



At Passage Wealth, it is important that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. If you have any questions or would like to continue the conversation, please reach out.

The inflation report for April indicated the Consumer Price Index (CPI) may not be falling quickly enough to support the current market expectations of significant interest rate cuts by the end of the year. Bloomberg Economics suggests that the Federal Reserve is now prioritizing credit indicators and is likely to be less responsive to individual surprises in inflation reports due to uncertainty surrounding future credit conditions and recent risks associated with the debt ceiling. In April, headline inflation increased by 0.4% compared to the previous month, while core inflation remained at 0.4%<sup>1</sup>. On a year-over-year basis, headline and core inflation stood at 4.9% and 5.5%, respectively, slightly lower than March's report. Core inflation may continue to be concerning for the Fed's preferred measure, the Personal Consumption Expenditures (PCE) gauge.

The latest US employment data shows an acceleration in hiring and pay gains in April<sup>2</sup>, indicating a strong labor market and undermining concerns of an imminent economic downturn. The combination of rising employment and wages is supporting consumer spending despite concerns over banking stability and inflation. Job growth was broad-based across sectors, but revisions lowered previous months' payroll numbers. The labor market remains resilient, while businesses are cutting back open jobs, they are simultaneously boosting pay. While Fed Chair Powell expects modest economic growth, some economists anticipate a deteriorating labor market and a potential downturn in the coming months.

In early May, the Fed continued along its hiking path, increasing rates another 0.25 percentage points, putting the benchmark policy range at 5.00% to 5.25%. Perhaps more importantly, they signaled that the recent hike was likely the last one in the cycle by subtly removing language from their policy statement. A few weeks later, as of May 15<sup>th</sup>, the Fed futures market is suggesting it believes the Fed with a nearly 80% chance the Fed holds steady following their June meeting<sup>3</sup>.

The bottom line: While some economists believe the tightening monetary policy and recent credit shocks will eventually lead to an economic contraction, the current data isn't suggesting that yet. Recent banking instability likely will ripple across tightening credit conditions that could weaken growth later this year, but the labor market could put a floor into how fast things could deteriorate. The debt ceiling drama in DC may inject some turmoil into capital markets over the short term, but as long as a default is avoided, it is likely just temporary.

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Sources:

1. Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>
2. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empisit.nr0.htm>
3. CME FedWatch Tool

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The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The PCE (Personal Consumption Expenditures) Price Index - A measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.