Stubborn January Inflation Pushes First Rate Cut to June

Both headline and core consumer prices unexpectedly heated up in January, pushing bond yields to their highest levels since early December as the probable date of the first Fed rate cut extends into summer.

Overall CPI rose +0.3% last month, following a revised +0.2% December gain, while core CPI climbed +0.4%, *the biggest increase since last May*. Both CPI and core topped median forecasts.

The service sector was once again responsible for virtually all of the price pressure last month. Shelter costs rose +0.6% in January after two months of +0.4% gains and accounted for two-thirds of the overall increase.

Energy prices mitigated some of the headline gain, down -0.9% and -4.6% year-over-year. Gasoline prices fell for the fourth straight month, -3.3% lower in January. Apparel (-0.7%) and used vehicle (-3.4%) prices also fell. New car and truck prices were *unchanged*.

Food prices climbed +0.4% in January following +0.2% measures in the previous two months. Food away from home (grocery store prices) rose +0.4% following benign +0.1% and 0.0% readings in December and November.

Prices for health insurance and vehicle insurance both jumped +1.4%. And, airfare prices rose +1.4%, the biggest increase since August despite lower fuel costs.

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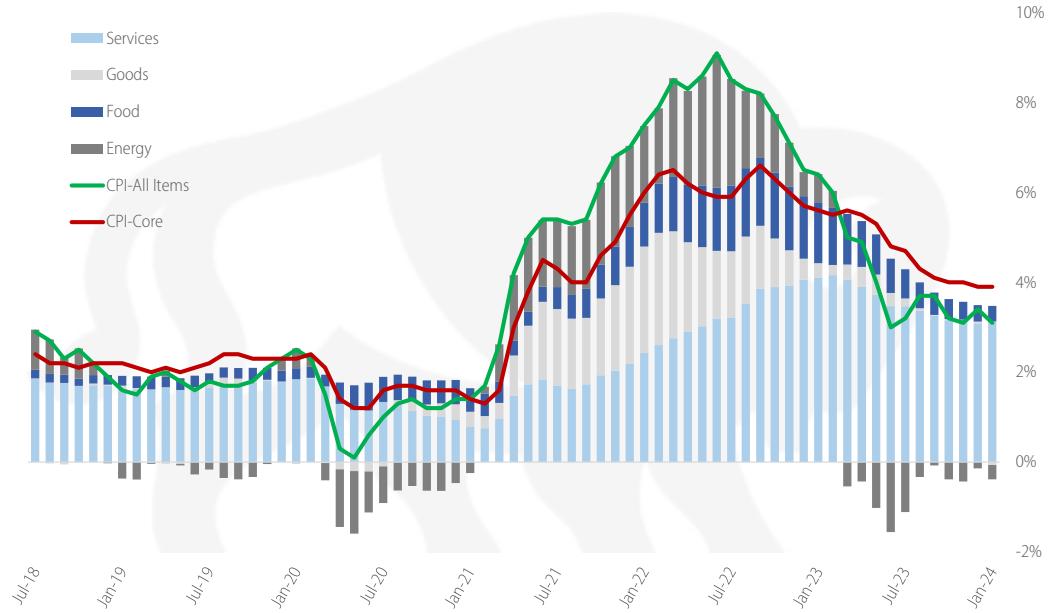
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

In an annual basis, headline CPI retreated from +3.4% to +3.1%, *but missed the +2.9% median forecast*. Core CPI held stubbornly at +3.9% year-over-year, above the +3.7% forecast.

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So called "supercore" inflation, which measures core service costs minus housing, rose +0.8%, the fastest monthly rate since April 2022, while the annual supercore pace reaccelerated to an eight-month high. Fed officials have focused attentions on this particular measure, *which had been trending comfortably lower until this point*.

A favorite side narrative supporting a downtrend in prices took an unfortunate turn as the three-month annualized headline rate jumped from +1.9% to +2.8% in January, while the three-month core pace climbed from +3.3% to +4.0%.

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Bond yields have spiked in early trading. The futures market has dismissed the possibility of a March rate cut and now indicates less than a 50% probability for May. The bond market has better aligned itself with the Fed's December forecast, reflecting between three and four rate cuts in 2024, down from a peak of nearly seven.

Powell has repeatedly warned that the path to lower inflation will be bumpy. Today's big bump reiterates how difficult it's been to predict the post pandemic economy.

Market Indications as of 10:14 A.M. Central Time

DOW	Down -449 to 38,349 (HIGH: 38,797)
NASDAQ	Down -186 to 15,757 (HIGH: 15,991)
S&P 500	Down -63 to 4,959 (HIGH: 5,027)
1-Yr T-bill	current yield 4.98%; opening yield 4.84%
2-Yr T-note	current yield 4.61%; opening yield 4.47%
3-Yr T-note	current yield 4.40%; opening yield 4.26%
5-Yr T-note	current yield 4.27%; opening yield 4.14%
10-Yr T-note	current yield 4.28%; opening yield 4.18%
30-Yr T-bond	current yield 4.44%; opening yield 4.38%