

# BEHIND THE HEADLINES

with Ronald Temple, Chief Market Strategist

12 June 2026

Behind the Headlines will be published on 18 June next week in observance of the US Juneteenth holiday.

## The Headlines

- Geopolitics: After multiple kinetic exchanges this week, President Trump indicated all parties had agreed to “a very strong memorandum of understanding that is a little conceptual” that could be signed over the weekend.
- United States: US headline Consumer Price Index (CPI) inflation was in line with expectations at 4.2% year-on-year (y-o-y). Headline Producer Price Index (PPI) inflation slightly exceeded expectations.
- China: China’s May CPI inflation was slightly lower than expected while PPI inflation was in line with expectations. Growth in exports and imports exceeded already high consensus estimates.
- Eurozone: The European Central Bank (ECB) hiked interest rates by 25 basis points (bps) and left the door open for future rate hikes if energy prices remain elevated.
- Next week, the Federal Open Market Committee (FOMC) and Bank of England (BoE) are expected to hold rates constant, while the Bank of Japan (BoJ) is expected to hike rates by 25 bps. Data releases will include an array of monthly metrics from China as well as Japanese and UK CPI inflation figures.

### The Week Behind

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	Headline CPI Inflation	10 June	May	y-o-y	4.2%	4.2%	3.8%
	Headline CPI Inflation	10 June	May	m-o-m	0.5%	0.5%	0.6%
	Core CPI Inflation	10 June	May	y-o-y	2.9%	2.9%	2.8%
	Core CPI Inflation	10 June	May	m-o-m	0.3%	0.2%	0.4%
China	PPI Final Demand	11 June	May	y-o-y	6.4%	6.5%	5.7%
	Headline CPI Inflation	9 June	May	y-o-y	1.3%	1.2%	1.2%
	Headline PPI Inflation	9 June	May	y-o-y	3.9%	3.9%	2.8%
Eurozone	ECB Deposit Facility Rate	11 June		Level	2.25%	2.25%	2.00%

### The Week Ahead

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	Fed Funds Target Rate	17 June		Level	3.50%–3.75%		3.50%–3.75%
China	Retail Sales	15 June	May	y-o-y	0.0%		0.2%
	Industrial Production	15 June	May	y-o-y	4.3%		4.1%
Japan	BoJ Target Rate	16 June		Level	1.00%		0.75%
	Headline CPI Inflation	18 June	May	y-o-y	1.5%		1.4%
United Kingdom	BoE Bank Rate	18 June		Level	3.75%		3.75%
	Headline CPI Inflation	17 June	May	y-o-y	3.1%		2.8%
	Core CPI Inflation	17 June	May	y-o-y	2.7%		2.5%
	CPI Services Inflation	17 June	May	y-o-y	3.7%		3.2%

## The Week Behind

### 1. After multiple kinetic exchanges among Israel, Hezbollah, Iran, and the United States, President Trump indicated an agreement has been reached by all parties. Deal details remain undisclosed.

The outlook: This week's activity aligns with Lazard Geopolitical Advisory's (LGA) expectation that a scenario of "Simmering Tensions" with repeated deadline extensions and low-intensity conflict remains the most likely trajectory for the conflict. President Trump's announcement of "a very strong memorandum of understanding that is a little conceptual" also matches our expectations that any agreement would be partial in nature with a focus on opening the Strait of Hormuz to commercial traffic in exchange for an end to the US embargo on Iran and the unfreezing of meaningful amounts of Iranian assets. The details of this purported agreement have not been released, and it is notable that there have been dozens of instances to date in which predictions of an imminent deal have failed to come to fruition.

While an agreement that reopens the Strait of Hormuz would be market positive, investors should exercise caution, as LGA estimates that in a "Simmering Tensions" scenario such as the one that appears to be playing out, traffic through the Strait of Hormuz could still remain well below pre-war levels through Q4-26 which could translate to *higher* Brent crude oil prices as reserves continue to be depleted even after the agreement is reached.

### 2. US CPI inflation was largely in line with expectations except for core inflation on a month-on-month (m-o-m) basis which was slightly below consensus.

The outlook: If signals of an imminent Iran agreement prove accurate, the May headline CPI figures might represent a y-o-y inflation peak. Core CPI inflation, on the other hand, shows signs of upward pressure across a range of services that could prove more problematic. One driver of higher service inflation could be increased wage demands driven by sustained high energy prices and rising food prices due to fertilizer shortages. My base case view is that worker insecurity is elevated enough that employees will not demand higher wage gains to cover their rising cost of living. Instead, they will endure falling real wages until the Iran war ends and inflation normalizes, thus avoiding a wage-price feedback loop.

The details: The May inflation figures were in line with consensus except for core inflation which was slightly below expectations. On an unrounded basis, core CPI inflation was 21 bps in May versus the consensus expectation of 26 bps. The difference can be explained by a 6 bps drag from lower auto insurance premiums. Of the 47 bps of headline inflation on a m-o-m basis, 29 bps was represented by energy as gasoline prices rose 7% during the month. Food accounted for only 2 bps of the headline inflation increase in May. The contributors to core inflation spanned a range of goods and services delineated in the table below.

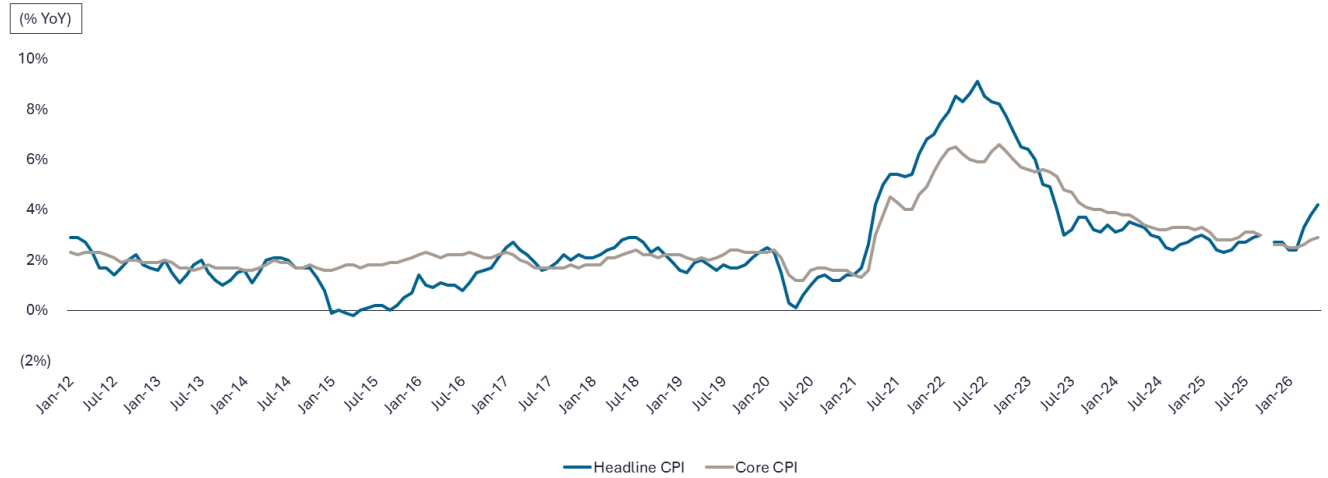
#### US May CPI Inflation

	Consensus	Actual	Prior Reading
Headline m-o-m	0.5%	0.5%	0.6%
Headline y-o-y	4.2%	4.2%	3.8%
Core m-o-m	0.3%	0.2%	0.4%
Core y-o-y	2.9%	2.9%	2.8%

Source: Bloomberg, Bureau of Labor Statistics

US Headline CPI Inflation Reached 4.2% Year-on-Year in May

US Consumer Price Index Inflation



Source: Bureau of Labor Statistics, Haver Analytics  
 Note: As of May 2026. Data for October 2025 were not reported due to lapse in US federal government funding.  
 Food represents 13.5% of the CPI, energy represents 7.5%, and core goods and services represent 79.0%.

LAZARD

May 2026 Core CPI Details	Weight in Core CPI	Contribution/ Detraction (bps)
<b>Key Categories:</b>		
Shelter (owners' equivalent rent, rent of primary residence, other accommodation)	44.6%	14.2
Services ex-Shelter	31.5%	8.2
Core goods	23.9%	(2.8)
Total Core CPI (from sum of key categories)		19.6
All Items Ex-Food and Energy (reported)		20.8
<b>Contributors:</b>		
Owners' equivalent rent of a primary residence	32.6%	9.7
Rent of primary residence	9.8%	3.5
Wireless telephone services	1.7%	3.7
Airline fares	1.3%	3.4
Financial services	0.3%	2.4
Dental services	4.8%	2.2
Hospital and related services	3.3%	2.0
Recreation services	4.0%	2.0
<b>Detractors:</b>		
Motor vehicle insurance	3.4%	(5.7)
New vehicles	4.8%	(1.3)
Medicinal drugs	1.6%	(1.3)
Household furnishings and supplies	4.2%	(1.0)

Source: Lazard, Bureau of Labor Statistics  
 As of May 2026

**3. US PPI inflation was mixed relative to expectations.**

The outlook: Producer prices are likely to continue to be driven by energy costs and the Iran conflict. If we are correct regarding the “Simmering Tensions” scenario for the conflict, energy prices will increase, perhaps meaningfully, between now and year end. That would add further cost pressure and likely lead to greater pass-through to intermediate and consumer goods.

The details: M-o-m and y-o-y inflation figures were higher than expected for PPI Final Demand and ex-food, energy, and trade. However, April results were revised downward across the board. Energy prices increased by 10.7% m-o-m in May, driving much of the headline PPI increase.

The PPI inflation figures are also important because some components of the Personal Consumption Expenditure (PCE) inflation figure are included in the PPI dataset. Based on these data points, some economists raised their forecasts for May PCE inflation. The Federal Reserve targets PCE inflation as it includes all costs for households regardless of who pays them versus CPI inflation which only counts the cost of goods and services paid out of pocket by consumers.

US May PPI	Consensus	Actual	Prior Reading	Revised
PPI Final Demand m-o-m	0.7%	1.1%	1.4%	1.1%
PPI ex-food and energy m-o-m	0.5%	0.4%	1.0%	0.7%
PPI ex-food, energy, and trade m-o-m	0.4%	0.8%	0.6%	0.5%
PPI Final Demand y-o-y	6.4%	6.5%	6.0%	5.7%
PPI ex-food and energy y-o-y	5.4%	4.9%	5.2%	4.9%
PPI ex-food, energy, and trade y-o-y	4.8%	5.1%	4.4%	

Source: Bloomberg, Bureau of Labor Statistics

**4. China’s CPI inflation was slightly below expectations, while PPI was in line with consensus.**

The outlook: Absent the Iran war, Chinese PPI would likely still be in deflation and CPI would be materially lower. After the conflict with Iran ends, I expect deflationary pressure to resume in the absence of significant reforms of the Chinese social safety net and broader economy.

The details: While it is good to see PPI *inflation* rather than deflation and CPI inflation above 1%, the reality is that energy prices have been the key driver of normalization. Headline CPI reflected higher energy prices that were offset by lower food prices. Core CPI inflation excluding gold would have been zero percent in May. Falling property prices and a lethargic job market have led to consumer retrenchment that shows few signs of easing. The lack of domestic demand for goods and services is deflationary, as production has not slowed to align with demand. Fortunately for China, companies have been able to export their way out of the problem in the goods sector, but the service sector is not so lucky.

PPI inflation increased to the highest level since 2022 on the back of higher upstream prices which drove over 80% of the increase. Chemicals, oil & gas, and coal drove this increase. PPI inflation in June and July appear likely to exceed 4% y-o-y given low prior year price levels even if energy prices stabilize at current levels.

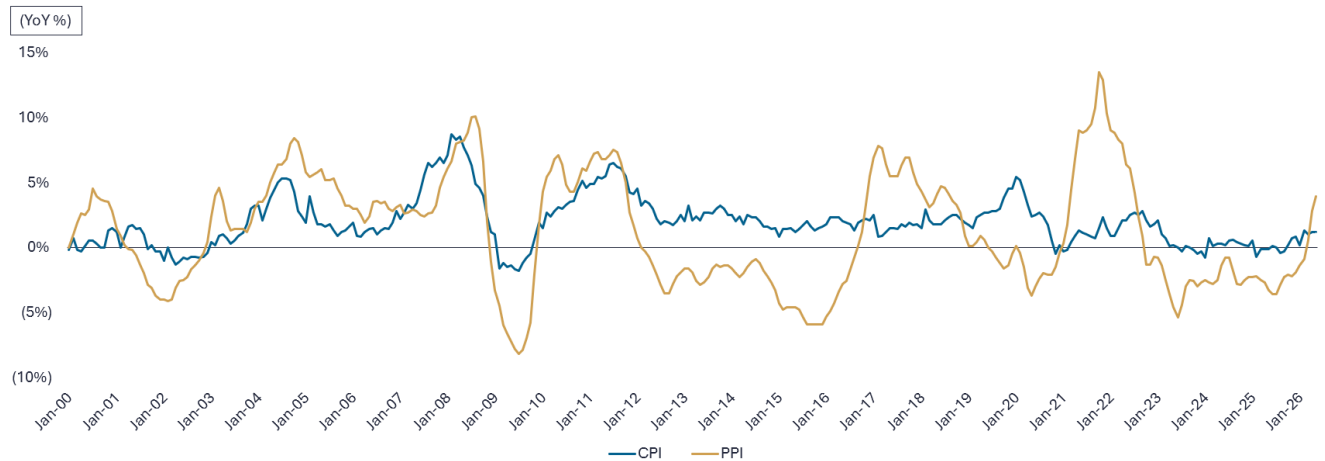
**China May CPI and PPI Inflation**

	Consensus	Actual	Prior Reading
Headline CPI y-o-y	1.3%	1.2%	1.2%
Core CPI y-o-y	1.2%	1.1%	1.2%
Headline PPI y-o-y	3.9%	3.9%	2.8%

Source: Bloomberg, National Bureau of Statistics

**China’s CPI and PPI Have Normalized Recently Due to Higher Energy Costs Resulting from the Iran War**

China CPI and PPI



LAZARD Source: Bloomberg, National Bureau of Statistics Note: As of May 2026

**5. China trade figures topped expectations again in May.**

The outlook: The surge in Chinese imports and exports has been driven more by prices than volume in recent months. Demand for semiconductors has led to a price surge that has driven almost half of the US dollar value increase in exports. Higher energy prices have driven about half of the increase in the value of imports despite a ~4 million barrel per day (mb/d) decrease in Chinese crude oil imports. Until the AI investment wave either fades or supply rises, it appears likely that China can enjoy strong semiconductor exports. Likewise, until the Iran war ends and energy flows normalize, imports appear likely to show strong y-o-y increases.

The details: China reported a trade surplus of over \$100 billion for the fifth time in seven months in May. The \$105 billion May surplus is the third highest monthly total on record on a seasonally unadjusted basis.

Semiconductor exports rose by 110.9% y-o-y in May in value terms versus an increase of 99.6% in April, while export volumes only rose by 2.1% in May versus 3.6% in April. The value of rare earth minerals and ores rose by 237.4% y-o-y in May versus an increase of 196.5% in April, largely driven by price effects.

Semiconductor imports were also driven upward by higher prices with the value of imports up 68.0% y-o-y in May versus a gain of 54.7% in April. Import volume only increased 1.0% y-o-y in May

versus 11.2% y-o-y in April. The value of crude oil imports rose by 15.3% y-o-y in May versus 13.2% y-o-y in April despite a volume decline of 29.0% y-o-y in May versus a decline of 20.0% y-o-y in April.

**China May Trade Data**

		Consensus	Actual	Prior
Exports	y-o-y	15.0%	19.4%	14.1%
Imports	y-o-y	26.0%	27.4%	25.3%
Trade Surplus/(Deficit)	Level	\$ 91.00	\$ 105.43	\$ 84.82

Source: Bloomberg, China Customs General Administration

**6. The ECB raised rates by 25 bps and signaled that further rate hikes are likely if energy prices remain elevated and the Iran conflict is unresolved.**

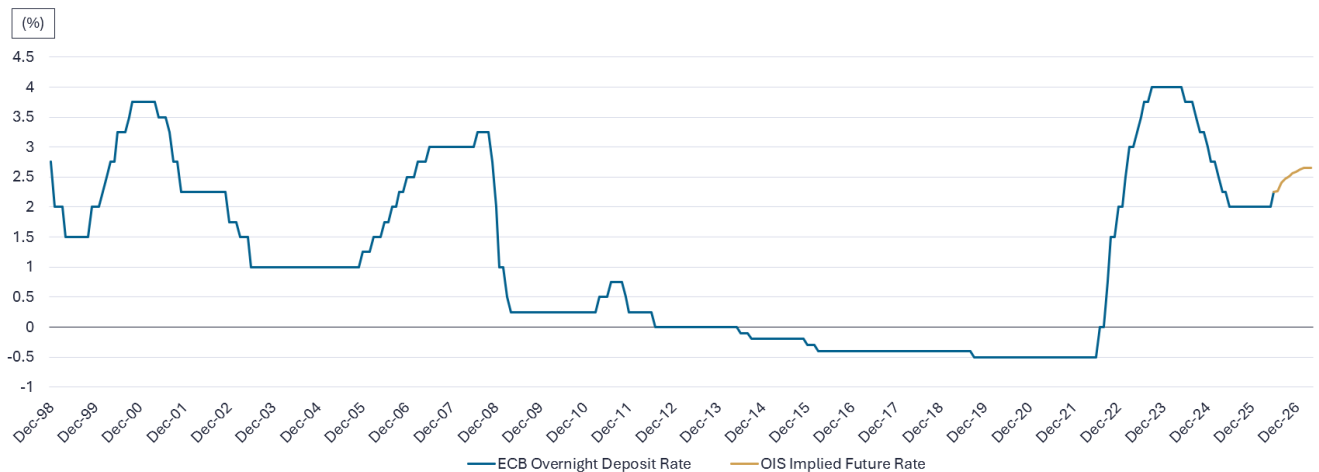
The outlook: The outlook for ECB monetary policy largely depends on the Iran conflict and the subsequent normalization of energy supply and prices. If the “Simmering Tensions” scenario plays out, I expect one more ECB rate hike, versus the market-implied expectation for two additional 25-bps increases by year end.

The details: ECB President Christine Lagarde indicated that the rate hike this week was not an “insurance policy” but instead reflected responsible policy in each of the ECB’s three primary scenarios for the economic outlook. She noted that the energy shock has already extended well beyond the time horizon the ECB initially considered its base case, and hence the risk to the inflation outlook warranted action. The rate hike was unanimous, and Lagarde indicated that there was no debate regarding a larger hike or holding policy constant.

Reflecting the realities of the Iran conflict, the Eurosystem staff adjusted inflation and growth projections. Headline inflation is now forecast at 3.0% in 2026, 2.3% in 2027, and 2.0% in 2028. Real GDP growth is now expected at 0.8% in 2026, 1.2% in 2027, and 1.5% in 2028.

Markets Suggest ~47 bps of ECB Rate Hikes through December 2026\*

Implied Eurozone Deposit Rate through April 2027



Source: Bloomberg

Note: As of 11 June 2026

\* Markets imply a 61% chance of a 25-bps rate hike at the 23 July policy meeting and a 31% chance of an additional 25-bps rate hike at the 10 September policy meeting.

# The Week Ahead

## 1. The FOMC is expected to hold rates constant.

The outlook: Markets have vacillated between expecting one hike in 2026 versus no hikes for the last few weeks. After the CPI inflation report this week, the Fed Funds futures market lowered the likelihood of a rate hike by year end to 73%. I do not expect a rate hike from the Fed this year in the “Simmering Tensions” Iran scenario, as I suspect the Fed will determine the key driver of inflation is likely to be resolved within a year of the Iran conflict winding down, and as there will likely be little evidence of a pass-through from higher energy and food prices to wage growth that could become more systemically embedded across the economy. My view on wages is premised on rising job insecurity facing workers who increasingly worry that artificial intelligence will displace large numbers of employees which then limits their willingness to demand large wage increases even in a period of elevated inflation.

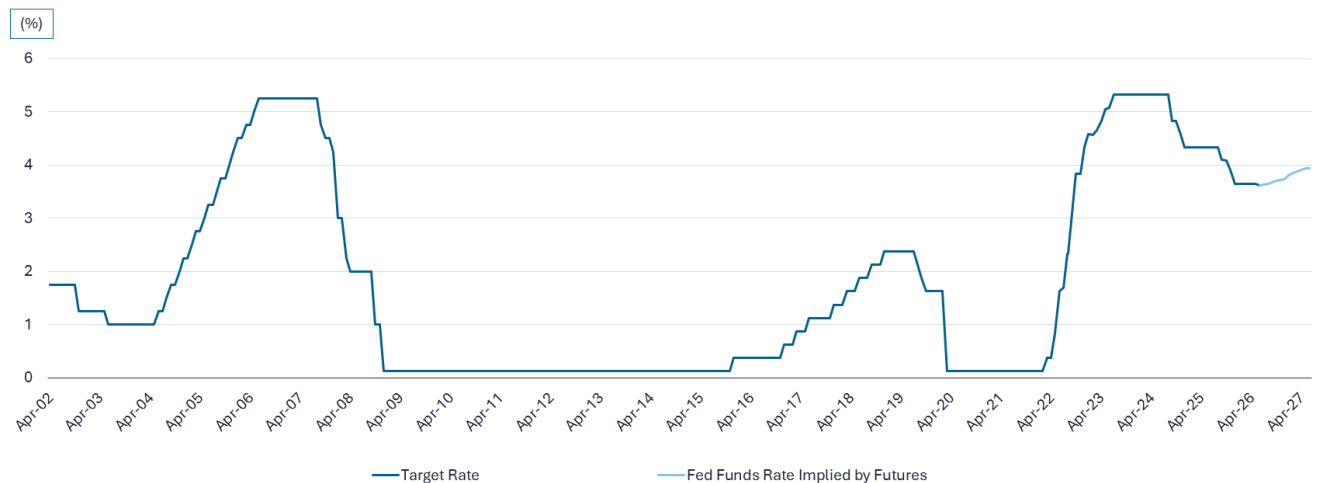
With an uncertain outlook for the US labor market, and inflation that is being driven higher primarily by energy prices, I expect the Fed to look through the current price surge.

Having said this, I do expect the FOMC to change its language in next week’s press release and in Fed Chair Kevin Warsh’s commentary to indicate that the risks to the Fed’s dual mandate are now more balanced. This change will signal to the market that there is a two-sided risk to future Fed policy. I also expect the Fed to indicate that labor market conditions have strengthened relative to the lethargic job growth levels of 2025, with nonfarm payroll growth from March to May averaging 188,000 jobs per month versus only 10,000 jobs per month in 2025.

All said, some will likely describe next week’s communication as a hawkish hold, but I see it as resetting expectations to a more neutral stance that could be followed by rate hikes or cuts depending on the evolution of the Iran conflict and prices.

### Markets Are Pricing an ~73% Chance of One 25-Bps Fed Rate Hike by the End of 2026\*

Federal Reserve Target Rate and Implied Rate through June 2027



Source: Bloomberg, Chicago Mercantile Exchange, Federal Reserve  
 Note: As of 11 June 2026  
 \* Markets imply a 4% chance of a 25-bps rate cut at the 17 June meeting and a 10% chance of a 25-bps rate hike through the 29 July meeting.

**2. US retail sales are likely to have remained resilient in May.**

The outlook: Despite record low consumer sentiment readings, retail sales are likely to continue to grow. My explanation for the retail sales strength excluding gas stations is that high income and net worth households continue to drive spending. The K-shaped economy in the United States includes wealthier households that are enjoying record-high stock and home prices and can spend from accumulated wealth, while the lower half of households depend on wages to sustain consumption.

My assessment is that the University of Michigan Consumer Sentiment Index better reflects the reality that many Americans feel that they are living through an economic downturn, but that the wealth effects of higher financial and physical asset prices are outweighing this sentiment at the cash register. I worry that this K-shaped economic growth is not high quality or necessarily sustainable. If the AI enthusiasm in the equity market is derailed, or the Iran war heads down a more negative path with crude oil prices rising materially from current levels, we could see weaker sales ahead. For now, however, I expect ongoing resilience.

<b>US May Retail Sales</b>	Consensus	Prior Month
Retail Sales m-o-m	0.5%	0.5%
Retail Sales ex-Auto m-o-m	0.4%	0.7%
Retail Sales ex-Auto and Gas m-o-m	0.3%	0.5%
Retail Sales Control Group	0.4%	0.5%

Source: Bloomberg, U.S. Census Bureau

**3. China's May macro metrics are likely to remain weak.**

The outlook: I expect May's macroeconomic metrics to reaffirm the weakness of domestic demand with the consensus expectation for retail sales to be flat y-o-y while fixed asset and property investment continue to decline on a year-to-date (YTD) y-o-y basis.

<b>China May Economic Data</b>		Consensus	Prior
Industrial Production	y-o-y	4.3%	4.1%
	YTD y-o-y	*	5.6%
Retail Sales	y-o-y	0.0%	0.2%
	YTD y-o-y	*	1.9%
Fixed Asset Investment	YTD y-o-y	-2.3%	-1.6%
Property Investment	YTD y-o-y	-14.0%	-13.7%
Residential Property Sales	YTD y-o-y	*	-15.7%
New Home Prices	m-o-m	*	-0.19%
Used Home Prices	m-o-m	*	-0.23%

Source: Bloomberg, National Bureau of Statistics  
 \* No consensus estimate available on Bloomberg.

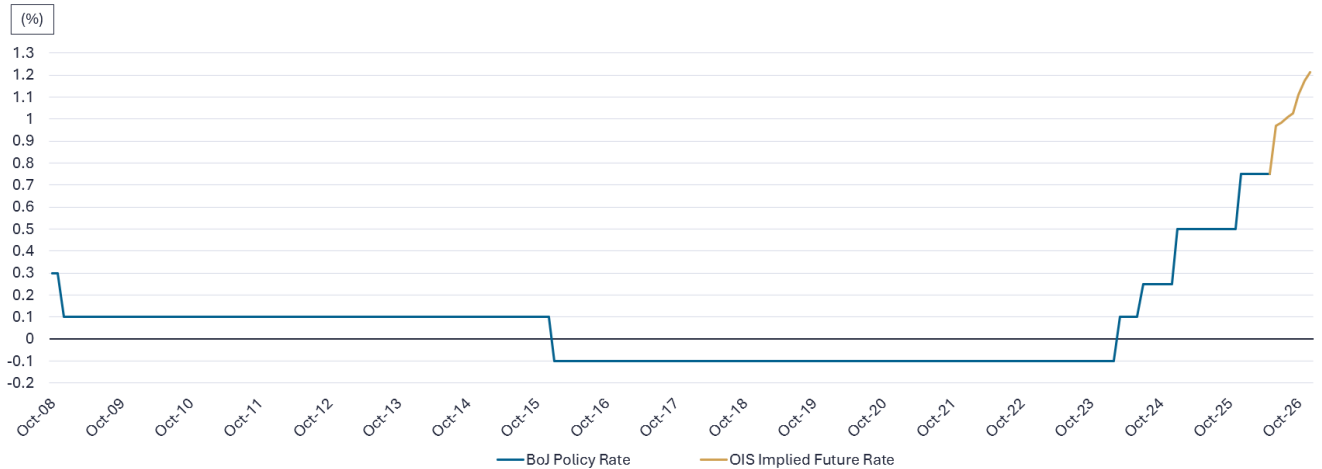
**4. The BoJ is likely to raise rates by 25 bps.**

The outlook: Markets are assigning a 96% chance that the BoJ will raise rates by 25 bps this week. The BoJ will also decide whether and to what degree to continue tapering bond purchases. The continuing run-off rate of bond holdings is well above the gross new purchases by the BoJ which is allowing its balance sheet to shrink. Through the end of May, the BoJ’s holdings of Japanese Government Bonds have declined by JPY68 trillion or 11% from the peak in 2024.

Investors will also be seeking any signal of where the BoJ sees the terminal rate when the rate hike cycle ends. If the BoJ raises rates next week to 1.0%, it will be approaching the lower bound of what some consider to be the neutral rate. Markets are pricing an increase to 1.25% by year end, but any indication of whether there might be additional hikes beyond 2026 will be important to markets.

Markets Suggest ~46 bps of BoJ Rate Hikes through December 2026\*

Implied Bank of Japan Target Rate through December 2026



Source: Bloomberg  
 Note: As of 11 June 2026  
 \* Markets imply a 96% chance of a 25-bps hike through the 16 June meeting and a 3% chance of an additional 25-bps hike through the 31 July meeting.

LAZARD

**5. Japan’s CPI inflation is expected to remain relatively stable in May versus April.**

The outlook: Food price inflation in Japan has continued to slow, but energy prices have increased despite price caps and subsidies. Travel prices also have increased due to higher energy prices. Headline inflation will likely remain muted at ~1.5% y-o-y with core-core inflation just under 2.0%.

**Japan May CPI**

	Consensus	Prior Reading
Headline y-o-y	1.5%	1.4%
CPI y-o-y ex-fresh food (core)	1.4%	1.4%
CPI y-o-y ex-fresh food and energy (core-core)	1.8%	1.9%

Source: Bloomberg, Japan Ministry of Internal Affairs and Communications

**6. The BoE is expected to hold rates constant at the Monetary Policy Committee (MPC) meeting.**

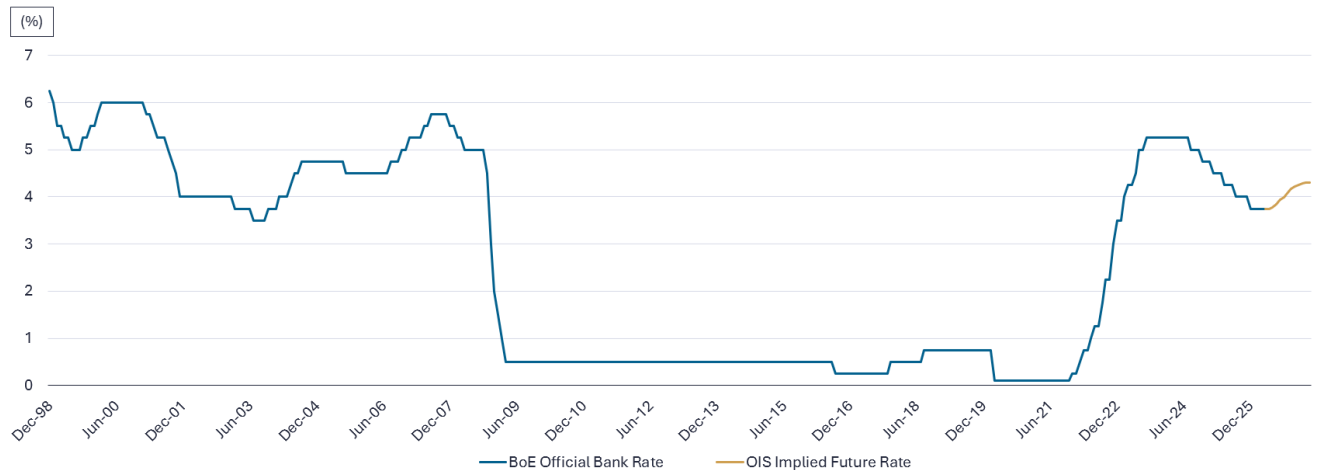
The outlook: Markets have pushed out expectations for BoE rate hikes until the 5 November meeting with investors assuming the BoE MPC members will try to avoid inflicting additional damage on an already weak economy. As of 20 March, markets were pricing ~80 bps of hikes by

year end, but expectations have since shifted to only 35 bps of tightening. Since March, inflation has been lower than expected, inflation expectations have remained high but have declined from peak levels, and the labor market has weakened.

Investors will be eager to ascertain how patient the MPC members are willing to be in terms of the duration of the conflict and how high energy prices might rise before warranting rate increases. The vote is unlikely to be unanimous, with two dissents expected in favor of an immediate rate hike. The BoE provides commentary from each MPC member after each meeting which should also offer clues regarding future decisions.

Markets Suggest ~49 bps of BoE Rate Hikes through December 2026\*

Implied Bank of England Deposit Rate through April 2027



Source: Bloomberg  
 Note: As of 11 June 2026  
 \* Markets currently imply a 6% chance of a 25-bps hike through the 18 June meeting and a 46% chance of an additional 25-bps hike through the 30 July meeting.

LAZARD

**7. UK May CPI inflation is likely to rebound from lower-than-expected April levels.**

The outlook: In April, UK CPI inflation rose less than expected for headline, core, and services. Inflation is expected to reaccelerate in May with the primary question being how much rather than if the figures accelerate. Headline CPI inflation is expected to rise to 3.1% y-o-y from 2.8% in May with services inflation jumping to 3.7% y-o-y from last month’s subdued 3.2% y-o-y rate.

**UK May CPI**

	Consensus	Prior Reading
Headline m-o-m	0.4%	0.7%
Headline y-o-y	3.1%	2.8%
Core y-o-y	2.7%	2.5%
Services y-o-y	3.7%	3.2%

Source: Bloomberg, UK Office for National Statistics

## Important Information

*This content represents the views of the author, and its conclusions may vary from those held elsewhere within Lazard.*

*These materials have been prepared by Lazard for general informational purposes only on a non-reliance basis, and they are not intended to be, and should not be construed as financial, legal, or other advice.*

*In preparing these materials, Lazard has assumed and relied upon the accuracy and completeness of any publicly available information and of any other information made available to Lazard by any third parties, and Lazard has not assumed any responsibility for any independent verification of any of such information. These materials are based upon economic, monetary, market, and other conditions as in effect on, and the information available to Lazard as of, the date hereof, unless indicated otherwise. Subsequent developments may affect the information set out in this document, and Lazard assumes no responsibility for updating or revising these materials.*

*These materials may include certain statements regarding future conditions and events. These statements and the conditions and events they describe are inherently subject to uncertainty, and there can be no assurance that any of the future conditions or events described in these materials will be realized. In fact, actual future conditions and events may differ materially from what is described in these materials. Lazard assumes no responsibility for the realization (or lack of realization) of any future conditions or events described in these materials.*

*No liability whatsoever is accepted, and no representation, warranty, or undertaking, express or implied, is or will be made by Lazard or any of its affiliates for any information contained herein or for any errors, omissions, or misstatements herein. Neither Lazard nor any of its affiliates makes or has authorized to be made any representations or warranties (express or implied) in relation to the matters contained herein or as to the truth, accuracy, or completeness of this document.*

*Nothing herein shall constitute a commitment or undertaking on the part of Lazard to provide any service. Lazard shall have no duties or obligations to you in respect of these materials or other advice provided to you, except to the extent specifically set forth in an engagement or other written agreement, if any, that is entered into by Lazard and you.*

*By accepting this document, each recipient agrees to be expressly bound by the foregoing limitations.*