

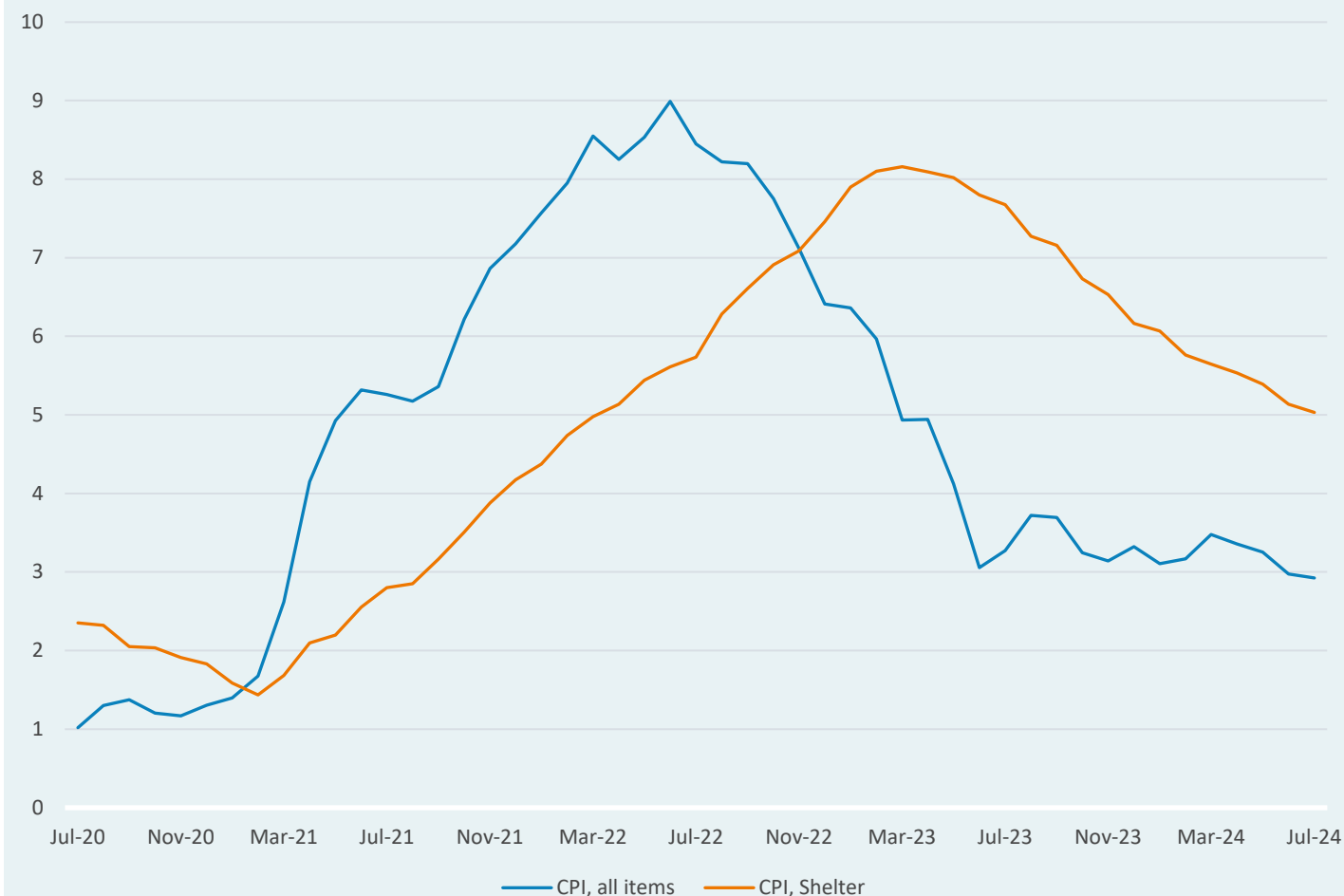
Verus Market Note

Shelter costs remain the primary driver of inflation

Since early 2023, shelter costs have been one of the primary drivers of inflation. Making up around 35% of the CPI basket, these costs have been very sticky given the lag component of shelter inflation. Shelter costs coming down further will be necessary for overall inflation to reach the Fed's 2% target. With inflation dropping below 3%, the latest print is expected to be enough to justify a first rate cut in September. However, further easing will likely be required for multiple rate cuts to take place.

This week's Market Note looks at both shelter and total inflation over the past four years. Markets are expecting between 3-4 rate cuts before the end of 2024, and will be watching future inflation closely as this will drive the Fed's decision-making.

CPI, YEAR OVER YEAR (%)



Source: St. Louis FRED, as of 8/15/24.