

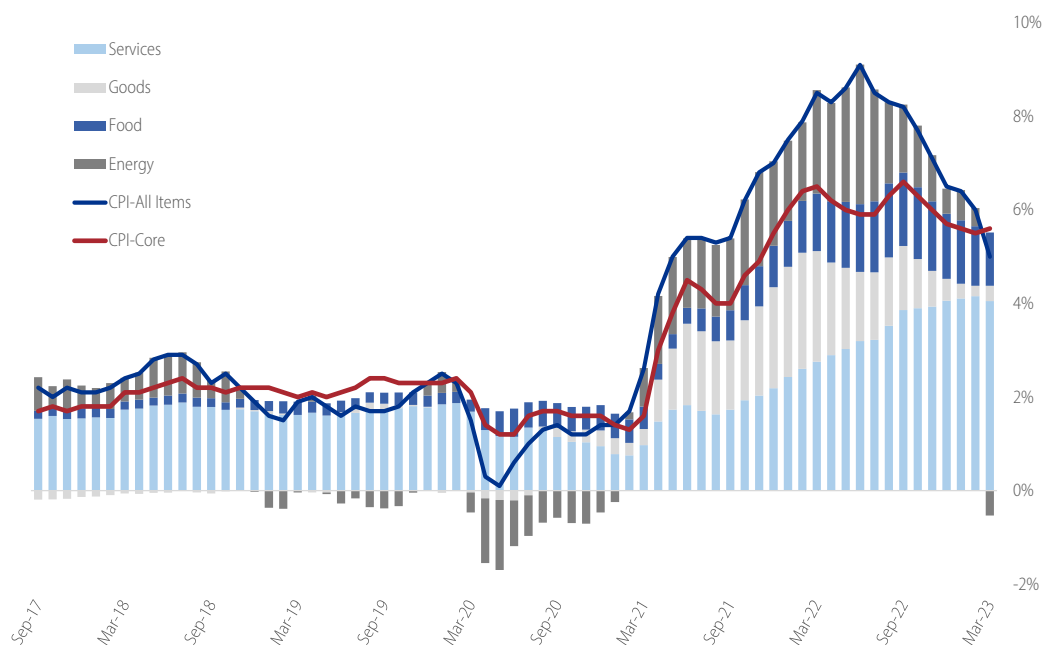
## Markets Cheer Cooler CPI, but Elevated Underlying Prices Still Point to May Hike

The overall consumer price index (CPI) rose by just +0.1% in March, bettering the +0.2% median forecast after a +0.4% increase the previous month. On a year-over-year basis the optics were impressive, as headline consumer inflation dropped from +6.0% to +5.0%. *The financial markets celebrated in early trading, but the news wasn't all good.*

Scott McIntyre, CFA  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2009  
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2012  
greg.warner@hilltopsecurities.com

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



Source: Bureau of Labor Statistics

Core CPI rose +0.4% in March, matching forecasts, while the annual pace crept *higher* from +5.5% to +5.6%. Bloomberg noted it was the first time in over two years that the year-over-year core exceeded the headline.

Shelter costs rose +0.6% in March, the smallest increase since November, but still the biggest contributor to overall inflation last month. Housing costs are notoriously sticky, but the trend is decidedly lower. It'll take a while.

Overall food prices were *unchanged* in March, although food at home (grocery prices) were actually down -0.3%. Food costs are still +8.5% higher than a year ago, but the monthly decline in grocery prices is a relief ... and makes a great headline.

Energy prices fell -3.5% last month with gas prices tumbling -4.6%. Another relief for consumers. However, with the price of crude oil roughly 25% higher since mid-March, it's likely that the energy component will weigh *to the upside* in the next report.

*The financial markets celebrated in early trading, but the news wasn't all good.*

*Shelter costs rose +0.6% in March, the smallest increase since November, but still the biggest contributor to overall inflation last month.*

Used vehicle prices continued to sink from extremely elevated levels, down -0.9% for the month and -11.2% year-over-year. At one point in 2022, used vehicle prices were up over +40% on an annual basis. As new car production increases, there's still plenty of room for used car prices to fall.

Airfare was up +4.0% in March and +17.7% year-over-year. As the summer approaches, higher fuel costs, strained capacity, and rising personnel costs should keep pressure on air travel.

Daycare and preschool costs jumped +6.8% in March, the biggest increase ever. This simply reflects a shortage of workers, and it's hard to imagine a quick fix.

The March CPI report isn't quite as upbeat as the markets are signaling for a number of reasons:

- Energy prices, which fell significantly in March, are expected to reverse direction in April.
- Core CPI, actually climbed on an annual basis in March and remains higher than it was at the end of 2021.
- Powell's newest focus point, so-called Supercore inflation (service prices, ex food, energy and housing) is still increasing at a +5.8% pace.

*With the price of crude oil roughly 25% higher since mid-March, it's likely that the energy component will weigh to the upside in the next report.*

*If price pressures continue to cool, it's reasonable to expect a pause at the June meeting, but the idea of a rate cut before yearend is a stretch.*

The somewhat cooler CPI report isn't likely to alter the path of policymakers at the May 3rd FOMC meeting. Given the stubbornness of core inflation, and the Fed's determination to reach its +2.0% long-term inflation goal, it's too early to declare victory. At least one more quarter point hike is still the most likely outcome. If price pressures continue to cool, it's reasonable to expect a pause at the June meeting, but the idea of a rate *cut* before yearend is a stretch.

## Market Indications as of 9:32 A.M. Central Time

DOW	Up 145 to 33,829 (HIGH: 36,800)
NASDAQ	Up 39 to 12,071 (HIGH: 16,057)
S&P 500	Up 22 to 4,130 (HIGH: 4,797)
1-Yr T-bill	current yield 4.68%; opening yield 4.63%
2-Yr T-note	current yield 4.00%; opening yield 4.02%
3-Yr T-note	current yield 3.73%; opening yield 3.76%
5-Yr T-note	current yield 3.50%; opening yield 3.53%
10-Yr T-note	current yield 3.42%; opening yield 3.42%
30-Yr T-bond	current yield 3.65%; opening yield 3.62%

*The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.*

*Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.*