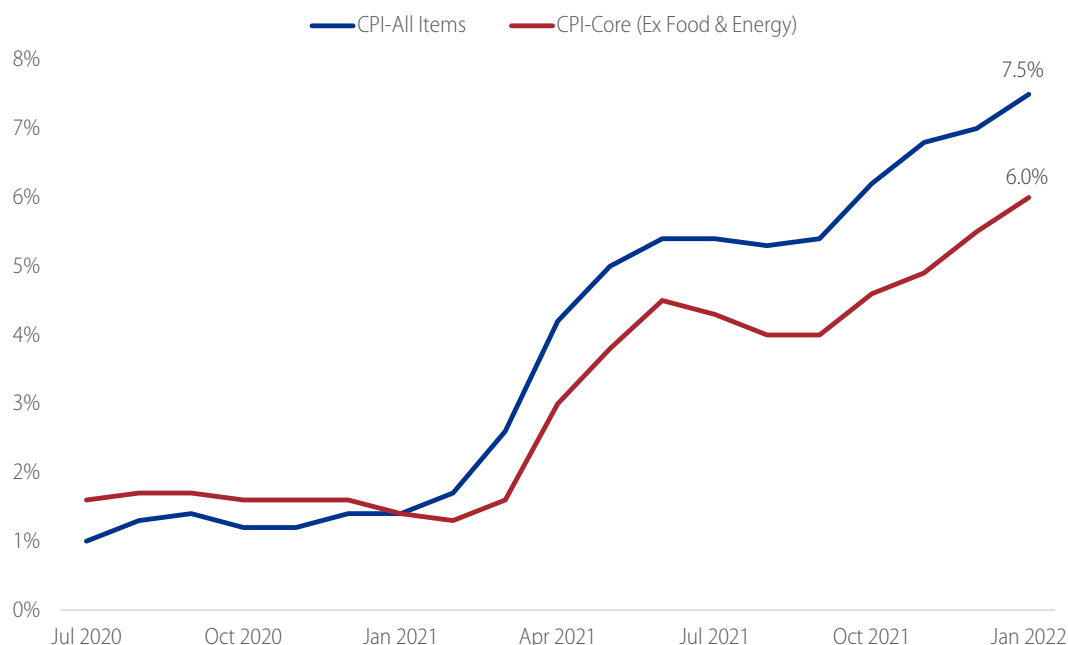


Too Hot January Prices Hammer Bonds

The financial markets were braced for a hot consumer inflation number this morning; it turned out to be hotter. The January consumer price index rose +0.6%, above the +0.4% median forecast and matching the revised December increase. Headline CPI is now running at a +7.5% annual pace, a fresh 40-year high, and above the +7.3% median forecast.

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Consumer Price Index (Year-over-Year Percent Change)



Headline CPI is now running at a +7.5% annual pace, a fresh 40-year high, and above the +7.3% median forecast.

Source: Bureau of Labor Statistics

Energy prices rose +0.9% for the second month in row, and are up +27% year-over-year. Within this category, electricity prices increased +4.2%, while gasoline prices fell -0.8% ...although still up +40% on an annual basis.

Food prices rose +0.9% for the month and +7.0% year-over-year. Within this category, meat prices were down -1.3%, while coffee prices (gasp) were up +2.7%.

Core CPI, which excludes the volatile food and energy categories, also rose +0.6% in January, topping the +0.5% forecast and exactly matching the December increase. Core CPI is now up +6.0% year-over-year, the biggest annual gain since August 1982.

Used car and truck prices continue to raise eyebrows, up another +1.5% in January and up over +40% on the year. By contrast, new car and truck prices were *unchanged* last month and are +12% higher year-over-year. Moderation in new car prices may indicate some relief in the supply chain bottleneck.

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Shelter costs rose +0.3% in January after a +0.4% rise in the prior month, and are now up +4.4% over the past 12 months. Shelter costs have lagged the overall index and are likely to climb higher as the year progresses. Unfortunately, it's this category that makes the largest contribution to the overall index and it'll be awhile before it moderates.

The financial markets were prepared for an increase, but not quite as much and not affecting so many categories. As a result, bond yields are sharply higher in early trading and the possibility of a 50 bp hike in March has now risen above 50%. At this point, the bond market has fully priced-in six rate hikes between now and the December FOMC meeting. This market adjustment has happened alarmingly fast. In early October, the market had yet to fully price-in a single hike.

The 10-year Treasury-note yield reached 2% this morning for the first time since August 2019. The two-year note, at 1.47%, has risen 120 basis points since early October and is now above where it was trading before the pandemic.

A majority of economists believe prices are at or near their peak, and will move sharply lower in late spring and early summer. In fact, the most recent (January) Bloomberg economist survey shows headline CPI declining to a +3.1% annual pace *by the end of this year*, and this could certainly happen. But, the thought that price declines are just months away has been the expectation since *last* summer. The markets are growing increasingly anxious for the Fed to do something. Oddly enough, the Fed's quantitative easing campaign has yet to wind down. This is looking more and more like a policy mistake.

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Market Indications as of 9:25 A.M. Central Time

DOW	Down -66 to 35,702 (HIGH: 36,800)
NASDAQ	Down -77 to 14,414 (HIGH: 16,057)
S&P 500	Down -7 to 4,580 (HIGH: 4,797)
1-Yr T-bill	current yield 0.99%; opening yield 0.88%
2-Yr T-note	current yield 1.48%; opening yield 1.36%
3-Yr T-note	current yield 1.74%; opening yield 1.62%
5-Yr T-note	current yield 1.90%; opening yield 1.82%
10-Yr T-note	current yield 1.99%; opening yield 1.94%
30-Yr T-bond	current yield 2.28%; opening yield 2.24%

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