



Cultivating
relationships
for over
35
Years
Since 1984

VALICENTI ADVISORY SERVICES, INC.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

Asset management
as individual as you



An Uncertain Transition

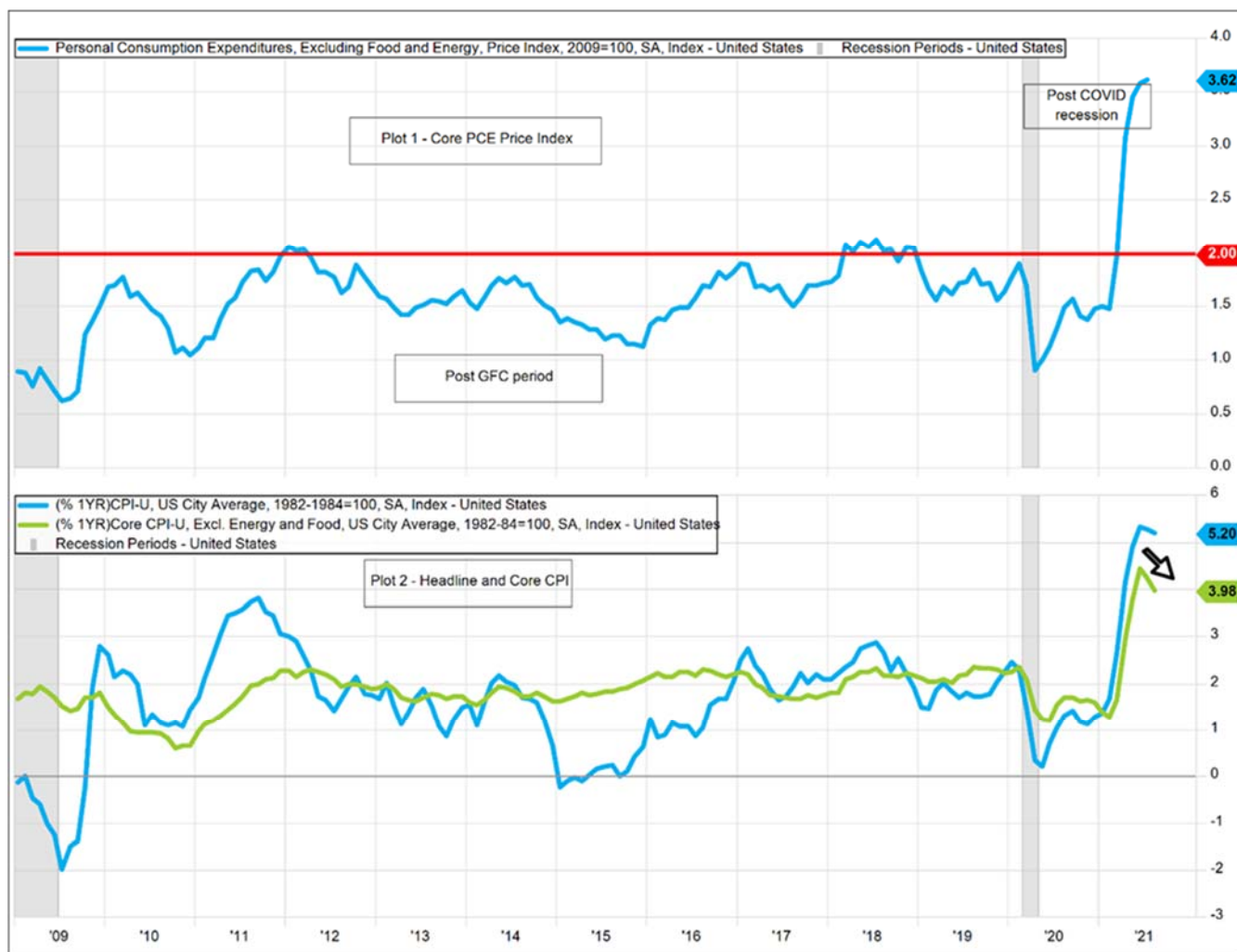
Following the release of Consumer Price Inflation (CPI) data to the end of August, the jury still appears to be out regarding whether or not the observed inflationary impulse in the American economy is transitory or rather a condition which will remain elevated for some time. Having approached this topic before in previous editions of the Bull & Bear, it may be appropriate to state why the topic is worthy of a continual re-examination through this period. First, the outcomes and expectations for growth and inflation will likely shape the national debates around fiscal and monetary policies which in turn may have market impacts. Second, these outcomes also shape the fundamental operating environment for the businesses behind our portfolio equity and fixed income exposures. Attempting to understand the inflation dynamics both from a higher level and into the smaller details is a worthy pursuit.

Another important point regarding the level of broad price increases in the economy is that the difference between 2% and 3% inflation may not have a tremendous amount of impact. That level of inflation may be coincident with sufficient growth and a stable environment for prices. On the other hand, a 1% inflation level may be deemed to be too low and coincides with slowing growth and stalling prices. Finally, looking at the other extreme, a level of 4% inflation sustained over a period of time could coincide with more harmful cost pressures for consumers and producers alike as well as difficult tradeoffs for policymakers and legislators who may wish to remain accommodative but risk exasperating the challenged environment by adding to demand when supply at present already can't meet it.

The Federal Reserve's preferred inflation gauge is the Core Personal Consumption Expenditure (PCE) Price Index. The Fed is on record targeting 2% inflation (See Plot 1). It has also indicated that it will accept for a period of time, levels of inflation higher than the 2% target. The timeline of history shows that the multi-year period post Global Financial Crisis saw a limited ability for the economy to sustain general inflation above the 2% level for any meaningful amount of time. During this period of time, growth outcomes in the economy also tended to disappoint, which has led to the present willingness of monetary policy authorities to allow an overshoot of inflation in this cycle. We have currently reached a point where core PCE inflation on a year-over-year basis is 3.6%, well north of the 2% target. Federal Reserve members have also lent credence to the transitory argument indicating that they believe this metric will fade closer to 2% in time.

August's CPI figures show in the headline and core measures that it is possible that the intensity of price increases (See Plot 2) is indeed fading somewhat. On the surface, this appears to be the case, however, one month of a softening trend will not convince all market participants.

In our view, it is a case where more data will have to be observed and it will be seen in the next several months whether or not the Fed indicates this very same thing and asks for more time to fade monetary accommodation. It certainly seems to be the case that there are supply issues in the global economy impacting the delivery of goods and services and at least over the intermediate time frame, creating a cost push. COVID-19 concerns and restrictions are still causing an overhang to some but not all activity and the globe appears to be heading towards either a resolution of a more efficient management of persistent COVID-19 issues or tackling it more decisively and fully in time. Understanding this final issue may take even more time, so the market may be left with this uncertainty well into next year.



Copyright © FactSet Research Systems, Inc. #

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ["VASI"], or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from VASI. VASI is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the VASI's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.valicenti.com. Please Remember: If you are a VASI client, please contact VASI, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/reviving our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your VASI account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your VASI accounts; and, (3) a description of each comparative benchmark/index is available upon request. Please Note: Limitations: Neither rankings and/or recognitions by unaffiliated rating services, publications, media, or other organizations, nor the achievement of any professional designation, certification, degree, or license, membership in any professional organization, or any amount of prior experience or success, should be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if VASI is engaged, or continues to be engaged, to provide investment advisory services. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser. Rankings are generally limited to participating advisers (see link as to participation criteria/methodology, to the extent applicable). Unless expressly indicated to the contrary, VASI did not pay a fee to be included on any such ranking. No ranking or recognition should be construed as a current or past endorsement of VASI by any of its clients. ANY QUESTIONS: VASI's Chief Compliance Officer remains available to address any questions regarding rankings and/or recognitions, including the criteria used for any reflected ranking.