Markets Rally on Mixed Data

The Fed's preferred inflation measure, *personal consumption expenditures* (PCE), generally matched forecasts in January. This seems to be a relief to the markets after an uncomfortably warm CPI print earlier in the month. This morning's numbers reinforce the notion of a patient Fed with a +0.3% advance in the January PCE headline and +0.4% core increase, which was actually the highest in a year. However, headline PCE for January is now down to +2.4% on a year-over-year basis, a significant drop from +5.4% just twelve months ago, while core PCE retreated to an annual pace of +2.8%, down from +4.9% the same period last year. *The optics are positive.* The data Fed officials are focusing on is closing in on the +2.0% target.

Also this morning, personal income rose +1.0%, the highest since January 2023. This was driven largely by the annual COLA increase and dividend income and should be another January outlier. The wage component for January was below forecast. While income rose by the largest measure in a year, personal spending was up just +0.2% and inflation-adjusted spending was *negative.* The -0.1% January drop in real spending followed a +0.6% revised December gain and supports the notion of a first quarter spending slump.

In total, nothing in this morning's releases will alter the Fed's wait-and-see approach. The stream of key February data begins next week. In early trading, both stocks and bonds are in the midst of what can only be characterized as a relief rally.

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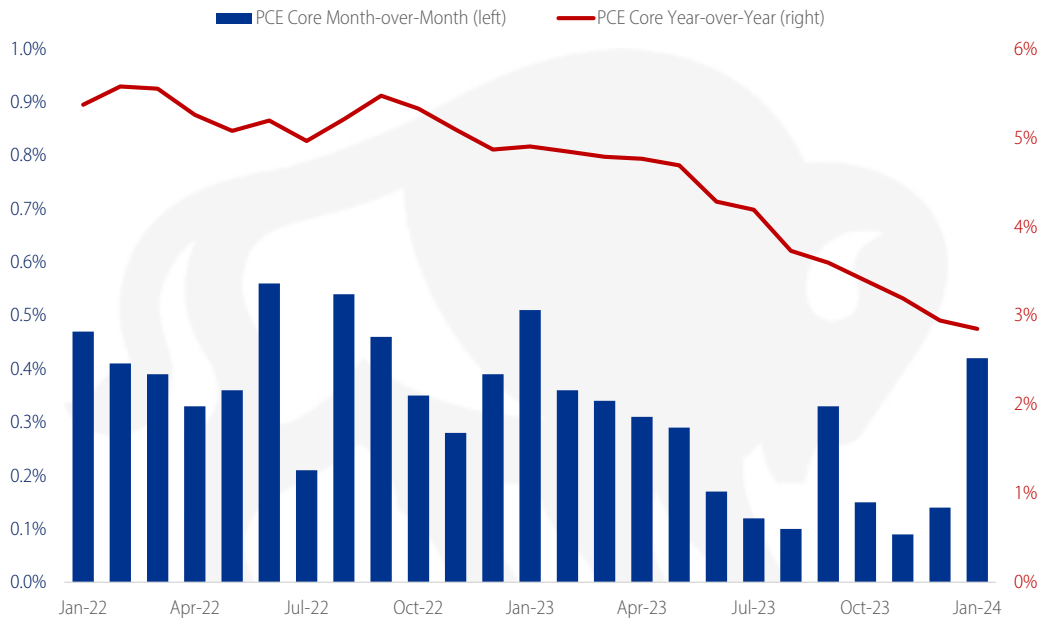
Personal Consumption Expenditures Core Price Index (Percent Change)



Source: Bureau of Economic Analysis

Market Indications as of 9:23 A.M. Central Time

DOW	Down -58 to 38,891 (HIGH: 39,312)
NASDAQ	Up 101 to 16,049 (NEW HIGH)
S&P 500	Up 20 to 5,090 (NEW HIGH)
1-Yr T-bill	current yield 4.99%; opening yield 4.99%
2-Yr T-note	current yield 4.63%; opening yield 4.65%
3-Yr T-note	current yield 4.42%; opening yield 4.43%
5-Yr T-note	current yield 4.24%; opening yield 4.26%
10-Yr T-note	current yield 4.24%; opening yield 4.26%
30-Yr T-bond	current yield 4.37%; opening yield 4.40%

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