

Second Straight Month of Lower Inflation Sends Yields Plummeting

The first quarter's string of inflated prices is quickly fading in the rearview mirror. After an unchanged reading in May, June's headline consumer price index fell -0.1% (-0.056% unrounded), well below the median forecast for +0.1%. On a year-over-year basis, CPI posted its smallest gain since March 2021, up +3.0%. That was below forecasts for an increase of +3.1% and well below May's +3.3%. The closely watched core, which excludes food and energy, posted a monthly gain +0.1% (+0.064% unrounded), a tenth below the median forecast for +0.2%. Over the last 12 months, core-CPI has risen +3.3%, also a tenth lower than forecast and the lowest level since April 2021.

As in May, energy prices led the June decline, falling -2.0% with gasoline down -3.8%. But it wasn't just energy as price declines were widespread with many components outright negative for a second straight month. Notably, new vehicle prices fell -0.2% and are down -0.9% on the year while used vehicle prices fell -1.5% and are down -10.1% over the last 12 months.

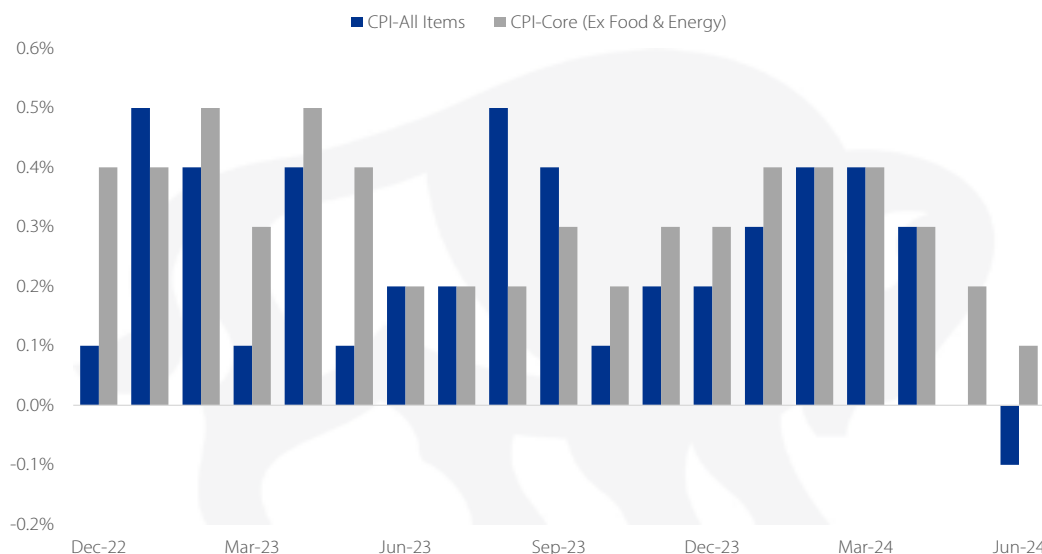
Importantly, several of the key components the Fed is believed to be focused on saw relief. The so-called super-core (services ex-energy and ex-shelter) fell -0.1%. Meanwhile, shelter rose only +0.2% as the indexes for both rent and owners' equivalent rent posted the smallest increases since August 2021. On a year-over-year basis, the shelter index is still up +5.2% and accounts for almost 70% of the increase in core-CPI. Nonetheless, after three consecutive monthly gains of +0.4%, June's modest +0.2% rise in shelter suggests the much-anticipated easing in housing costs is coming into view.

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

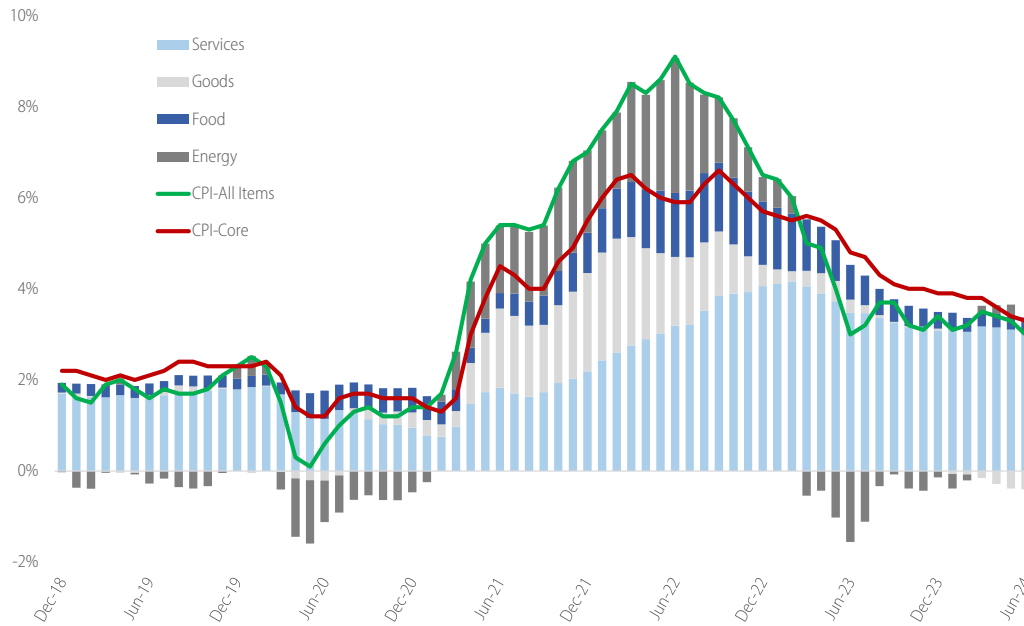


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Source: Bureau of Labor Statistics

The overarching point here is that inflation appears to be in retreat in the second quarter. On a 3-month annualized rate, core CPI has fallen to +2.1%. That has markets ramping up expectations for rate cuts from the Fed. The next FOMC meeting comes at the end of this month and while a cut this month remains very unlikely, it is quite possible the committee lays the groundwork for a September ease. Fed funds futures have bumped the odds for a September cut up to 96% and are now pricing in 25 basis point rate cuts at 3 of the 4 meetings from September through January 2025.

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As you would expect, bond yields have fallen sharply with the yield on the two-year Treasury note briefly breaking below 4.50% and down to its lowest level since early March. The yield on the 10-year Treasury has fallen below 4.20%.

Market Indications as of 9:25 A.M. Central Time

DOW	Up 29 to 39,751 (HIGH: 40,004)
NASDAQ	Down -175 to 18,472 (HIGH: 18,647)
S&P 500	Up 2 to 5,636 (NEW HIGH)
1-Yr T-bill	current yield 4.91%; opening yield 4.99%
2-Yr T-note	current yield 4.50%; opening yield 4.62%
3-Yr T-note	current yield 4.26%; opening yield 4.39%
5-Yr T-note	current yield 4.11%; opening yield 4.24%
10-Yr T-note	current yield 4.18%; opening yield 4.28%
30-Yr T-bond	current yield 4.39%; opening yield 4.48%

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