

Mild Inflation Data and Soft Spending Calm Markets

The personal consumption expenditures (PCE) index, a preferred inflation measure of Fed officials, indicated moderate easing of price pressure in January. Although all four headline prints exactly matched median forecasts, the optics were favorable. Specifically, +2.6% year-over-year core PCE was down from a revised +2.9% and *the slowest annual pace since March 2021*. Amid widespread tariff concerns and tumbling confidence, the simple fact that inflation wasn't any warmer than expected is seen as a relief this morning.

In other news, the U.S. merchandise trade deficit unexpectedly jumped +25.6% in January to a record \$153.3 billion. The huge rise was driven by an +11.9% increase in imports as U.S. businesses hurried to secure purchases in front of expected tariff increases. A 10% tax on imported Chinese goods took effect earlier this month, while a 25% tax on goods imported from Canada and Mexico is expected to begin next week.

Personal income rose +0.9% in January as social security beneficiaries received their annual cost of living adjustments. However, personal spending was down -0.2% last month following a revised +0.8% gain in December. Severe January storms likely restrained purchases, along with fading consumer confidence. When adjusted for inflation, spending actually fell -0.5%, *the biggest inflation-adjusted drop in nearly four years*. Weakness in spending along with a widening deficit will have a negative effect on Q1 GDP.

The bond market rally that began in January continues this morning as investors anticipate Fed officials will counter weakening economic growth with rate cuts later this year. Since the effect of the newly-imposed (and yet to be imposed) tariffs has yet to directly impact economic data, market direction is still far from clear.

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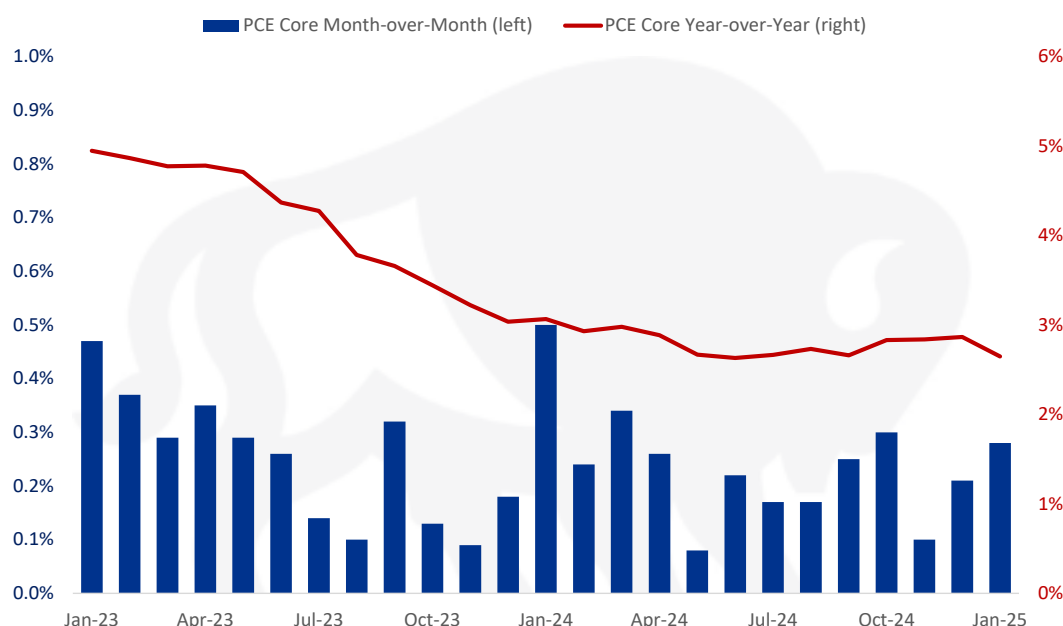
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Personal Consumption Expenditures Core Price Index (Percent Change)



Source: Bureau of Economic Analysis

Please see disclosure starting on page 2.

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Market Indications as of 9:44 A.M. Central Time

DOW	Up 204 to 43,444 (HIGH: 45,014)
NASDAQ	Up 96 to 18,640 (HIGH: 20,174)
S&P 500	Up 35 to 5,896 (HIGH: 6,144)
1-Yr T-bill	current yield 4.13%; opening yield 4.10%
2-Yr T-note	current yield 4.04%; opening yield 4.05%
3-Yr T-note	current yield 4.02%; opening yield 4.03%
5-Yr T-note	current yield 4.06%; opening yield 4.07%
10-Yr T-note	current yield 4.25%; opening yield 4.26%
30-Yr T-bond	current yield 4.53%; opening yield 4.54%

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