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Weekly Commentary

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How will the Fed interpret high inflation?

Get ready for glass half full/half empty references in the next few months. Data released last week could be interpreted as negative or at least a little positive. The Consumer Price Index (CPI) was rough, soaring to another 40-year high at 8.6% in May. Yet, core CPI decreased for second straight month at 6%. Considering the oversized contribution of sky-high energy and food costs that can shift comparatively quicker than prices of goods or houses, this is a good trend. If it keeps up, it may be telling us that the Federal Reserve tightening already is having an impact.

Weekly jobless claims laid out another example. New claims increased slightly, from 202,000 to 229,000 in the week ended June 4. But this could be seen as another ambiguous report, especially considering the strong May employment numbers. Cooling off the hot labor market is a goal of Fed action.

The University of Michigan Consumer Sentiment index dive bombed in May to a record low, down 14% to 50.2, with inflation a prime concern. But as painful as this is for Americans, it potentially is a good sign. If consumers significantly pull back on spending—which hasn't been the case yet—low demand likely will restrain inflation. The Fed rate hikes and quantitative tightening indeed might be having an effect. Chair Powell's comments at the conclusion of the policy meeting this week will be examined closely for the Fed's view of the proverbial cup.

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Views are as of June 13, 2022 and are subject to change based on market conditions and other factors.