



TheECONOMY

The All-Clear Was Premature

Economic data released throughout May made clear that the path back to the Federal Reserve's 2% inflation target is neither straight nor short. Headline CPI came in at 4.2% year-over-year, its highest reading since April 2023, while core CPI, which strips out food and energy, rose 2.9% annually. The core number is the one worth watching: it tells us the energy shock from the Middle East conflict is no longer staying contained to fuel prices but beginning to bleed into the broader economy through shelter and services. That is a more uncomfortable story than a simple oil price spike.

The labor market, rather than offering relief, complicates the picture further. May's non-farm payroll report came in at 172,000 jobs added, more than double what consensus expected, and prior months were revised higher as well. A job market this resilient keeps wage pressure alive in service-oriented sectors, which is precisely where inflation has proven most stubborn. For the Fed, a strong labor market removes the urgency to ease and adds to the case for staying on hold or doing more.

The Federal Reserve's new chair, Kevin Warsh, conducts his first FOMC meeting on June 16-17 with an inflation picture that continues to deteriorate, and a labor market that gives him little cover to cut. Markets that were pricing rate reductions earlier this year have fully repriced, with no cuts expected in 2026 and a hike beginning to enter the conversation.

The same pressure is playing out internationally, and in divergent ways. The European Central Bank (ECB) raised rates 25 basis points at its June meeting to 2.25%, reacting to the same energy-driven inflation surge and signaling that it will not wait for second-round effects to materialize before acting. Canada, by contrast, held its policy rate steady at 2.25% at its own June meeting, its fifth consecutive hold. The Bank of Canada is staring at a growth picture still weighed down by U.S. tariffs, a soft labor market, and business investment that has yet to recover. Faced with the same external inflation shock, it chose to look through it rather than compound an already fragile domestic backdrop. The contrast between the ECB's decisiveness and Canada's caution reflects just how differently the same global shock can land depending on what lies underneath.

Central banks that spent 2024 and early 2025 easing policy are now confronting the possibility that the easing cycle ended prematurely. The path back to target looks longer and more uneven than anyone anticipated at the start of the year.

Treasury Yields

Maturity	6/11/26	5/13/26	CHANGE
3 Month	3.712%	3.675%	0.037%
6 Month	3.811%	3.724%	0.087%
1-Year	3.901%	3.779%	0.123%
2-Year	4.131%	3.979%	0.152%
3-Year	4.184%	4.020%	0.164%
5-Year	4.257%	4.117%	0.140%
10-Year	4.526%	4.469%	0.058%
30-Year	5.005%	5.034%	-0.029%

Source: Bloomberg

Agency Yields

Maturity	6/11/26	5/13/26	CHANGE
3 Month	3.600%	3.570%	0.030%
6 Month	3.640%	3.580%	0.060%
1-Year	3.730%	3.590%	0.140%
2-Year	3.680%	3.969%	-0.289%
3-Year	3.630%	4.038%	-0.408%
5-Year	3.750%	4.158%	-0.408%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

Maturity	6/11/26	5/13/26	CHANGE
1 Month	3.697%	3.700%	-0.003%
3 Month	3.825%	3.817%	0.008%
6 Month	3.954%	3.901%	0.054%
9 Month	4.098%	3.979%	0.119%

Source: Bloomberg

Current Economic Releases

Data	Period	Value
GDP QoQ	Q1 '26	1.60%
U.S. Unemployment	May '26	4.30%
ISM Manufacturing	May '26	54.0
PPI YoY	May '26	6.50%
CPI YoY	May '26	4.20%
Fed Funds Target	June 11, 2026	3.50% - 3.75%

Source: Bloomberg

Source: Bloomberg. Data as of June 10, 2026. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.

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