Bonds Rally as Consumer Inflation Matches Forecast

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The October Consumer Price Index (CPI) came in *as expected* with the headline rising +0.2% and the core up +0.3%, providing welcome relief to the jittery bond market. The year-over-year numbers also exactly matched forecasts, with overall CPI edging up to +2.6% and the core holding steady at +3.3%.

The breakdown was quite a bit more interesting as prices in several key categories retreated, while shelter costs continued to bolster the overall index. The closely-watched food index rose +0.2% last month following a +0.4% September gain, dragging the annual price gain down to +2.1%. The food-at-home (groceries) subcategory increased by just +0.1% for the month and +1.1% year-over-year, while the cost for food away-from-home (restaurants) rose +0.2% and +3.8%.

Overall energy prices were *unchanged* in October and down -4.9% for the year. Gasoline prices were -0.9% lower for the month and -12.2% for the year. Despite the drop in energy costs, airfares jumped +3.2% for the month and +4.1% annually as passenger demand remained healthy.

New vehicle prices were *unchanged* in October and down -1.3% year-over-year. Used vehicle prices halted a steady downtrend with a head-scratching +2.7% increase for the month, although used car and truck prices were still -3.4% lower than a year ago. On a related note, the cost of auto insurance actually fell -0.1% in October, although still up +14% year-over-year.

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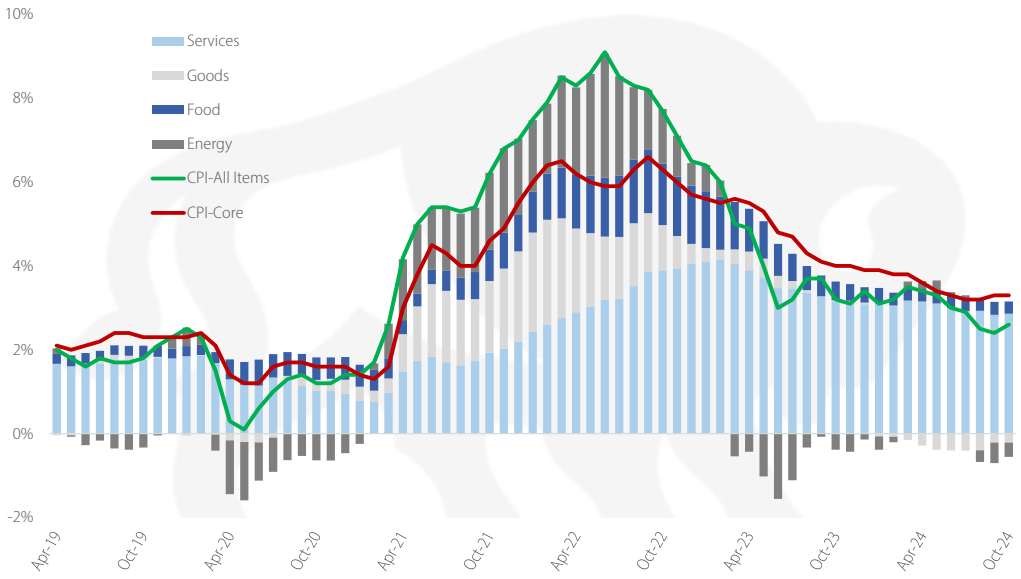
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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Shelter costs climbed +0.4% after a +0.2% gain in the previous month with owners equivalent rent (+0.4%), primary rent (+0.3%) and lodging (+0.4%) showing frustrating stickiness. *Shelter accounted for more than half of the overall increase in October and has been a consistent thorn in the side of Fed policy.* With mortgage rates climbing again, elevated shelter costs are likely to persist.

Bonds are rallying this morning in early trading simply because there were so few negative surprises in the report. The futures market is currently indicating an increased likelihood (82%) of a quarter point rate cut at the December meeting. From the Fed's perspective, the annual pace of core inflation is still above the committee's +2.0% target but given the degree of decline from the June 2022 peak, policy is currently restrictive with room to cut. *For now, anyway.*

What appears certain at this point is that the path to aggressive rate cuts in 2025 has been rerouted.

The wildcard will be the tariff policy implemented by the incoming administration. Depending on the data released between now and the December 18 FOMC meeting, Fed officials could opt to pause policy to reassess the outlook. What appears certain at this point is that the path to aggressive rate cuts in 2025 has been rerouted.

Market Indications as of 9:20 A.M. Central Time

DOW	Up 37 to 43,948 (HIGH: 44,293)
NASDAQ	Down -49 to 19,232 (HIGH: 19,299)
S&P 500	Down -8 to 5,976 (HIGH: 6,001)
1-Yr T-bill	current yield 4.32%; opening yield 4.33%
2-Yr T-note	current yield 4.28%; opening yield 4.34%
3-Yr T-note	current yield 4.25%; opening yield 4.31%
5-Yr T-note	current yield 4.28%; opening yield 4.32%
10-Yr T-note	current yield 4.41%; opening yield 4.43%
30-Yr T-bond	current yield 4.57%; opening yield 4.57%