Markets Balk as Consumer Inflation Refuses to Cool

The widely-held notion that January and February consumer inflation readings were outliers was dismissed this morning by yet another hot CPI report. At this point, it's highly unlikely Fed officials will cut rates at the June FOMC meeting. *July is a toss-up at best.*

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The overall consumer price index rose +0.4% (0.378%) in March, topping the +0.3% median forecast. According to the Bureau of Labor Statistics, gasoline (+1.1%) and shelter costs (+0.4%) were responsible for over half of the monthly increase. The 3-month annualized CPI rate is now at +4.6%. In December, this pace was a hopeful +1.9%.

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Food prices were up +0.1% in March, while the *food at home* subcategory (groceries) was *unchanged* for the second straight month. Both new (-0.2%) and used (-1.1%) vehicle prices were lower in March and down on an annual basis. Unfortunately, the cost of auto insurance climbed another +2.6% and is up a nauseating +22.6% year-over-year.

Core CPI, which excludes food and energy prices, also increased +0.4% (0.359%), above the +0.3% median forecast. It was the third straight month of +0.4% core readings. Although the year-over-year core held at +3.8%, the three-month annualized pace is now at +4.5%, up from +3.3% at the end of 2023.

The so called "supercore" rate, which measures the cost of core services minus housing, jumped from +3.9% to +4.8% year-over-year. The Fed pays considerable attention to this measure.

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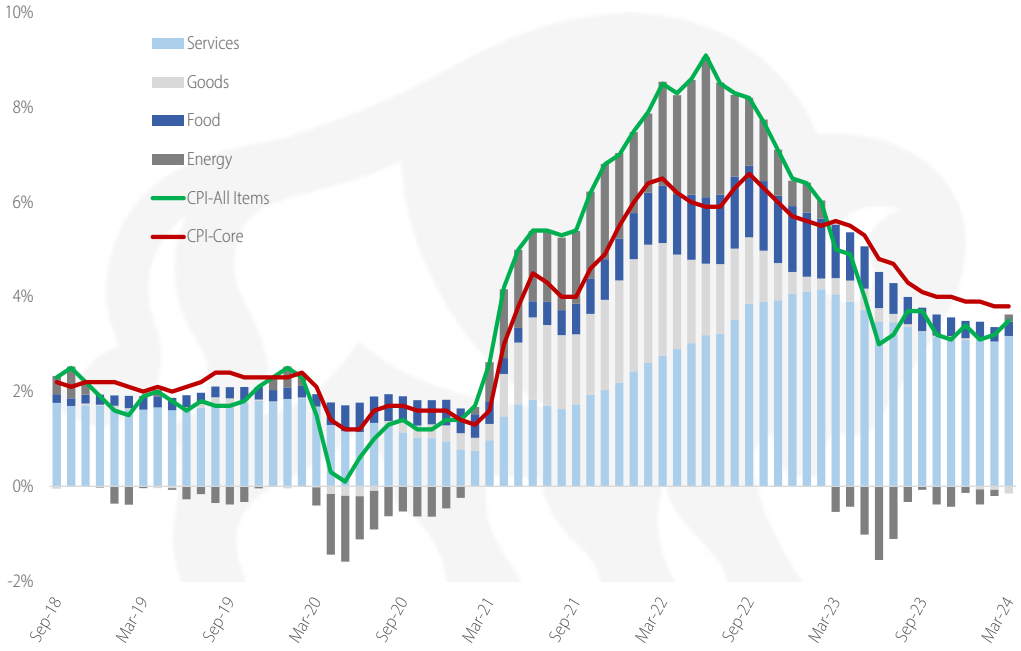
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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There's almost no way to reframe this morning's report in a positive light. Energy and shelter costs may have been responsible for the majority of the March increase, but the unsettling rise in the supercore rate dismisses that narrow scope. The fact that consumer inflation seems to be trending higher is a real problem for Fed officials. Rate cuts facilitate growth, and would likely increase price pressure. Thus, the FOMC will be *on hold* until the recent uptrend fully reverses itself, and if the last three months are any indication, this may take a while.

Bond yields are *significantly* higher in early trading. The two-year Treasury note, yielding 4.14% in early January, has climbed to 4.95% this morning, the highest since late November. The 10-year Treasury, trading at 3.94% on January 12th, is at 4.49% this morning, the highest in almost five months.

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The futures market is now indicating the first of two rate cuts in 2024 will happen in September. When the year began, the expectation was for six or seven cuts *beginning as soon as March*. Given the looming election and the fact that the lower base effect will make it even more challenging to ratchet the annual inflation rate lower in the second half, Fed patience could persist longer.

Market Indications as of 9:30 A.M. Central Time

DOW	Down -389 to 38,494 (HIGH: 39,807)
NASDAQ	Down -148 to 16,159 (HIGH: 16,429)
S&P 500	Down -50 to 5,160 (HIGH: 5,254)
1-Yr T-bill	current yield 5.18%; opening yield 5.00%
2-Yr T-note	current yield 4.95%; opening yield 4.74%
3-Yr T-note	current yield 4.77%; opening yield 4.55%
5-Yr T-note	current yield 4.57%; opening yield 4.38%
10-Yr T-note	current yield 4.50%; opening yield 4.36%
30-Yr T-bond	current yield 4.58%; opening yield 4.50%