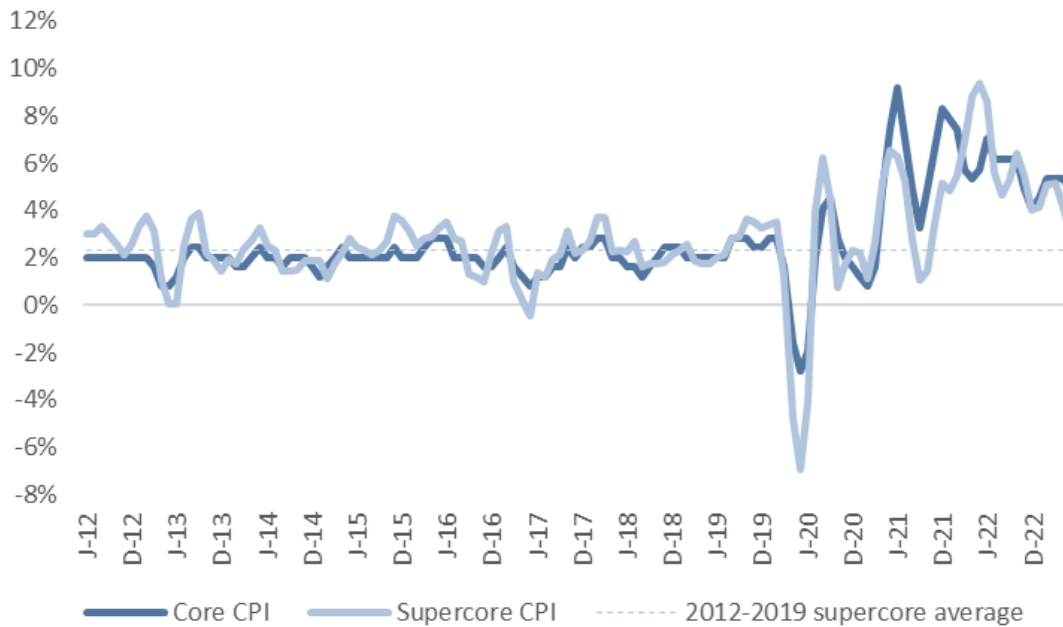


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MARKET COMMENTARY

Fig. 1: CPI, rolling 3-month annualized



Source: Bloomberg, Mill Creek.

Last week’s Consumer Price Index (CPI) inflation report had something for nearly everyone. Most importantly, it was sufficient to allow a “hawkish pause” by the Fed. Some observers believe pausing while inflation remains too high and labor markets remain tight is a misstep, but it’s clear the Fed has a bit of hiking fatigue. A pause allows them to either shift the pace of hikes to every other meeting or stop hikes indefinitely if inflation continues to subside.

Dovish market commentators focused on core CPI ex-shelter, which has nearly fallen back to pre-pandemic levels on an annualized 3-month basis. Core CPI ex-shelter strips out food, energy, and shelter prices from the broad CPI measure because food and energy tend to be volatile and changes in shelter prices generally lag what consumers are experiencing on the ground.

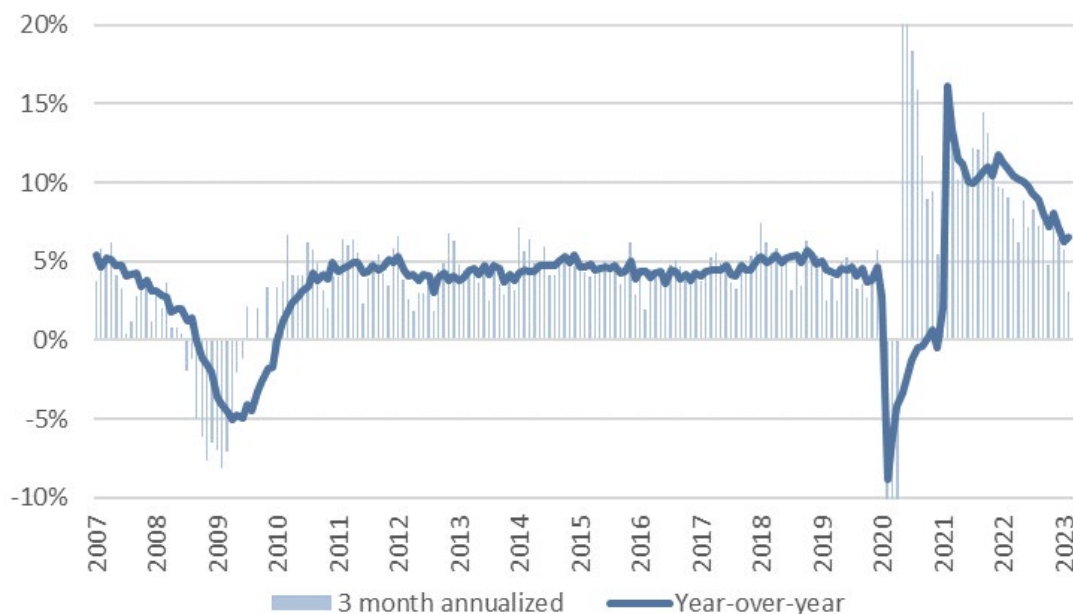
Hawks are more likely to focus on traditional core CPI (CPI ex-food and energy), which remains elevated at around 5%. They feel that stripping out more and more components of inflation can be misleading and view traditional core CPI as a better indicator. We’re sympathetic to this view; inflation is *everywhere and always a monetary phenomenon* and looking at the micro components of CPI can result in missing the forest for the trees.

However, if we were forced to take a side, we’d have voted for the pause. From an inflation standpoint, we prefer to focus on aggregate income growth, which remains elevated year-over-year but fell back to its pre-

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COVID level on a 3-month basis in April and May. It's too early for the Fed to declare *mission* accomplished, but slowing down makes a lot of sense at this point in the cycle.

Fig. 2: US Index of Aggregate Weekly Private Payrolls



Source: Bloomberg, Mill Creek.

QUICK LINKS

- [Small-cap Stocks Surge as Investors Begin Buying Improved Outlook](#)
- [June Update: A Pause on the Horizon](#)
- [Concentration Conundrum](#)
- [Relative Strength of the Tech Sector May Wane as the Year Continues](#)

This week's contributor: Michael Crook, CAIA

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