

US CPI falls ahead of estimates; Treasury Yields Fell as Fed Rate Cuts Likelihood Rises, and the Corporate Earnings Parade to Start with Major Banks.

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The U.S. and European stock markets closed with mixed results following June's U.S. Consumer Price Index (CPI) inflation reading, which showed a cooler-than-expected increase, prompting decreased rates and asset rotations in Wall Street. The Headline inflation stood at 2.97% year-over-year, down from May's 3.27% and below the anticipated 3.12%. Monthly CPI showed a -0.06% change, the first negative reading since 2020, indicating a broad price decline. Following this data release, U.S. Treasury yields dropped significantly across the curve, with the 2-year yield falling to close at 4.50%, a new low. The likelihood of a Federal Reserve rate cut at the September meeting also increased to about 80% from last week's 68%, according to the CME FedWatch Tool. Given the signs of a moderating labor market and two consecutive months of cooling inflation, the Fed may implement up to two rate cuts this year, potentially in September and December.

Analysis of U.S. CPI Inflation Trends

For June, the U.S. CPI inflation data supported the narrative of a resuming disinflation trend. Headline CPI came in at 2.97%, lower than May's 3.27% and the forecasted 3.12%. Core CPI inflation, excluding volatile food and energy prices, was 3.28%, down from the previous month's 3.41% number and 6.82% ahead of the Inflation Nowcasting of 3.52%. Key trends showed a decrease in energy prices, with gasoline down by about 3.8%. Used vehicle prices fell by over 1%, and airline fares dropped by more than 5%. Shelter and rent prices, significant contributors to core inflation, increased by about 0.2%, the slowest rate this year. Our outlook suggests that inflation will likely continue to moderate, though not necessarily in a straight line, with core inflation potentially reaching 2.50% by year-end. This environment could give the Federal Reserve the confidence to start a rate-cutting cycle in the latter half of 2024.

Corporate Earnings Parade Set to Begin

The corporate earnings parade begins on Friday, with major banks reporting their earnings, starting with J.P. Morgan Chase (JPM) with an EPS Estimate of \$4.508, Wells Fargo (WFC) with an EPS Estimate of \$1.284, and Citibank (C) with an EPS Estimate of \$1.395. Investors should pay close attention to commentary on consumer health, loan growth trends for corporations and households, and regional variations. Overall, S&P 500 earnings are expected to grow 8.8% year-over-year in the second quarter, the fastest pace since Q1 2022. This year's market returns will be more influenced by positive earnings growth than valuation expansion, a significant driver last year.

Key Economic Data:

- **U.S. Consumer Price Index YoY:** fell to 2.97%, compared to 3.27% last month.
- **U.S. Inflation Rate:** fell to 2.97%, compared to 3.27% last month.
- **U.S. Core Consumer Price Index YoY:** fell to 3.28%, compared to 3.41% last month.

- **U.S. Initial Claims for Unemployment Insurance:** 222,000, down from 239,000 last week and down -7.11%.
- **30-year mortgage Rate:** rose to 6.95%, compared to 6.86% last week.
- **Germany Consumer Price Index YoY:** fell to 2.20%, compared to 2.40% last month.
- **U.K. Industrial Production Index YoY:** rose to 0.40%, compared to -0.70% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 519.80, up 3.38 points or 0.65%.
- **FTSE 100:** Closed at 8,223.34, up 29.83 points or 0.30%.
- **DAX Index:** Closed at 18,540.10, up 132.88 points or 0.72%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 39,753.75, up 32.39 points or 0.08%.
- **S&P 500:** closed at 5,584.54, down 49.37 points or 0.88%.
- **Nasdaq Composite:** closed at 18,283.41, down 364.04 points or 1.95%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,390.42, up 98.21 points or 2.98%.
- **Birling Capital U.S. Bank Stock Index:** closed at 5,417.13, up 30.35 points or 0.56%.
- **U.S. Treasury 10-year note:** closed at 4.20%.
- **U.S. Treasury 2-year note:** closed at 4.50%.



Inflation Nowcasting CPI & Core CPI versus Actual

Inflation Nowcast	CPI Forecast	CPI Actual	CPI Change	Core CPI Forecast	Core CPI Actual	Core CPI Change
June	3.12%	2.97%	-4.81%	3.52%	3.28%	-6.82%



US Consumer Price Index, US Core CPI & US Inflation Rate

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US Initial Claims for Unemployment, US Job Openings Nonfarm and US Job Seekers

- US Initial Claims for Unemployment Insurance 222000.0
- US Job Openings: Total Nonfarm 8.14M
- US Unemployed Persons: Job Seeker 6.36M





Wall Street Recap

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