

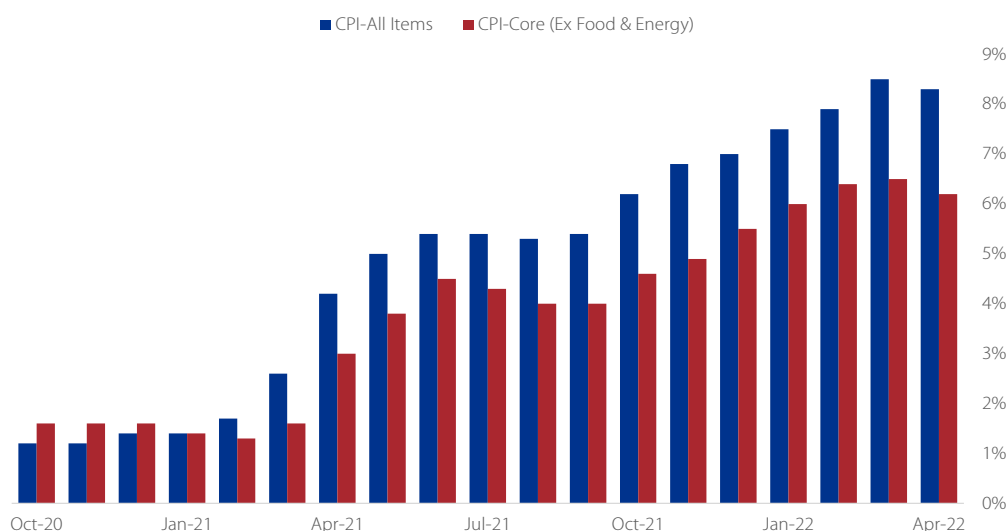
Bond Yields Rise on Hotter April CPI Report

Both the overall consumer price index (CPI) and core CPI exceeded forecasts in April, indicating that the inflation battle has yet to turn. Headline CPI rose by +0.3%, slightly above the +0.2% median forecast, but it was the core increase of +0.6%, *doubling the gain in March*, that has upset the bond market this morning.

On a year-over-year basis, overall CPI actually declined from +8.5% to +8.3%. This would be a positive note if the median forecast hadn't been +8.1%. Core CPI also retreated on a year-over-year basis from +6.5% to +6.2%, but missed the +6.0% forecast.

The April inflation details revealed a +18.3% increase in airfare costs following a +10.7% gain in March. On an annual basis, airfare is now up +33%. This reflects both surging demand by travelers and increased fuel and labor costs, and isn't likely to turn lower as summer approaches.

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



Source: Bureau of Labor Statistics

Gasoline prices reversed direction in April, falling -6.1% after a +18.3% March increase. Gasoline is +43.6% higher than a year ago, but with nationwide gas reaching a new record high this week, there's more upside to come. Used car and truck prices fell -0.4% in April, but new vehicle prices jumped +1.1. Lockdowns in China are increasing supply bottlenecks and further restraining vehicle production.

Food costs rose +0.9% in April after +1.0% increases in both of the previous two months and are up +9.4% since last April. Shelter costs climbed +0.5% for the month and +5.1% on the year. Most analysts expect rent prices will remain under pressure throughout the summer months.

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Powell warned there could be unpleasant surprises in the data along the way; this was one. Bond yields are climbing as investors now expect the Fed will reconsider larger 75 bps hikes this year to tap down demand. The next FOMC meeting is scheduled for June 15th, five days after the May CPI release.

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Equity futures were in positive territory before the Bureau of Labor Statistics released its report, dropped afterward but are now positive again. *The only thing certain for stocks these days is volatility.*

Market Indications as of 8:59 A.M. Central Time

DOW	Up 245 to 32,406 (HIGH: 36,800)
NASDAQ	Up 23 to 11,761 (HIGH: 16,057)
S&P 500	Up 6 to 4,007 (HIGH: 4,797)
1-Yr T-bill	current yield 1.95%; opening yield 1.90%
2-Yr T-note	current yield 2.69%; opening yield 2.61%
3-Yr T-note	current yield 2.89%; opening yield 2.82%
5-Yr T-note	current yield 2.96%; opening yield 2.91%
10-Yr T-note	current yield 3.01%; opening yield 2.98%
30-Yr T-bond	current yield 3.16%; opening yield 3.12%

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