Benign CPI Report Reinforces Fed's Wait-and-See Approach

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

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

The consumer price index (CPI) for July was generally in-line with expectations, with a drop in gasoline and the first outright decline in grocery prices since March restraining headline inflation and sapping any urgency by hawkish Fed officials to raise rates in the coming months. Overall CPI rose just +0.1%, lowering the year-over-year pace from +3.5% to +3.4%.

Energy prices fell -1.5% in July with the price of gasoline tumbling -2.9% following a -9.7% drop in June. Energy costs are still nearly +15% higher than a year ago and remain a significant contributor to headline inflation but have moved lower in recent months.

Food prices rose by just +0.1%, with the food-at-home component (groceries) actually declining -0.1%, while food-away-from home rose +0.3%. Core CPI, which strips out the cost of both food and energy, climbed +0.2% in July, bringing the annual pace down from +2.6% to +2.5%, matching *the lowest since March 2021*.

Shelter costs, making up roughly a third of overall CPI and over 40% of the core, rose by just +0.1% for the second straight month. The housing price component, which peaked in March 2023 at an annual pace of +8.2%, has steadily declined over the past 40 months and is now at +3.2%.

New car prices rose +0.1% in July, up +0.5% year-over-year and essentially flat in 2026. Used car prices, on a steady decline for months, rose +0.4% in July while still down -1.9% over the past 12 months.

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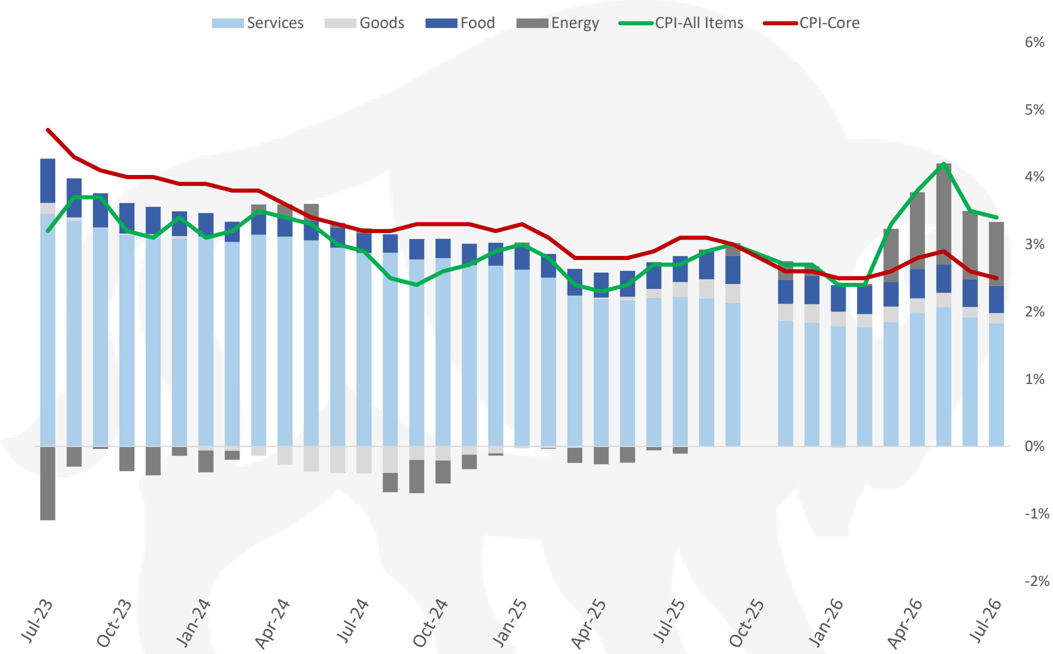
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Insurance costs, a major driver of higher post pandemic price pressure, continued to ease with both auto (-0.3%) and health (-0.2%) logging welcomed decreases. Lower insurance prices reflect easing auto and housing costs.

One source of upward pressure (which admittedly doesn't affect most consumers) was computer software and accessories, which increased +1.5% month-over-month and a record +39.5% year-over-year. The Federal Reserve noted that some of the extraordinary increase may reflect measurement issues related to software pricing and quality adjustments, rather than broad-based consumer inflation pressure.

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The takeaway this morning is that any urgency some Fed officials may have felt to increase the overnight target in the near-term is now on the backburner. *The July inflation report was a relief.* It doesn't establish a trend as both the conflict in the Middle East and the tariff situation are fluid. However, the relatively cool report should push any policy move (up or down) past the election and into December.

Market Indications as of 9:42 A.M. Central Time

DOW	Up 29 to 53.821 (HIGH: 54,349)
NASDAQ	Up 168 to 26,614 (HIGH: 27,094)
S&P 500	Up 27 to 7,755 (HIGH: 7,758)
1-Yr T-bill	current yield 3.98%; opening yield 4.01%
2-Yr T-note	current yield 4.18%; opening yield 4.22%
3-Yr T-note	current yield 4.25%; opening yield 4.29%
5-Yr T-note	current yield 4.35%; opening yield 4.39%
10-Yr T-note	current yield 4.67%; opening yield 4.68%
30-Yr T-bond	current yield 5.23%; opening yield 5.24%