

Tumbling Energy Prices Reduce Likelihood of Fed Tightening

The price for WTI crude oil is currently trading below \$70 per barrel, down from \$95 at the beginning of June, and now at the lowest level since *before* the Iran conflict began. The drop is in response to diplomatic efforts between the United States and Iran which have eased tensions in the region and reopened limited passage through the Strait of Hormuz.

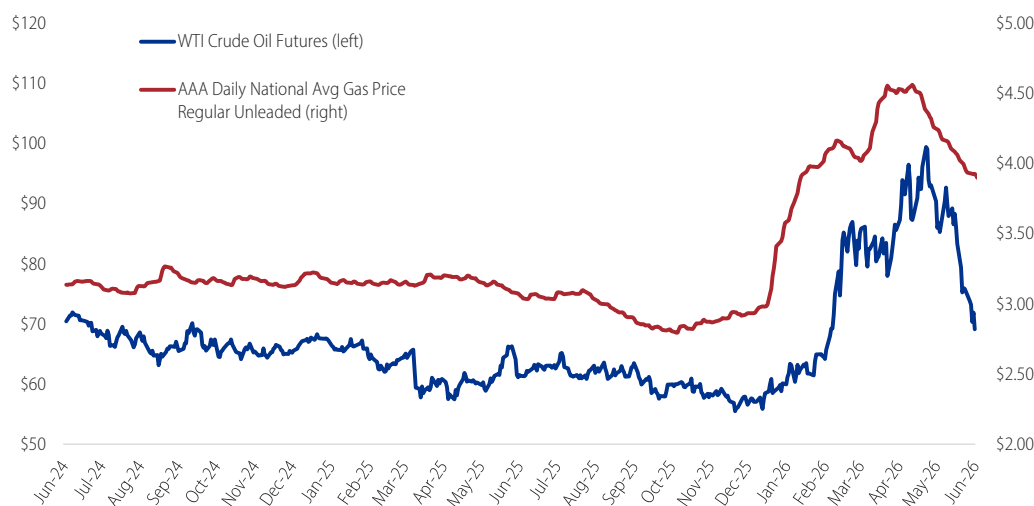
Gasoline prices across the U.S. are following this downward trend, although pump prices have a tendency to be a bit sticky relative to crude oil. This morning, AAA reported the national average for a gallon of regular unleaded gas was \$3.91, down \$0.60 since June 1.

The month-over-month headline CPI measure for June, expected to reflect the significant decline in energy prices, is likely to be negative. The optics of this sharp reversal of headline inflation for the month could add fuel to the recent bond market rally. The more important core inflation measures aren't expected to ease nearly as much.

The futures market had fully priced-in a rate increase by October, but growing recognition that headline inflation likely peaked in May and is expected to retreat in June should ease immediate Fed concerns. The most recent Bloomberg survey of 70 U.S. economists indicated just 7 expect a rate increase in 2026, while 12 forecast one or more rate cuts. The majority of economists surveyed believe the Fed will remain on hold for the remainder of the year.

Despite recent optimism, questions still remain over safe passage through the Strait of Hormuz. Iranian officials have warned that security and navigation through the strait cannot yet be guaranteed, leaving some ongoing risk to oil markets and future fuel prices. Although the 60-day ceasefire is admittedly fragile, both sides have incentive to negotiate. Official vessel passage has risen to 21 as of yesterday, encouraging, but representing roughly 20% of normal traffic.

Gas & Oil



Source: New York Mercantile Exchange / AAA / Bloomberg

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Amid relative calm, the University of Michigan Consumer Sentiment Index improved in June after reaching a record low in May. Lower gas prices, along with signs of improved labor market conditions, should boost confidence further in the coming months.

As the second quarter winds down, it appears that economic growth probably improved in Q2. The Atlanta Fed's GDPNow measure is tracking the current quarter at +2.5%, a marginal improvement over the +2.1% revised Q1 reading.

The broad bond market rally that began on Tuesday is ongoing.

Market Indications as of 2:10 P.M. Central Time

DOW	Down -70 to 51,851 (HIGH: 52,000)
NASDAQ	Down -58 to 25,301 (HIGH: 27,094)
S&P 500	Down -12 to 7,346 (HIGH: 7,610)
1-Yr T-bill	current yield 3.92%; opening yield 3.93%
2-Yr T-note	current yield 4.08%; opening yield 4.12%
3-Yr T-note	current yield 4.09%; opening yield 4.13%
5-Yr T-note	current yield 4.13%; opening yield 4.17%
10-Yr T-note	current yield 4.37%; opening yield 4.40%
30-Yr T-bond	current yield 4.86%; opening yield 4.86%

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