

# A Look into Inflation: What to Know About Recent Trends

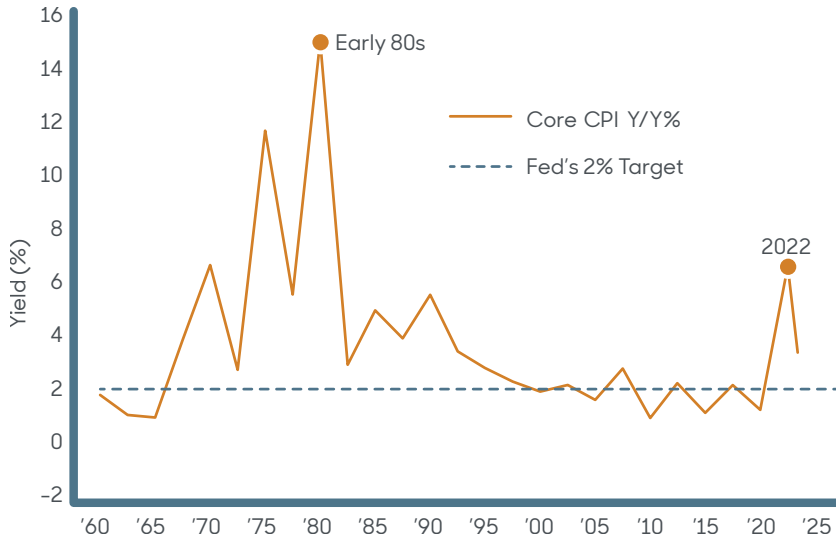
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After decades of low and falling inflation, we saw a stark reversal as inflation rates started rising dramatically in 2021 and spiked further in 2022. The last two years have brought a dramatically different inflation environment than what the U.S. has experienced over the last 40 years. Though this can be unnerving for many investors and everyday consumers, understanding how the Fed is approaching fiscal policy in the U.S. can help contextualize what's happening today and where policy may go in the near future. As inflation continues to decline, the pace of the decline and where inflation stabilizes will be key to future Federal Reserve policy.

**In 2021, inflation reached levels not seen since the 1980s.**

Since the period of extremely high inflation in the 1970s and 1980s, the U.S. has enjoyed moderate inflation and low interest rates for much of the last three decades. For many Americans, including virtually anyone born after 1982, this is the first time they've experienced significant and sustained high inflation. Policymakers face the unfamiliar problem of dealing with inflation that hit a 40-year high last summer and remains stubbornly high.



**With inflation trending down, focus now shifts to the economic toll of the Federal Reserve's efforts to slow inflation and determine fiscal policy going forward.**

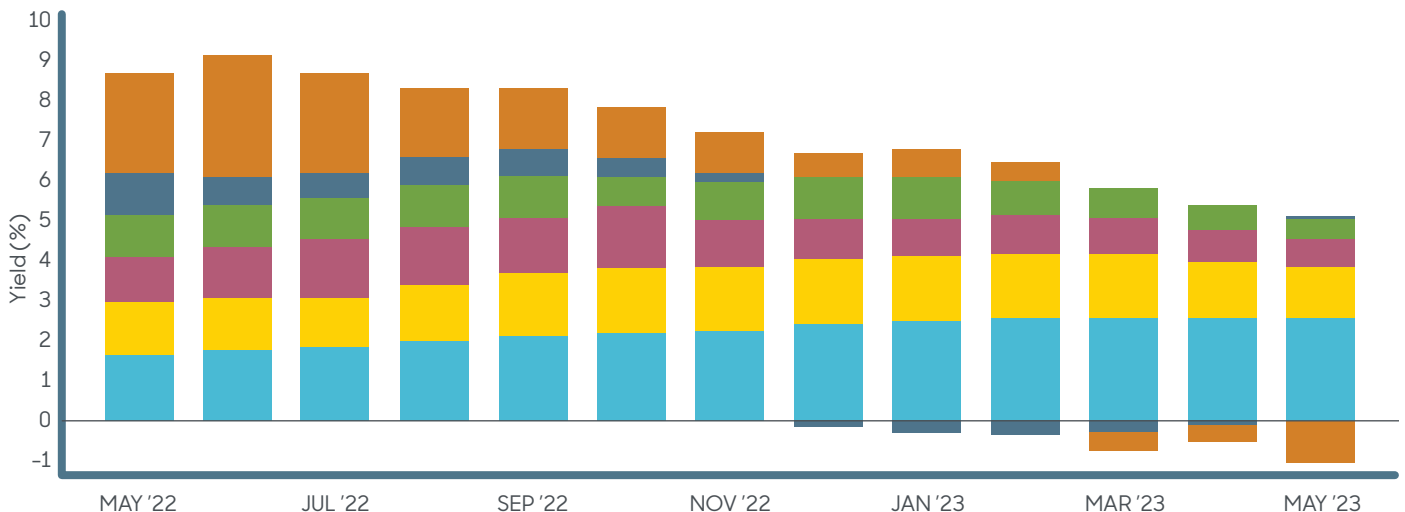
We started to see a meaningful shift in the inflationary environment starting in the second quarter of 2021. Prior to that, the inflation rate had been around the Fed's target rate. But in the last two years, it has more than doubled, reaching a maximum of 9.1% in June 2022.

The rate of the increase was also alarming, following inflation rates under 2% over the preceding few years. Much of this inflation was the result of global events such as the COVID-19 pandemic and the war in Ukraine. The Federal Reserve has been fighting to bring inflation down through a series of interest rate increases. Estimates for inflation are being revised down, but Fed policy will be a major factor in the trend of inflation going forward.

**The Fed has been effective at reducing inflation through fiscal policy over the last 12-18 months.**

The Federal Reserve has focused on bringing down inflation through a series of interest rate increases that began in spring 2022. The Fed increased rates 10 times from March 2022 to May 2023, increasing the Federal Funds Rate from 0.00-0.25% to 5.00-5.25% over that period—the second fastest rate increase cycle on record. These interest rate increases have been effective at slowing economic activity and bringing inflation down to lower levels; the challenge now is addressing the specific dynamics that are contributing to inflation.

- Energy
- New and Used Vehicles
- Food at Home
- Other
- Restaurants, Hotels & Transportation
- Shelter



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