

## Modest Bond Rally Extends on Improved Inflation Outlook

Investors seeking clarity on the direction of inflation have anticipated the release of April personal consumption expenditures (PCE) for weeks. The morning's inflation numbers are best summed up as ... *not bad*. The Fed's preferred inflation measure, which has less emphasis on housing and more on medical costs, rose +0.3% for the third straight month, and +2.7% year-over-year. Core PCE, which excludes food and energy prices, climbed +0.2% in April and +2.8% from a year ago. All four headline numbers were as expected.

After three months of warming inflation data, simply matching forecasts would be a relief. However, when decimal places are extended, there's actual improvement (headline: +0.26% April vs +0.34% March; core: +0.25% April vs. +0.33% March).

Outsized increases were found in the gasoline and insurance categories. No surprises here. Pump prices, according to AAA, are down this month, which should drag the May inflation numbers lower.

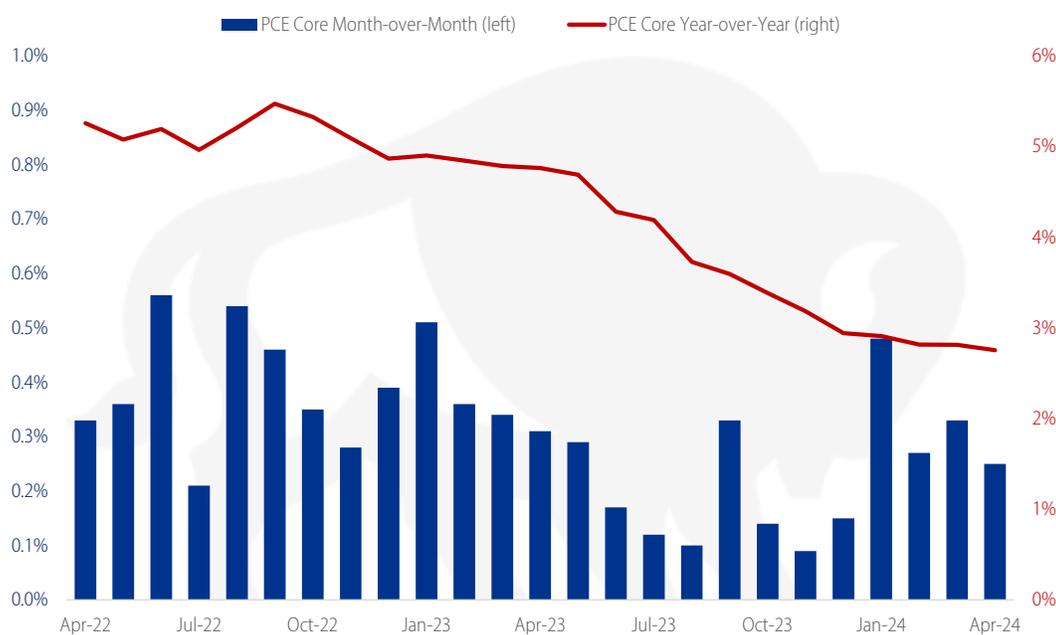
Perhaps the more important news this morning is that the pace of personal income and spending both slipped in April. Personal income rose by just +0.3% last month, down from +0.5% in March, while personal spending cooled from +0.7% to +0.2%. When adjusted for inflation, spending was *down* -0.1% in April. Signs that both income and demand are easing should keep downward pressure on prices.

*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

*The morning's inflation numbers are best summed up as ... not bad.*

### Personal Consumption Expenditures Core Price Index (Percent Change)



Source: Bureau of Economic Analysis

*Pump prices, according to AAA, are down this month, which should drag the May inflation numbers lower.*

The bond market is extending yesterday's rally, not because inflation has retreated ever so slightly, but rather because the first quarter price resurgence seems to be over while consumer spending seems to be cooling. These are positive steps, but rate cuts still aren't any closer than September. Not yet anyway.

### Market Indications as of 9:36 A.M. Central Time

DOW	Up 39 to 38,150 (HIGH: 40,004)
NASDAQ	Down -180 to 16,557 (HIGH: 17,020)
S&P 500	Down -10 to 5,226 (HIGH: 5,321)
1-Yr T-bill	current yield 5.17%; opening yield 5.18%
2-Yr T-note	current yield 4.88%; opening yield 4.92%
3-Yr T-note	current yield 4.68%; opening yield 4.73%
5-Yr T-note	current yield 4.51%; opening yield 4.56%
10-Yr T-note	current yield 4.49%; opening yield 4.54%
30-Yr T-bond	current yield 4.63%; opening yield 4.68%

*The bond market is extending yesterday's rally, not because inflation has retreated ever so slightly, but rather because the first quarter price resurgence seems to be over while consumer spending seems to be cooling.*

*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.*