

## Markets Rally on Softening CPI

The headline consumer price index (CPI) increased by just +0.2% (0.18) in June, slightly below the +0.3% median forecast despite a fairly substantial rise in gas prices during the month. Service inflation contributed more than 60% to the overall index; within the services component, shelter costs were responsible for over 70%.

On a year-over-year basis, overall CPI was up just +3.0% in June, down from +4.0% in May and a peak of +9.1% a year ago. As dramatic as the 12-month decline has been, annual prices are expected to decrease at a slower pace in the coming months as the base effect fades.

Overall energy prices rose +0.6% in June, with gasoline prices up +1.0% after falling -5.6% in May. Over the past 12 months, pump prices are -26.5% lower.

Food prices continued a more gradual decline, rising just +0.1% in June and +5.7% year-over-year. The food at home index (groceries) was unchanged for the month and up +4.7% on an annual basis, while the food away from home index (restaurants) was up +0.4% and +7.7%.

Core CPI (ex food and energy) rose by just +0.2% (0.16) in May, comfortably below the +0.3% median forecast and *the smallest single month increase in core inflation since August 2021*. The year-over-year core rate was better-than-expected at +4.8%, the first time since November 2021 the annual pace was below +5.0%.

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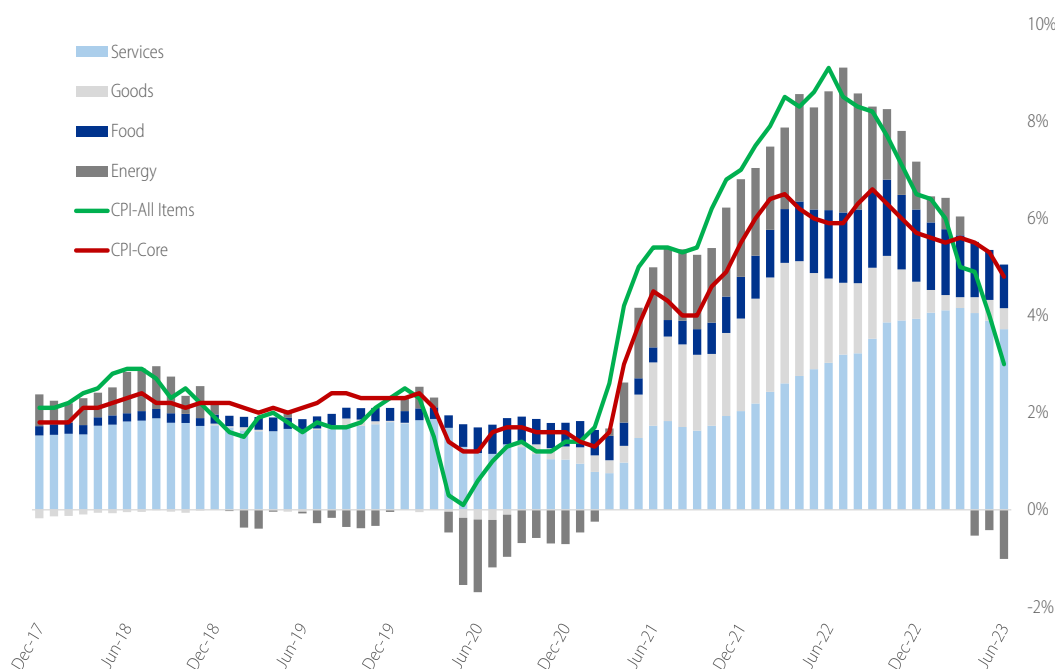
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### Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

New vehicle prices were *unchanged* in June, while used car and truck prices fell -0.5% after back-to-back +4.4% increases in April and May. Airfare fell -8.1% following previous month declines of -3.0% and -2.6%. Medical care was *unchanged* in June and up just +0.1% over the past year.

The bond market has rallied in early trading, driving yields lower. Although Fed officials are still expected to raise the overnight target rate by 25 bps at the next FOMC meeting on July 26th, they're now somewhat less likely to increase by an additional quarter point 10 weeks from now at the September meeting.

This morning's report showed solid improvement across most categories, *but the inflation fight isn't over*. Investors will applaud the +3.0% headline, but the +4.8% core is still too high. July may mark the final rate hike of the cycle, but it's unlikely Fed officials will vote to cut rates before core CPI dips below +3.0%, and that may not happen until well into 2024.

## Market Indications as of 9:24 A.M. Central Time

DOW	Up 273 to 34,534 (HIGH: 36,800)
NASDAQ	Up 198 to 13,959 (HIGH: 16,057)
S&P 500	Up 45 to 4,484 (HIGH: 4,797)
1-Yr T-bill	current yield 5.33%; opening yield 5.40%
2-Yr T-note	current yield 4.72%; opening yield 4.87%
3-Yr T-note	current yield 4.37%; opening yield 4.53%
5-Yr T-note	current yield 4.09%; opening yield 4.22%
10-Yr T-note	current yield 3.88%; opening yield 3.96%
30-Yr T-bond	current yield 3.99%; opening yield 4.00%

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