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US inflation declines to its lowest annual rate in four years

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US inflation was softer than expected in April, easing some pressure on the Federal Reserve's rate outlook.

The consumer price index (CPI) in April rose 2.3% on an annual basis, below consensus estimates for 2.4% and marking the lowest since February 2021. Meanwhile, core CPI, which excludes food and energy, increased 2.8%—in line with expectations. On a monthly basis, both headline and core CPI climbed 0.2%, compared to a 0.1% decline in March, and below estimates for a 0.3% increase. Shelter costs, which make up about a third of the index, rose 0.3% and accounted for more than half of the overall increase. Energy prices rebounded 0.7% after a steep decline in March, while food prices and apparel costs edged down. Used vehicle prices also fell for a second consecutive month. Notably, egg prices dropped 12.7% in April, though they remain nearly 50% higher than a year ago. The report helped extend the S&P 500 rally following the US-China 90-day trade truce, erasing year-to-date losses and rebounding sharply from the 12% drop after the initial "Liberation Day" tariffs.

Our view: Despite the softer inflation print in April, the outlook remains uncertain as new tariffs introduced by the Trump administration have only just begun to take effect. The impact of these higher tariffs is not yet reflected in the April CPI data, in part because many companies built up inventories ahead of the policy changes and have not yet passed on higher costs to consumers. As these stockpiles are drawn down, the inflationary effects of the tariffs may become more apparent in the coming months. However, the US and China's 90-day pause in higher retaliatory tariffs should help to limit the rise in inflation by reducing import costs and avoiding damage to supply chains. Against this backdrop, our base case is for 100 basis points of further Fed easing, starting in September. We advocate seeking durable income in quality bonds.

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