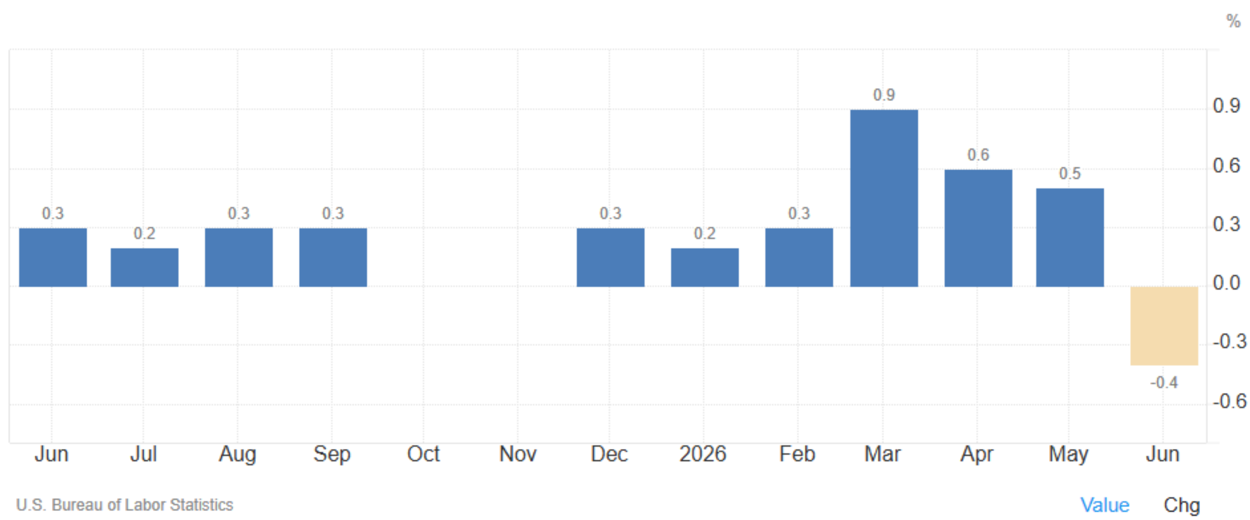
J Studios/DigitalVision via Getty Images

It took less than 24 hours for President Trump to recognize that his plan to assess a 20% fee on the value of all cargo passing through the Strait of Hormuz was a bad idea, so he nixed it. That stemmed the rapid rebound in oil prices, but the escalation in military activity from both the US and Iran, as well as the reclosure of the Strait, will likely keep oil elevated until the waterway reopens again. Still, it was a sign of relief for investors concerned about the escalation reigniting inflation, especially after a much better-than-expected report for June that arrived yesterday morning.

Finviz

The Consumer Price Index (CPI) fell on a monthly basis for the first time in six years, reversing the surge in gasoline prices that struck after the war started in March. The 0.4% decline was better than the 0.2% drop expected, leading the annualized rate to fall from 4.2% to 3.5%. The core rate, which excludes food and energy, saw no change for the month, which was also better than the 0.2% increase expected. That resulted in the annualized rate falling from 2.9% to 2.6%. This was particularly important because it reversed three consecutive months of increases in the core rate, which should alleviate concerns that price pressures from the war are broadening out.



Monthly CPI Changes (Trading Economics)

In addition to the near 10% plunge in fuel costs, within the core rate, there was a decline in prices for used cars and trucks, apparel, and medical care. Services prices were flat, with shelter costs up just 0.1%. It looks like we are seeing very little pass-through at this stage from war-related energy costs and tariffs, as well as the AI capital investment cycles. These are primary concerns for the Fed today.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Jun. 2026
	Dec. 2025	Jan. 2026	Feb. 2026	Mar. 2026	Apr. 2026	May 2026	Jun. 2026	
All items	0.3	0.2	0.3	0.9	0.6	0.5	-0.4	3.5
Food	0.7	0.2	0.4	0.0	0.5	0.2	0.2	3.0
Food at home	0.6	0.2	0.4	-0.2	0.7	0.1	0.2	2.7
Food away from home[1]	0.7	0.1	0.3	0.2	0.2	0.3	0.2	3.4
Energy	0.3	-1.5	0.6	10.9	3.8	3.9	-5.7	15.7
Energy commodities	-0.3	-3.3	1.1	21.3	5.6	6.7	-9.5	27.1
Gasoline (all types)	-0.3	-3.2	0.8	21.2	5.4	7.0	-9.7	26.7
Fuel oil	-0.8	-5.7	11.1	30.7	5.8	3.8	-9.2	42.9
Energy services	1.0	0.2	0.2	0.4	1.6	0.4	-0.7	3.9
Electricity	0.2	-0.1	-0.7	0.8	2.1	0.6	-1.0	4.0
Utility (piped) gas service	3.7	1.0	3.1	-0.9	-0.1	-0.5	0.5	3.0
All items less food and energy	0.2	0.3	0.2	0.2	0.4	0.2	0.0	2.6
Commodities less food and energy commodities	0.0	0.0	0.1	0.1	0.0	-0.1	-0.1	0.8
New vehicles	0.0	0.1	0.0	0.1	-0.2	-0.3	0.0	0.5
Used cars and trucks	-0.9	-1.8	-0.4	-0.4	0.0	0.1	-0.2	-1.8
Apparel	0.3	0.3	1.3	1.0	0.6	0.3	-0.6	3.9
Medical care commodities[1]	0.3	-0.1	0.0	-1.0	-0.4	-0.7	-0.2	-2.1
Services less energy services	0.3	0.4	0.3	0.2	0.5	0.3	0.0	3.2
Shelter	0.4	0.2	0.2	0.3	0.6	0.3	0.1	3.3
Transportation services	0.4	1.4	0.2	0.6	0.3	-0.6	-0.3	3.4
Medical care services	0.4	0.3	0.6	0.0	0.0	0.5	-0.1	2.9

CPI Changes Table (BLS)

This decline in the rate of inflation for June restored real wage growth, which advanced 0.8% from May to June, resulting in a 0.3% increase in real (inflation-adjusted) weekly take-home over the prior year. That doesn't sound like much, but it is much better than the declines we saw in the prior three months. Real income growth is the ultimate fuel for consumer spending power.

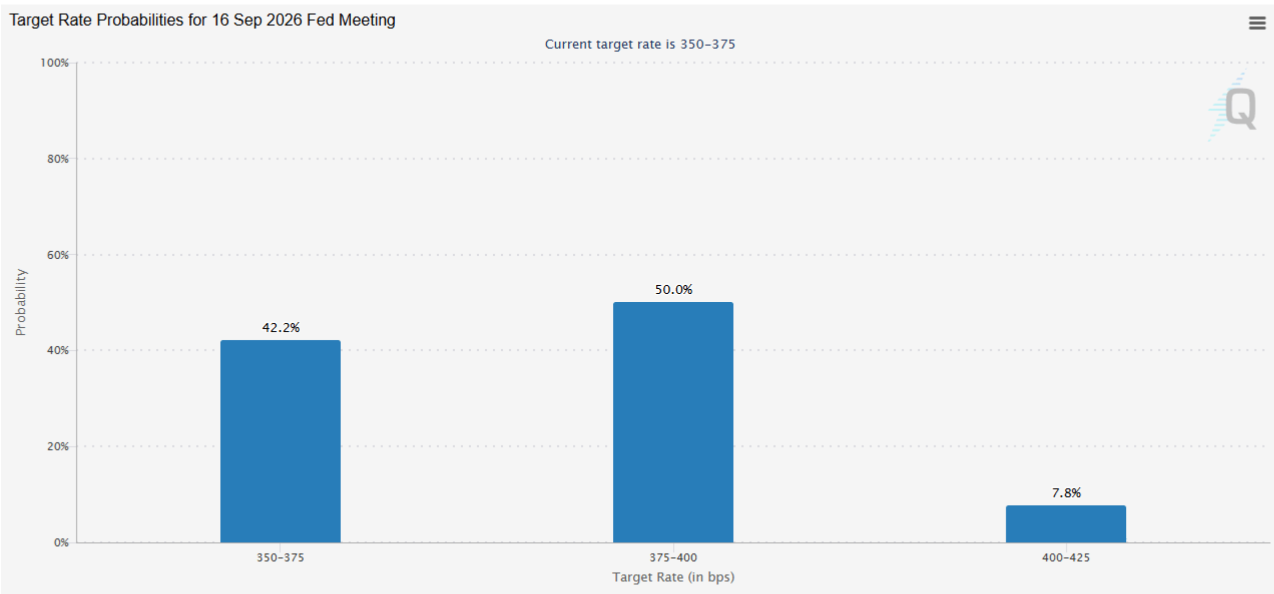
Table A-1. Current and real (constant 1982-1984 dollars) earnings for all employees on private nonfarm payrolls, seasonally adjusted

	June 2025	Apr. 2026	May 2026[p]	June 2026[p]
Real average hourly earnings[1]	$11.31	$11.25	$11.23	$11.32
Real average weekly earnings[1]	$386.86	$386.02	$385.23	$388.21
Consumer Price Index for All Urban Consumers	321.435	332.407	333.979	332.568
Average hourly earnings	$36.36	$37.41	$37.51	$37.64
Average weekly hours	34.2	34.3	34.3	34.3
Average weekly earnings	$1,243.51	$1,283.16	$1,286.59	$1,291.05
OVER-THE-MONTH PERCENT CHANGE				
Real average hourly earnings[1]	-0.1	-0.5	-0.2	0.8
Real average weekly earnings[1]	0.0	-0.2	-0.2	0.8
Consumer Price Index for All Urban Consumers	0.3	0.6	0.5	-0.4
Average hourly earnings	0.2	0.2	0.3	0.3
Average weekly hours	0.0	0.3	0.0	0.0
Average weekly earnings	0.2	0.5	0.3	0.3
OVER-THE-YEAR PERCENT CHANGE				
Real average hourly earnings[1]	1.2	-0.3	-0.8	0.1
Real average weekly earnings[1]	0.8	-0.2	-0.5	0.3
Consumer Price Index for All Urban Consumers	2.7	3.8	4.2	3.5
Average hourly earnings	3.9	3.6	3.4	3.5
Average weekly hours	-0.3	0.0	0.3	0.3
Average weekly earnings	3.6	3.6	3.7	3.8

[1] The Consumer Price Index for All Urban Consumers (CPI-U) is used to deflate the earnings series for all employees.
p Preliminary

Real Earnings Table (BLS)

Progress on the inflation front led to a sharp decline in Treasury yields, with the 2-year plunging more than ten basis points to 4.19%. This report takes pressure off the Fed to hike short-term rates at its July meeting, which the consensus of investors saw as better than a 50% probability. It also reduced the likelihood of a rate hike in September, with that probability falling from 75% to 58%. As I have said repeatedly since Kevin Warsh was appointed Chairman, the Fed is not going to raise interest rates this year. This is a misplaced concern by investors who are focusing on lagging indicators and the rhetoric coming from Fed officials (including Warsh) who want to control inflation expectations.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 13 JUL 2026	1 WEEK 7 JUL 2026	1 MONTH 12 JUN 2026
325-350	0.0%	0.0%	0.0%	1.9%
350-375 (Current)	42.2%	24.9%	38.1%	71.5%
375-400	50.0%	51.2%	49.1%	24.9%
400-425	7.8%	23.9%	12.8%	1.7%

* Data as of 14 Jul 2026 07:02:54 CT

Target Rate Probabilities (CME Group)

We may give back some progress on inflation next month if the rebound in oil prices, due to President Trump's escalation in Iran, gets worse. Yet I think the spike in oil and Treasury yields is what gave him second thoughts about his 20% fee on cargo passing through the Strait. He is myopically focused on the market's reaction to his every move. The current price of oil, as well as prevailing yields, is likely to give him second thoughts about pursuing more aggressive tactics in the Middle East. He wants both to be significantly lower in advance of the midterms.

As I asserted with last month's CPI report, the peak in inflation is behind us. The improvement in the rate of change moving forward should pave the way to more bull market gains for stocks and eventually allow the Fed to resume its rate-cutting campaign in 2027 once disinflation ensues.