

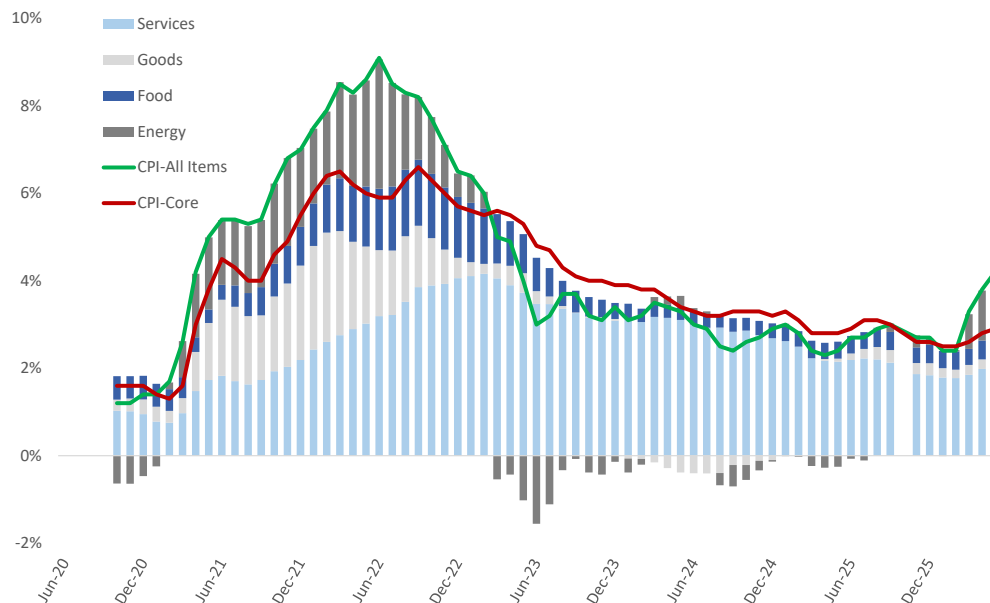
Inflation Rises to 3 Year High as Energy Prices Remain Elevated

Inflation remained firm in May, with headline prices rising to a three-year high, even as some underlying components began to show signs of easing. The Consumer Price Index rose 0.5% during the month, in line with expectations, following gains of 0.6% in April and 0.9% in March. On a year-over-year basis, inflation climbed to 4.2%, marking the highest level since April 2023. While much of the increase was driven by energy, the details of the report suggest inflation pressures may begin to moderate in the months ahead.

The energy index rose 3.9% over the month and is now up 23% year over year, accounting for roughly 60% of the total increase in headline CPI. Gasoline prices remain a primary driver, with the national average holding above \$4.50 per gallon throughout May. Prices have since eased closer to \$4.15, suggesting the recent surge may be peaking and could provide some relief in June's data. Meanwhile, food prices were relatively subdued, with the index rising just 0.2% during the month, helping to offset some of the broader inflationary pressure.

Stripping out food and energy, core CPI rose just 0.2% in May, below expectations for a 0.3% increase and a step down from the 0.4% gain in April. On a year-over-year basis, core inflation increased to 2.9%, the highest level since last September. The moderation in core inflation was seen across both goods and services. Core goods prices declined 0.1% in May after rising slightly in April, with new vehicle prices falling 0.3% for a second consecutive month and used car prices increasing just 0.1%. Apparel inflation also eased, rising 0.3% after a 0.6% increase in April.

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



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2.

Matt Harris, CFA
HilltopSecurities Asset Management
Senior Portfolio Advisor
Senior Vice President
512.340.1845
matt.harris@hilltopsecurities.com

Scott McIntyre, CFA
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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Shelter, one of the most significant components in the inflation basket, rose 0.3% in May, a slower pace than in prior months. One area that remained firm was airline fares, which increased 2.7% as elevated jet fuel costs continued to pass through to consumers.

A key concern tied to the recent rise in headline inflation is the sustained pressure on household purchasing power. Real wages have now declined for the second consecutive month, with average hourly earnings rising 3.4% year over year compared to inflation at 4.2%. In other words, prices continue to outpace wage gains, reinforcing the strain higher costs are placing on consumers.

From a policy standpoint, today's report keeps inflation elevated and is unlikely to give the Federal Reserve confidence to declare victory anytime soon. However, the softer 0.2% core print should help temper some of the market's more aggressive expectations for additional rate hikes. Following last Friday's stronger than expected employment report, which pushed market rates higher, today's inflation data suggest the Fed can remain patient, particularly if energy prices continue to stabilize and supply-driven pressures begin to ease.

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While the May report showed improvement in core inflation, the breadth of price pressures remains a concern. A large share of the CPI basket is still running above pre-pandemic inflation rates, led by persistent strength in shelter and services categories. Even if headline inflation is nearing a peak, the path lower is likely to be slow. Tomorrow's Producer Price Index (PPI) report will provide additional insight into price pressures and help refine expectations for the Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE) index, offering a more complete view of whether inflation is truly beginning to moderate.

Market Indications as of 11:13 A.M. Central Time

DOW	Down -614 to 50,259 (HIGH: 51,562)
NASDAQ	Down -333 to 25,345 (HIGH: 27,094)
S&P 500	Down -57 to 7,330 (HIGH: 7,610)
1-Yr T-bill	current yield 3.90%; opening yield 3.88%
2-Yr T-note	current yield 4.12%; opening yield 4.13%
3-Yr T-note	current yield 4.18%; opening yield 4.19%
5-Yr T-note	current yield 4.25%; opening yield 4.26%
10-Yr T-note	current yield 4.53%; opening yield 4.53%
30-Yr T-bond	current yield 5.01%; opening yield 5.01%

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