

Soft Inflation, Hard Choice: Why the Fed Will Stay the Course

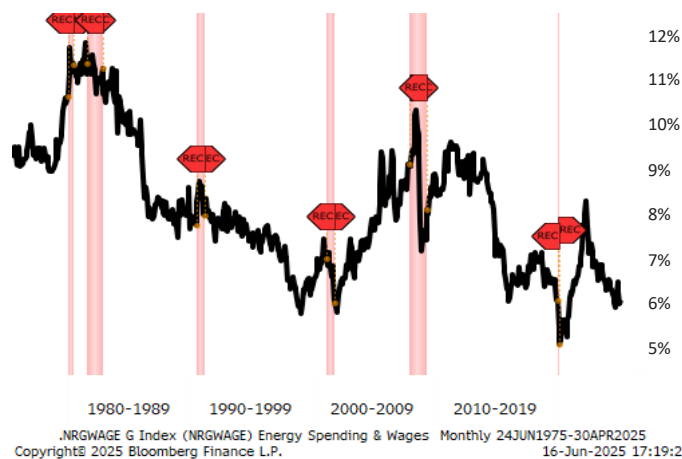
This week's meeting of the Federal Reserve's Open Market Committee (FOMC) will almost certainly result in no change to the target interest rate. While expected, the decision to hold rates steady will still raise questions among some market watchers. Last week's Consumer Price Index (CPI) report for May came in weaker than anticipated, with core prices rising just 0.1% from the prior month and 2.4% from a year ago—despite expectations that higher tariffs would push prices up.

Still, the softer CPI report is unlikely to end inflation concerns. Many companies front-loaded inventory purchases earlier this year ahead of tariff increases. When they restock, they will face higher import costs, which could be passed on to consumers or absorbed through lower profit margins.

Another concern is geopolitical risk. Ongoing warfare between Israel and Iran raises the possibility of higher energy prices. At the moment, that risk feels distant because energy remains a relatively small share of U.S. household expenses. But a spike in oil prices could change that, pressuring consumer budgets and potentially weighing on broader spending.

All of this adds uncertainty to the inflation outlook, reinforcing the Fed's cautious stance as it navigates conflicting signals from data and global events.

**Household Spending on Energy
as a Percentage of Wages**



Economy

Last Week	This Week
- Consumer Price Index (May): 0.1% HL, 0.1% Core (MoM) 2.4% HL, 2.8% Core (YoY). Lower than expected.	- Retail Sales (May): 6/17
- Producer Price Index (May): 0.1% HL, 0.1% Core (MoM) 2.6% HL, 3.0% Core (YoY)	- Housing Starts & Permits (May): 6/18
- Initial & Continuing Jobless Claims: 248K initial, 1.96 mln continuing. Former unchanged, latter up 52K from week prior.	- FOMC Rate Decision and Forecast Update: 6/18
- U. of Mich. Sentiment (Jun P.): 60.5 from 52.2 one month prior. Expectations increased to 58.4 from 47.9 one month prior.	- Leading Economic Indicators (May): 6/20

Equities

Returns (%)							
Index	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6033	0.49	7.83	3.22	12.55	19.64	15.81
Russell 1000 Growth	4129	0.60	13.80	2.45	13.67	25.50	17.49
Russell 1000 Value	1875	0.17	1.65	3.82	12.45	12.85	12.85
FTSE High Dividend Yield*	470	0.57	1.76	3.55	14.16	13.24	13.66
S&P Small and Mid Cap	16700	-0.80	3.86	-3.41	5.85	11.28	12.23
MSCI EAFE	2635	0.33	11.09	18.93	17.94	16.84	11.27
MSCI EM	1198	0.53	9.70	12.98	14.56	9.35	6.79

Characteristics							
Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD			
S&P 500	20.4	15.3	1.4	15	Industrials	Utilities	Comm. Serv.
Russell 1000 Growth	26.1	17.8	0.6	10	Staples	Materials	Financials
Russell 1000 Value	15.9	13.5	2.3	5	Real Estate	Energy	IT
FTSE High Dividend Yield*	12.8	13.0	4.0	0	Health Care	Cons. Discr.	
S&P Small and Mid Cap	14.0	15.5	2.0	-5			
MSCI EAFE	14.4	13.4	3.1	-10			
MSCI EM	11.8	11.1	2.8				

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

Fixed Income

Returns (%)							
Index	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.74	0.32	-0.28	2.49	3.69	2.48	-0.95
U.S. Int. Gov/Credit	4.34	0.27	0.58	3.02	5.33	3.53	0.46
U.S. Corporates	5.22	0.31	0.23	2.54	4.24	3.99	-0.13
High Yield	7.33	0.29	2.30	3.32	9.25	9.02	5.31
Municipals (1-10)	3.38	0.22	0.59	1.29	2.89	2.75	0.90

Levels (%)							
Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	3.97	4.02	3.89	4.24	4.72	3.10	0.20
10-yr Treasury	4.45	4.47	4.21	4.57	4.22	3.20	0.74
30-yr Treasury	4.96	4.93	4.57	4.78	4.36	3.25	1.53
SOFR	4.32	4.28	4.41	4.49	5.33	1.45	0.09
6-mo. CD rate	4.36	4.37	4.25	4.33	5.39	2.84	0.27
Prime Rate	7.50	7.50	7.50	7.50	8.50	4.75	3.25
30-yr fixed mortgage	6.89	6.90	6.83	7.28	7.29	5.94	3.41