Summary

Economic data for the week included consumer price inflation coming in slower than expected, continuing a path of deceleration, while producer price inflation ticked up a bit from recent trend. Consumer sentiment continued to be negatively affected by higher price levels of the past several years.

Global equities gained ground along with the lower U.S. inflation report and dovish central bank commentary. Bonds also fared well, along with falling yields, especially in foreign debt markets as the dollar weakened. Commodities generally lost ground for the week.

Economic Notes

(+/0) The **Consumer Price Index** for June fell for the first time in four years, down -0.1% on a headline level, and rose 0.1% on a core basis, excluding food and energy. The price of energy commodities (like gasoline) fell nearly -4%, contributing to the bulk of the headline drop, while food prices ticked up 0.2%. Core CPI was pulled down by declines in the volatile categories of airfares (-5%), lodging (-2%), and used cars (-1.5%). Also contributing were shelter costs decelerating from a 0.4% increase the prior month to 0.2%, as well as medical care services inflation decelerating by a tenth. On the other hand, car insurance costs rose nearly a percent for the month, continuing their volatile path.

On a trailing 12-month basis, headline CPI decelerated by -0.3% to 3.0%, while core CPI slowed by just over a tenth to 3.3%. Energy prices gained only 1% for the prior year, which accounted for the spread between the two. Last month’s report continues to show inflation improvement, but it wasn’t as transformative by itself as the headline might have suggested, with some back-and-forth price instability in some areas (like car insurance). However, for a Federal Reserve looking for further proof that inflation is stabilizing lower, coupled with additional labor market slowing, this could still help the case for a September rate cut.

(0/-) The **Producer Price Index** in June rose 0.2% on a headline basis and 0.4% for core, ex-food and energy—each a bit higher than the median forecast. Prices for services rose 0.6%, which were partially offset by a -0.5% decline in prices for goods (led by a -3% fall in energy). On a trailing 12-month basis, headline PPI reaccelerated to 2.6%, as did core PPI to 3.0%. Goods prices rose 1.0% over the year, while services accounted for most of the change, up 3.5%. While driven to some degree by commodity prices, this undid some of the CPI report’s positivity.

(-) The preliminary **Univ. of Michigan index of consumer sentiment** for July fell by -2.2 points to 66.0, below the 68.5 level expected. Assessments of current conditions and future expectations declined at nearly similar rates, with the future slightly more pessimistic than the present. Inflation expectations for the coming one year fell a tenth to 2.9%, as did those for the next 5-10 years, to the same 2.9% level. Anecdotally, it appeared that about half of respondents “still object to the impact of high prices,” as well as noted uncertainty over the upcoming election and direction of the economy. As has been the case over the past year at least, lower rates of change for inflation have been overshadowed by higher price levels caused by substantially condensed inflation over the post-pandemic period. Interestingly, it’s been noted that consumers in the U.S. and other developed nations have been far more sensitive to recent inflation than emerging market consumers. This probably isn’t hard to diagnose, with inflation not something developed markets have had to deal with at any substance since the early 1980s, where a variety of emerging market nations have experienced bouts of inflation (and other elements of economic instability) routinely over the years.

(+) **Initial jobless claims** for the Jul. 6 ending week fell by -17k to 222k, well below the 239k median forecast. Continuing claims for the Jun. 29 week came in at 1.852 mil., down -4k from the prior week’s revised figure, and below the 1.855 mil. expected. Initial claims rose 7k in MI and fell by -3k each in CA and NY, with no other states showing significant results.

Market Notes

Period ending 7/12/2024	**1 Week %**	**YTD %**
DJIA	1.61	7.22
S&P 500	0.89	18.61
NASDAQ	0.25	23.04
Russell 2000	6.01	6.76
MSCI-EAFE	2.29	10.08
MSCI-EM	1.82	11.55
Bloomberg U.S. Aggregate	0.82	0.82

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
7/5/2024	5.46	4.60	4.22	4.28	4.47
7/12/2024	5.43	4.45	4.10	4.18	4.39

U.S. stocks saw gains last week, with small caps up sharply relative to large caps, reversing weakness from much of this year. By sector, ‘value’ outperformed ‘growth,’ with utilities, materials, and health care seeing the strongest results of around 3% or better, while communications fell by over -3% (led downward by Meta and Netflix) and minimal gains in technology. Real estate gained over 4% along with the fall in yields.

Fed Chair Powell’s semiannual testimony to Congress, per usual, was designed as a recap of current monetary policy, so naturally featured a discussion of inflation, but focused increasingly on a slowing job market, which caused financial markets to respond positively mid-week. He noted that the two sides of the Fed’s dual mandate were now “much more in balance,” although they will still need to see additional cooler inflation readings to have the “greater confidence” needed to begin policy easing. This was still taken by markets as a sign inflation has begun to fade as a primary concern, reinforced by the slower CPI numbers on Thursday, although the market response was mixed at the time, coinciding with perhaps some skepticism about the underlying core inflation/shelter trend and potential skittishness over the start of earnings season.

Speaking of which, earnings reports for the 2nd quarter began Friday, with several mega-cap banks starting things off, with JPMorgan and Wells Fargo showing somewhat mixed results. Per FactSet, earnings growth expectations for Q2 are hovering around 9% on a year-over-year basis for the S&P 500—exceeding the 6% of Q1 and potentially the best quarter in several years. Expected leadership by sector continues to include communications, technology, and health care (with earnings growth expected to be in the 16-18% range), with materials expected to lag with an earnings decline of -12%, and industrials also expected to experience a decline. Index revenue growth is expected to be just under 5%, with still-robust profit margins expected to be the catalyst for the stronger earnings results. Interestingly, internationally-sourced revenue has picked up as a percentage of the total as of late.

Foreign stocks outperformed U.S., with Japan and emerging markets slightly outperforming Europe, all helped by a weaker U.S. dollar and further deceleration of U.S. inflation. Stronger economic growth in the U.K. may have also helped sentiment a bit, along with fading fallout from recent elections there and in France. In Japan, it appeared authorities have continued to intervene to support the weak yen. In emerging markets, Chinese stocks gained on the heels of stronger export data, while Mexican stocks also rebounded after recent post-election weakness, also helped by a weaker dollar and hopes for Fed cuts. The Chinese Third Plenum, held every five years, is coming up this week, with an expected focus on key economic priorities and potential reforms.

Bonds fared positively, as yields fell by 10-15 basis points across the U.S. Treasury yield curve, along with Thursday’s improvement in CPI inflation. This has presumably raised the solidified the odds of a Federal Reserve rate cut in September. Bond groups performed similarly, with senior floating rate loans faring slightly less positively than others, as would be expected in a falling rate week. Foreign bonds in both developed and emerging markets benefitted positively from the U.S. dollar falling by nearly a percent last week.

Commodities lost ground last week, with gains in precious metals offset by declines in energy, industrial metals, and agriculture. Crude oil prices moved down a few percent to just over $82/barrel.

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.

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