

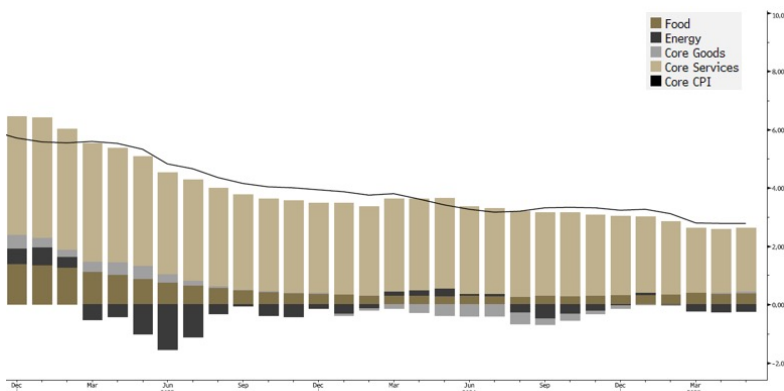
Where's the Inflation?

The Federal Reserve has been patiently watching and waiting for tariff impacts to show up in inflation data. However, inflation has been surprisingly soft over the past few months. Does that mean tariffs are not affecting inflation? Not quite.

Prices of some goods have already increased. For example, major appliance inflation rose from -3.6% in April to 1.5% in May.¹ Price increases expected in other goods, like apparel, have not yet materialized. One explanation is that many companies front-ran tariffs in the first quarter and are still working through existing inventories. When those inventories run out and they import more goods, they may charge higher prices. Another explanation is that less spending and more saving among consumers is restricting businesses' ability to pass along higher costs. Consumers simply do not have the appetite to pay higher prices.

The pullback in consumer spending also at least partially explains why services inflation has fallen. Consumers—facing an uncertain macro environment not in small part due to tariffs—have reduced spending on services, such as transportation and lodging. Lower demand means service providers must lower their prices. The decline in services inflation has more than offset any increase in goods inflation, resulting in the soft headline inflation numbers seen so far.

U.S. CPI Year-Over-Year



1. Bloomberg, Contributions to U.S. CPI Index YoY, as of 6/11/2025. Chart Source, Bloomberg 6/23/25.

Economy

Last Week
- Retail Sales (May): -0.9% MoM vs. -0.1% one month prior.
- Housing Starts & Permits (May): Starts -9.8% from one month prior. Permits -2.0% from one month prior.
- FOMC Rate Decision and Forecast Update: Target rate unchanged. GDP forecasts revised lower.
- Leading Economic Indicators (May): -0.1% MoM vs. -1.4% one month prior.

This Week
- S&P Flash U.S. PMIs (June): 6/23
- Conf. Board Consumer Confidence (June): 6/24
- Wholesale and Retail Inventories (May): 6/26
- Personal Income & Spending & PCE Price Index (May): 6/27

Equities

Returns (%)							
Index	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6025	-0.12	7.71	3.10	11.72	17.65	16.56
Russell 1000 Growth	4109	-0.48	13.26	1.96	12.85	22.81	17.93
Russell 1000 Value	1882	0.37	2.03	4.21	11.52	11.48	14.10
FTSE High Dividend Yield*	471	0.23	1.99	3.78	13.02	11.52	14.49
S&P Small and Mid Cap	16770	0.43	4.31	-3.00	5.11	9.59	13.20
MSCI EAFE	2568	-2.49	8.32	15.96	14.91	14.79	10.97
MSCI EM	1182	-1.27	8.31	11.55	12.00	8.61	6.15

Characteristics							
Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD			
S&P 500	20.5	15.4	1.3	15	Industrials	Utilities	Staples
Russell 1000 Growth	26.3	17.8	0.6	10	Financials	Comm. Serv.	Real Estate
Russell 1000 Value	16.0	13.5	2.3	5	Materials	IT	Energy
FTSE High Dividend Yield*	12.8	13.0	4.0	0	Health Care	Cons. Discr.	
S&P Small and Mid Cap	14.1	15.5	2.0	-5			
MSCI EAFE	14.1	13.5	3.2	-10			
MSCI EM	11.7	11.1	2.9				

* 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	4.63	0.68	0.40	3.19	4.55	2.50	-0.84
U.S. Int. Gov/Credit	4.22	0.53	1.12	3.57	5.97	3.52	0.56
U.S. Corporates	5.13	0.64	0.87	3.20	5.22	4.09	0.01
High Yield	7.26	0.31	2.62	3.65	9.36	8.93	5.55
Municipals (1-10)	3.33	0.23	0.82	1.52	3.09	2.67	0.92

Levels (%)							
Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	3.86	3.95	3.89	4.24	4.74	3.02	0.19
10-yr Treasury	4.35	4.39	4.21	4.57	4.25	3.09	0.68
30-yr Treasury	4.88	4.89	4.57	4.78	4.38	3.20	1.43
SOFR	4.29	4.31	4.41	4.49	5.33	1.44	0.08
6-mo. CD rate	4.36	4.37	4.25	4.33	5.37	2.90	0.37
Prime Rate	7.50	7.50	7.50	7.50	8.50	4.75	3.25
30-yr fixed mortgage	6.88	6.88	6.83	7.28	7.25	5.81	3.33