

THE INFLATION OF INFLATION

Kostas Grigorakis, CFA®, Managing Director – Investments, Senior PIM® Portfolio Manager

March 10, 2026

Since inflation crossed the headline-grabbing 3% mark in early 2021, every data point has been tracked with near-obsessive intensity. From the Fed to Wall Street to consumers, inflation has dominated the narrative—and decision-making.

But the policy response missed the arc, as we have noted before (*). Central banks first dismissed the surge as “transitory,” then kept rates excessively tight well past the June 2022 inflation peak—even as inflation steadily collapsed. Ouch!

Today, with the Fed Funds upper bound at 3.75%, policymakers remain uneasy. Why? While headlines focus on CPI—now 2.40%, down from 9.1% in 2022—the Fed prefers PCE, currently at 2.90%, but below 3% since late 2023.

The unease stems from the Fed’s rigid 2% target—a benchmark that is both arbitrary and misspecified. CPI has been at or below 2% only about 40% of the time since 1914, and both CPI and PCE suffer from narrow scope, methodological shortcomings, and backward-looking bias.

There is, however, better signal. Truflation™, a real-time tracker of millions of live prices. It peaked near 20% at the end of 2022, accurately reflecting the era’s angst—then collapsed. It has remained below 2% all year and recently dipped below 1%!

Which brings us to the real issue: we are now experiencing an ***inflation of inflation***—an upward distortion in the very metrics used to measure price dynamics. That distortion complicates realistic portfolio construction and risk management.

If your portfolio is still anchored to rear-view-mirror inflation metrics, it may be time to rethink your framework. The next decade will not reward static assumptions—it will reward adaptability, forward-looking signals, and disciplined regime awareness. That’s exactly where we focus our work.

All data: YCharts. CPI historical data: US Bureau of Labor Statistics

(*) https://www.linkedin.com/posts/konstantinos-kostas-grigorakis-cfa-754264103_an-i-for-an-igrading-the-fed-on-the-activity-7374163168127823872-nAcB?utm_source=share&utm_medium=member_desktop&rcm=ACoAABozTTAB7_bL6T6pkl6yFlzuM8rHnhF3zMQ

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