INVESTMENT VIEWS
FROM OUR PARTNERS AT
INSIGHT INVESTMENT

TARIFF INFLATION IS STARTING

July 2025

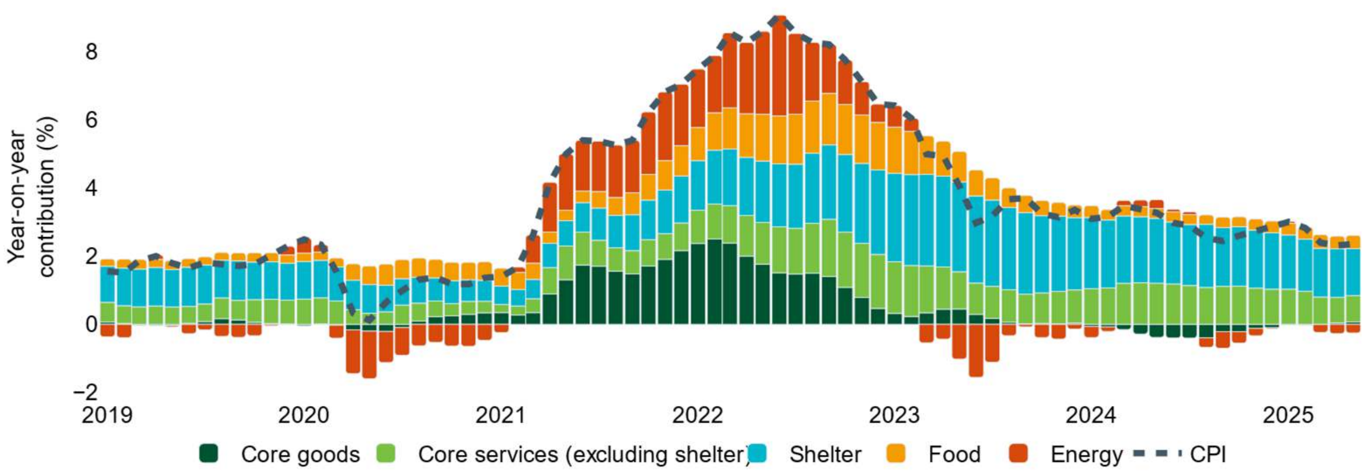
Consumer prices rose 0.3% in June, taking the Consumer Price Index (CPI) from 2.4% to 2.7% on a year-over-year basis. Core prices were also up 0.2% month-over-month and 2.9% year-over-year.

The "sticky" core services components continued to ease although tariff inflation became more visible in some goods categories. We believe the Federal Reserve (the Fed) will be encouraged that disinflationary forces remain in play but expect it to be cautious regarding the inflationary impact of tariffs.

Tariff impacts are starting to show up

Energy costs rose 0.9% and food prices rose 0.3%. Core goods prices rose 0.2%, with inflation in tariff-sensitive categories partly offset by used cars and new cars falling -0.7% and -0.3%, respectively.

FIGURE 1: SLIGHT INCREASES ACROSS MAJOR CATEGORIES PUSH HEADLINE CPI UP



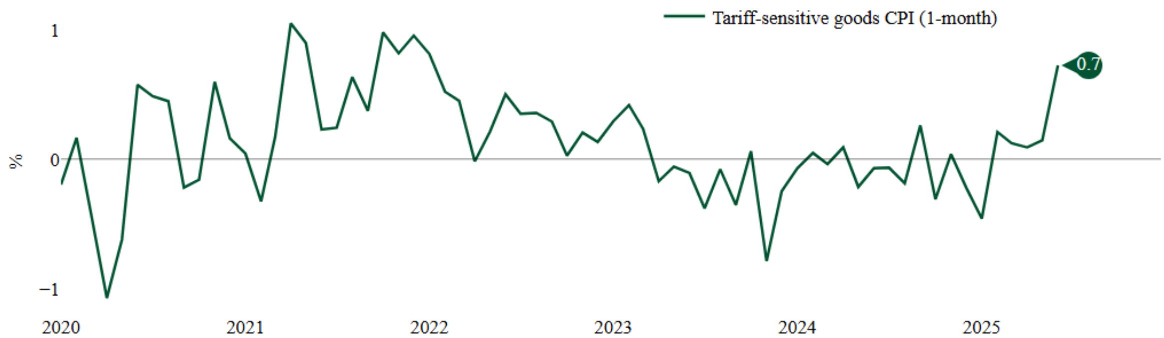
Source: Bureau of Labor Statistics, Macrobond, Insight Investment, July 2025. Charts are for illustrative purposes only.

TARIFF INFLATION IS STARTING

Tariff inflation was notable in household furnishings and supplies, which rose 1% in June (the fastest since Jan 2022), with appliances up 1.9% (the fastest since August 2020) and sporting goods up 1.4% (the fastest since January 2024).

Our estimated measure of tariff-sensitive goods CPI (which comprise ~8% of the index), rose by 0.7% in June (Figure 2). With the Trump administration announcing new tariffs set to take effect in August, the tariff-induced pick-up in prices could meaningfully accelerate from here, absent further trade deals or delays.

FIGURE 2: TARIFF-DRIVEN INFLATION ACCELERATED IN JUNE



Bureau of Labor Statistics, Macrobond, Insight (series composed of apparel, electronics, toys, household furnishings and canned goods), July 2025. Charts are for illustrative purposes only.

"Sticky" core services categories continue to ease

On a more positive note for the Fed, the "sticky" shelter inflation category (which is the largest CPI component) was 3.8% year-over-year, its lowest since November 2021. Excluding shelter, headline CPI was 2%. Shelter continues to improve although other core services categories did not ease.[1]

FIGURE 3: SHELTER INFLATION CONTINUES TO EASE

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
CPI	2.9	2.5	2.4	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	2.7
Food	2.2	2.1	2.3	2.1	2.4	2.5	2.5	2.6	3	2.8	2.9	3
Energy	1.1	-4	-6.8	-4.9	-3.2	-0.5	1	-0.2	-3.3	-3.7	-3.5	-0.8
Core CPI	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9
Core Goods	-1.9	-1.9	-1	-1	-0.6	-0.5	-0.1	-0.1	-0.1	0.1	0.3	0.7
Shelter	5.1	5.2	4.9	4.9	4.7	4.6	4.4	4.2	4	4	3.9	3.8
Transport Services	8.8	7.9	8.5	8.2	7.1	7.3	8	6	3.1	2.5	2.8	3.4
Medical Care Services	3.3	3.2	3.6	3.8	3.7	3.4	2.7	3	3	3.1	3	3.4
Supercore	4.5	4.5	4.3	4.4	4.3	4	4	3.8	2.9	2.7	2.9	3

% year-on-year (colour scale 0–10)

Source: Bureau of Labor Statistics, Macrobond, Insight Investment, July 2025. Charts are for illustrative purposes only.

1. Bureau of Labor Statistics, Macrobond, Insight Investment, July 2025.

The Fed will be looking to balance easing in services CPI with tariffs

We expect the Fed to remain mindful of tariff inflation, but we expect it will keep the door open to rate cuts this year given continued evidence of demand-related easing in services categories.

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The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. **The Bureau of Labor Statistics** (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories. **Sticky inflation** refers to a persistent economic scenario where prices for goods and services do not adjust quickly to changes in supply and demand dynamics. **Supercore inflation** equals the inflation of a basket of goods and services, minus the food and energy inflation, and minus the housing inflation.

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MARK-771043-2025-07-15