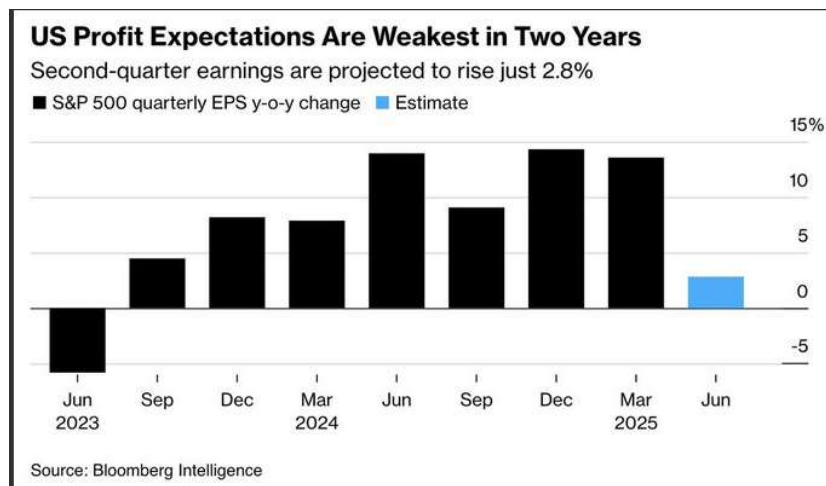


The latest round of inflation data was again relatively benign overall, but some of the underlying components suggest potential inflationary pressures could be mounting. The Core Consumer Price Index (CPI), which excludes food and energy, rose by 0.23% month-over-month in June, below the 0.3% consensus estimate. Likewise, the Core Producer Price Index (PPI) remained unchanged at 0.0% compared to the expected 0.2% increase. However, prices for goods (e.g., furniture, apparel, toys, and electronics) are starting to creep higher, which is likely in part due to the recently enacted tariffs. This trend is likely to keep the Federal Reserve in a wait-and-see mode, particularly as the updated August 1 tariff deadline looms for many U.S. trading partners that have yet to reach a trade deal.

While the consensus expectation is that there will be another extension, President Trump could feel emboldened to take a firmer stance, given the current strength in the equity markets. This could lead to a scenario where inflation ticks higher in the coming months due to tariffs, while the labor market continues to show signs of moderation. The June nonfarm payrolls report revealed solid job gains of 147,000, but nearly half of those came from government positions, which is unlikely to be sustainable. Private-sector job growth declined to its lowest level since October 2024, and more than half of private industries reported job cuts in June. At the same time, the acceleration of AI adoption appears to be increasingly impacting the labor market, with executives at firms such as Ford, JPMorgan, and Amazon acknowledging that AI technologies could exert considerable pressure on jobs in the future (<https://on.wsj.com/40pKUJk>).

Expectations remain subdued as the second quarter earnings season ramps up, as illustrated in the table below.



Many companies had already lowered or pulled earnings guidance last quarter due to the ongoing tariff-related tumult, setting up the potential for a high percentage of companies to deliver better-than-expected earnings results this time around. However, for stocks trading near their highs with valuations that appear arguably stretched in certain instances, some of this positive news may already be reflected in their prices. Still, a generally positive earnings season without any fireworks could help the market grind higher, despite recent signs of complacency and overbought signals. (Note, the 14-day Relative Strength Index for the S&P 500 recently topped 70, which has typically preceded at least modest pullbacks in recent history.) It might

not be until after earnings wrap up when the trickier macro setup—higher inflation readings & stalling labor data—with the Fed waiting for more clarity around tariffs, that the market could be more vulnerable to a pullback.

Jed Glick, CFA, Portfolio Manager – U.S. Equities

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