

Inflation Relief Nudges Yields Lower

Both bonds and equities are rallying in early trading after the Fed's preferred inflation measure indicated prices edged lower last month. The headline personal consumption expenditures (PCE) index was *unchanged* in May following +0.3% increases in each of the previous three months. Falling gasoline prices and just a slight increase in the cost of food drove the overall decline. Core PCE, which excludes food and energy prices, slowed to +0.1% (0.08%) in May, also following three months of +0.3% gains.

On a year-over-year basis, overall PCE slipped from +2.7% to +2.6%, down from a peak of +6.8% two years ago, and the lowest since March 2021. Core PCE decreased from an annual pace of +2.8% in April to +2.6% (2.57%) in May, also the lowest since March 2021. The so-called supercore rate, reflecting non-housing services, rose +0.1% in May, down from +0.3% in April.

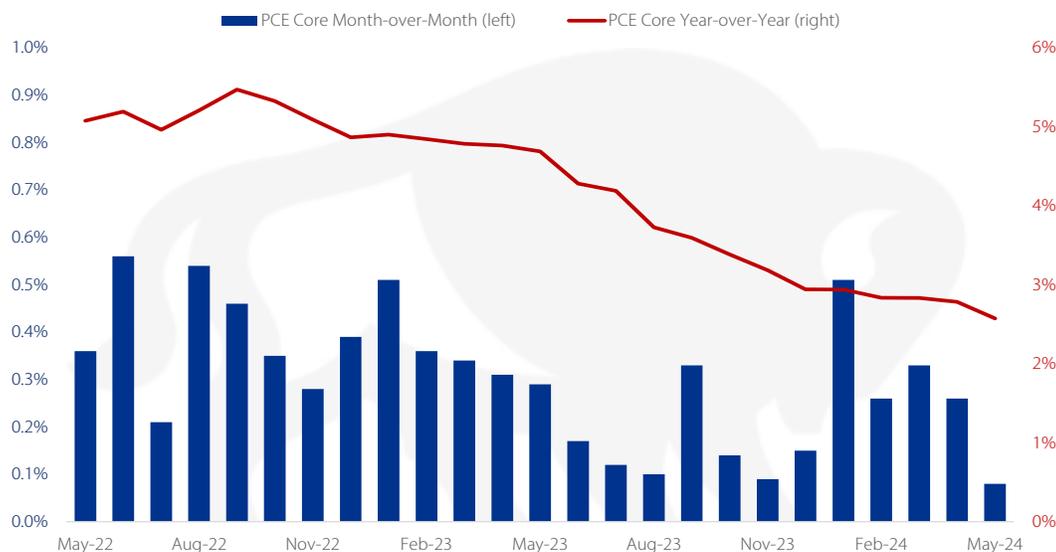
It wasn't a great inflation report, but rather a report that came in *as expected*. The May consumer price index (CPI) was released two weeks earlier, so investors had a pretty good idea of what to expect.

PCE is a broader price measure than CPI and uses a formula that recognizes current consumption patterns and allows for substitutions. As such, it's probably a more accurate measure than the more familiar CPI.

Despite the bond rally, it's still premature to expect Fed officials to begin easing rates before inflation establishes a sustained downtrend. *Not there yet*. This morning's report was more of a relief than a gamechanger.

The futures market continues to signal a 75% chance of a quarter point reduction in the overnight funds rate at the September FOMC meeting and a second cut in December.

Personal Consumption Expenditures Core Price Index (Percent Change)



Source: Bureau of Economic Analysis

Please see disclosure starting on page 2

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

On a year-over-year basis, overall PCE slipped from +2.7% to +2.6%, down from a peak of +6.8% two years ago, and the lowest since March 2021.

Despite the bond rally, it's still premature to expect Fed officials to begin easing rates before inflation establishes a sustained downtrend. *Not there yet*. This morning's report was more of a relief than a gamechanger.

Market Indications as of 9:02 A.M. Central Time

DOW	Up 145 to 39,310 (HIGH: 40,004)
NASDAQ	Up 120 to 17,979 (NEW HIGH)
S&P 500	Up 18 to 5,501 (NEW HIGH)
1-Yr T-bill	current yield 5.08%; opening yield 5.09%
2-Yr T-note	current yield 4.67%; opening yield 4.71%
3-Yr T-note	current yield 4.45%; opening yield 4.49%
5-Yr T-note	current yield 4.26%; opening yield 4.30%
10-Yr T-note	current yield 4.27%; opening yield 4.28%
30-Yr T-bond	current yield 4.43%; opening yield 4.43%

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.