

Inflation in Focus

Why This **Week** Matters for **Traders?**



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CPI Sets the Stage

The Fed's Big Test This Week

Global markets ended last week on a strong note, with the **S&P 500 climbing 2.5%**, the **Nasdaq Composite hitting a fresh record after a 4% gain**, and the **Dow Jones up 1.4%**. The rally was led by the tech sector, boosted by **Apple's announcement of a \$100 billion US investment**.

Yet, behind the optimism lies a week that could reshape expectations for the Federal Reserve's interest rate path. With traders now pricing in multiple rate cuts in 2025, the spotlight turns to **Tuesday's Consumer Price Index (CPI) report**, a key gauge of inflation, alongside fresh readings on wholesale prices, retail sales, and consumer sentiment.

CPI Takes the Center Stage

Markets are watching July's CPI closely. Headline inflation is **expected at 2.8% YoY**, slightly above June's 2.7%. Core CPI, which strips out food and energy, is **forecast at 3.0%**, up from 2.9%.

On a monthly basis, core prices are seen rising 0.3% after June's 0.2%. UBS projects tariffs could keep inflation climbing, with core CPI potentially reaching 3.5% by year-end.

Why it matters: A hotter reading would make it harder for the Fed to cut rates, as lowering borrowing costs while inflation is accelerating risks undermining price stability.

Fed Dynamics – A Board in Transition

The policy debate is heating up inside the Fed itself. **President Trump has nominated Stephen Miran**, currently chair of the Council of Economic Advisers, to replace Governor Adriana Kugler. If confirmed before September, Miran could tilt the Board toward rate cuts.

At the last meeting, Governors Chris Waller and Michelle Bowman dissented from holding rates steady, highlighting divisions. **JPMorgan's Michael Feroli** notes that with Miran on the Board, September could see three dissents, **pushing Chair Jerome Powell toward a 25 bps cut sooner than expected.**

Retail Sales – The Consumer Pulse

On Friday, July's **retail sales** will give a snapshot of US consumer strength. Headline sales are **expected to rise 0.5%, down slightly from 0.6% in June.** However, excluding autos, gas, and other volatile items, the “control group” that feeds into GDP is forecast to grow just 0.1%, signaling softer underlying demand.

Slowing consumption, combined with labor market concerns, could strengthen the case for Fed easing even if inflation is sticky.

The Shift from Risk to Reality

The market mood is exuberant: Nvidia's valuation is at its richest multiple since Microsoft in 1999, IPOs like Firefly Aerospace are surging, and crypto assets have bounced. But

Richard Bernstein warns that speculative booms often end in one of two ways:

- Inflation forces the Fed to hike, raising borrowing costs and draining liquidity.
- The Fed cuts into a slowing economy, shifting consumer focus from risk assets to essentials – **“from bitcoin to bread.”**

The Fed’s challenge is to cut rates enough to support growth without fueling inflation or sparking a downturn.

The Week Ahead – What to Watch

Day	Event	Market Focus
Tuesday	July CPI	Key gauge for inflation trend & Fed rate cut odds
Friday	Retail Sales	Consumer strength vs. slowdown risks
All Week	Earnings	Cisco, Cava, Deere – corporate health & sector outlook
All Week	Fed Commentary	Hint on September policy move

Markets are near record highs, but this week’s data could shift the Fed’s timeline dramatically. **A hotter CPI may delay cuts, while weak retail sales could speed them up.**

The Fed’s balancing act between **controlling inflation** and **supporting growth** is about to be tested, **stay informed and trade smarter.**

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