Market Yields Mixed as Inflationary Pressure Persists

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All eyes are on inflation, and the September Consumer Price Index (CPI) indicates it isn't receding as Fed officials had expected. Last month's headline CPI advance increased from +0.3% to +0.4% as the cost of food, energy, new vehicles and housing moved significantly higher. On a year-over-year basis, CPI is now rising at a hot +5.4% pace, matching a 13-year high and nearly triple the +1.8% average during the 10-year period *before* the pandemic. Core CPI, which excludes the volatile food and energy components, rose +0.2% in September and remains at a +4.0% annual pace, double the Fed's target.

Whereas prices on a number of pandemic-bloated components continued to ease, others accelerated. New vehicle prices climbed +1.3% last month, while prices on used cars and trucks fell -0.7% after a -1.5% drop in the previous month. Even after two months of decline, used vehicle prices are still up a remarkable +24.4% on a year-over-year basis.

Gasoline prices rose another +1.2% in September and according to Labor Department data, are up +42.1% over the past 12 months. However, AAA data through yesterday showed an average nationwide price for regular unleaded at $3.28, an increase of more than 50% from the $2.18 average of a year ago. With WTI crude climbing above $80 per barrel for the first time in three years on Monday and natural gas prices hovering at a 13-year high, energy prices clearly won't be retreating in October.

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The short end of the yield curve is selling off (yields higher), under the impression that the Fed will respond to elevated prices by hiking rates earlier. The long end of the curve is actually rallying (yields lower) in anticipation of the Fed tapping the brakes on economic growth.

The Fed's expectation that year-over-year prices would peak in the late spring or earlier summer hasn't played out. Analysts are having a terrible time forecasting economic data. The New York Fed's *NowCast* model was discontinued last month as volatility and faulty seasonal adjustments created consistent misses in the forecasts, robbing the model of its value. There are 75 staff economists listed at the New York Fed, but the current economic environment has clearly created challenges beyond the staff's ability to corral.

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Market Indications as of 9:39 A.M. Central Time

DOW	Down 179 to 35,625 (HIGH: 35,625)
NASDAQ	Up 42 to 14,508 (HIGH: 15,374)
S&P 500	Down 13 to 4,337 (HIGH: 4,537)
1-Yr T-bill	current yield 0.10%; opening yield 0.09%
2-Yr T-note	current yield 0.36; opening yield 0.34%
3-Yr T-note	current yield 0.65%; opening yield 0.63%
5-Yr T-note	current yield 1.06%; opening yield 1.07%
10-Yr T-note	current yield 1.53%; opening yield 1.57%
30-Yr T-bond	current yield 2.04%; opening yield 2.08%