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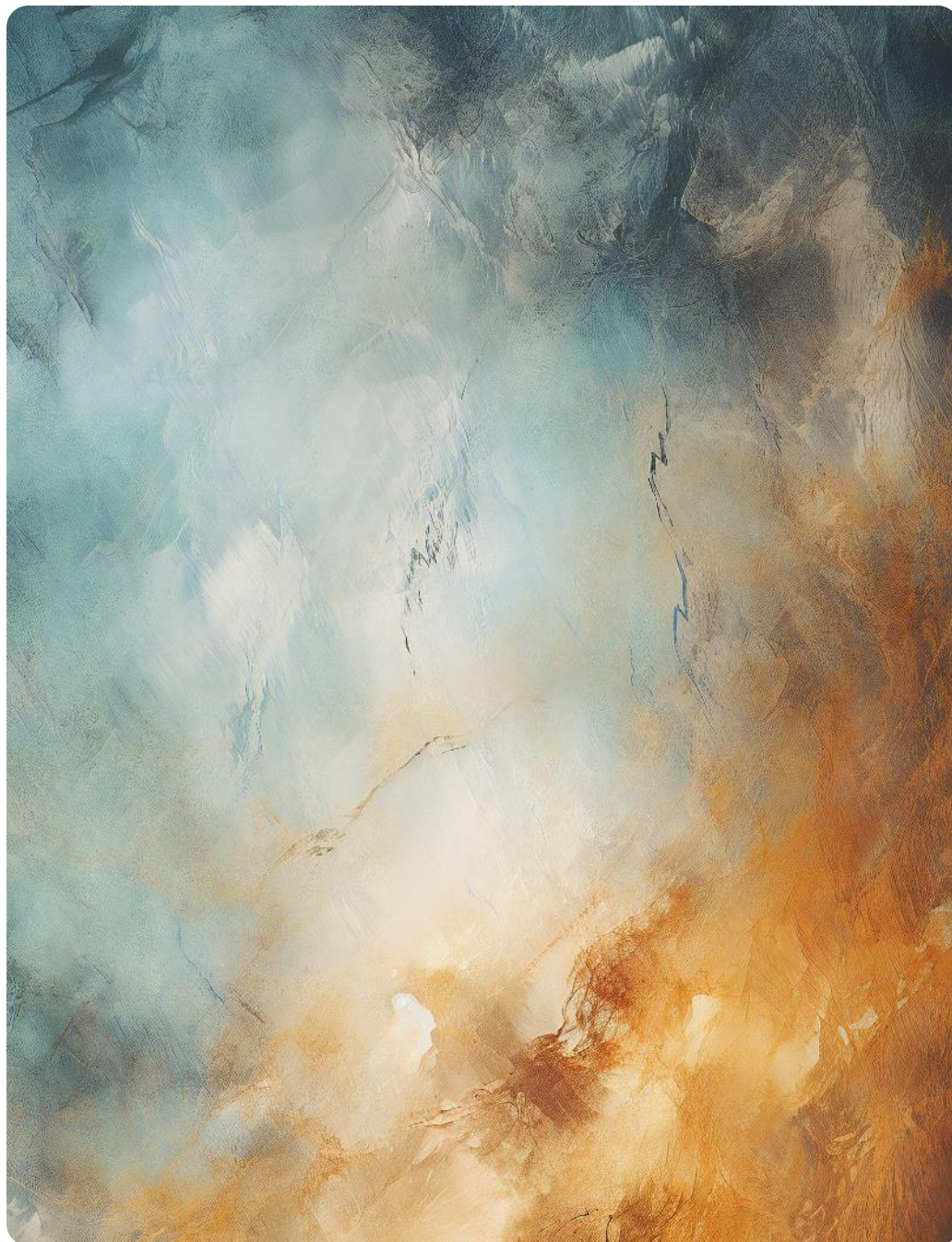
The Price Is Right (Or Is It?)

What Is Inflation, How Do We
Measure It, and What Does It Mean?

Payden Economics Team

October 2026

For Institutional Use Only



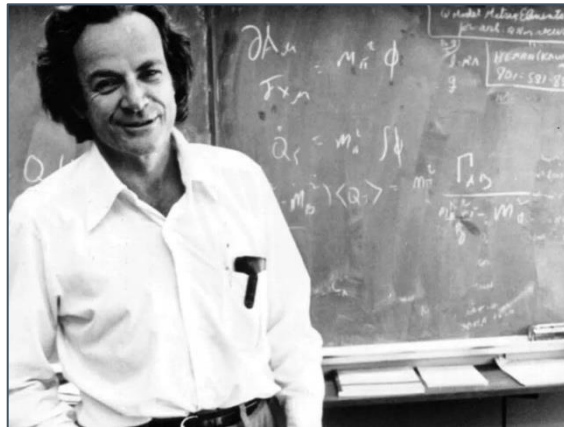
I'm A "Financial Market Economist"

What Do We Do?

What My Mom Thinks We Do...



What I Think We Do...



What Our Trading Floor Thinks We Do...

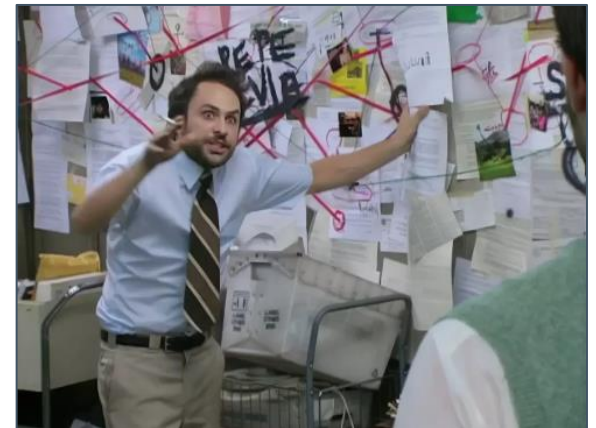




Table of Contents

- I. What Is Inflation?
- II. How Do We Measure It?
- III. Whose Inflation Is It?
- IV. What It Means For Us.



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You All Probably Know The Price of Something You Didn't 5 Years Ago

It's How Most People Experience Inflation...As Contestants on "The Price Is Right"



Guessing One Price Is A Different Game From Measuring Them All

Which Is What We Need To Do If We Want To Measure The Change In Purchasing Power



What a 1980 dollar buys

1980

One dollar buys

a whole apple

consumer prices are 1.0x their 1980 level

Sources: Bureau of Labor Statistics (CPI-U). Through August 2026.

Guessing One Price Is A Different Game From Measuring Them All

Which Is What We Need To Do If We Want To Measure The Change In Purchasing Power



What a 1980 dollar buys

2026

One dollar buys

23% of an apple

consumer prices are 4.3x their 1980 level

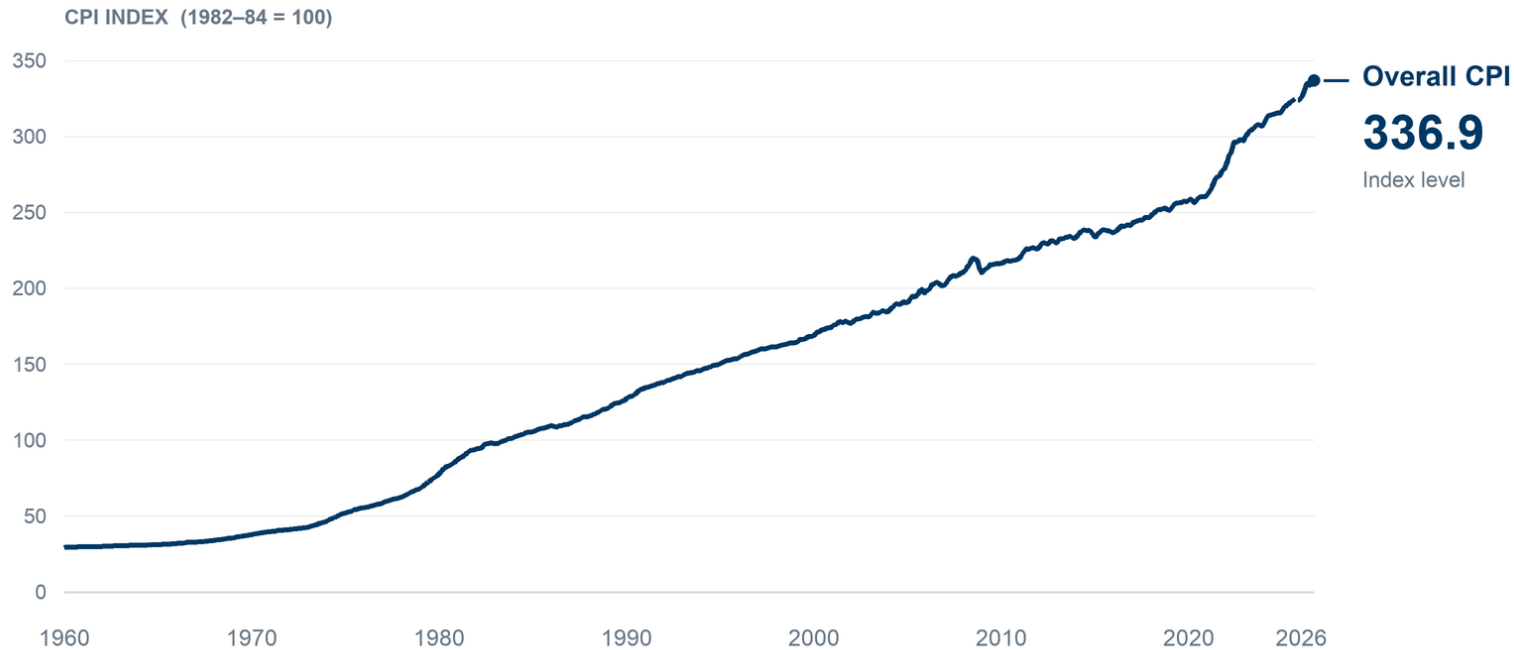
Sources: Bureau of Labor Statistics (CPI-U). Through August 2026.

CPI Price Level Is Great, But We Want To Measure How It's Changing

The Year-Over-Year Change in Prices Is How We Measure Inflation

Consumer Price Index Since 1960

Index Level



Source: Bureau of Labor Statistics, Payden Calculations

CPI Price Level Is Great, But We Want To Measure How It's Changing

The Year-Over-Year Change in Prices Is How We Measure Inflation

Consumer Price Index Since 1960

Percent Change Year-Over-Year



Source: Bureau of Labor Statistics, Payden Calculations

Consumers See The Water Level, Economists Are Measuring The Rainfall





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Inflation Measurement Begins With A Basket

What's In Your ~~Wallet~~ Basket?

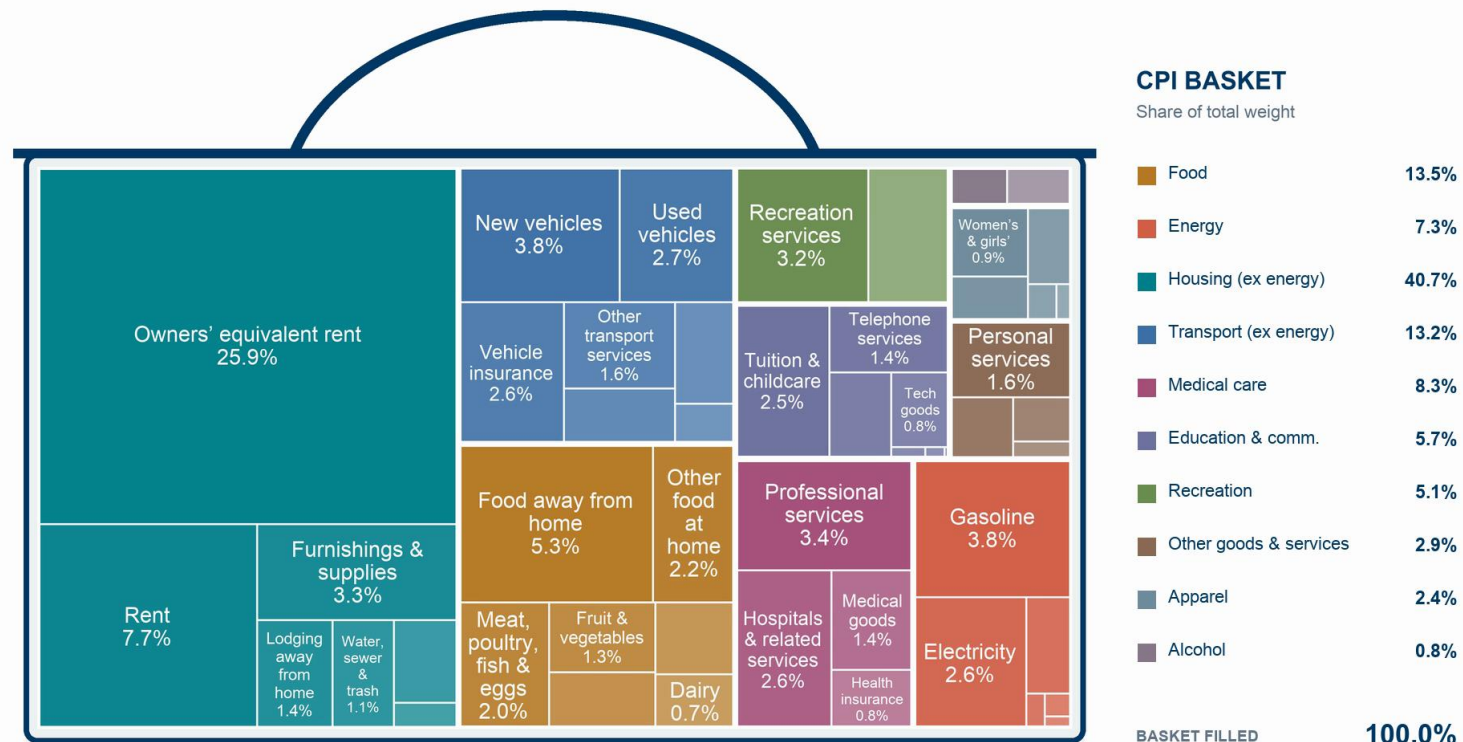


What Does The Average American Consumer's Basket Look Like?

Let's Fill It Up...

Relative Importance of Categories in the Consumer Price Index

As of July 2026



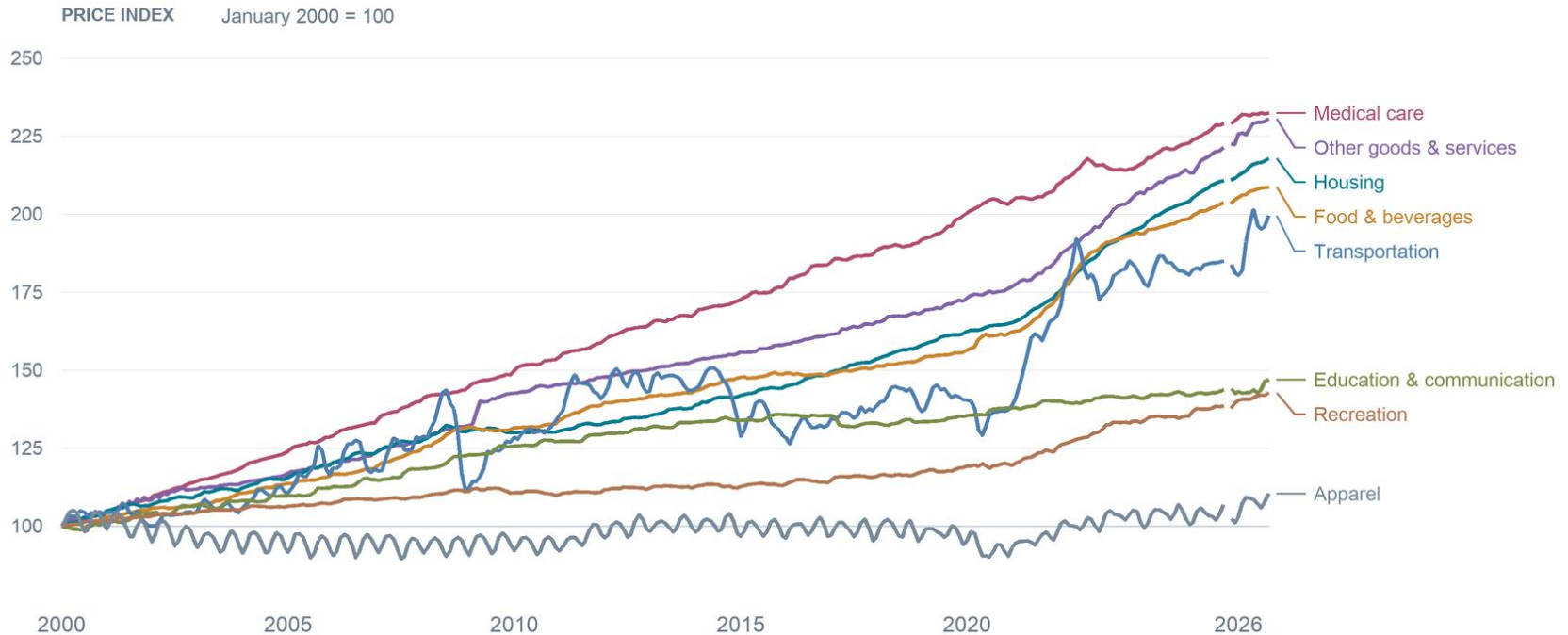
Source: Bureau of Labor Statistics, Payden Calculations

The Overall Price Level Includes A Lot of Categories

Here's The Changes in the Major CPI Categories Since 2000

Cumulative Change in Individual CPI Categories

Price Index, Jan. 2000 = 100



Source: Bureau of Labor Statistics, Payden Calculations

Same Economy, Two Scorecards

Consumer Price Index (CPI) Versus Personal Consumption Expenditures (PCE) Price Index

	CPI	PCE
Published by	Bureau of Labor Statistics	Bureau of Economic Analysis
Who is spending?	Out-of-pocket spending by urban consumers	Spending by and on behalf of households (employer provided healthcare)
Basket Weight	Fixed basket, updated annually	Shifts with consumption
Housing share	~35%	~15%
Common Usage	COLAs, U.S. TIPS, leases	Investors, The Fed's 2% Target
Latest Reading	Core CPI 2.6%	Core PCE 3.0%

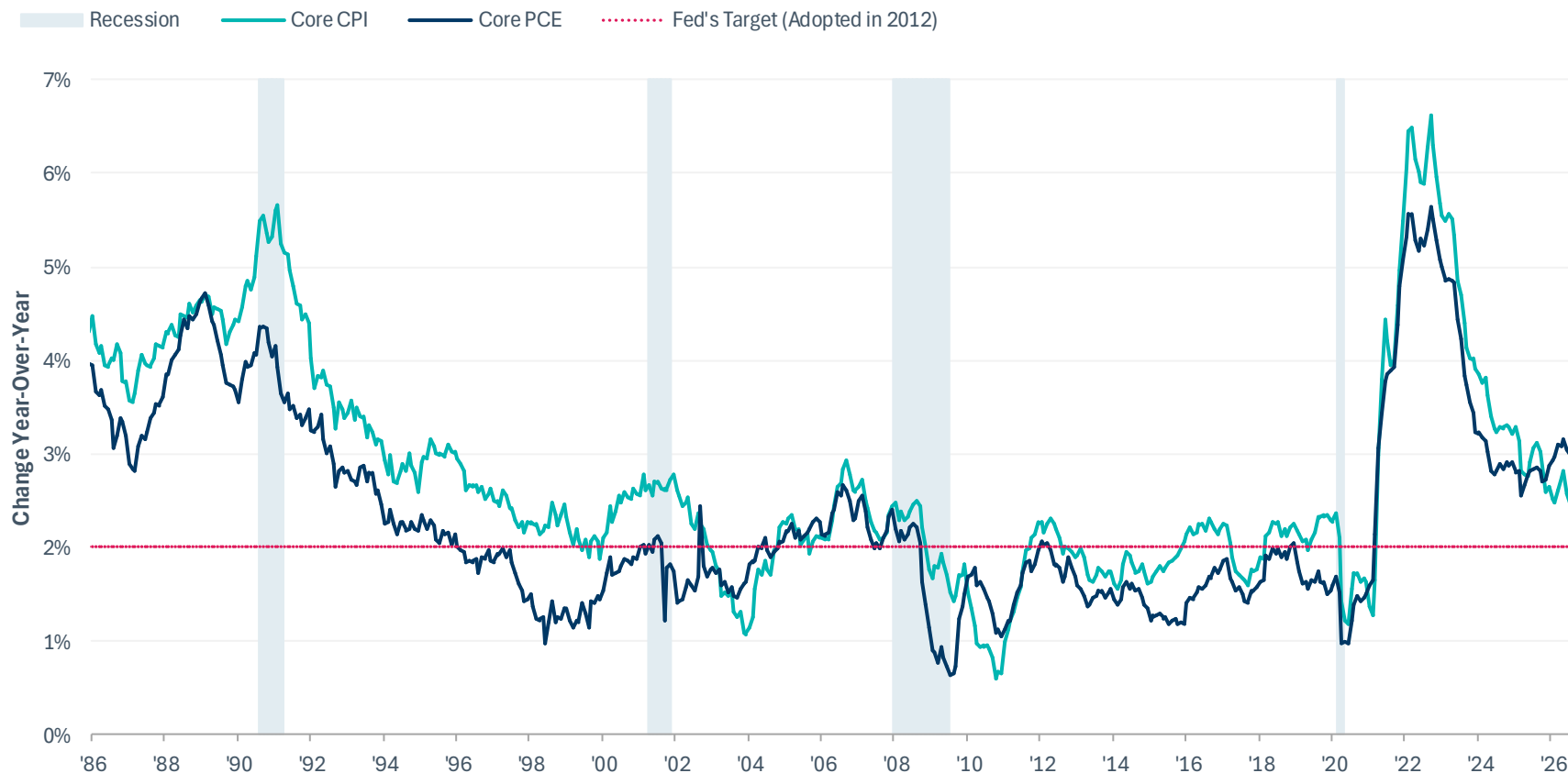
Source: BLS, BEA, Fed, Payden Calculations

CPI-PCE Are Not Identical, But Move Together

As Consumer Spending Shifted In Covid, The Fixed Weight Series Was Not As Helpful

Core PCE Versus Core CPI Inflation

Two Most Used Measures Of U.S. Inflation



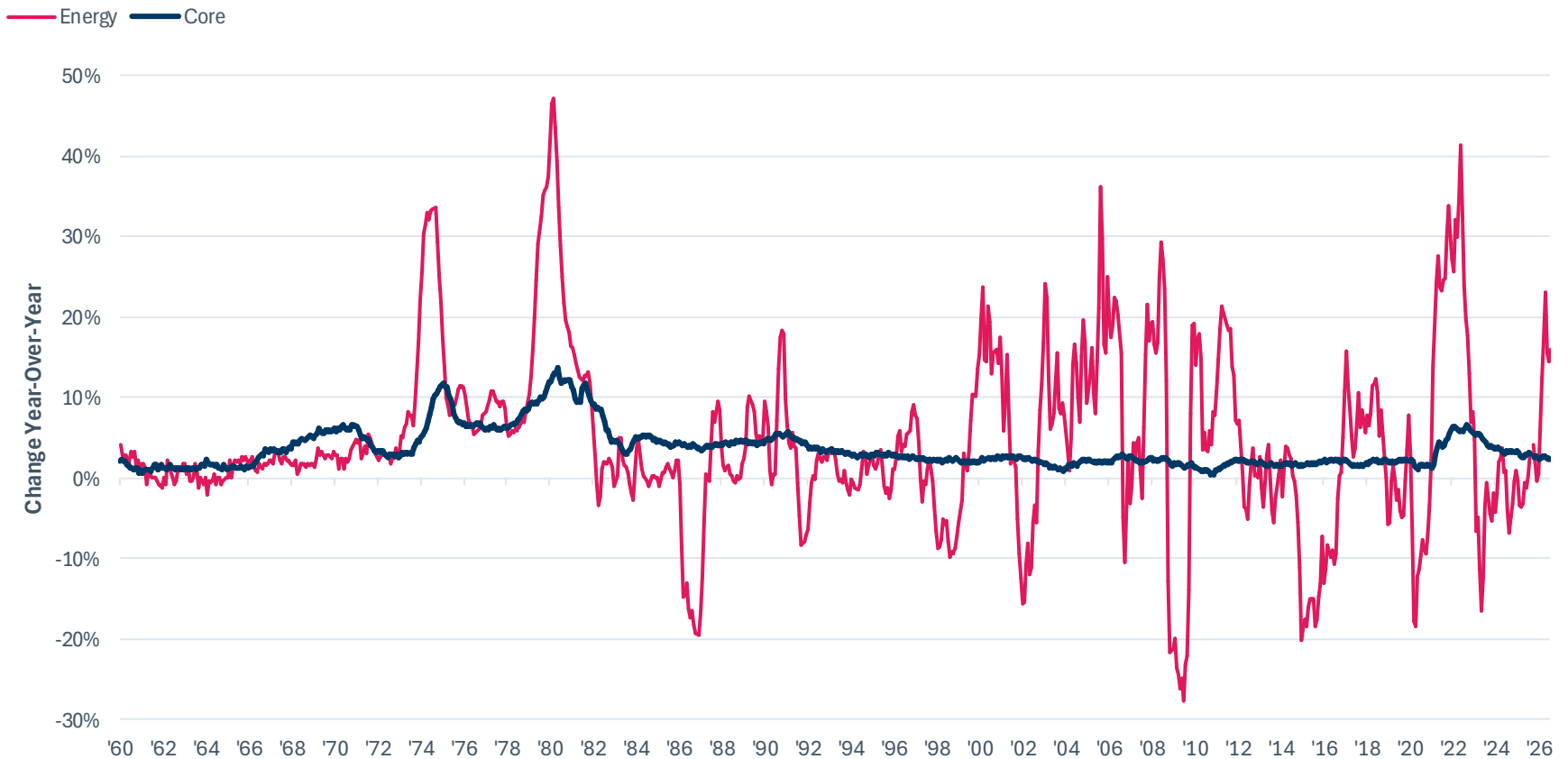
Source: Bureau of Labor Statistics, Bureau of Economic Analysis

“Economists Don’t Eat or Drive”

We Do, I Promise. We Exclude Food & Energy Because Those Prices Are The Most Volatile

Consumer Price Index, Core Versus Energy

Since 1960



Source: Bureau of Labor Statistics, Payden Calculations



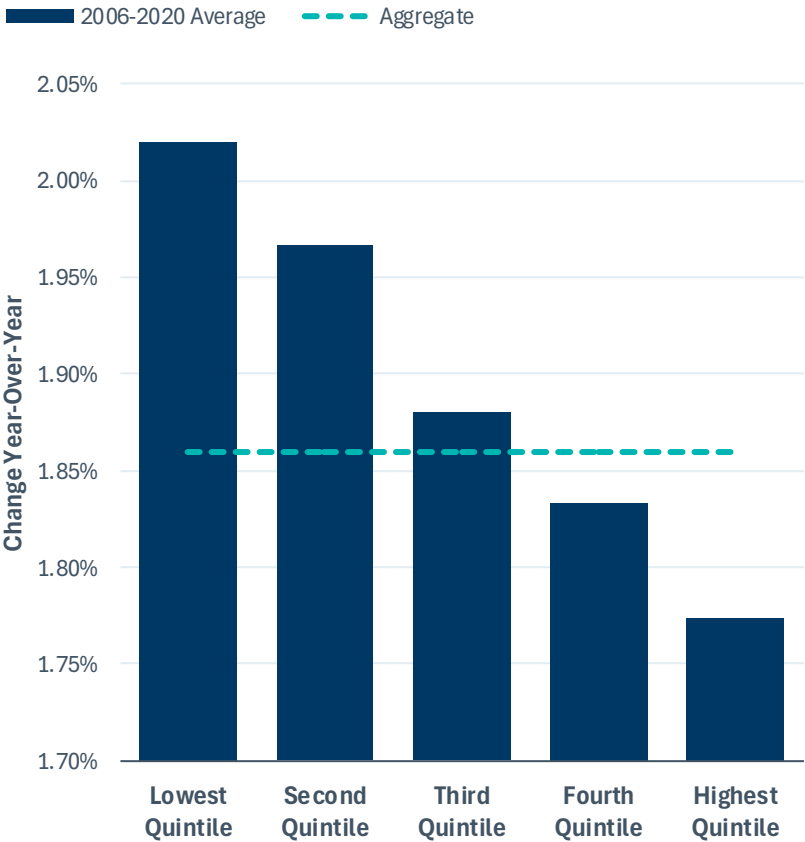
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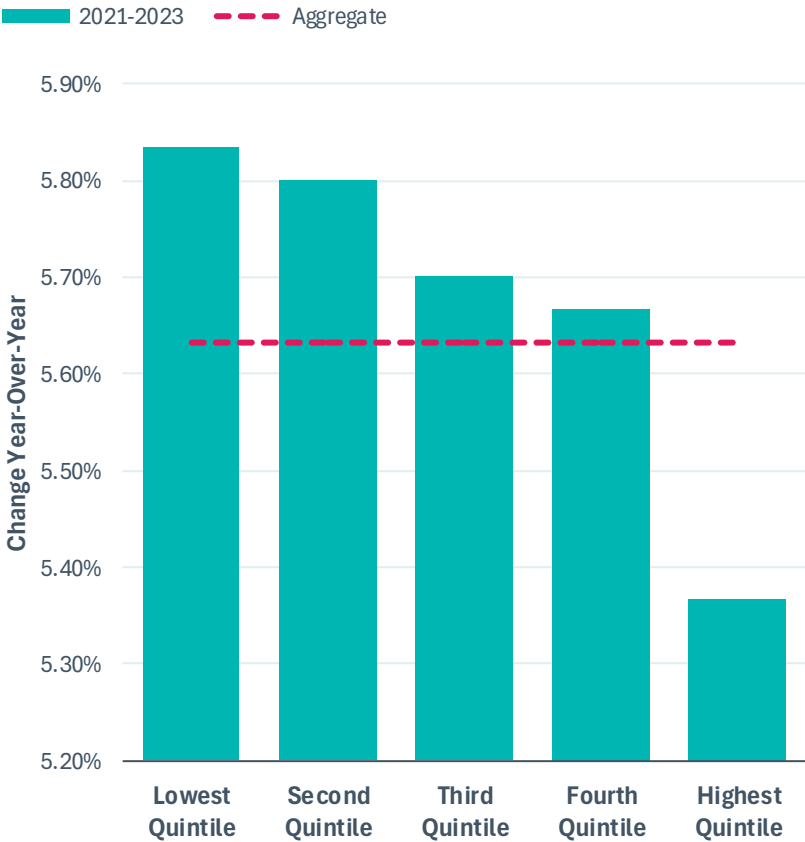
In General, The Lowest Income Quintile Sees The Fastest Rise In Prices

The Price Basket Of Lower Income Cohorts Tend To Rise Faster Than Higher Income Cohorts

Average Annual Inflation By Income Quintile
From 2006 To 2020



Average Annual Inflation By Income Quintile
From 2021 To 2023

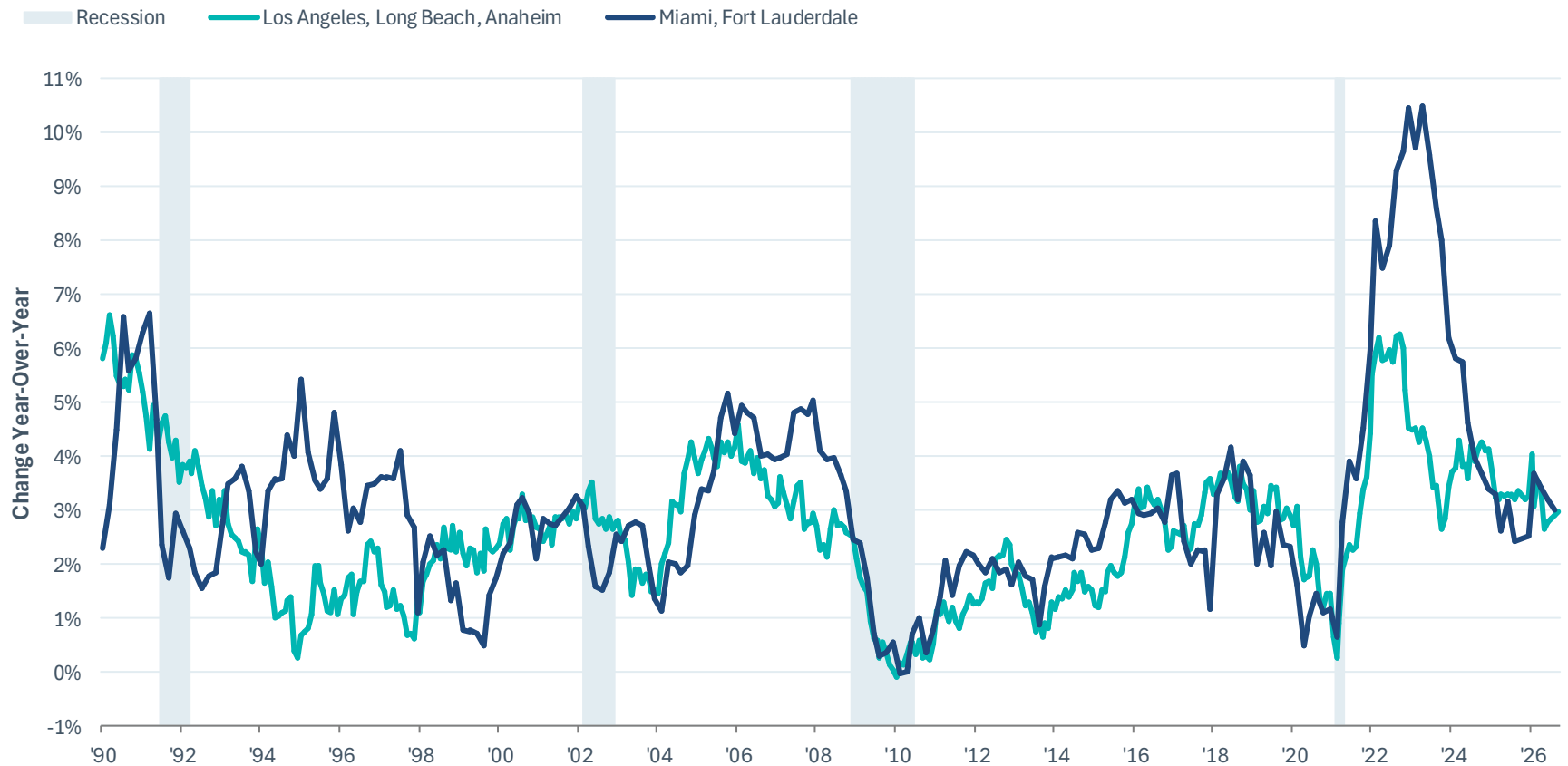


Source: Bureau of Labor Statistics

Geography Matters Too!

Across the U.S., Inflation Trends Can Deviate Based on Where You Live

Core CPI in Los Angeles, Long Beach, Anaheim versus Miami, Fort Lauderdale Since 1990



Source: Bureau of Labor Statistics, Bloomberg



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Inflation Is Not The Only Thing That Matters to the Federal Reserve

The Dual Mandate



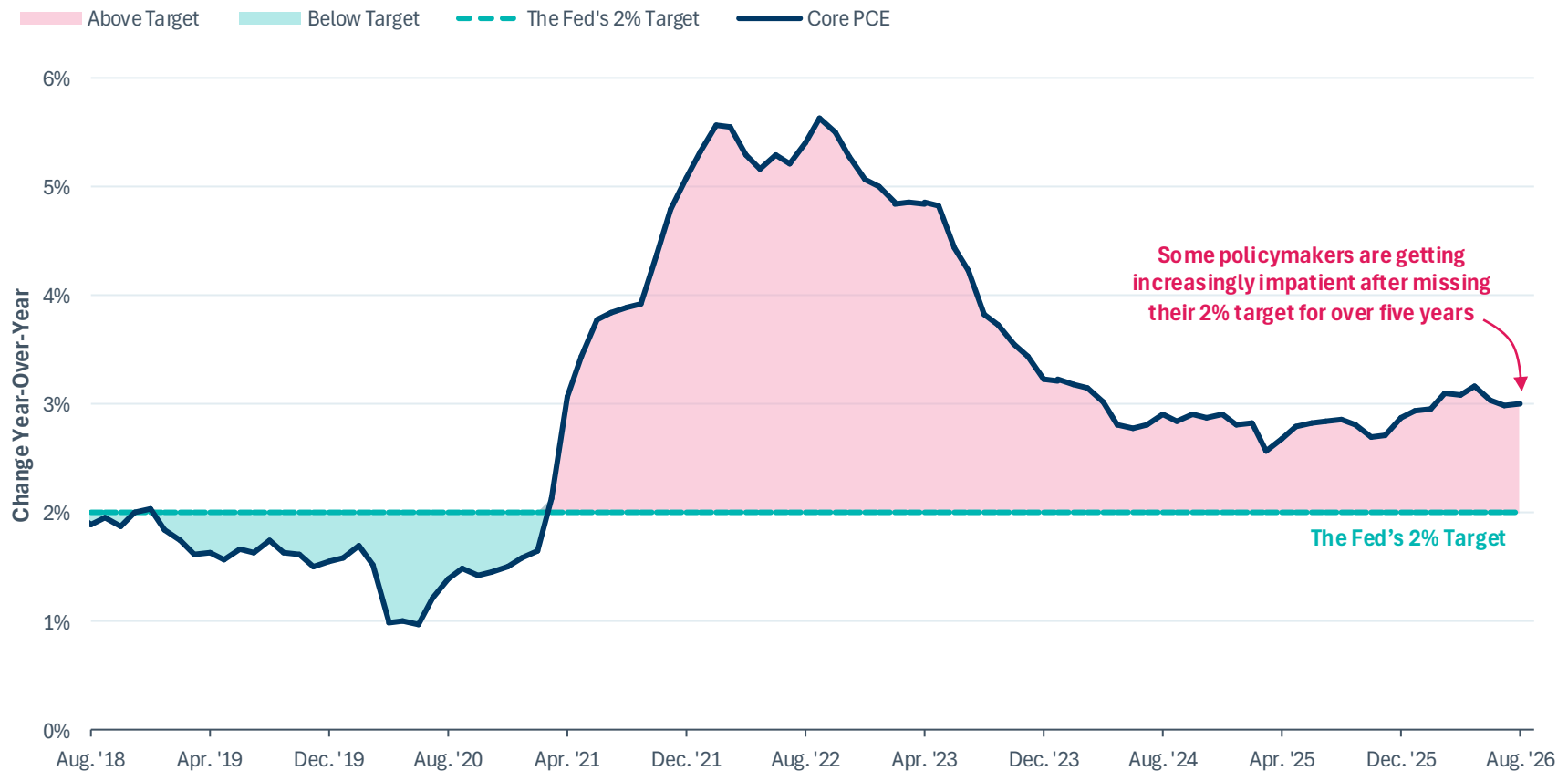
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JAKE-CLARK.TUMBLR

Policymakers Are Growing Impatient About Above-Target Inflation

One Or More “Hot” Monthly Inflation Prints Could Push Policymakers To Hike Again

Core Personal Consumption Expenditures (PCE) Inflation Compared To The Fed’s 2% Target



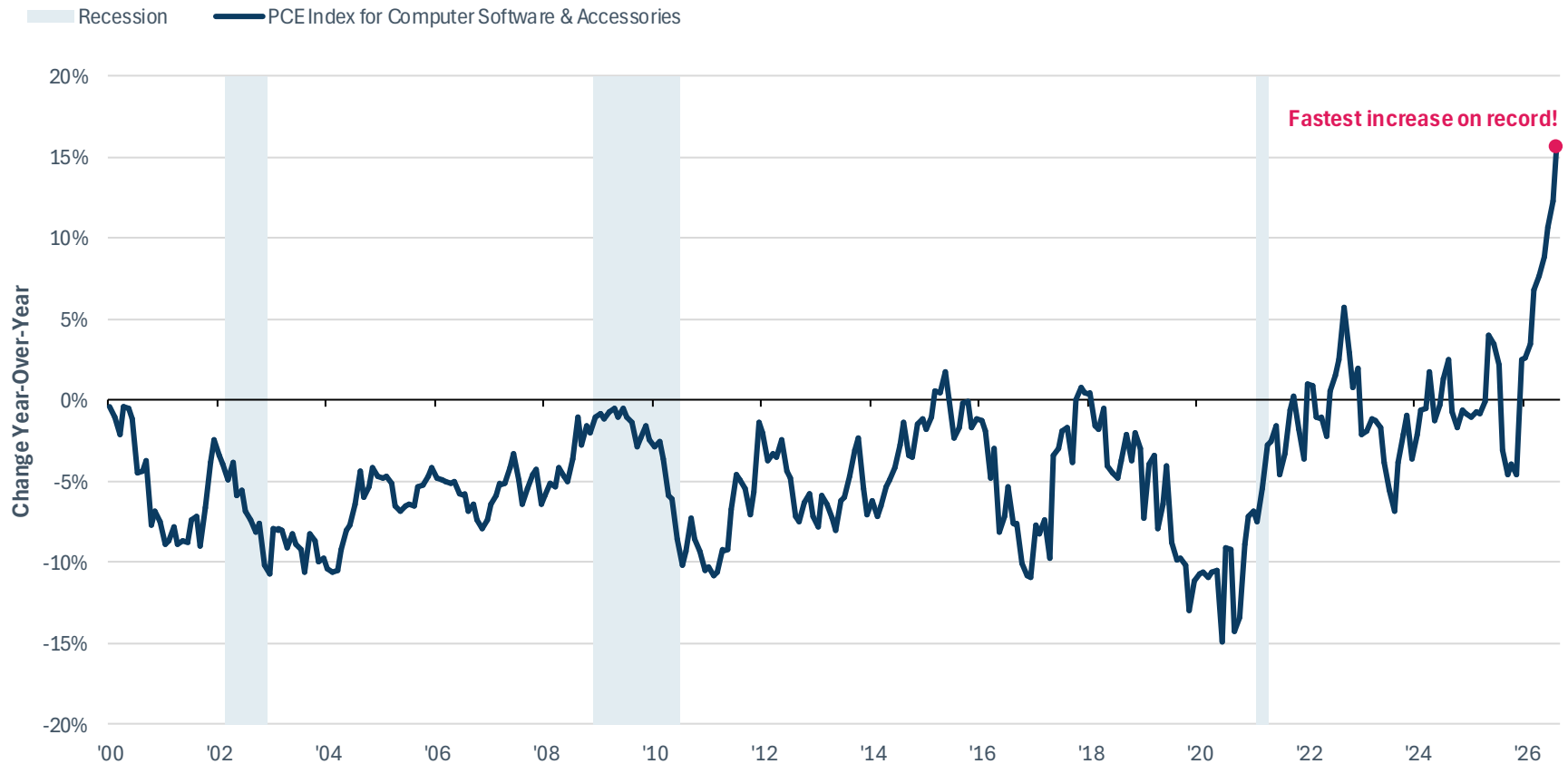
Source: Bureau of Economic Analysis

Tech Products Drove 74% Of Core Goods Inflation In The Last Six Months

The Price Spike Reflects Surging Demand For AI And Compute Capacity Amid Insufficient Supply

PCE Computer Software And Accessories Inflation

Reflects Prices Of Software Publishers & Storage Accessories



Sources: Bureau of Economic Analysis, Bloomberg, Payden Calculations

Remember Our Apple?

It's Not The Only Apple Where Our Dollar Doesn't Buy The Same Amount

New

Buy Mac mini

Buy from **\$899** or \$74.91/mo. for 12 mo.†

M6 and M5 Pro make everything feel extra responsive. And for the first time on Mac mini, Neural Accelerators in the GPU speed up all kinds of AI tasks.



Let's Conclude With Our Key Takeaways

What Is Inflation?

Loss in the purchasing power of a dollar

How Do We Measure It?

Looking at the prices of a basket of the
average U.S. consumer

Whose Inflation Is It?

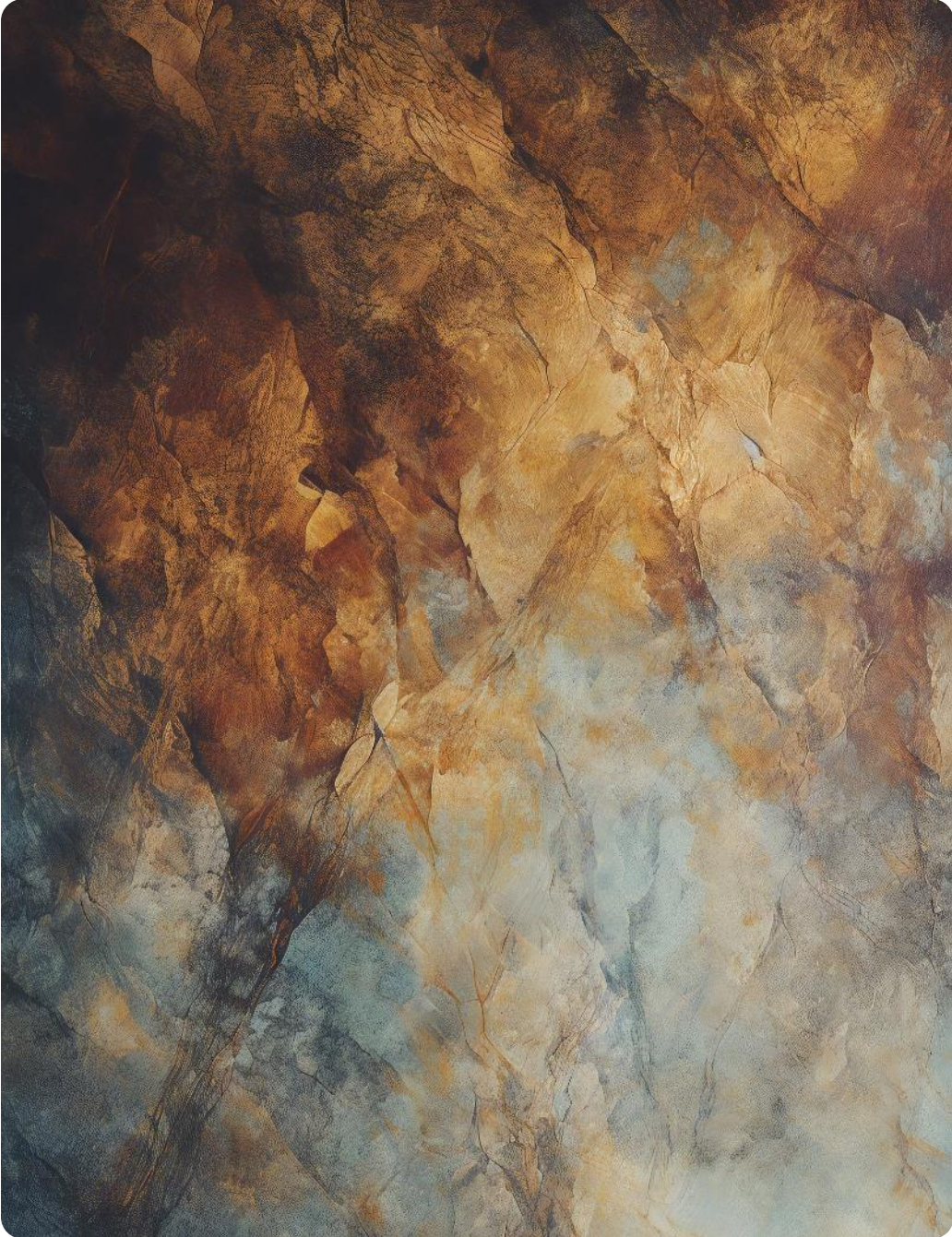
Depends on who you ask and where they
live

What It Means for Us?

Where interest rates are headed

<https://cpi-cheatsheet.paydeneconomics.com>

Questions?



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