

Summary

Economic data for the week included the Federal Reserve meeting ending with no policy change, as expected, with continued hawkish views compared to earlier this year. Consumer and producer price inflation metrics both showed positive signs of slowing this week, albeit driven by volatile energy prices. Consumer sentiment remained weak.

Equities were mixed globally, with gains in the U.S. and emerging markets, while Europe and Japan experienced declines. Bonds rallied upon lower inflation and resulting lower yields. Commodities gained due to strength in crude oil.

Economic Notes

(0) The **FOMC meeting** for June ended at no change, with the dot plots reflecting more hawkishness in the past few months. Projections pointed to a single quarter-percent cut or so, as opposed to about three that had been expected after the March meeting. However, the total number of cuts expected through 2026 remains around eight in total (-2.25%). The long-term assumed median Fed funds rate also remains above the 2.50% norm, now lying between 2.50-3.00%. The latter is significant, in that it's an admission of sorts that the Fed could see a path of higher inflation for longer, even if not significant enough to keep rates at an elevated, tighter level as they are now. Granted, in the press conference, Powell referred to that data point as more of a theoretical concept that assumes balance and excludes all other input factors.

In the post-meeting press conference, Chair Powell noted that the economy has made “considerable progress” over the last two years in achieving Fed objectives, with supply and demand conditions in labor coming into better balance and similar to how they looked prior to the pandemic. Inflation has eased “notably,” although there is room to go, and the economic outlook remains “uncertain.” (In reaction to recent fears, it was mentioned that “no one on the committee” has further rate *hikes*, as opposed to *cuts*, as their base case.) They still wish to gain greater confidence in further inflation progress being made before cutting rates, noting the careful balance between doing too much, too little, too soon, and/or too late, which could “reverse the progress” they’ve made so far. At the same time, he reiterated that weakness that surfaces in the labor market could be another important catalyst for a policy move, although they’re also careful about not “waiting for things to break before they attempt to fix them” (in reference to labor metrics often being a lagging indicator). That said, in regard to the summary of economic projections, many committee participants’ views reflect a “variety of possible outcomes,” which is normally the case, with conditions remaining data-dependent and the dot plot should not be looked at “with high confidence.” This echoes some calls from private sector observers that the dot plot is less useful than it used to be and should be retired. All-in-all, there were few surprises here, but comments did reiterate the higher level of balance seen in today’s economy as opposed to just a few years ago.

(+) The **consumer price index** for May ticked up a few hundredths of a percent on a headline level and rose 0.2% for core, removing food and energy prices—each below the 0.1% and 0.3% increases expected by consensus. The headline CPI figure was the slowest pace in nearly three years, driven down by a -3.5% drop in energy commodity prices, while food prices ticked up 0.1%. Other segments seeing declines included airline fares (-4%), apparel, new cars, and car insurance. Shelter remained sticky, rising 0.4%, on par with the last few months of readings.

On a trailing 12-month basis, headline CPI decelerated by -0.1% to 3.3%, while core CPI decelerated by -0.2% to 3.4%. Within the headline stats, energy commodity prices (such as gasoline) only rose 2%, while energy services (which includes electricity) rose nearly 5% for the year. Other items diverged quite a bit more. On the high side were car insurance (up 20%), shelter (5%), and hospital services (7%); these were offset by falling prices for used cars (-9%), new cars (-1%), consumer electronics (-2%), and airline fares (-6%). A variety of these appear to be either commodity price-based or heavily driven by new year effects. The stickiness in services prices (with a high wage cost component) and shelter (tied to housing prices) have likely been the most

frustrating element for policymakers, with progress toward normalization seen elsewhere. Speaking of sticky, the Atlanta Fed's measure of sticky-price CPI (which includes housing) declined a tenth on a 12-month basis to 4.3%, while flexible-price CPI (with more commodities) rose only 0.4% for the year. Overall, CPI continues to see slow improvement.

(+) The **producer price index** for May fell by -0.2% on a headline basis, well below expectations of a 0.1% increase. Core PPI, removing food and energy, was unchanged, also below consensus that called for a 0.3% rise. A drop in energy prices of up to -5% explained quite a bit of this, a segment that is prone to volatility and potential reversal, explaining why goods prices declined -0.8%, while services prices were flat for the month. Year-over-year, headline and core PPI rose 2.2% and 2.3%, respectively. This included a 2.6% rise in services prices, but only 1.6% in goods prices. As with CPI, this was taken as welcome news, but the energy price driver removed some of the sheen, being that those prices can revert upward just as easily as they can fall.

(-) The preliminary **Univ. of Michigan index of consumer sentiment** for June showed a decline of -3.5 points to 65.6, well below the expected increase to 72.0. Assessments of current conditions declined the most (-7 points), while expectations for the future only fell a point. Inflation expectations for the coming year were unchanged at 3.3%, while those for the next 5-10 years ticked up a tenth to 3.1%. Sentiment has fallen again to lows seen around the end of last year, with continued inflation worries and slowing wage growth weighing on respondents, as noted by the Univ. of Michigan survey sponsor. This survey is also continuing to move from a phone-based approach to a web-based system, which, due to the anonymity and other tendencies we tend to see in social media, could skew the responses a bit more to the negative.

(-) **Initial jobless claims** for the Jun. 8 ending week rose by 13k to 242k, above the 225k median forecast. Continuing claims for the Jun. 1 week rose by 30k to 1.820 mil., well above the 1.795 mil. expected. Initial claims in CA rose by 6k to lead nationally. Overall, this was the highest claims level since last August, but due to the noise of the data, the pattern is more important.

Market Notes

Period ending 6/14/2024	1 Week %	YTD %
DJIA	-0.51	3.32
S&P 500	1.62	14.63
NASDAQ	3.27	18.25
Russell 2000	-0.95	-0.40
MSCI-EAFE	-2.63	4.89
MSCI-EM	0.50	6.38
Bloomberg U.S. Aggregate	1.31	0.09

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
6/7/2024	5.52	4.87	4.46	4.43	4.55
6/14/2024	5.51	4.67	4.22	4.20	4.34

U.S. stocks saw gains, led by improved inflation numbers mid-week, and subsequent drop in interest rates, as well as seemingly continued optimism over artificial intelligence (particularly as related to new Apple products). By sector, technology again led the way, up 6% percent with strength from several members, including Apple, Microsoft, Nvidia, and Adobe. The majority of other sectors ended in the red, led by -2% declines in financials and energy. One of the more volatile stocks was Tesla, which finally ended in the positive after Elon Musk's massive pay package was approved by shareholders. Real estate also saw gains of over a percent in response to falling yields.

Foreign stocks underperformed U.S. equities for the week, along with an especially negative week in Europe, dominated by a -7% decline for French stocks. The latter was politically-driven due to the success of far-right candidates in recent EU elections, and the announcement for French legislative elections later this month, with greater market uncertainty over the outcome. Additionally, the ECB put a damper on hopes for further rate cuts after their single quarter-point cut the prior week. Emerging markets bucked the trend, gaining slightly on net, with strength in India, South Africa, and Taiwan offsetting mixed results elsewhere. In reaction to the prior week's election news in several countries, stock market results were largely hinged on how 'normal' the new regimes would be relative to often more extreme expectations.

Bonds moved substantially higher last week, as yields fell by nearly a quarter-percent across the U.S. Treasury yield curve in response to the cooler CPI report. In keeping with duration effects and the parallel shift across the curve, long Treasuries fared best, up several percent, followed by investment-grade corporates. High yield and senior floating rate loans brought up the rear. Foreign bonds gained also, with lower yields offsetting the usually-negative effects of the stronger dollar. The Bank of Japan kept policy rates steady, but did signal plan to reduce bond-buying, which could ultimately drive yields higher.

In Europe, after some fallout from more success than expected for conservative parties, France has called elections in response. The uncertainty involved with French politics has again brought the watching of 10-year French yields relative to 10-year German yields—a classic indicator of the political and economic mood at the fringes. (French debt has tended to trade at least a slight spread to German debt, which has moved from around 0.45% to 0.65% after the elections and S&P downgrade caused by higher French debt levels.)

Commodities were solidly positive last week, led by gains in energy and precious metals, while industrial metals and agriculture lost a bit of ground. Crude oil rose by over 3% last week to \$78/barrel, due to a strong OPEC oil demand forecast and easing U.S. inflation. The latter seems odd at first glance considering that commodities can be both a cause and effect of inflation, but it's another link in the chain reaction of lower inflation, leading to faster expected Fed rate cut regime, leading to eased economic tightness, leading to more economic activity, and more demand for petroleum ultimately.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.