Weekly Commentary

AUGUST 17, 2026

Mark Weiss, CFA

Senior Vice President

Senior Portfolio Manager

Federated Investment Counseling

Inflation cools, but the Fed isn't celebrating

A few weeks ago, the US Personal Consumption Expenditures (PCE) Index report showed that inflation had cooled from an annualized 4.1% rate in May to 3.7% in June. This past week, two other measures corroborated that narrative.

The Consumer Price Index decreased its annualized rate from 3.5% in June to 3.4% in July, and the Producer Price Index plunged from 5.5% year-over-year to 4.7% (though it did not change month-over-month).

Out of context, it would seem inflation is trending down toward the Federal Reserve's elusive 2% target. But with the stalemate in the Strait of Hormuz squeezing the oil trade, tariffs and other price pressures, it is possible progress could stall or even reverse course.

Yet, the dip may be enough for Fed Chair Kevin Warsh to keep his colleagues from voting to raise the fed funds target range when they meet in September. He has been vocal about achieving price stability, which would argue for a hike. But he has also indicated a willingness to wait for results from the newly formed Fed task forces researching better ways to assess economic conditions and implement monetary policy. Chair Warsh will get the July PCE report before he gives the keynote address at the Kansas City Fed's annual central bank symposium in Jackson Hole, Wyo., in late August. He might want to wait until then to write it.

Federated Investment Counseling

G40461-19 (8/26)