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Weekly Commentary

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Hot potato

Inflation is running hot. There is no disputing that. The Labor Department reported Friday that the Consumer Price Index has risen 6.8% since a year ago. That's a large figure, but a more bracing one is 39—the number of years since the U.S. last saw inflation at such a pace. It's enough to push the chatter about rising prices to a hearty din, especially after people fill their car or truck's gasoline tank.

But cash managers have reason to appreciate the appreciation. The broad money markets stand to benefit from the increase because it likely will push the Federal Reserve to raise interest rates sooner. We will find out this week if policymakers vote to reduce the bank's monthly asset purchases at a faster pace. That decision will be made at the Federal Open Market Committee meeting. An increase would have a marginal positive affect, but it should bring us closer to the far more important hike in interest rates. If the Fed hikes and inflation pulls back as the Fed still projects, investors in liquidity products could benefit from higher yields combined with less income erosion. Now, that's something to talk about.

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