

Investment Insights

May CPI: Gap Between Core and Headline Widens

Morningstar Investment Management LLC

June 2026

Dominic Pappalardo

Chief Multi-Asset Strategist,
Morningstar Wealth

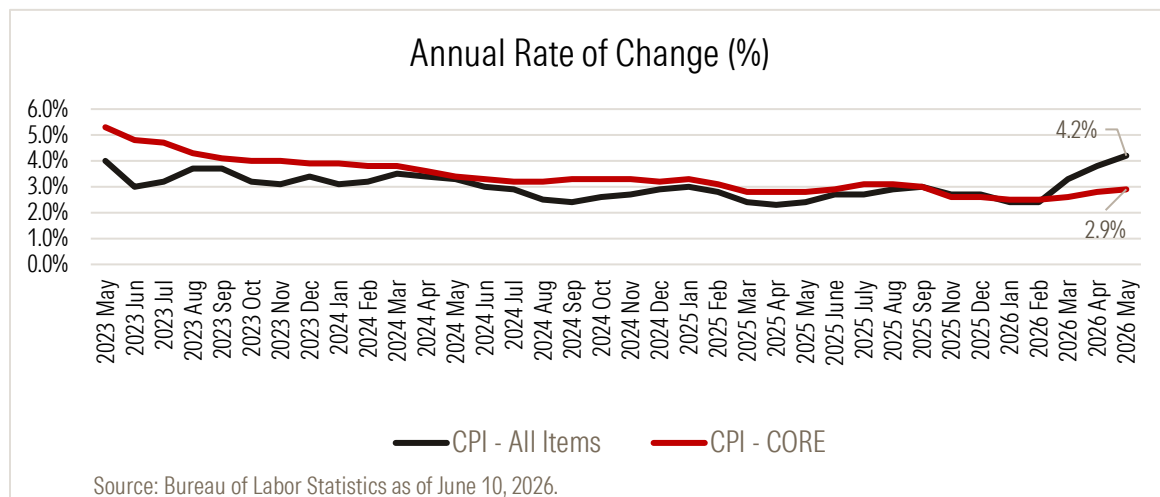
For General Public Use.

Key Takeaways

- May headline inflation rose at an annual rate of 4.2%, as was forecasted, after a 0.5% increase for the month, led by higher energy costs. Core CPI rose at a 2.9% annual rate and was up just 0.2% for the month, 0.1% lower than forecasted. The gap between the two measures continues to widen.
- Gasoline prices rose another 7.0% in May, bringing the annual increase up to 40.5%. Airfare rose an additional 2.8%, pushing the annual increase up to 20.7%. After slowing earlier in the year, shelter costs rose 0.6% in April.
- This morning's equity markets sell-off is driven more by headlines around continued military action in the Middle East, as futures were down significantly before the CPI report's release. In fact, equity futures cut their losses somewhat following the release of the report.

Summary

The May inflation report carried many similar themes to the last couple of months', most importantly higher costs driven by continued increases in energy prices. Headline CPI, which includes all goods and services consumers buy, rose by 0.5% month-over-month, bringing the annual rate up to 4.2%, higher than the 3.8% rate seen in the previous update last month. The increase was in line with Dow Jones forecasts. Looking back, notably, the headline increase of 4.2% is the largest since April 2023. The gap between Core CPI, which excludes food and energy prices due to their short-term volatility, and Headline CPI continues to widen. Core CPI rose, as the annual rate ticked up to 2.9%, up 0.2% for the month, which is 0.1% less than forecasted.



Today's release confirms the burden on consumers from increasing energy costs resulting from the spike in the price of oil caused by the war in the Middle East persists. While energy prices impact nearly all goods consumers purchase, as they are nearly always an input cost to production, transportation, or both, the widening gap between Headline and Core CPI shows the contagion effect is controlled. I suspect the longer energy prices remain elevated, the less likely this containment will continue. However, the fact that Core CPI is increasing much more slowly is still positive for consumers for the time being and will likely be perceived as positive by market participants. Looking ahead, this could suggest that, if energy prices can move lower, inflation may regulate rather quickly.

Both CPI measures moved further above the Fed's stated 2% inflation target. At some point, higher prices will undoubtedly impact economic growth to the downside, as many consumers are already feeling stretched against budget constraints. Additionally, companies could see profit margin compression, as there will inevitably be a limit to how much of the higher input costs can be passed along to consumers without destroying demand.

Beneath the Headline Number

The rise in energy prices once again drove top-line increases, as gasoline and other fuels continued to rise, somewhat surprisingly, at a slightly faster pace than in April. Prices for shelter, one of the main contributors to inflation persistence, increased by only 0.3% for the month, half the rate seen last month, and rose 3.4% on an annual basis. Food prices, something consumers are very sensitive to as they face it daily, rose only marginally, at a 0.2% rate in May, bringing the annual rate down to 3.1%. The report also showed some other important segments with stable or falling prices, as used-vehicle prices were up just 0.1% for the month (down 2.0% annually) and new vehicle prices fell by 0.3% in May (up only 0.2% annually), perhaps a sign that higher gasoline prices are dissuading consumers from driving as much, either by choice or because of affordability. Medical care services rose 0.5% after being unchanged for the previous two months.

Market Reaction

Equity markets are selling off this morning, but the move is being driven by headlines around renewed military activity in the Middle East, more so than the CPI report. Equity futures were sharply negative prior to the release of the CPI report and notably cut their losses following it. The lack of inflation contagion into the Core CPI numbers was viewed optimistically by investors.

Per the Morningstar Style Box breakdown, as of 8:40 AM CDT, large-cap stocks are lagging other segments, as the recent selloff in chip stocks continues. Value stocks are holding up better, possibly buoyed by their contingent of energy stocks, which are rallying today on further oil price increases.

-0.17	-0.40	-0.51	Large
-0.09	-0.37	-0.57	Mid
+0.02	-0.22	+0.22	Small
Value	Core	Growth	

In the fixed-income market, US Treasury yields are nearly unchanged across the yield curve, with the 10-year US Treasury yield holding at 4.52%. The 30-year Treasury yield, which is generally most sensitive to inflation, is up to 5.01%. Additionally, the price of WTI oil is rising today given the headlines regarding the Middle East, but is well off the recent highs, trading at \$89.50 per barrel.

Looking Ahead

Today's report does nothing to alleviate the pressure that the Fed is currently feeling. Recent signs of strength in the labor market may allow the Fed to hike rates should they feel compelled to do so, which was not the case earlier this year. May's inflation increases confirmed that the Fed is more likely to hike rates than cut this year. CME Fed Funds futures currently show over a 66% chance the Fed will hike rates by year-end, including a 23.5% chance of more than one increase. The chance of a rate cut is down to 1.2%.

Next week's Fed meeting will be Kevin Warsh's first as Chairman. While it's very unlikely any rate change will be implemented, hearing whether there is continued dissent among voting members (after having four in the April meeting), as well as insight into which direction Mr. Warsh may be leaning, will be highly sought-after intelligence.

For Additional Information

+1 (800) 886-1749

wealth.us@morningstar.com

mp.morningstar.com

About Morningstar Investment Management

Your investment goals matter to us. Our mission is to empower investor success by building investment portfolios selected by your financial advisor. Our world-class investment strategies draw on our core capabilities in research, asset allocation, investment selection and portfolio construction. Our investment professionals are located around the world, which provides both a global point of view and local market expertise.

Based on a proprietary valuation-driven asset-allocation process, our strategies offer investors a range of multi-asset, risk- and outcome-based strategies designed to help meet a variety of goals. Also, our separately managed accounts offer concentrated portfolios of our portfolio managers' best ideas. We put more than 40 years of investment experience to work in every portfolio we manage to offer you a better investing experience, because your journey matters.

For General Educational Use Only.

Opinions expressed are as of the current date; such opinions are subject to change without notice. Morningstar Investment Management shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses or opinions or their use. This commentary is for general educational and informational purposes only. The information, data, analyses, and opinions presented herein are designed to provide general information about investing, to inform investors about developments in the broader financial ecosystem, and/or to help investors interpret market and regulatory shifts. This material is not an offer of our investment advisory services or an offer to buy or sell a security. Please note that references to specific securities or other investment options within this piece should not be considered an offer (as defined by the Securities and Exchange Act) to purchase or sell that specific investment. Performance data shown represents past performance. Past performance does not guarantee future results.

All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. Morningstar Investment Management does not guarantee that the results of their advice, recommendations or objectives of a strategy will be achieved. This commentary contains certain forward-looking statements. We use words such as "expects", "anticipates", "believes", "estimates", "forecasts", and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason. Past performance does not guarantee future results.

Morningstar Wealth includes: (i) investment product (ii) Morningstar Funds Trust, (iii) Morningstar OfficeSM, Morningstar's RIA portfolio software service; (iv) Morningstar[®] ByAllAccounts[®], Morningstar's investment data aggregation service; and (v) Morningstar.com[®], Morningstar's individual investor site offering.

Advisory services under Morningstar Wealth are offered by Morningstar Investment Management LLC, a registered investment adviser and subsidiary of Morningstar, Inc

Investing in international securities involve additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may increase these risks. Emerging markets are countries with relatively young stock and bond markets. Typically, emerging-markets investments have the potential for losses and gains larger than those of developed-market investments. A debt security refers to money borrowed that must be repaid that has a fixed amount, a maturity date(s), and usually a specific rate of interest. Some debt securities are discounted in the original purchase price. Examples of debt securities are treasury bills, bonds and commercial paper. The borrower pays interest for the use of the money and pays the principal amount on a specified date. The indexes noted are unmanaged and cannot be directly invested in. Individual index performance is provided as a reference only. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although index performance data is gathered from reliable sources, Morningstar Investment Management cannot guarantee its accuracy, completeness or reliability. Morningstar Manager Research or Morningstar's Manager Research team refers to various wholly owned subsidiaries of Morningstar, Inc. including but not limited to Morningstar Research Services LLC (USA), Morningstar UK Limited and Morningstar Australasia Pty Limited that produce investment analysis and opinions on mutual funds, exchange-traded funds and collective investment schemes.