

Understanding Inflation Measures

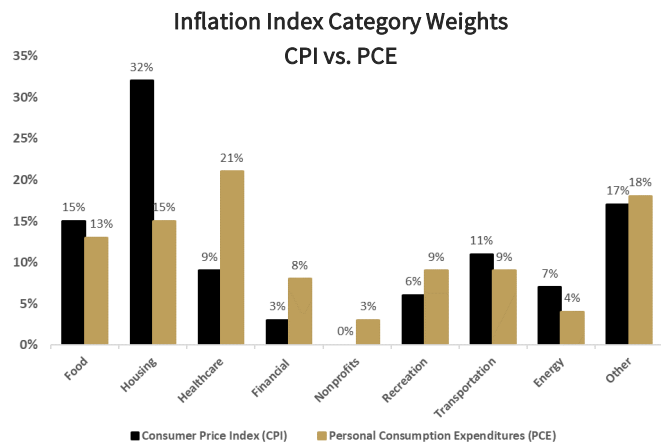
When interpreting this week's CPI report, it is important to note that inflation measures are not created equal.

The Consumer Price Index (CPI) is based on a fixed basket of goods with weightings that are adjusted by the Bureau of Labor Statistics (BLS). In contrast to CPI, Personal Consumption Expenditures (PCE) uses a flexible weighting method where the basket of goods is updated constantly according to household spending patterns. PCE also uses more comprehensive data that includes indirect spending, such as medical-insurance premiums that employers pay on their employees' behalf. Viewing PCE as timelier and more comprehensive, the Fed prefers PCE over CPI as its inflation gauge.

Here is one example of how the measures differ. At 3.40%, headline CPI may seem high, but consider its basket of goods: CPI's housing weight, which is twice that of PCE, contributes to its consistently higher readings as home prices remain elevated. According to CPI's fixed basket of goods, consumers spend about 30% of their budget on housing. Many homeowners spend much less on housing, however, having locked in mortgages at historically low interest rates.

In a rapidly evolving economic environment, we, like the Fed, prefer the PCE as a more accurate inflation measure.

CHART OF THE WEEK



Source: Bloomberg

Index Returns (%)

Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5361	1.50	2.31	13.11	26.59	9.68
Russell 1000 Growth	3546	2.53	4.63	16.57	34.53	11.53
Russell 1000 Value	1726	-0.09	-1.84	6.98	16.57	4.83
FTSE High Dividend Y	414	0.14	-1.55	7.42	17.04	6.85
S&P Small and Mid Cc	16212	-1.53	-3.71	3.61	14.63	2.21
MSCI EAFE	2359	-0.59	1.61	7.69	15.48	3.28
MSCI EM	1070	0.15	3.15	5.68	9.99	-5.40

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Index Characteristics

Equities	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	22.2	16.7	2.8	1.6	1.4
Russell 1000 Growth	57.0	19.8	9.0	2.0	0.3
Russell 1000 Value	16.8	14.9	1.8	1.4	2.2
FTSE High Dividend Y	12.6	14.3	1.5	1.6	4.2
S&P Small and Mid Cc	16.7	19.1	1.2	1.2	1.7
MSCI EAFE	15.0	14.6	1.5	1.1	3.0
MSCI EM	12.9	12.6	1.4	1.3	2.7

Levels (%)

Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	5.08	-0.29	-0.59	-1.36	2.04	-3.20
U.S. Int. Gov/Credit	4.93	-0.15	0.00	-0.15	3.32	-1.45
U.S. Corporates	5.52	-0.37	-0.51	-0.91	5.03	-3.00
High Yield	7.96	0.10	0.56	2.04	10.41	1.65
Municipals (1-10)	3.49	0.55	-0.81	-1.18	2.27	-0.58

Levels

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	4.88	4.77	4.62	4.25	4.58	0.15
10-yr Treasury	4.47	4.33	4.20	3.88	3.74	1.43
30-yr Treasury	4.60	4.47	4.34	4.03	3.88	2.13
3-mo. LIBOR	5.66	5.60	5.56	5.59	5.56	0.12
6-mo. CD rate	5.39	5.38	5.35	5.28	5.59	0.08
Prime Rate	8.50	8.50	8.50	8.50	8.25	3.25
30-yr fixed mortgage	7.34	7.26	7.25	6.99	7.02	3.09

Levels

Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	77.54	73.25	71.97	56.87
Gasoline	3.45	3.50	3.12	3.08
Natural Gas	2.64	2.59	2.51	3.15
Gold	1924	2327	2063	1899
Copper	8350	9820	8464	9863
Wheat	604	658	628	684
BBG Index	241.41	237.93	226.43	202.90

LAST WEEK IN REVIEW

- **ISM Manufacturing (May):** 48.7, second consecutive monthly reading below 50.
- **ISM Services (May):** 53.8, recovery from April's sub 50 reading and in-line with second half of 2023.
- **JOLTS (May):** 8.1 million job openings or 1.2 openings per job seeker.
- **Payrolls (May):** Upside surprise, 272K new jobs in May. Higher wage growth (4.1% YoY) and slight uptick in unemployment rate (4.0%)

THIS WEEK

- **NFIB Small Business Optimism (May):** 6/11
- **CPI (May):** 6/12
- **FOMC Rate Decision and Projections:** 6/12
- **PPI (May):** 6/13
- **University of Michigan Sentiment (May):** 6/14

S & P SECTOR RETURNS

