

Markets Cheer Cooler Core Inflation

Although the December rise in the overall consumer price index (CPI) equaled a nine-month high, core CPI was a bit softer-than-expected, enough to ignite an early rally in both stocks and bonds. Headline CPI rose +0.4% for the month, the highest since March, and +2.9% year-over-year, matching a seven-month high. Frequently volatile energy prices were the main culprit, with the +2.6% increase accounting for over 40% of the headline gain.

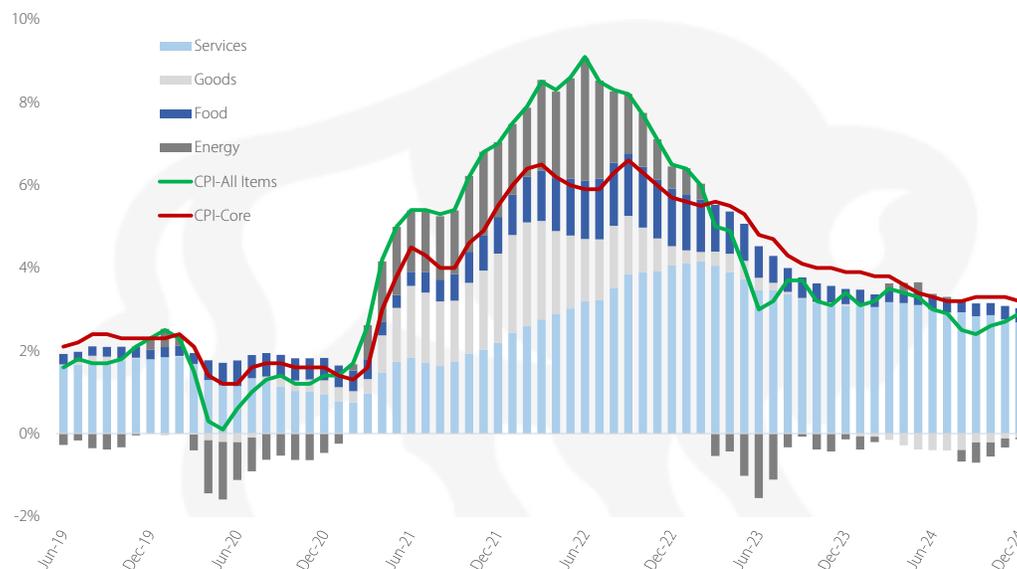
Overall food prices rose +0.3% after climbing +0.4% in November. The food at home (groceries) subcategory decelerated from +0.5% to +0.3% despite another significant (bird flu-fueled) rise in egg prices. This brought the annual increase in grocery prices down to +1.8%. By comparison, restaurant prices are climbing at a +3.6% annual pace.

Core CPI, which excludes food and energy, rose by just +0.2% last month and +3.2% year-over-year. Both were slightly below the median forecast. *The markets are focusing on this.*

Record holiday travel volume pushed airfares up +3.9% for the month and +7.9% for the year. Both new (+0.5%) and used car prices (+1.2%) continued to move higher, which is surprising given generally robust supply. *Stellantis, GM, and Ford all reported above-average inventory in January 2025.* On a related note, the cost of motor vehicle insurance rose +0.4% in December and +11.3% year-over-year.

Shelter costs were (again) a bright spot, up just +0.3% in December and +4.6% year-over-year, *a fresh three-year low.* Since the shelter category represents roughly 37% of the overall index, the fact that costs are finally trending lower supports the expectation/hope that consumer prices will eventually return to target.

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



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

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Bonds have rallied in early trading as the lower-than-expected core inflation rate along with the second consecutive month of cooler housing costs suggest the recent market selloff was overdone. Nothing in today's report will alter the Fed's intent to pause policy at the January FOMC meeting, but the mostly friendly December inflation data will allow Chairman Powell to strike a more hopeful tone at the press conference in two weeks.

Market Indications as of 8:56 A.M. Central Time

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|--------------|--|
| DOW | Up 664 to 43,182 (HIGH: 45,014) |
| NASDAQ | Up 352 to 19,396 (HIGH: 20,174) |
| S&P 500 | Up 84 to 5,927 (HIGH: 6,090) |
| 1-Yr T-bill | current yield 4.17%; opening yield 4.19% |
| 2-Yr T-note | current yield 4.27%; opening yield 4.37% |
| 3-Yr T-note | current yield 4.35%; opening yield 4.47% |
| 5-Yr T-note | current yield 4.45%; opening yield 4.60% |
| 10-Yr T-note | current yield 4.66%; opening yield 4.79% |
| 30-Yr T-bond | current yield 4.87%; opening yield 4.97% |

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