

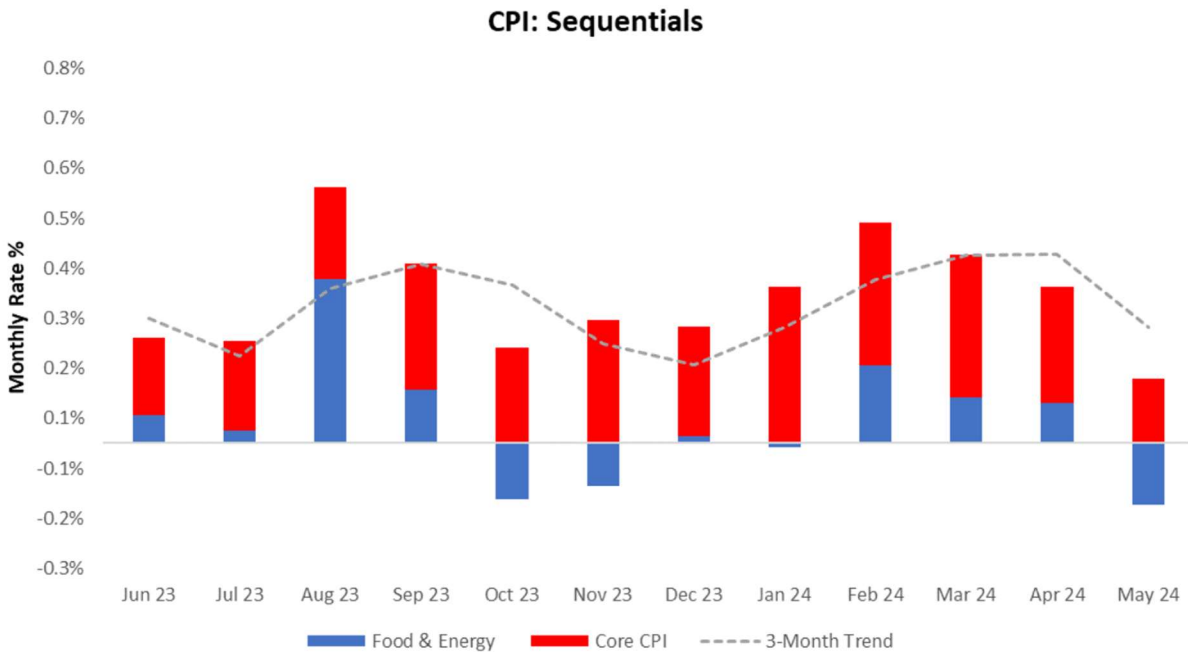
The Observatory

Welcome to *The Observatory*. *The Observatory* is how we at Prometheus monitor the evolution of the economy and financial markets in real-time. The insights provided here are slivers of our research process that are integrated algorithmically into our systems to create rules-based portfolios.

Our primary takeaways are as follows:

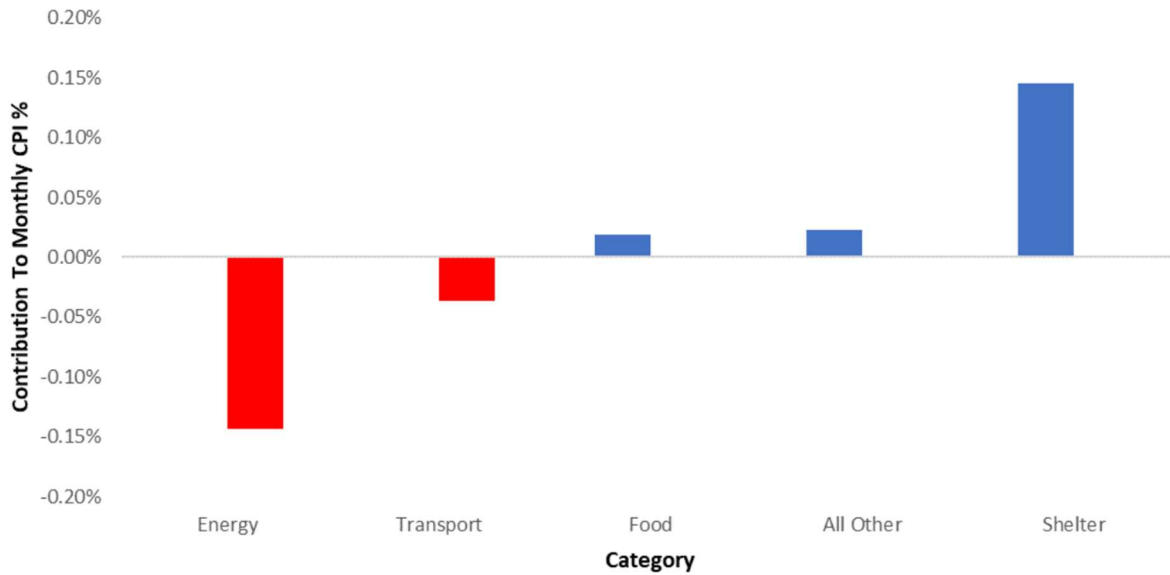
- **CPI inflation data disappointed consensus expectations and drove down the three-month trend.**
- **Looking at the macroeconomic dynamics, inflationary conditions persist in the shelter-related components; sequentially declined in the energy-related components, and decelerated in the goods-related components.**
- **Our forward-looking measures of inflation have contracted into negative territory, showing nascent signs of moderation.**
- **In the context of markets, stable inflationary pressures are supportive for stocks, incrementally more supportive for bonds, and neutral for commodities.**

In May, headline CPI came in at 0.01% disappointing consensus expectations of 0.1%. Core CPI contributed 0.13% to this point, with food & energy contributing the remaining -0.12%. This print drove a deceleration in the three-month trend. Below, we display the sequential evolution of the data:



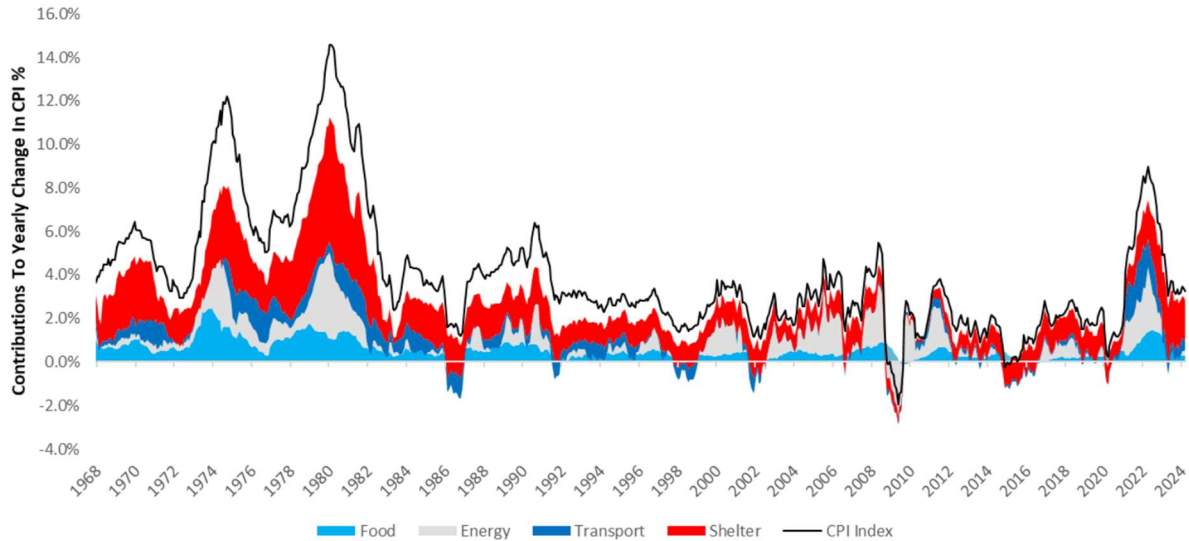
The primary drivers of CPI inflation are food, energy, transport, and shelter. These components have contributed 0.02% (Food), -0.14% (Energy), -0.04% (Transport), and 0.15% (Shelter), respectively. We display these contributions to the 0.01% change in CPI below:

CPI: Major Category Contributions



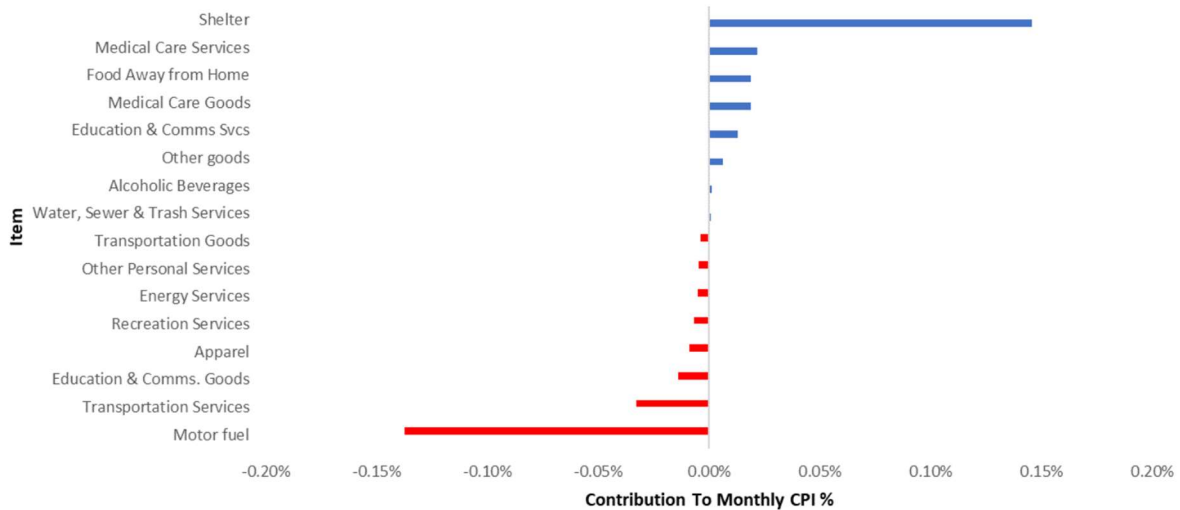
For further perspective, we show how these areas have accounted for the majority of variation in inflation both economically and statistically. Over the last year, food, energy, transport, and housing have contributed 0.29% (Food), 0.28% (Energy), 0.36% (Transport), and 1.89% (Shelter), respectively, to the change in inflation. We display these principal drivers of inflation over time below:

CPI Inflation: Major Drivers

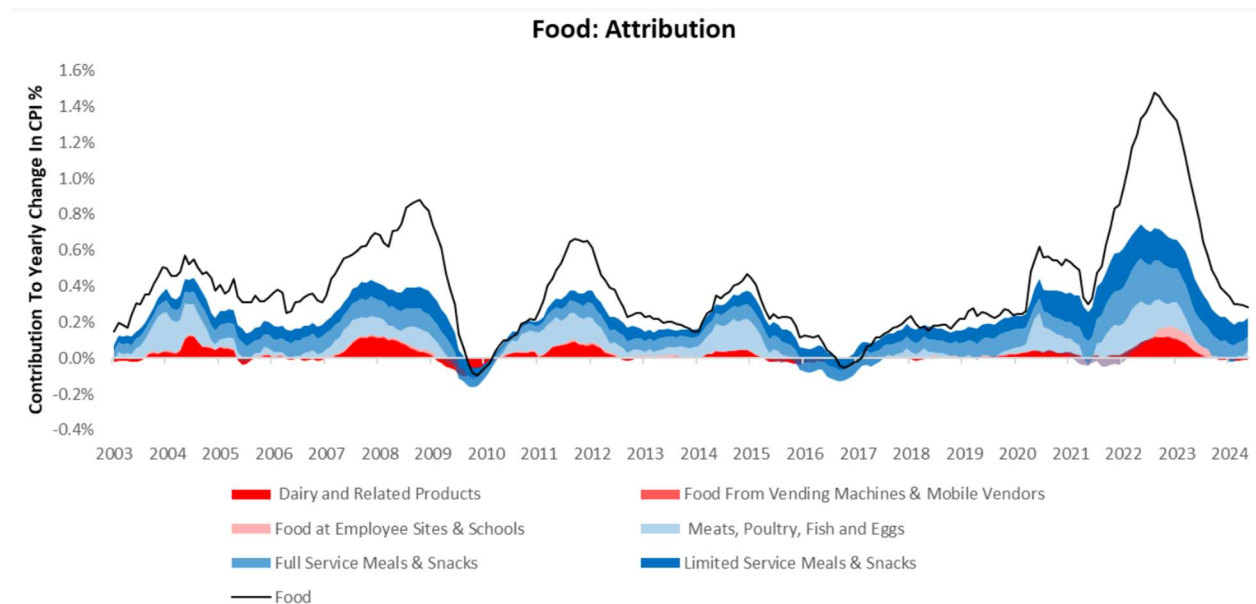


We now zoom back into the most recent print. Inflation was somewhat mixed with Shelter contributing most positively, and Motor fuel contributing most to weakness. We display the largest movers to the upside and downside below:

CPI Inflation: Monthly Contributions

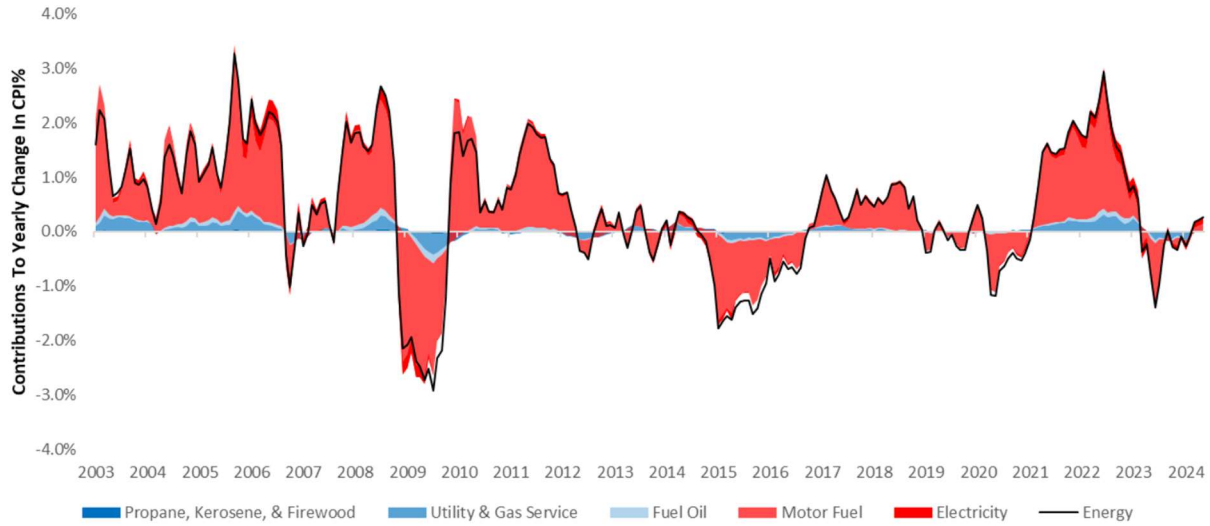


We now zoom into our major categories of food, energy, transport, and shelter. We begin with food. The most recent data showed food inflation was largely positive with Full-Service Meals & Snacks showing the most relative strength and Dairy and Related Products showing the most weakness. For further perspective, we also show the evolution of food inflation over the last year with the strongest contributors in shades of blue (Limited-Service Meals & Snacks, Full-Service Meals & Snacks, Meats, Poultry, Fish, and Eggs) and the weakest in shades of red (Dairy and Related Products, Food from Vending Machines & Mobile Vendors, Food at Employee Sites & Schools):

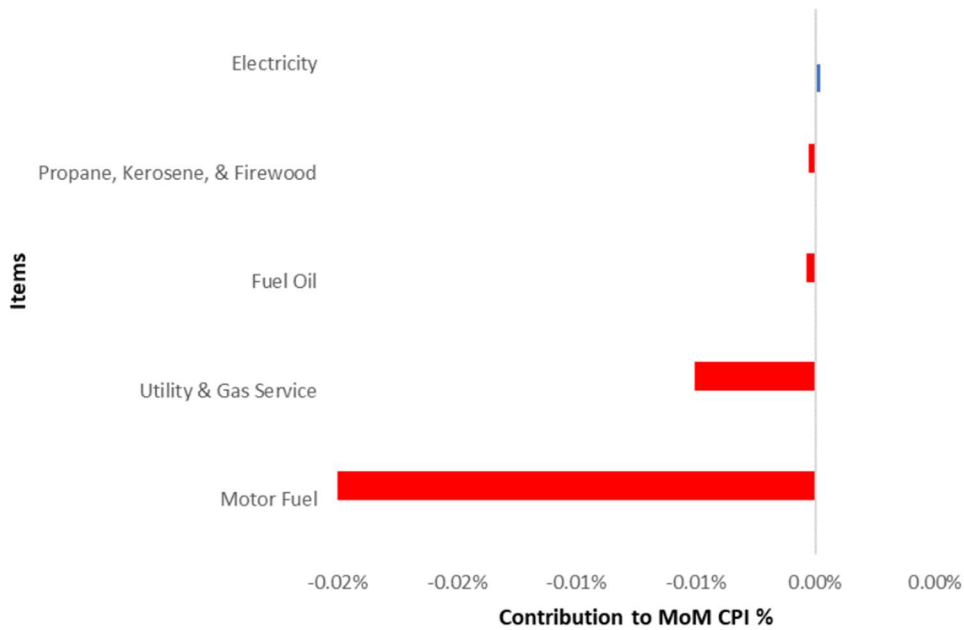


Next, we turn to energy. The most recent data showed energy inflation was negative across the board, with electricity showing the most relative strength and Motor Fuel showing the most weakness. We also show the contributions of these items to total energy inflation over the last year with historical context:

Energy: Attribution

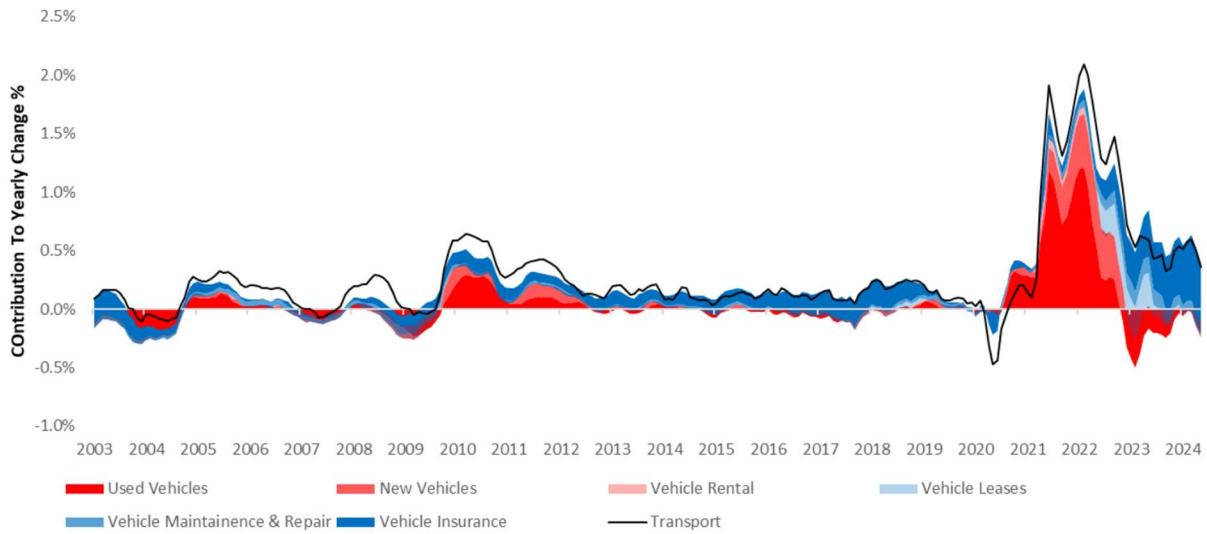


Energy: Monthly Composition

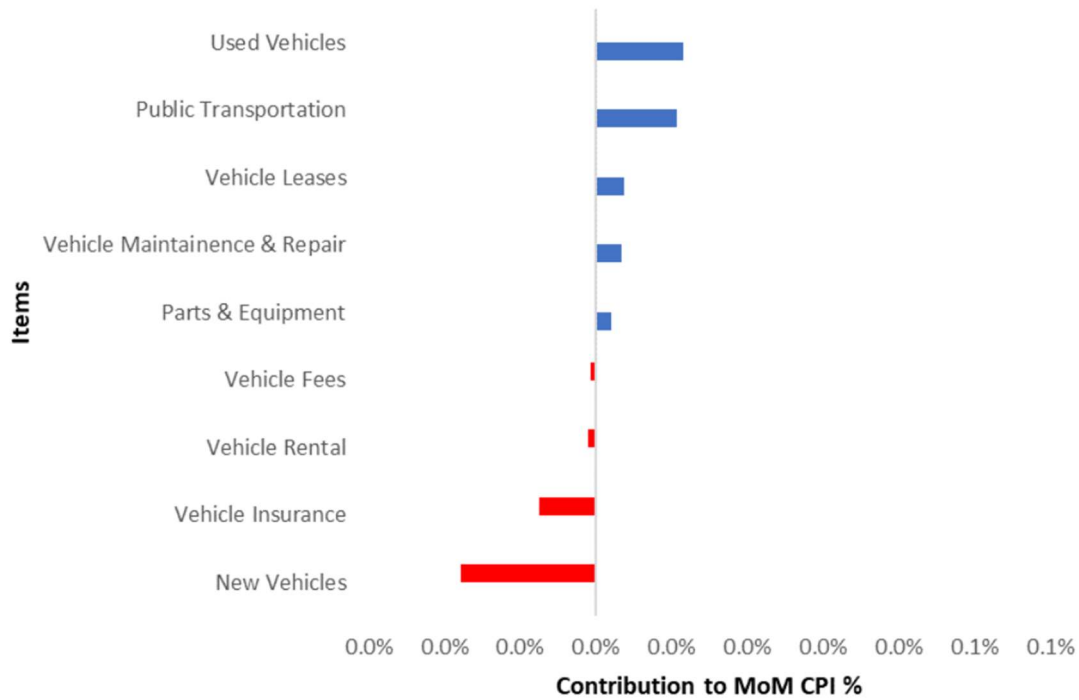


We now turn to transportation. The most recent data showed transport inflation was somewhat mixed with Used Vehicles showing the most relative strength and New Vehicles showing the most weakness. For further perspective, we also show the evolution of transportation inflation over the last year with the strongest contributors in shades of blue (Vehicle Insurance, Vehicle Maintenance & Repair, Vehicle Leases) and the weakest in shades of red (Used Vehicles, New Vehicles, Vehicle Rental):

Transportation: Attribution

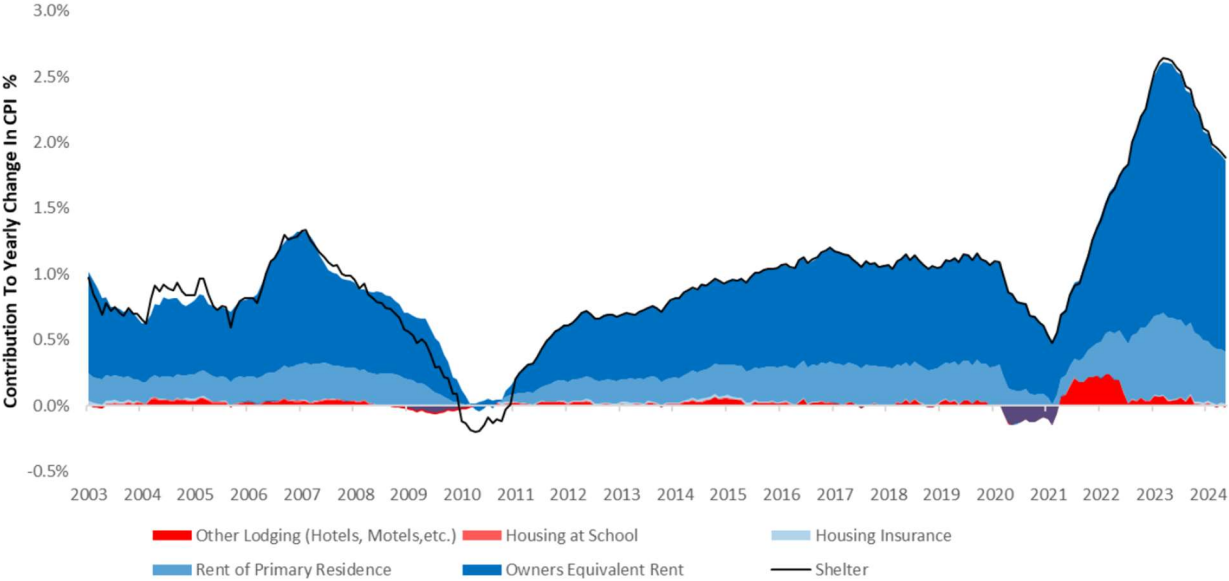


Transport: Monthly Composition

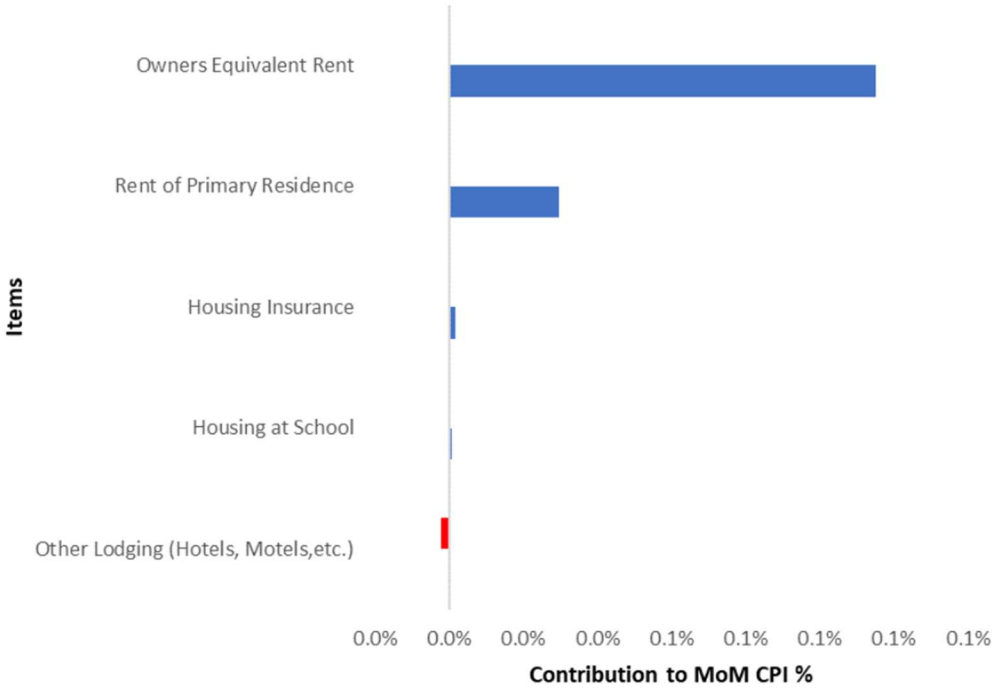


Finally, we examine shelter, which is the largest driver of consumer inflation in the economy. The most recent data showed shelter inflation was largely positive with Owners' Equivalent Rent showing the most relative strength and Other Lodging (Hotels, Motels, etc.) showing the most weakness. We also show the contributions of these items to total shelter inflation over the last year with historical context:

Shelter: Attribution

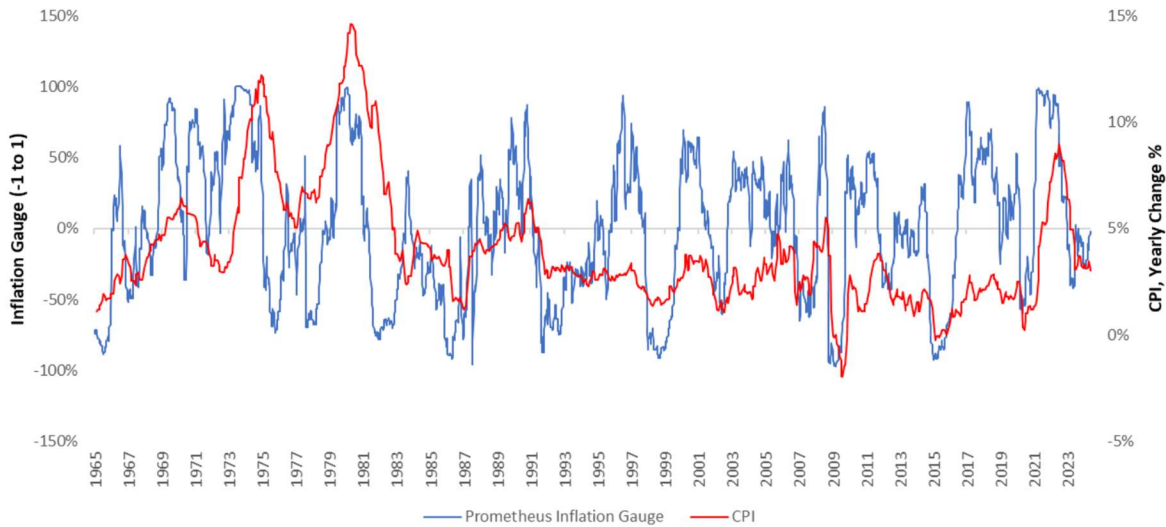


Shelter: Monthly Composition

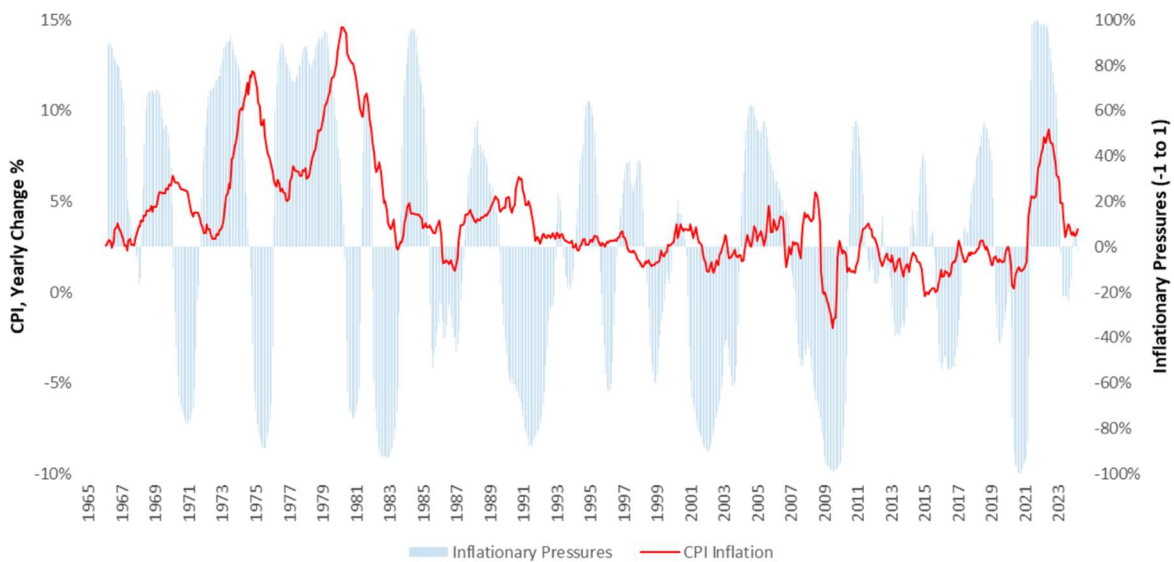


Additionally, we share our timely Inflation Gauge, which aggregates data across commodity prices to understand the pass-through to CPI, and our forward-looking fundamental gauges of inflationary pressures:

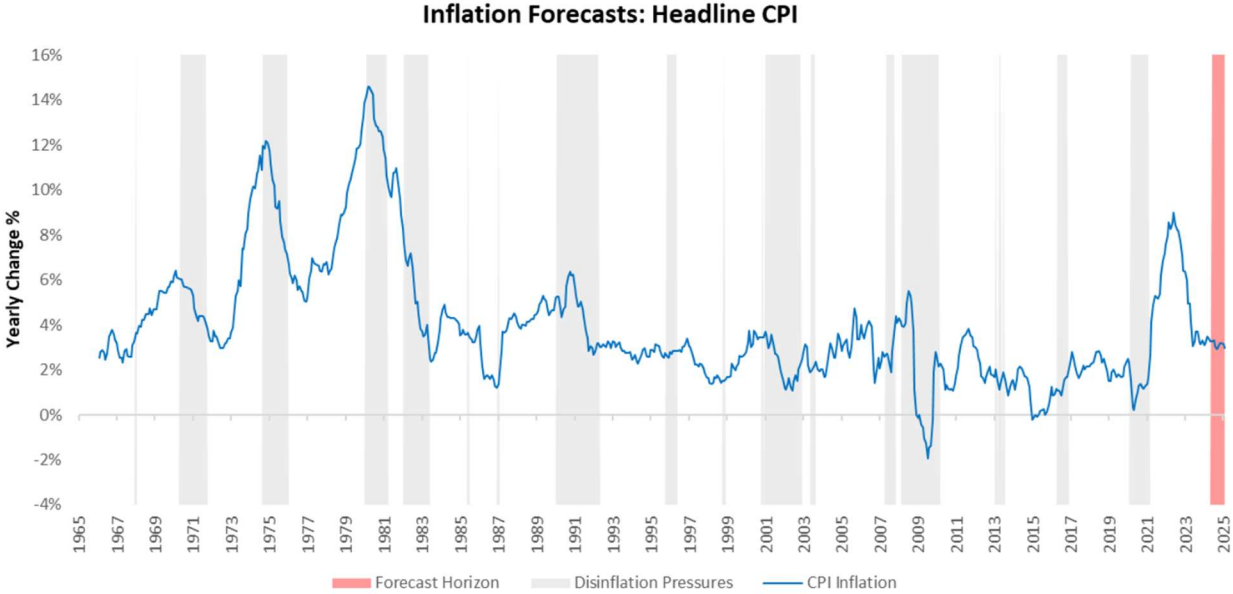
Inflation Monitor: Inflation Gauge vs. CPI Inflation



Inflation Monitor: Inflationary Pressures vs. Headline CPI



Finally, we share our forecast for headline CPI which stands at 2.88% YoY by the end of this year. **Overall, our forward-looking measures of inflation have contracted into negative territory, showing nascent signs of moderation. We continue to expect that stable nominal spending will likely keep us above the Fed's 2% target. In the context of markets, this inflationary environment is stable for stocks, incrementally more supportive for bonds, and neutral for commodities. Until next time.**



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