Markets Rally as Inflation Meets Expectations

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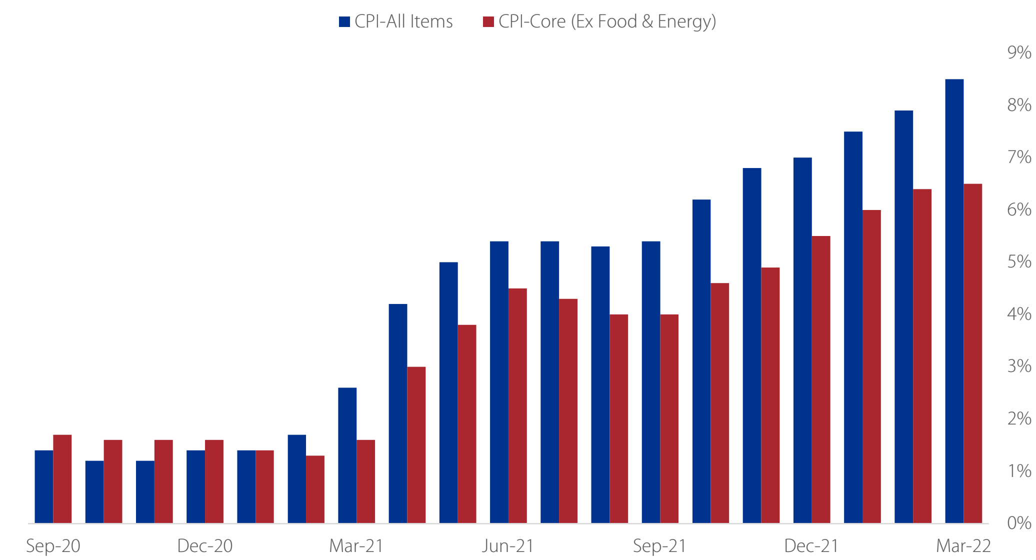
Headline consumer inflation reached a fresh four-decade high in March, prompting an odd rally in both stocks and bonds. *The explanation was simply that it wasn't any worse than expected.* The bar is pretty low at this point.

The overall consumer inflation index (CPI) was up +1.2% in March, exactly matching the median forecast, while core CPI rose +0.3%, below the expected +0.5%. On a year-over-year basis, overall CPI was increasing at a 43-year high of +8.5% last month, while core CPI is now rising at a +6.5% pace, the highest in 40 years. *The whisper numbers were higher.*

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



Source: Bureau of Labor Statistics

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It's very possible that the annual inflation rate will have peaked with this report. The reason is that the price base keeps rising. In March 2021, the annual rate of inflation was +2.6%; by June 2021, it was +5.4%. All else being equal, the annual increase will appear considerably smaller by summer relative to 12 months ago.

As expected, gasoline was the main contributor to the overall number in March. The +18.3% increase at the pump (a 13-year high for a single month) contributed more than half of the headline gain. Gas prices are +48% higher than this time last year. Crude oil prices are generally lower (so far) in April, suggesting that energy will make a smaller contribution next time.

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Food prices rose +1.0% in March and are up +8.8% for the year, the biggest annual gain since 1981. Grain and cereal prices are already starting to climb and are likely to move higher as the war rages in Ukraine.

Used vehicle prices actually fell by -3.8% in March, the biggest monthly drop in 53 years, while new vehicle prices rose by just +0.2%. *The huge drop in the price of used cars and trucks pushed the price of core goods into negative territory for the first time in a year.*

Shelter costs were up +0.5% for the second month in a row and +5.0% year-over-year. This cost is expected to rise further as leases are renewed at higher prices.

Airfare was up +10.7% in March and +23.6% year-over-year. At this point, the cost of air travel is back to pre-pandemic levels.

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Nothing changes the Fed's expected rate path. In fact, a 50 bps hike for May 4th is now almost entirely priced-in.

In other news this morning, real hourly earnings fell -2.7% year-over-year in March while real weekly earnings fell -3.6%. This indicates that the rate of inflation is significantly outpacing the earnings rate, which implies lower future spending capacity for consumers.

Market Indications as of 9:40 A.M. Central Time

DOW	Up 184 to 34,492 (HIGH: 36,800)
NASDAQ	Up 155 to 13,567 (HIGH: 16,057)
S&P 500	Up 43 to 4,456 (HIGH: 4,797)
1-Yr T-bill	current yield 1.74%; opening yield 1.74%
2-Yr T-note	current yield 2.43%; opening yield 2.50%
3-Yr T-note	current yield 2.64%; opening yield 2.76%
5-Yr T-note	current yield 2.69%; opening yield 2.81%
10-Yr T-note	current yield 2.71%; opening yield 2.78%
30-Yr T-bond	current yield 2.79%; opening yield 2.83%