

U.S. and European Markets React as the May CPI Falls Ahead of Expectations; the Fed Holds Interest Rates Steady and Are Rate Cuts on the Horizon?

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The U.S. and European stock markets closed the session mostly up except for the Dow Jones, buoyed by a May Consumer Price Index (CPI) that fell ahead of expectations to 3.27%, lower than the Inflation Nowcasting of 3.36%.

One of the most significant shifts is happening in the bond markets, with the 10-year Treasury yield dropping to close at 4.31% and the 2-year Treasury yield decreasing to 4.75%. On the international scene, Asian markets mostly closed lower overnight, while European markets rose, influenced by the lower-than-anticipated U.S. inflation data. As expected, the Federal Reserve met today and kept policy rates at 5.25% - 5.50%.

The May CPI report indicates a continuing downward trend in inflation. The headline CPI fell from 0.16% to 0.01% on a month-to-month basis, while the core CPI fell from 0.29% to 0.16%, both figures falling below expectations. The core CPI increased 3.41% year-over-year, marking the lowest increase since April 2021. The inflation data suggests that the overall inflation trend remains downward despite a series of inflation readings exceeding expectations earlier this year. This development could pave the way for the Federal Reserve to reduce rates later this year, provided the downward trend continues.

As the market shifted to the Federal Reserve, the decision to keep rates unchanged at the current range of 5.25%-5.50% signaled that only a rate cut may occur during 2024. The Fed has a mild hope that inflation is on route to return to its target of 2%, potentially paving the way for some policy relaxation later this year.

These eight facts can summarize the FOMC's view:

1. Chair Powell states that the Fed is not confident about lowering rates.
2. The economy has been expanding steadily, with solid job gains and a low unemployment rate.
3. Inflation has eased but remains high, with some progress towards the Committee's 2% inflation target.
4. The Committee aims for maximum employment and 2% inflation over the long term. The risks to these goals are seen as more balanced than before.
5. The federal funds rate target will remain at 5.25-5.5%, with reductions expected once there is greater confidence in the sustainable movement towards 2% inflation.
6. The Committee will continue reducing its Treasury securities agency debt and mortgage-backed securities holdings.
7. The Committee is committed to returning inflation to its 2% target.

8. The Committee will adjust monetary policy as needed to address any risks to its goals based on a wide range of information, including labor market conditions, inflation pressures and expectations, and financial and international developments.

The Committee hinted at a more assertive reduction trajectory in 2025, with an anticipated four cuts totaling a whole percentage point, an increase from the previous three.

Looking ahead to 2025, the Committee anticipates five cuts totaling 1.25 percentage points, a decrease from the six cuts forecasted in March.

Assuming these projections are accurate, the federal funds rate benchmark would stand at 5.1% by the end of the following year, a 0.2 percentage point increase from the March forecast.

Key Economic Data:

- **U.S. Consumer Price Index YoY:** fell to 3.27%, compared to 3.36% last month.
- **U.S. Core Consumer Price Index YoY:** fell to 3.41%, compared to 3.62% last month.
- **U.S. Inflation Rate:** fell to 3.27%, compared to 3.36% last month.
- **Target Federal Funds Rate Upper Limit:** is at 5.50%, compared to 5.50% yesterday.
- **Germany Consumer Price Index YoY:** rose to 2.40%, compared to 2.20% last month.
- **U.K. Industrial Production Index YoY:** fell -0.40%, compared to 0.50% last month.

Eurozone Summary:

- **Stoxx 600:** closed at 522.89, up 5.60 points or 1.08%.
- **FTSE 100:** closed at 8,215.48, up 67.67 points or 0.83%.
- **Dax Index:** closed at 18,630.86, up 260.92 points or 1.42%.
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Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 37,712.21, down 35.21 points or 0.09%.
- **S&P 500:** closed at 5,421.01, up 45.49 points or 0.85%.
- **Nasdaq Composite:** closed at 17,608.44, up 264.89 points or 1.53%.
- **Birling Capital Puerto Rico Stock Index** closed at 3,240.70, down 13.49 points or 0.41%.
- **Birling Capital U.S. Bank Stock Index** closed at 5,009.32, down 109.51 points or 2.14%.
- **U.S. Treasury 10-year note** closed at 4.31%.
- **U.S. Treasury 2-year note** closed at 4.75%.

Inflation Nowcasting Vs Actual CPI & Core CPI

Inflation Nowcast	CPI Forecast	CPI Actual	Core CPI Forecast	Core CPI Actual
May	3.36%	3.27%	3.55%	3.41%

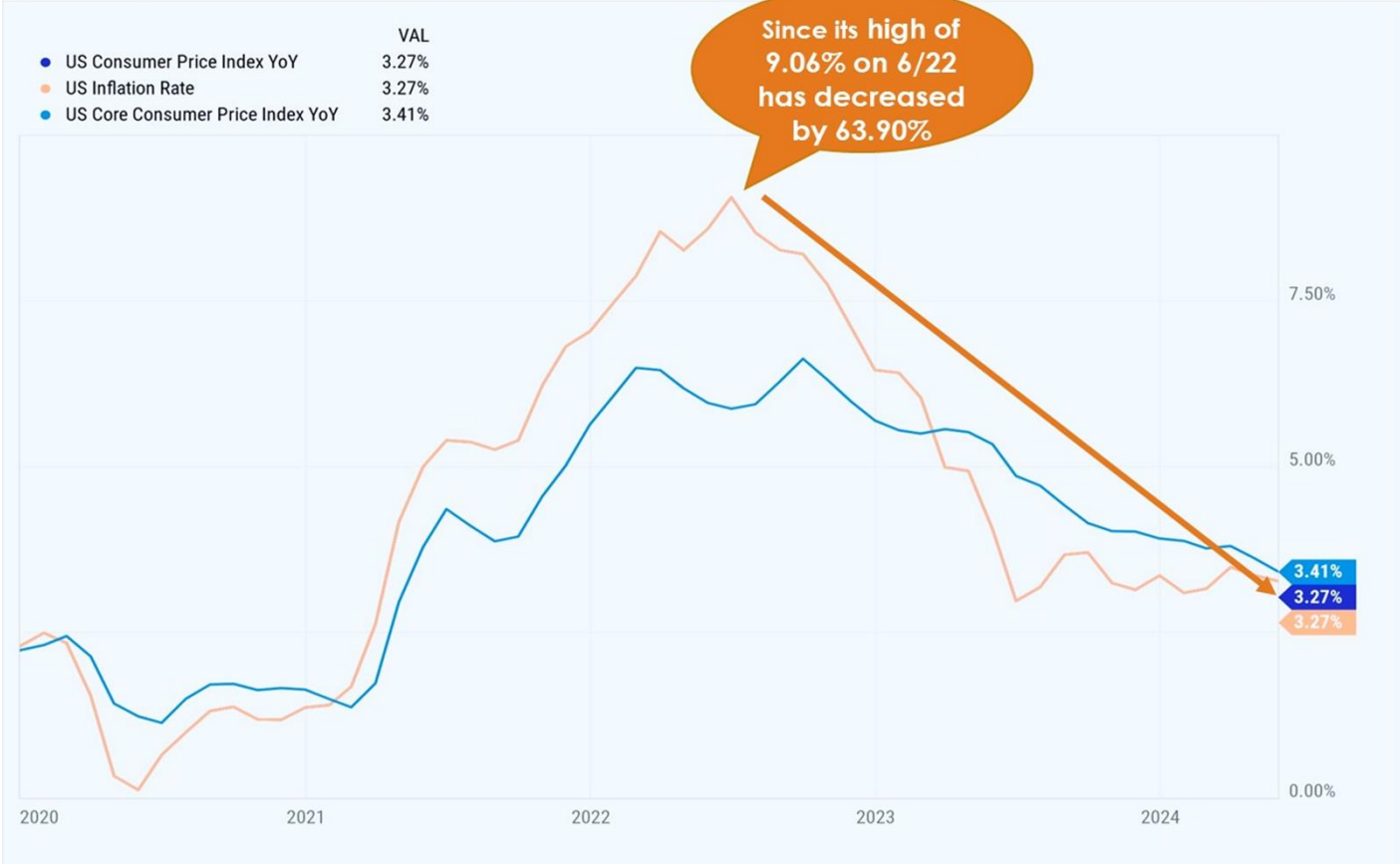


Federal Reserve Bank Interest Rate Actions

FOMC Meeting	Rate Change	Fed Fuds Rate	Prime Rate
6/12/2024	Unchanged	5.25%-5.50%	8.50%
5/1/2024	Unchanged	5.25%-5.50%	8.50%
3/20/2024	Unchanged	5.25%-5.50%	8.50%
1/31/2024	Unchanged	5.25%-5.50%	8.50%
12/13/2023	Unchanged	5.25%-5.50%	8.50%
11/1/2023	Unchanged	5.25%-5.50%	8.50%
9/20/2023	Unchanged	5.25%-5.50%	8.50%
7/26/2023	0.25%	5.25%-5.50%	8.50%
5/3/2023	0.25%	5.00%-5.25%	8.25%
3/22/2023	0.25%	4.75%-5.00%	8.00%
2/1/2023	0.25%	4.50%-4.75%	7.75%
12/14/2022	0.50%	4.25%-4.50%	7.50%
11/2/2022	0.75%	3.75%-4.00%	7.00%
9/21/2022	0.75%	3.00%-3.25%	6.25%
7/27/2022	0.75%	2.25%-2.50%	5.50%
6/16/2022	0.75%	1.50%-1.75%	4.75%
5/5/2022	0.50%	0.75%-1.00%	4.00%
3/17/2022	0.25%	0.25%-0.50%	3.50%

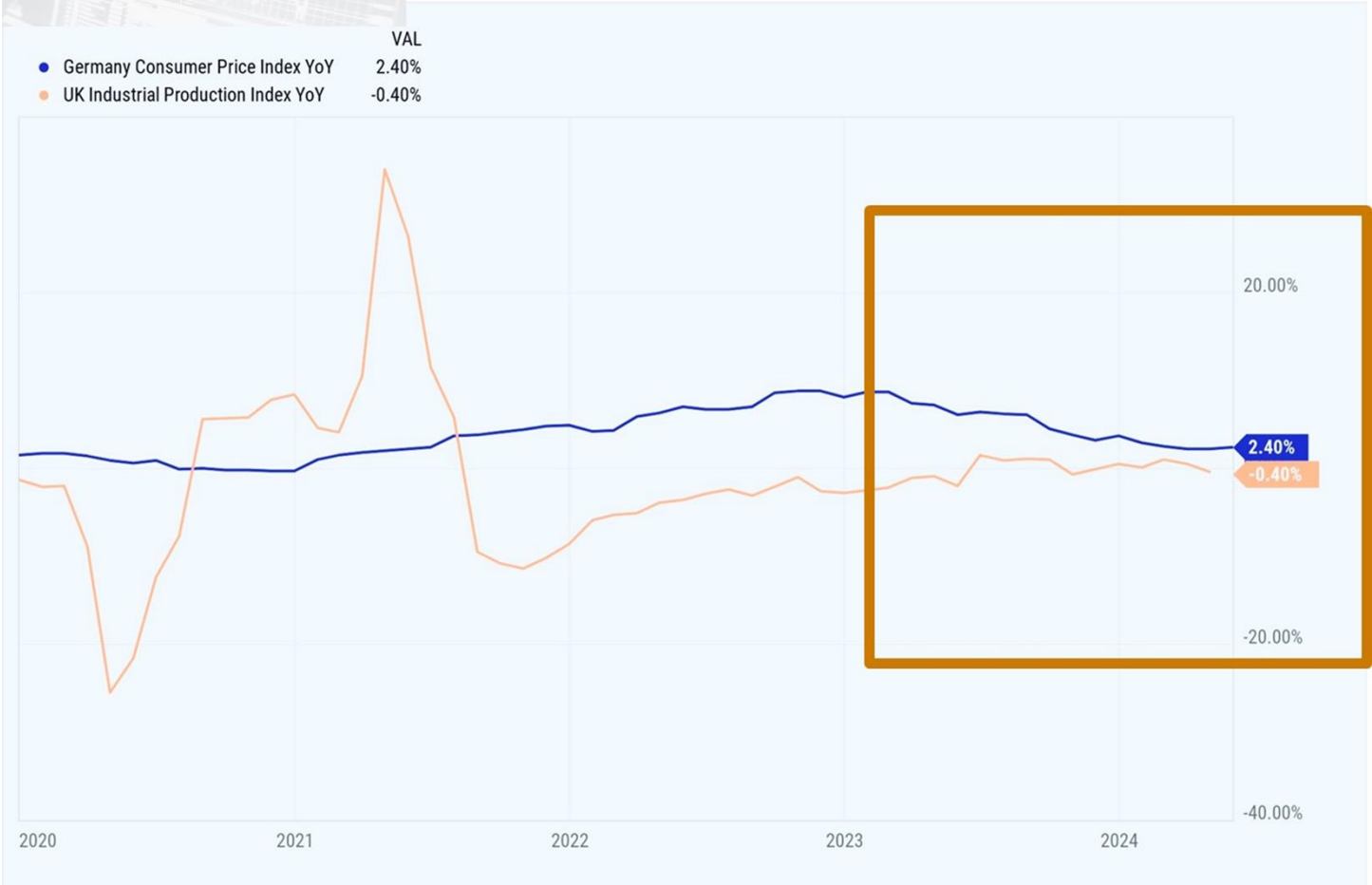


US CPI, US Core CPI, and US Inflation Rate





Germany CPI & UK Industrial Production Index





Federal Reserve Bank Updated Projections

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2024

Percent

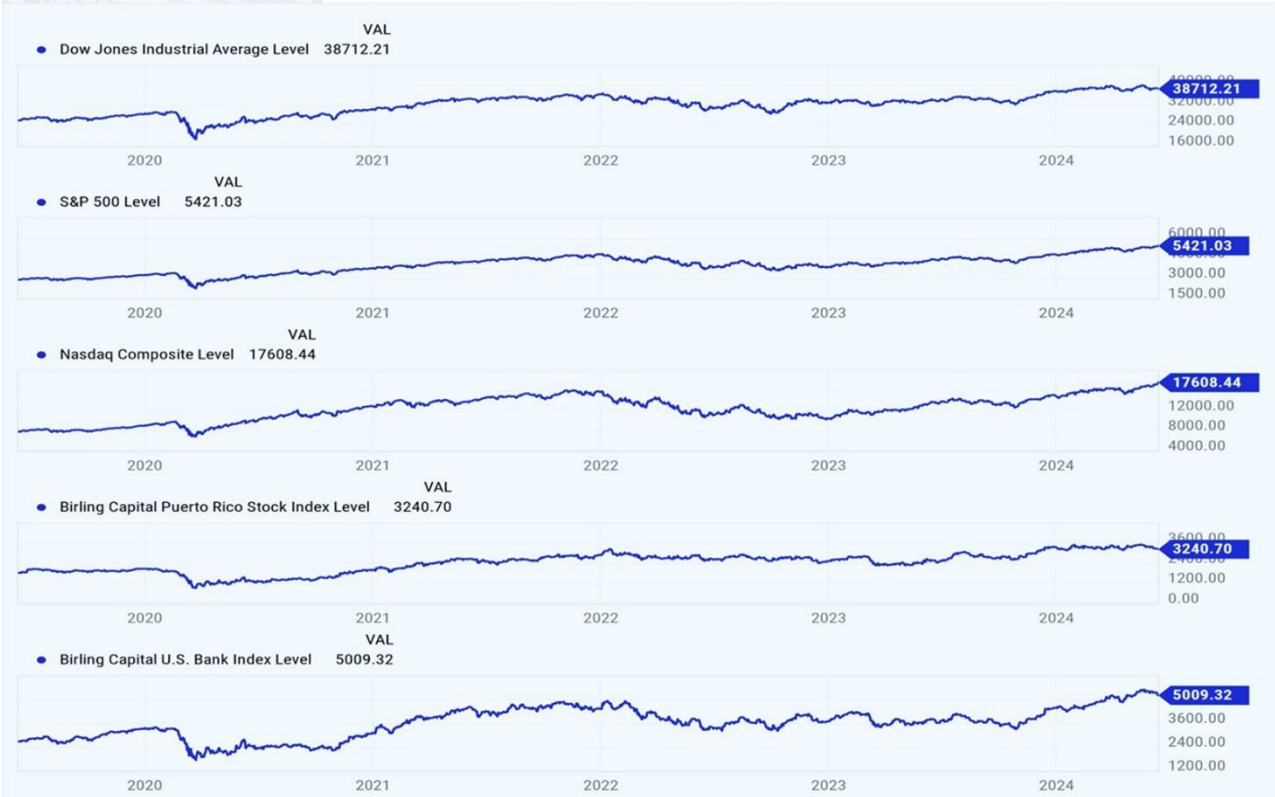
Variable	Median ¹				Central Tendency ²				Range ³			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8	1.9-2.3	1.8-2.2	1.8-2.1	1.7-2.0	1.4-2.7	1.5-2.5	1.7-2.5	1.6-2.5
March projection	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
Unemployment rate	4.0	4.2	4.1	4.2	4.0-4.1	3.9-4.2	3.9-4.3	3.9-4.3	3.8-4.4	3.8-4.3	3.8-4.3	3.5-4.5
March projection	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
PCE inflation	2.6	2.3	2.0	2.0	2.5-2.9	2.2-2.4	2.0-2.1	2.0	2.5-3.0	2.2-2.5	2.0-2.3	2.0
March projection	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
Core PCE inflation ⁴	2.8	2.3	2.0		2.8-3.0	2.3-2.4	2.0-2.1		2.7-3.2	2.2-2.6	2.0-2.3	
March projection	2.6	2.2	2.0		2.5-2.8	2.1-2.3	2.0-2.1		2.4-3.0	2.0-2.6	2.0-2.3	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.1	3.1	2.8	4.9-5.4	3.9-4.4	2.9-3.6	2.5-3.5	4.9-5.4	2.9-5.4	2.4-4.9	2.4-3.8
March projection	4.6	3.9	3.1	2.6	4.6-5.1	3.4-4.1	2.6-3.4	2.5-3.1	4.4-5.4	2.6-5.4	2.4-4.9	2.4-3.8



Wall Street Recap

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