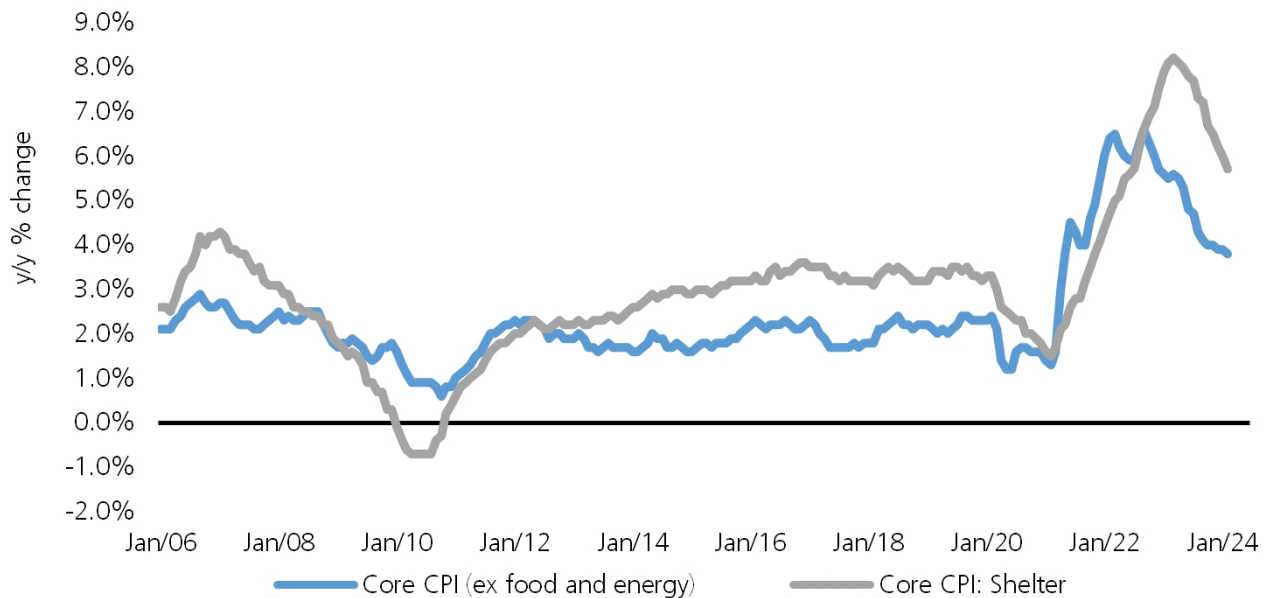


Shelter prices remain elevated but February US CPI report shows improvement



Source: Haver Analytics, UBS as of 13 March 2024

We expect the upcoming inflation data to be soft enough to give the Fed sufficient confidence to begin cutting interest rates by June. (UBS)

# June rate cuts still ahead after mixed US CPI report

13 March 2024, 3:24 pm CET, written by UBS Editorial Team

**Following a mixed US CPI report, we recommend investors manage liquidity, lock in bond yields, and consider small-caps in their portfolios.**

**The February US Consumer Price Index (CPI) data was not as bad as some participants had feared.** Although core services inflation remained elevated in February, investors were reassured by cooling shelter and rent inflation, as owners' equivalent rent was not as strong as the surprisingly high number in January's report. Despite noisy February CPI data across segments, we believe the US economy continues to be in good shape and is heading for a soft landing. We expect the Fed to begin trimming rates at the June meeting, for a total of 75 basis points of cuts (three cuts) in 2024.

The data within the February CPI report showed:

- **Headline CPI:** The gain in monthly headline CPI was 0.4% from January, meeting expectations. While energy prices rose 2.3% from January, food prices were little changed.
- **Core CPI (excluding food and energy):** The increase in core CPI was 0.4% m/m, versus consensus estimates for a 0.3% m/m gain. Core CPI continues to be driven by core services inflation.
  - Core services inflation remained elevated (0.5% m/m) with shelter prices a main driver. Within the shelter category, owners' equivalent rent cooled to 0.4% m/m from the 0.6% m/m rise in January.
  - Core goods inflation experienced smaller price gains (0.1% m/m).

**We expect rate cuts to begin in June,** since we believe the core services CPI (+5.2% year-over-year in February) will continue to trend lower.

We expect a softer labor market, slower economic growth, and further moderation in shelter inflation to help overall CPI trend lower in the coming months.

While the releases of economic data may create volatility in markets, we continue to believe the overall macro backdrop of receding inflation and the likelihood of lower rates mean that investors should ensure they are sufficiently invested and diversified. We recommend investors manage liquidity, lock in attractive bond yields, and complement their core equity holdings with small-cap stocks in anticipation of rate cuts ahead.

See our blog, [Inflation picture remains complicated](#), 12 March, 2024.

Main contributors: Brian Rose, Senior US Economist, CIO Americas and Jennifer Stahmer, Strategist, UBS Financial Services Inc. (UBS FS).

#### Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. This document and the information contained herein are provided solely **for your information** and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof. All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

#### Additional Disclaimer relevant to Credit Suisse Wealth Management

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse to any registration or licensing requirement within such jurisdiction. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by Credit Suisse AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Credit Suisse AG is a UBS Group company.

Please visit [ <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> ] to read the full legal disclaimer applicable to this material.

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.