



The market is still only implying around 35 basis points of easing from the Federal Reserve this year. (UBS)

# Benign US inflation underlines appeal of quality bonds

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**Investors should generally avoid reading too much into a single data point. Friday's encouraging US inflation release is unlikely to be enough to prompt the Federal Reserve to cut rates at either of its policy meetings in June or July.**

The 3-month over 3-month annualized run rate for core personal consumption expenditures (PCE) in April, excluding food and energy, actually rose to 3.83%, the highest since May 2023.

But overall the release was still reassuring. The core PCE measure rose 0.2% on the month, the smallest advance of the year. This should bolster confidence that the slowing trend in inflation, which was interrupted in the first quarter of 2024, is back on track. Data out on Friday also supported our view that the US economy is headed for a soft landing, with personal spending and disposable income both falling slightly after inflation. This supports our expectation that a moderation of consumer spending over the coming months will help bring inflation back toward the Fed's 2% target on a sustainable basis.

Even after Friday's data, the market is still only implying around 35 basis points of easing from the Federal Reserve this year, which we think looks conservative.

*Takeaway: Our base case remains for 50 basis points of Fed cuts, most likely starting at the September policy meeting. Falling rates should support equity markets. But after a 10.6% advance in the S&P 500 already so far this year, we believe further gains at the index level are likely to be modest. Instead, the backdrop of slowing growth and easing monetary policy should be more positive for quality fixed income, which is our most preferred asset class.*

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Original report - [Cooling US inflation adds to market optimism, 3 June 2024.](#)

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