

## Bond Market Shrugs Off Softer CPI Report

Consumer inflation was a bit cooler-than-expected last month with continued declines in shelter costs and relief at the gas pump. The overall CPI index rose +0.2% in February, below the +0.3% median forecast and down from +0.5% in January. On a year-over-year basis, headline CPI slipped from +3.0% to +2.8%.

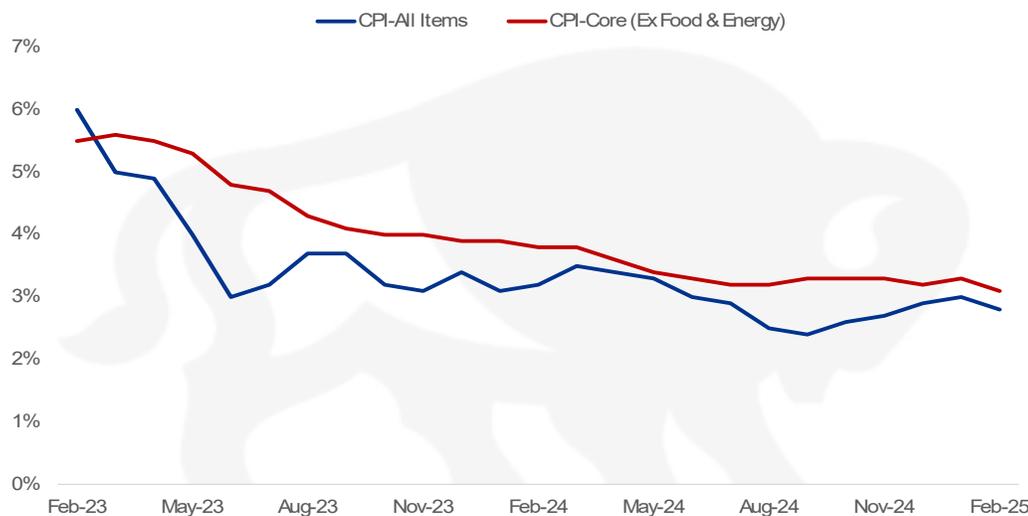
Energy prices increased by just +0.2%, weighed down by a -1.0% drop in the cost of gasoline. Food at home (groceries) was unchanged last month following a +0.5% rise in January. Lower prices for fruits, vegetables and dairy products offset increases in coffee, beef and eggs. However, the cost of eating out became more expensive as food-away-from-home prices climbed +0.4%, likely due to higher labor costs.

Core CPI, which excludes food and energy prices, also rose +0.2% in February, below the +0.3% median forecast. The +3.1% year-over-year core rate, although still above Fed target, was the lowest since April 2021.

Airfares fell -4.0% while the cost of new vehicles edged -0.1% lower, reflecting a decline in overall consumer demand. Prices for used vehicles climbed for the sixth consecutive month as consumers opted for more affordable choices.

Shelter costs rose +0.3% (0.28) in February, down from +0.4% (0.37) in the previous month. The year-over-year increase in shelter costs fell to a three-year low of +4.2%. With shelter costs accounting for 35% of the overall index, the downtrend is significant.

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



Source: Bureau of Labor Statistics

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*The +3.1% year-over-year core rate, although still above Fed target, was the lowest since April 2021.*

The initial bond market reaction to apparent cooling in price pressure was to rally, but the rally quickly faded. *Yields are currently higher on the day.* The reality is that the February CPI report captures half of both January and February. The tariff impact won't be felt until later. Markets are fixated on the on-again/off-again tariff action. The extreme uncertainty continues to fuel market volatility.

The FOMC meets next week. Fed officials will leave the overnight target unchanged for the second straight meeting. The focus next Wednesday will be on Powell's press conference and what he says about both tariffs and rising recession concerns.

*Markets are fixated on the on-again/off-again tariff action. The extreme uncertainty continues to fuel market volatility.*

## Market Indications as of 9:05 A.M. Central Time

DOW	Down -105 to 41,329 (HIGH: 45,014)
NASDAQ	Up 269 to 17,705 (HIGH: 20,174)
S&P 500	Up 43 to 5,615 (HIGH: 6,144)
1-Yr T-bill	current yield 4.06%; opening yield 4.02%
2-Yr T-note	current yield 3.98%; opening yield 3.94%
3-Yr T-note	current yield 3.98%; opening yield 3.94%
5-Yr T-note	current yield 4.07%; opening yield 4.03%
10-Yr T-note	current yield 4.31%; opening yield 4.28%
30-Yr T-bond	current yield 4.62%; opening yield 4.60%

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