

Benign Inflation Numbers Add More Fuel to the Market Rally

The markets had already concluded Fed officials will begin cutting the overnight target rate three months from now at the March FOMC meeting. This week's key economic releases have mostly validated the idea that inflation is receding faster than expected, granting the Fed latitude to ease early.

This morning, the personal consumption expenditures (PCE) deflator for November fell -0.1%, slightly less than the unchanged forecast. The core PCE deflator rose +0.1%, below the +0.2% median forecast, while the previous month's reading was revised downward from +0.2% to +0.1%. On a year-over-year basis, the overall PCE price index is now increasing at a +2.6% pace, while core PCE is rising at a +3.2% rate. More importantly, over the last six months core PCE is up by just +1.9% on an annual basis, indicating that *the preferred inflation measure of Fed officials* seems to be on target through November.

Yesterday, Q3 GDP was revised downward from +5.2% to +4.9%, but the focus was on the revised Q3 core PCE inflation measure which retreated from +2.3% to +2.0%. Usually, GDP revisions for the previous quarter have little bearing on the current market; however, in this case the improved Q3 inflation reading indicates the cooling trend in prices was established earlier.

The markets are well ahead of the data-dependent Fed at this point, but if inflation measures continue to impress in early 2024, Fed officials will have no choice but to acknowledge and react.

On the last trading day before Christmas, stocks and bonds have both resumed what has been a remarkable two-month rally to end the year.

Market Indications as of 9:24 A.M. Central Time

DOW	Up 79 to 37,484 (HIGH 37,558)
NASDAQ	Up 56 to 14,790 (HIGH: 15,871)
S&P 500	Up 23 to 4,769 (HIGH: 4,797)
1-Yr T-bill	current yield 4.84%; opening yield 4.82%
2-Yr T-note	current yield 4.33%; opening yield 4.34%
3-Yr T-note	current yield 4.04%; opening yield 4.05%
5-Yr T-note	current yield 3.87%; opening yield 3.87%
10-Yr T-note	current yield 3.89%; opening yield 3.88%
30-Yr T-bond	current yield 4.04%; opening yield 4.03%

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

More importantly, over the last six months core PCE is up by just +1.9% on an annual basis, indicating that the preferred inflation measure of Fed officials seems to be on target through November.

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.