

JUNE 29, 2026

Paige Wilhelm

Senior Vice President

Senior Portfolio Manager

Federated Investment Counseling

The psychology of the lead digit

There's a well-known reason why grocery stores and retailers list prices at some version of 99 cents, e.g., \$3.99. The change in the first digit has a psychological impact on consumers far beyond the penny saved. The phenomenon extends to finance as a tenet of behavioral economics, though it existed long before that particular discipline. Investors, news sources and social media sources view macroeconomic data with a similar bias.

The latest example is the May US Personal Consumption Expenditures (PCE) index. Last week, the Bureau of Economic Analysis reported that the annualized growth rate in May jumped to 4.1% from 3.8%. Despite an increase of just three tenths of a percentage point, the shift from 3% to 4% sparked a media frenzy — due to the Iran conflict, inflation is getting out of control and might prompt the Federal Reserve to hike rates soon.

But policymakers prefer Core PCE because it does not include volatile elements such as the price of oil and food. They view it as a better gauge of the inflation's long-term path. That measure only grew an annualized tenth of a point to a rate of 3.4% from 3.3% in April. The month-over-month change had the same magnitude for both: PCE at 0.7% from 0.4% in April; Core PCE remained at 0.3% after April's figure was revised upward from 0.2%.

Of course, like any data point, the difference between the two calculations could lead to different outcomes. On the one hand, the markets might be overreacting to inflation's rise because much of it could be transient and will decline once the US and Iran hammer out a final deal. On the other hand, the elevated costs of energy might seep into the larger economy as everything from manufacturing to transportation gets more expensive. Plus, the Iran conflict doesn't look to be wrapping up as planned.

All of this means, the path of monetary policy is uncertain, and not just because new Fed Chair Kevin Warsh is deliberately curtailing forward guidance. The futures markets are pricing in between one and two rate hikes by year-end. We think that is an overreaction, and that no change in the fed funds target range is likely. It's all in the interpretation of numbers, headlines included.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Federated Investment Counseling

G40461-19 (6/26)