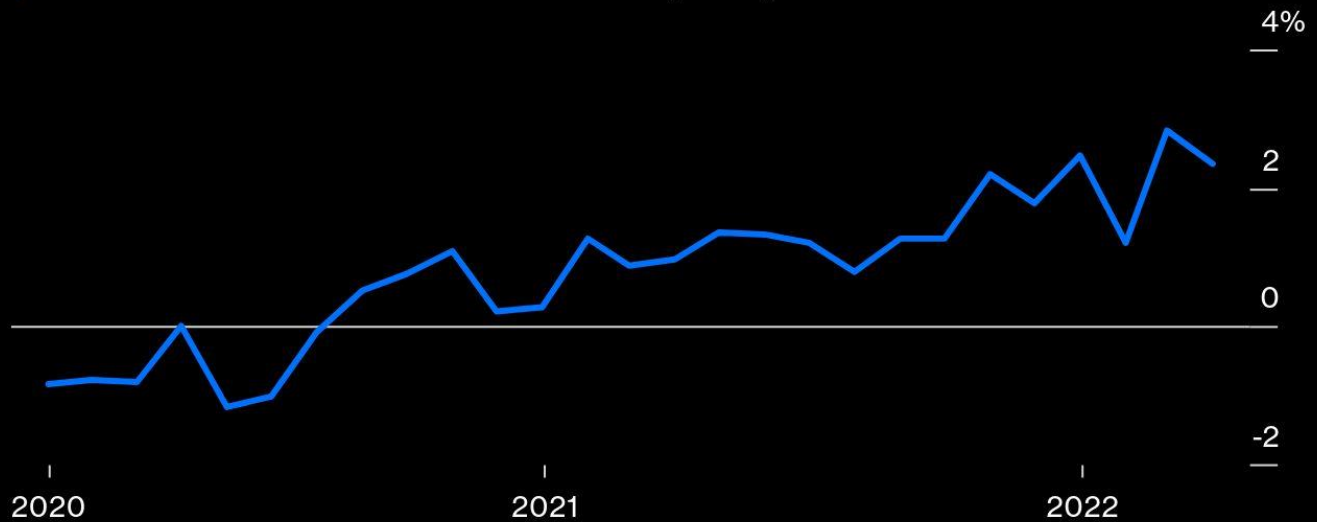


Now back to what's working in the Fed's favor. First up, the great inventory build of 2022 is a tailwind. This While E. Coyote moment, where everyone from Walmart on down, got caught holding too many goods when demand fell off a cliff in May. And what does it take to move too much inventory? Price reductions, and that's what we are seeing, almost across the board.

Well Stocked

Higher inventories are coinciding with a more cautious consumer

— Merchant wholesalers inventories total monthly change



Source: US Census Bureau

BloombergOpinion

Michael Burry of *The Big Short* fame pointed this exact economic point, called the Bullwhip Effect, two months ago and said the same thing we said above. To move excess product, you've got to start cutting prices. And that in and of itself should put some of the headline risk to bed.

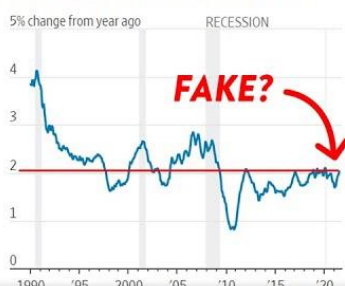


But make no mistake, it's going to be bad for a while, just less bad. And that makes all the difference in the world. Burry nailed the trade last year when he said the Fed was behind the curve and that lopping off the top 31% of categories, and only the bottom 24% of bottom categories to get to the number, it's going to give you something much closer to the target rate of 2%. Which as he contends, is not a real number.

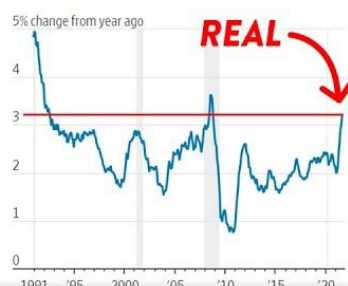


THE FED IS **LYING TO US?**

Dallas Fed trimmed-mean PCE inflation



Cleveland Fed's 16% trimmed-mean



Cassandra  @michaeljburry · 4h

Regarding inflation. So, @federalreserve, are you lying to us, or are you lying to us?

Enough about the top-down as we have a quiet week on our hands in terms of economic releases of note. The biggest one is going to be retail sales, but after that it's most a bunch of Fed speak and meeting notes. For now, there is only one guy out there you need to really listen to, and he goes by Jerome.



So, enjoy the week, and the fact that unless you run your money with a short bent, chances are very good you have more today than you did two months ago. That's a 50-point rally in the S&P since mid-June, which beats a sharp stick in the eye.

