In last month's blog , I explained that good news on inflation could serve as the catalyst to break stocks out of their long slump. Well, the latest inflation data, issued on July 13, are the opposite of good news: Consumer prices rose more than 9% on an annualized basis in June, the worst reading in 41 years.

But something interesting is happening. While the official data are still very downbeat, everyday consumers are actually seeing prices for many goods fall. As of Friday, gas prices had dropped for 30 days in a row, making a gallon of gas 44 cents cheaper than it was a month earlier. Gas prices make up less than 6% of the Consumer Price Index, but they are exceptionally volatile, and as they filter through the economy, they ultimately affect the price of all kinds of goods and services.

In fact, prices have been falling across a range of commodities in recent weeks, from copper to soybeans and coffee. These lower costs will ultimately be reflected in the price of goods and services. And though it's far from scientific, I noticed a sharp difference between my past two grocery bills. What's causing the decline in commodity prices? Most likely it reflects a fall in demand caused by the market's increasing fear of a recession. That's not great for the economy, but it could be good for stocks. Investors have been in a defensive mood for months because of rising inflation, which typically hurts most companies' financial results. Clear signs that inflation has topped out or started easing, I believe, will spark a market rally.

The assumption behind that rally would be that falling inflation will make consumers less reluctant to spend more freely, which would bolster companies' revenues. In addition, signs that inflation is coming under control could cause the Federal Reserve to ease up on its planned interest rate increases.

But why is government inflation data telling a story of rising inflation, while commodity prices are showing signs of falling? Simply put, CPI is based on backward-looking data that's typically four to six weeks old. The commodity data is much more recent. We'll see if the July CPI, which will be released in August, will contain good news. If it does, look for stocks to react.

What does all this mean for you as an investor? If you have cash on the sidelines, it's probably time to start planning how to invest it. Stocks are likely to be volatile for some time, but investing in the right areas soon could yield good long-term results. Bear in mind that many quality stocks have been swept up in the broad selloff of the past several months and thus are available at very attractive prices. Don't hesitate to contact us if you'd like to discuss your investments.