Benign Inflation Numbers Add More Fuel to the Market Rally

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The markets had already concluded Fed officials will begin cutting the overnight target rate three months from now at the March FOMC meeting. This week's key economic releases have mostly validated the idea that inflation is receding faster than expected, granting the Fed latitude to ease early.

This morning, the personal consumption expenditures (PCE) deflator for November fell -0.1%, slightly less than the unchanged forecast. The core PCE deflator rose +0.1%, below the +0.2% median forecast, while the previous month's reading was revised downward from +0.2% to +0.1%. On a year-over-year basis, the overall PCE price index is now increasing at a +2.6% pace, while core PCE is rising at a +3.2% rate. More importantly, over the last six months core PCE is up by just +1.9% on an annual basis, indicating that *the preferred inflation measure of Fed officials* seems to be on target through November.

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