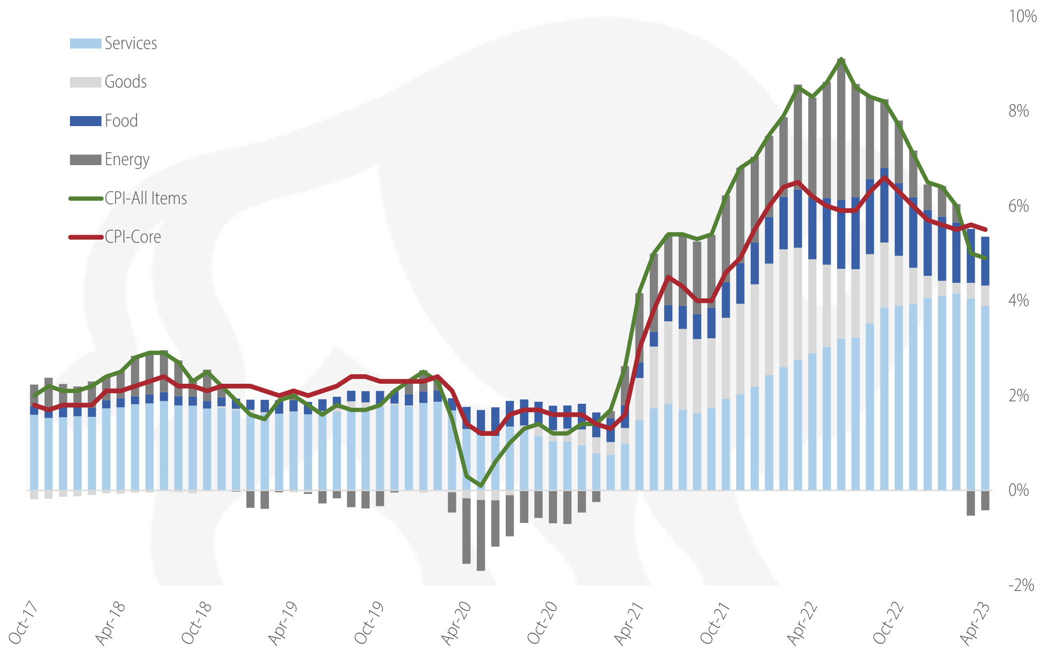
Relief Rally as CPI Equals Forecasts

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

The headline consumer price index (CPI) climbed +0.4% in April, well above the +0.1% gain in March but exactly matching the median forecast. The energy index rose +0.6% after falling -3.5% in March, while the food index was *unchanged* for the second straight month. When the volatile food and energy categories are excluded, core CPI was up +0.4%, also matching the median forecast.

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



Source: Bureau of Labor Statistics

As expected, shelter costs were the biggest contributor to the overall index, rising +0.4% in April following a +0.6% increase in March. Housing prices are a lagging indicator and are expected to continue a gradual decline throughout the remainder of the year.

As expected, shelter costs were the biggest contributor to the overall index, rising +0.4% in April following a +0.6% increase in March. Housing prices are a lagging indicator and are expected to continue a gradual decline throughout the remainder of the year.

The new car index was negative (-0.2%) for the first time this year, while the used vehicle index rose +4.4%. The medical care index was *unchanged* after three straight months of declining prices.

On a year-over-year basis, headline CPI cooled a bit from a pace of +5.0% to +4.9%, slightly below the median forecast of +5.0%. Core CPI was up +5.5% in April, matching expectations and down from +5.6% in March. The elevated core rate remains a nagging concern, now above the 5% mark for 17 consecutive months. The solace here is that housing costs should soften significantly and pull both the core and headline lower over time. The core services index, which excludes the housing component, was up by just +0.1% in April, down from +0.4% in March.

The elevated core rate remains a nagging concern, now above the 5% mark for 17 consecutive months.

The markets had braced for the risk of a hotter report, so much of this morning's early rally reflects *relief*. There was nothing in the April numbers that suggest Fed officials will be any more inclined to hike another quarter point at the June meeting. However, as long as core CPI stubbornly remains above +5.0%, rate cuts are out of the question.

The markets had braced for the risk of a hotter report, so much of this morning's early rally reflects relief. There was nothing in the April numbers that suggest Fed officials will be any more inclined to hike another quarter point at the June meeting.

Market Indications as of 9:20 A.M. Central Time

DOW	Down -56 to 33,506 (HIGH: 36,800)
NASDAQ	Up 103 to 12,283 (HIGH: 16,057)
S&P 500	Up 24 to 4,143 (HIGH: 4,797)
1-Yr T-bill	current yield 4.78%; opening yield 4.79%
2-Yr T-note	current yield 3.96%; opening yield 4.02%
3-Yr T-note	current yield 3.62%; opening yield 3.68%
5-Yr T-note	current yield 3.42%; opening yield 3.49%
10-Yr T-note	current yield 3.47%; opening yield 3.52%
30-Yr T-bond	current yield 3.81%; opening yield 3.84%