Bonds Rally as Core CPI Falls to a Five-Year Low

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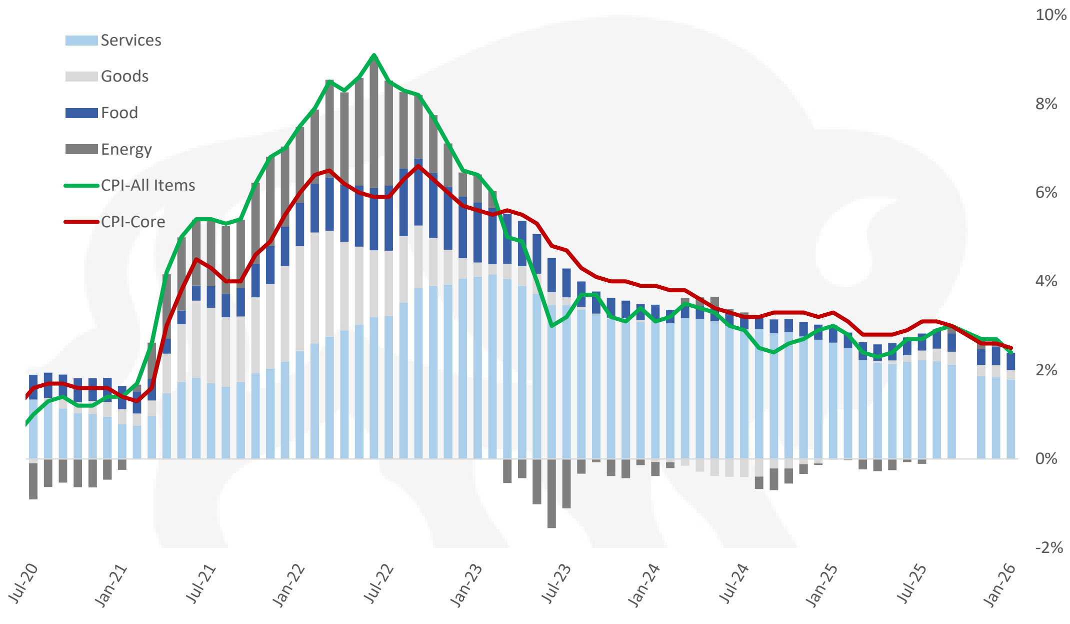
Consumer inflation continues to cool as the overall consumer price index (CPI) rose by just +0.2% in January and +2.4% year-over-year, both numbers a tenth of a percentage point below the median forecast. The annual rate of consumer inflation has fallen dramatically since September, when the headline reached +3.0%. Lower prices in 2026 would allow Fed officials to address labor weakness with additional rate cuts later this year.

Food prices eased in January, up just +0.2% after a +0.7% jump the previous month. The food-at-home index (groceries) was also benign at +0.2%, and +2.1% year-over-year. Beef and veal prices, running hot in 2025, dropped -0.4% in January while high profile egg prices fell -7.0%. The food-away-from-home index (restaurants) followed a huge +0.7% December increase with a tiny +0.1% gain last month.

Energy prices fell -1.5% last month. Within the energy category, gasoline was down -3.2% for the month and -7.5% for the year.

Other categories of interest include a +6.5% jump in airfares, which can be attributed to persistent travel demand, and a +1.2% rise in the personal care index. New car prices rose +0.1% in January after an unchanged reading in December and are now up just +0.4% over the past 12 months. Used vehicle prices fell -1.8% in January after a -0.9% decline in December and are now down -2.0% year-over-year. This drop is in sharp contrast to the +36% surge in used cars and truck prices experienced from 2020-2022.

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



Housing costs have gradually declined over the past three years and are the primary reason why consumer inflation has eased.

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

Shelter costs, representing over a third of the overall index, continue to decelerate, rising just +0.2% in January, bringing the year-over-year advance down to +3.0%. Housing costs have gradually declined over the past three years and are the primary reason why consumer inflation has eased.

Core CPI, which excludes food and energy prices, matched the median forecast with a +0.3% January increase. This helped drive the annual core rate down to +2.5%, *the lowest since March 2021.*

Oddly enough, the so called "supercore inflation," a measure of services excluding shelter, rose +0.6%, the biggest monthly increase in a year. In the past, Powell has referred to the supercore reading as " the most important category for understanding the future evolution of core inflation." The fact that this subcategory is a little warmer than the headline numbers may give the Fed pause, but this morning's report suggests consumer inflation continues to move toward the Fed's +2.0% annual pace.

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Inflation has a tendency to run hot in January, a month in which businesses typically increase prices, so the fact that CPI was so well-behaved last month is significant. However, rate cuts totaling 75 basis points last fall have yet to fully impact growth and prices, so today's admittedly cool report is unlikely to prompt Fed officials to resume cuts before June. Bonds are rallying again this morning, dragging yields lower across the curve for the second straight day.

Market Indications as of 10:34 A.M. Central Time

DOW	Up 147 to 49,599 (HIGH: 50,188)
NASDAQ	Up 32 to 22,629 (HIGH: 23,958)
S&P 500	Up 22 to 6,854 (HIGH: 6,979)
1-Yr T-bill	current yield 3.42%; opening yield 3.43%
2-Yr T-note	current yield 3.41%; opening yield 3.45%
3-Yr T-note	current yield 3.45%; opening yield 3.50%
5-Yr T-note	current yield 3.61%; opening yield 3.66%
10-Yr T-note	current yield 4.06%; opening yield 4.10%
30-Yr T-bond	current yield 4.70%; opening yield 4.73%