Uncertainty and Mixed Data Support a Patient Fed

The highlight in today's crowded economic release schedule was the personal consumption expenditures (PCE) report for December. The PCE inflation measure is a Fed favorite, and with the January FOMC meeting now just days away, the data carries additional weight. Overall PCE for December as well core PCE matched expectations, up +0.2% for the month. On a year-over-year basis, *overall PCE was unchanged* at +2.6% while the annual core PCE rate dipped from +3.2% to +2.9%, the lowest since March 2021. It isn't clear from the annual numbers that the Fed has met its inflation target, *but progress is apparent* when focusing on more recent data. Over the last three months and six months, the annualized pace of core PCE has fallen to +1.5% and +1.9% respectively.

However, it's unlikely the Fed will declare victory next week and begin lowering the overnight funds rate as soon as March. There is too much uncertainty. Recent conflict in the Middle East has contributed to higher oil prices and shipping costs, both of which are capable of filtering through to core prices over time.

The second tier economic releases this morning were all better-than-expected. Personal spending rose +0.7% in December, two-tenths above forecast, while the previous month increase was revised upward from +0.2% to +0.4%. When adjusted for inflation, spending was still up a healthy +0.5% in December.

Personal income rose +0.3% last month, as expected. The gap between income and spending resulted in a decline in the *personal savings rate* which slipped from 4.1% to 3.7%. Credit card balances are already at record highs and likely rose further in Q4. Consumers have lower capacity to spend, but so far haven't significantly reduced their consumption. December closed out a strong fourth quarter on a high note, but challenges are mounting for the current quarter.

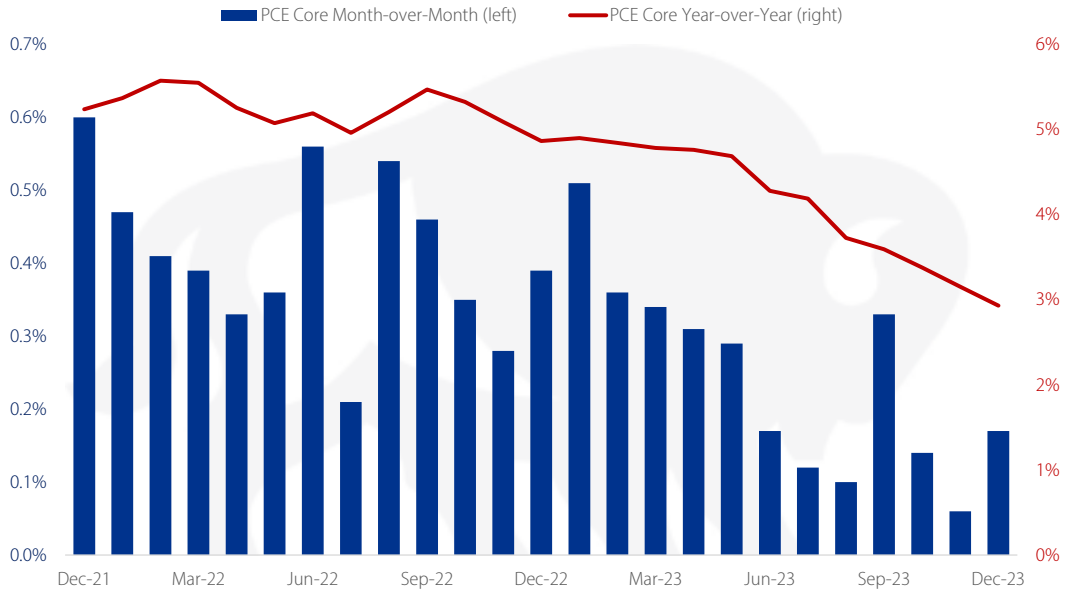
Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

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

It's unlikely the Fed will declare victory next week and begin lowering the overnight funds rate as soon as March. There is too much uncertainty.

December closed out a strong fourth quarter on a high note, but challenges are mounting for the current quarter.

Personal Consumption Expenditures Core Price Index (Percent Change)



Source: Bureau of Economic Analysis

Please see disclosure starting on page 2

In other news, pending home sales were up +8.3% year-over-year in December, topping the +2.0% median forecast. This measure of mortgage contracts signed, but not yet closed, reached its highest level in five months reflecting a significant drop in lending rates.

Bond yields are up slightly across the curve in early trading, although still lower on the week. At this point, the futures market is signaling a virtual coin flip on a quarter point rate cut at the March FOMC meeting. The reality is probably quite a bit lower given that Fed officials have repeatedly pushed back on a premature easing move. Nothing in today's inflation data will shift that mindset.

Market Indications as of 10:53 A.M. Central Time

DOW	Up 110 to 38,159 (NEW HIGH)
NASDAQ	Up 5 to 15,516 (NEW HIGH)
S&P 500	Up 4 to 4,898 (NEW HIGH)
1-Yr T-bill	current yield 4.78%; opening yield 4.73%
2-Yr T-note	current yield 4.35%; opening yield 4.28%
3-Yr T-note	current yield 4.15%; opening yield 4.09%
5-Yr T-note	current yield 4.04%; opening yield 3.99%
10-Yr T-note	current yield 4.14%; opening yield 4.11%
30-Yr T-bond	current yield 4.37%; opening yield 4.37%

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.

© 2024 Hilltop Securities Inc. | All rights reserved | MEMBER: NYSE/FINRA/SIPC