Summary

The stock market finished mixed last week following encouraging results from the CPI and PPI reports. The Dow Jones Industrial Average fell 0.5%, while the S&P 500 advanced 1.6% and the NASDAQ rose 3.2%.

Last week was heavy on inflation reports. The May CPI was unchanged on a month-over-month basis after a 0.3% increase in April. Excluding food and energy prices, the core CPI increased 0.2%—a deceleration from the April 0.3% increase. Still, the Fed will likely watch and wait a little longer before cutting back on interest rates. At a 3.3% annual growth rate, core CPI is still above the Fed's 2% target–although this is an improvement from the 3.4% reading in April. The PPI reading (a leading indicator of future inflation) decreased 0.2% in May, following an increase of 0.5% in April, coming in below the consensus expectation of a 0.1% increase. While May's readings were a step in the right direction, the persistent stickiness of inflation caused the participants in Wednesday's FOMC meeting to leave the Fed target funds rate unchanged, and consensus expectations from Federal Reserve policymakers were lowered from 2 rate cuts to 1 rate cut later this year.

The monthly Treasury statement revealed a deficit of $347 billion for the month of May, with outlays reaching a record high of $671 billion, up 22% from a year ago. However, this was partially due to the payment of $93 billion in June federal benefit payments occurring in May, since June 1 fell on a Saturday.

Import-export prices dropped in May. May import prices fell 0.4% after growing 0.9% in April. Import prices excluding oil fell 0.3%. Export prices dropped 0.6% in May compared to a 0.5% increase in April. Excluding agriculture products, export prices were down 0.8%. Initial jobless claims for the week ending June 8 increased by 13,000 to 242,000. Continuing jobless claims for the week ending June 1 increased by 30,000 to 1.82 million.

Mortgage applications soared 15.6% on the week ending June 8 compared to the week before. However, consumers are not feeling too optimistic about the economy. June consumer sentiment dropped to 65.6 from 69.1 in May, against analysts' expectations of an improvement.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
MBA Mortgage Applications Index (06/08 – We 7:00)	+15.6%	NA	Largest weekly increase since Jan. 2023
CPI (May – We 8:30)	+0.0%	+0.1%	Shelter index up 5.4% year-over-year
Core CPI (May – We 8:30)	+0.2%	+0.3%	
Treasury Budget (May – Tu 2:00)	-$347.1 Bil.	NA	
Initial Claims (06/08 – Th 8:30)	242K	224K	
Continuing Claims (06/01 – Th 8:30)	1,820K	NA	
PPI (May – Th 8:30)	-0.2%	+0.1%	Up 2.2% year-over-year
Core PPI (May – Th 8:30)	+0.0%	+0.3%	Up 2.3% year-over-year
Import Prices (May – Fr 8:30)	-0.4%	NA	
Export Prices (May – Fr 8:30)	-0.6%	NA	
U. Michigan Consumer Sentiment – Prelim (Jun – Fr 10:00)	65.6	73.0	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Retail Sales (May – Tu 8:30)	+0.3%	+0.0%	
Retail Sales ex-auto (May – Tu 8:30)	+0.2%	+0.2%	
Industrial Production (May – Tu 9:15)	+0.4%	+0.0%	
Capacity Utilization (May – Tu 9:15)	78.5%	78.4%	
Business Inventories (Apr – Tu 10:00)	+0.3%	-0.1%	
Initial Claims (06/15 – Th 8:30)	237K	242K	
Continuing Claims (06/08 – Th 8:30)	NA	1,820K	Not available
Housing Starts (May – Th 8:30)	1,375 TUAR	1,360 TUAR	
Building Permits (May – Th 8:30)	1,445 TUAR	1,440 TUAR	
Existing Home Sales (May – Fr 10:00)	4.12 MUAR	4.14 MUAR	
Leading Indicators (May – Fr 10:00)	-0.3%	-0.6%	

**Sources: www.briefing.com and www.federalreserve.gov*

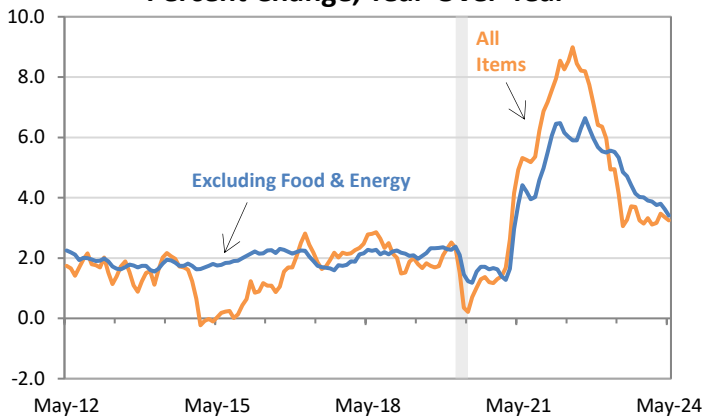
Economic Review

On a year-over-year basis, total CPI was up 3.3% in May, down from 3.4% in April. Core CPI, which excludes food and energy prices, was up 3.4%, down from 3.6% in April. All items less food, energy, and shelter index was up 1.9% year-over-year, in line with the Fed's inflation target. However, the shelter index was up 5.4% year-over-year, contributing to more than two-thirds of the total 12-month increase in core CPI. While housing remains a primary cause of sustained higher inflation readings, mortgage applications in the US (tracked by the MBA Mortgage Applications Index) jumped by 15.6% in the first week of June – the largest weekly increase since January 2023 – as consumers don't expect mortgage rates to drop anytime soon. While May's reading was a step in the right direction, the persistent stickiness of inflation caused the participants in Wednesday's FOMC meeting to leave the Fed target fund rate unchanged, and consensus expectations from Federal Reserve policymakers were lowered from 2 rate cuts to 1 rate cut later this year.

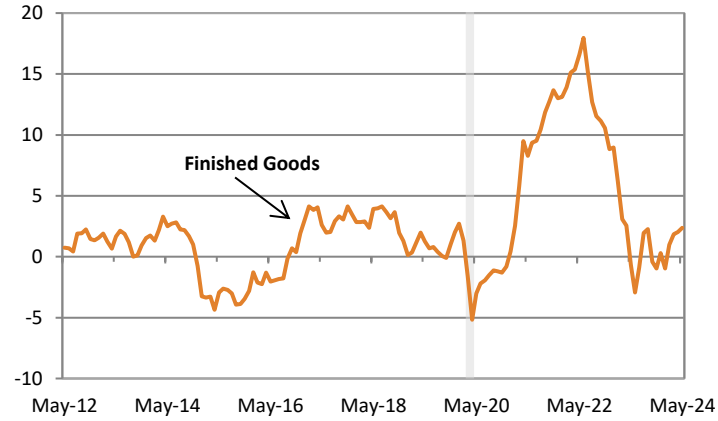
The PRODUCER PRICE INDEX (PPI) for final demand decreased 0.2% in May following an increase of 0.5% in April, coming in below the consensus expectation of a 0.1% increase. The core PPI for final demand remained unchanged month-over-month (after a 0.5% increase in April), also lower than the consensus expectation of a 0.3% increase. From a year earlier, the index for final demand checked in at +2.2% compared to +2.3% in April. The core measure was up 2.3% year over year, down from 2.5% in April. The index for final demand goods fell 0.8%, the steepest decline since October 2023. A month-over-month reading that was less than expected may be a precursor to a lower reading in the next PCE Price Index release, the Fed's preferred inflation gauge.

INITIAL UNEMPLOYMENT CLAIMS increased by 13,000 to 242,000 for the week ending June 8 – the highest level since August 2023 – bringing the four-week moving average of initial claims to 227,000. Continued Benefits for the week ending June 1 increased by 30,000 to 1,820,000, bringing continuing jobless claims to their highest level since November 2023. The four-week moving average for continuing claims increased by 8,500 to 1,796,750. The increase in jobless claims can be seen as an indication of easing labor market conditions, aligning with the Fed's plan for potential rate cuts in the future.

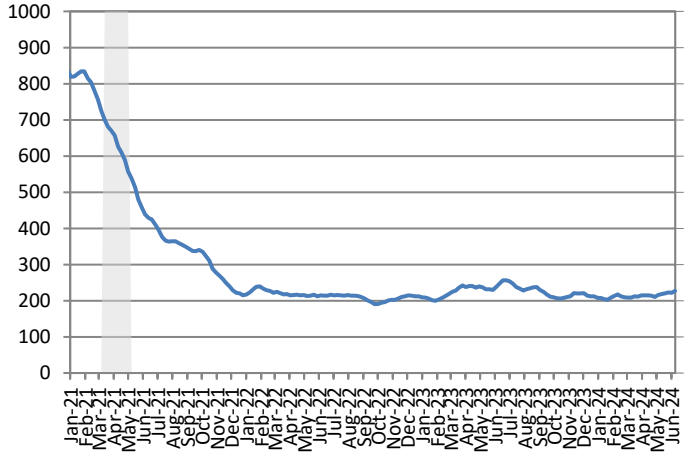
Consumer Price Index
Percent Change, Year-Over-Year



Producer Price Index
Percent Change, Year-Over-Year



Initial Unemployment Claims
Thousands, 4-Week Moving Average



Fed Speeches

On June 11 and 12, the Federal Open Market Committee met to discuss monetary actions in the United States. In light of the continued sustained expansion of economic activity and lack of further progress toward the committee's 2% objective, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2%:

> "T*he Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent*."

The committee also stated it will continue to reduce the Fed's holding of Treasury securities:

> "*In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to returning inflation to its 2 percent objective."*

The Fed has been aggressively selling its holdings of long-term government bonds to decrease liquidity and slow down an overheating economy since June 2022.

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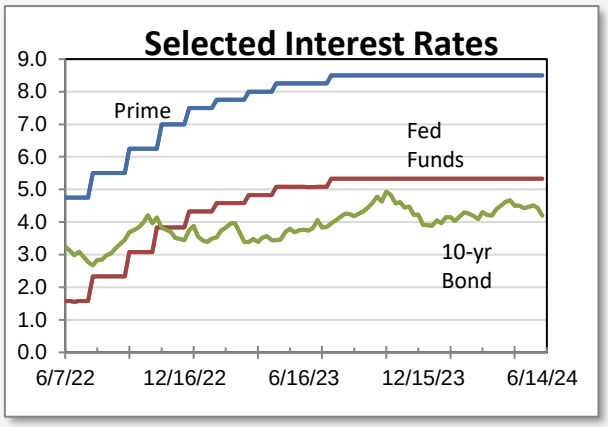
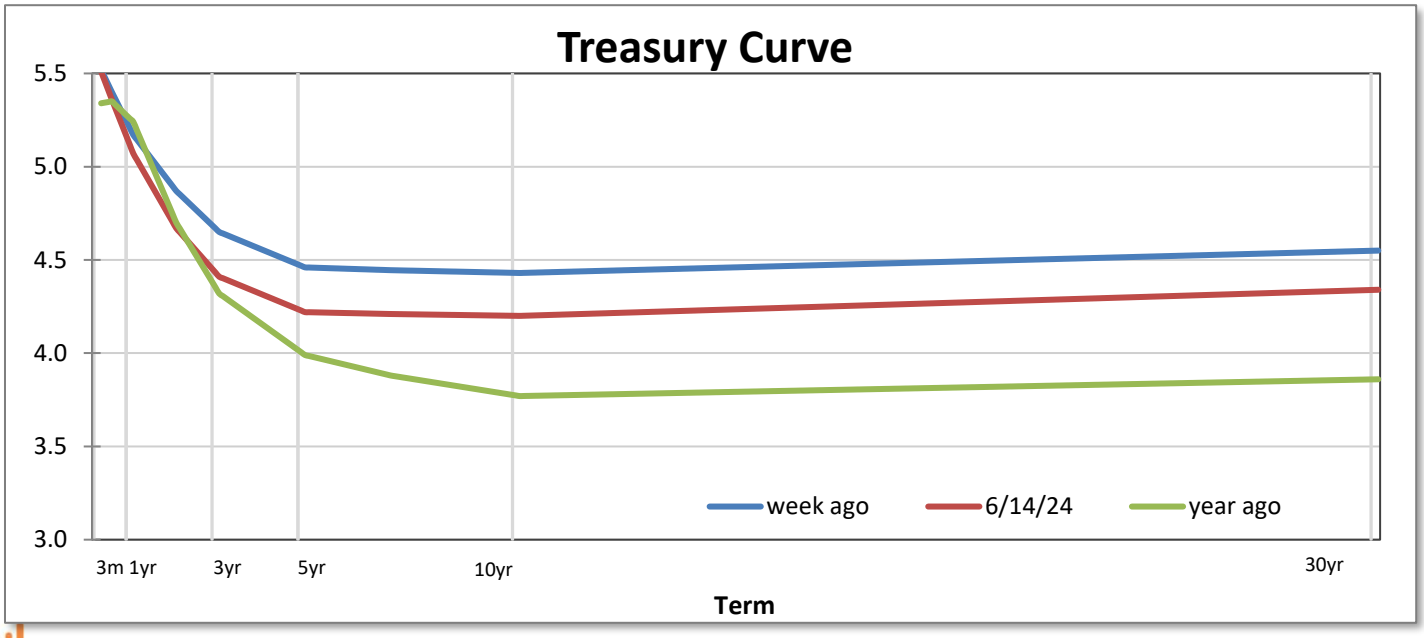
Financial Markets

The stock market finished mixed last week, with the S&P 500 advancing 1.6% and the NASDAQ climbing 3.2%. The Dow Jones Industrial Average, instead, fell 0.5%. The treasury bill yields and municipal bonds were down across the board with the 10-year yield down 23 basis points (bps) and the 30-year treasury bill yield down 21 bps. The 10-year municipal bond fell 12 bps. The average 30-year conventional mortgage rate retreated 4 bps and finished the week at 6.95%. The price of gold rose 1.8%. Crude oil prices saw a sharp increase (4.0%), ending the week at $78.35/barrel. The U.S. dollar traded higher against the Japanese Yen (0.3%) and advanced against the Euro (0.4%).





Interest Rate Forecast*

During the Fed's June policy meeting, the Federal Open Market Committee (FOMC) kept the federal funds rate target at 5.25% to 5.50%. In the statement released following the meeting, the FOMC said, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to returning inflation to its 2 percent objective."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
2nd Qtr '24	8.50	5.33	5.33	5.41	4.85	4.54	4.64	7.05
3rd Qtr	8.50	5.38	5.36	5.39	4.85	4.50	4.66	7.00
4th Qtr	8.42	5.29	5.27	5.30	4.82	4.47	4.61	6.86
1st Qtr '25	8.17	5.04	5.02	5.12	4.74	4.40	4.51	6.74
2nd Qtr	7.92	5.33	4.77	4.87	4.65	4.42	4.47	6.60
May 2024								

FINANCIAL MARKET SUMMARY

	As of 6/14/2024	As of 6/7/2024	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	0	0
Secured Overnight Financing Rate (SOFR)	5.31	5.33	(2)	0	0
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.51	5.52	(1)	5	3
6 Months	5.36	5.40	(4)	(5)	(2)
1 Year	5.07	5.17	(10)	(7)	2
2 Years	4.67	4.87	(20)	(16)	(5)
5 Years	4.22	4.46	(24)	(22)	(11)
10 Years	4.20	4.43	(23)	(22)	(11)
30 Years	4.34	4.55	(21)	(22)	(9)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.11	3.23	(12)	(2)	30
5-Year Muni	2.89	3.01	(12)	18	45
10-Year Muni	2.82	2.94	(12)	11	37
30-Year Muni	3.75	3.86	(11)	(10)	10
30-Year Conventional Mortgage	6.95	6.99	(4)	(7)	21
MARKET INDICATORS (Changes in %)					
DJIA	38,589.16	38,798.99	(0.5)	(3.5)	(0.3)
S&P 500	5,431.60	5,346.99	1.6	2.4	6.1
NASDAQ	17,688.88	17,133.13	3.2	6.0	10.7
CRB Futures	344.28	339.05	1.5	0.5	4.7
Oil (WTI Crude)	78.35	75.32	4.0	0.1	0.7
Gold	2,331.82	2,291.27	1.8	(3.5)	8.1
Yen / Dollar	157.41	156.76	0.4	1.1	7.0
Dollar / Euro	1.07	1.08	(0.9)	(1.5)	(1.7)