

Yields Plummet As Inflation Eases

The U.S. Bureau of Labor Statistics reported today that the Consumer Price Index (CPI) was unchanged in October, following a +0.4% increase in September. October's unchanged reading was driven by lower energy prices which fell -2.5% for the month, largely the result of gasoline's -5% monthly decline. On a year-over-year basis the CPI was up +3.2%, a sharp decline from September's +3.7% reading.

Stripping out food and energy the core-CPI rose +0.2% last month and is up +4.0% over the last 12 months, its smallest 12-month change since September 2021. The shelter component continues to be the largest contributor to core inflation readings, but October's increase of +0.3% was half the +0.6% increase of September. Over the last 12 months, shelter costs are up +6.7% and account for more than 70% of core-CPI's increase. However, with other private measures of rent and housing costs on the decline, there is a great deal of optimism that the official BLS data on shelter costs will soon follow suit, taking overall inflation much lower.

Other notable categories included used cars, which fell -0.8% on the month and are down -7.1% over the past year; and vehicle insurance which rose +1.9% last month and +19.2% over the year.

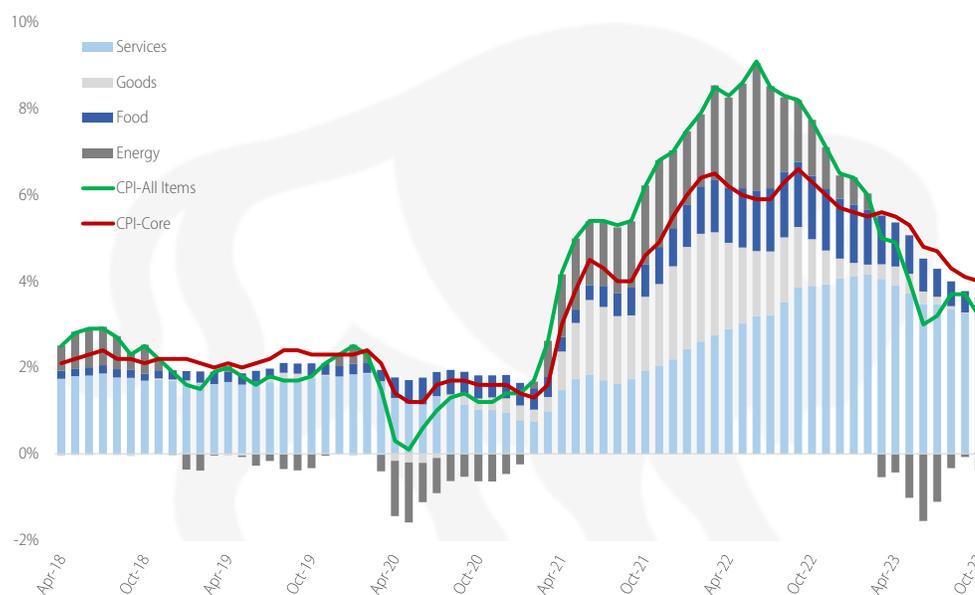
While there is plenty of back and forth within the details, the key takeaway is that the month-over-month and year-over-year measures for both the headline and core all came in 0.1% below the median estimates in Bloomberg's survey. Markets have read this as a very friendly report that should calm concerns that inflation was reaccelerating in the wake of last month's upside surprise and have concluded the Fed will remain on hold.

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



Source: Bureau of Labor Statistics

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Fed funds futures indicate the chances for one more rate hike have fallen from almost 30% yesterday to less than 5% after the report's release. Furthermore, futures are bringing forward the expectations for when the Fed will begin to cut rates and now indicate at least one rate cut by the middle of 2024.

Stocks and bonds are in rally mode with the Dow, S&P 500 and Nasdaq up 1.3%, 1.5%, and 2% as of this writing. Bond yields are sharply lower with the two-year Treasury note yield having fallen from 5.05% to 4.85%, and the 10-year from 4.61% to 4.46%. It was only a month ago that 10's were flirting with 5%.

Market Indications as of 9:21 A.M. Central Time

DOW	Up 480 to 34,817 (HIGH: 36,800)
NASDAQ	Up 284 to 14,052 (HIGH: 16,057)
S&P 500	Up 81 to 4,493 (HIGH: 4,797)
1-Yr T-bill	current yield 5.28%; opening yield 5.34%
2-Yr T-note	current yield 4.86%; opening yield 5.04%
3-Yr T-note	current yield 4.62%; opening yield 4.81%
5-Yr T-note	current yield 4.46%; opening yield 4.67%
10-Yr T-note	current yield 4.46%; opening yield 4.64%
30-Yr T-bond	current yield 4.62%; opening yield 4.75%

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