

## Markets Stumble on Unexpectedly Warm CPI Report

Both stocks and bonds have sold off in early trading following a surprisingly warm January CPI report. The headline consumer price index rose +0.5% last month, well above the +0.3% median forecast as prices for gasoline, groceries and used vehicles all edged higher. On a year-over-year basis, overall CPI climbed from +2.9% to +3.0%, matching the highest level since last June.

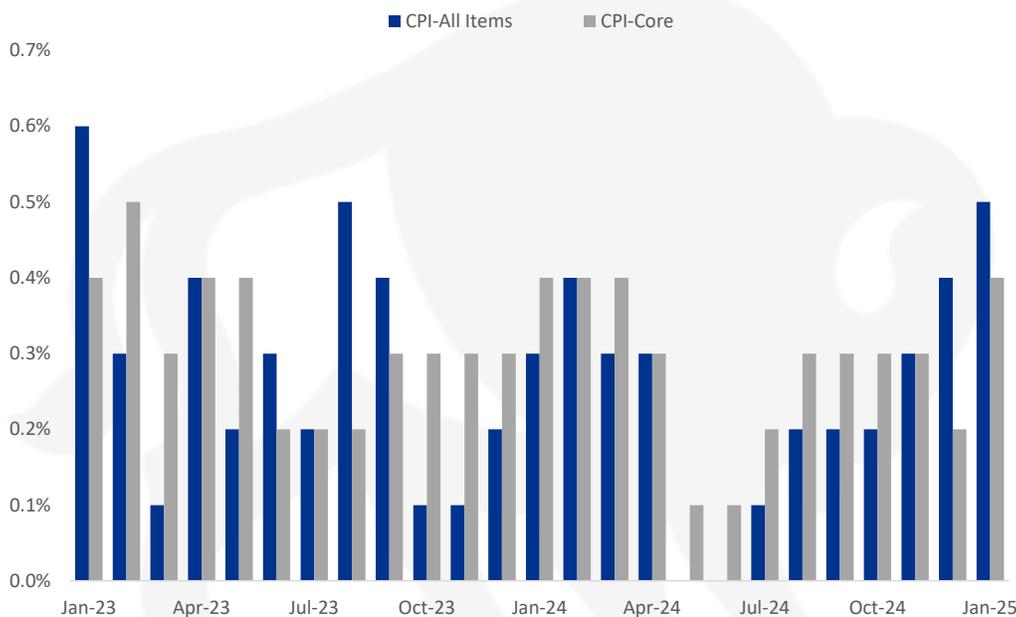
Energy prices rose +1.1% in January, driven by a +1.8% increase at the gas pump. Food at home (grocery) prices climbed +0.5% with egg prices up +15.2%, *the biggest single month gain since 2015*. Prices for food away from home (mainly restaurants) was up just +0.2% post holidays.

Core CPI (which excludes food and energy prices) rose +0.4%, topping the +0.3% median forecast and matching a 10-month high. The annual core rate returned to +3.3%, topping the +3.1% median forecast.

Used vehicle prices rose +2.2% while new vehicle prices fell -0.3%. This contrast reflects the fact that prices for new cars and trucks are nearly double the price for used. On a related note, the cost of auto insurance rose +2.0% following cooler +0.3% and +0.5% readings in the previous two months.

Shelter costs, the primary driver of lingering inflation, rose +0.4% after two months of encouraging +0.3% gains. Despite the January bump, the downtrend in rents remains intact, one of few somewhat positives notes in an otherwise rotten report.

### Consumer Price Index (Month-over-Month Percent Change)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

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January is historically a wonky month as many companies adjust pricing at the beginning of the year. The fact that only five of the 73 economists surveyed by Bloomberg expected the monthly core to rise more than +0.3% and *none* of the 73 anticipated a headline number above +0.4% suggests faulty seasonal adjustments may have played an outsized role. However, there's no denying that prices moved higher last month. In particular, the so-called "supercore" (services ex-housing) was up +0.76% in January, the highest in a year. Powell has called this measure "perhaps, the most important category for understanding the future evolution of core inflation."

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Bond yields are higher once again as investors adjust Fed expectations. Chairman Powell, testifying before the House yesterday signaled no urgency to lower rates, saying "we know reducing rates too fast could hinder progress on inflation." Unfortunately, today's report only validates his statement. President Trump weighed-in on *Truth Social* before the data release, saying that "interest rates should be lower." *The Trump/Powell war of words is likely to escalate the longer the Fed remains on hold.*

The obvious complication is evolving tariff negotiations. Powell's response yesterday was that "it's too early to gauge the impact," but investors *expect* higher prices until trade resolutions are reached.

At this point, the futures market is signaling just a single rate cut for 2025.

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

DOW	Down -358 to 44,236 (HIGH: 45,014)
NASDAQ	Down -105 to 19,539 (HIGH: 20,174)
S&P 500	Down -51 to 6,018 (HIGH: 6,119)
1-Yr T-bill	current yield 4.28%; opening yield 4.24%
2-Yr T-note	current yield 4.37%; opening yield 4.29%
3-Yr T-note	current yield 4.40%; opening yield 4.31%
5-Yr T-note	current yield 4.49%; opening yield 4.38%
10-Yr T-note	current yield 4.66%; opening yield 4.54%
30-Yr T-bond	current yield 4.86%; opening yield 4.75%

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