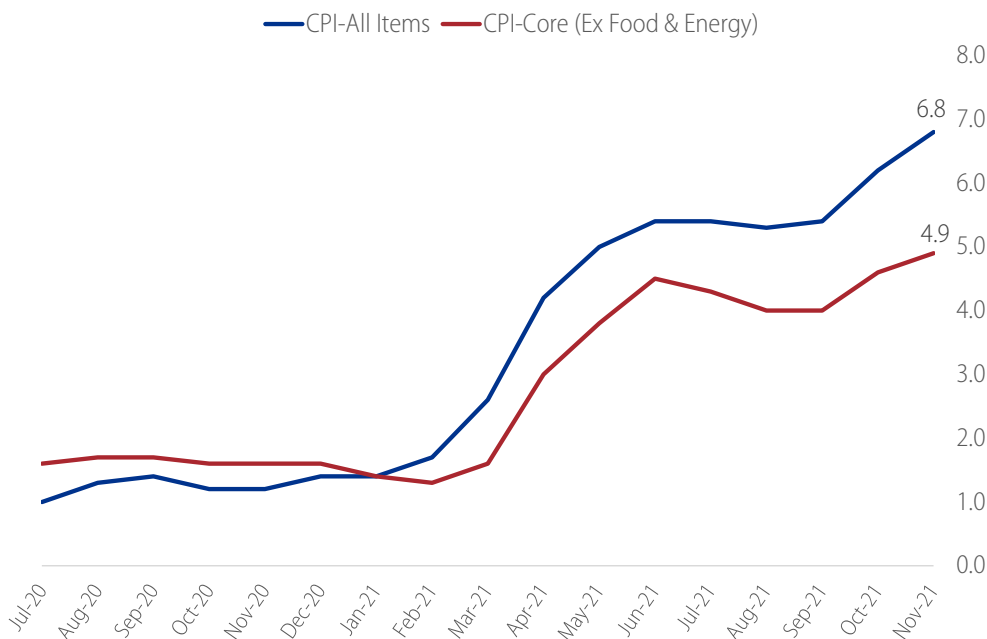


No Surprise: Consumer Inflation Soars to 39-year High

The consumer price index (CPI) rose +0.8% in November, dragging the year-over-year headline increase up from +6.2% to +6.8%, *the highest since 1982*. Energy prices were the primary contributor with a substantial +3.5% increase during the month. Within the energy component, gasoline prices rose +6.1%, while both new (+1.1%) and used (+2.5%) vehicle prices remained elevated. Increased holiday travel added price pressure to both airfare (+4.7%) and lodging (+3.2%). Core CPI (which excludes food and energy prices) rose +0.5% in November and +4.9% year-over-year, the highest since 1990.

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



Source: Bureau of Labor Statistics.

Microchip-dependent vehicle prices aren't likely to see relief anytime soon, and housing costs are almost certain to edge higher until supply catches up with demand. But, with crude oil prices well off their November high, last month's outsized energy contribution is in position to reverse itself, and travel and lodging costs should retreat after the holidays.

The Fed meets next week. Nothing in this report should alter the thinking of committee members. In all likelihood, the FOMC will announce a stepped-up taper pace on Wednesday afternoon. This is already priced into the market. The December meeting will also provide an updated "dot plot" showing the interest rate expectations of individual committee members over the next several years. The September dot plot showed committee members were split on whether the first quarter-point rate hike would take place in the fourth quarter of 2022 or the first quarter of 2023.

Please see disclosure starting on page 2.

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Next week's fresh dot plot is likely to indicate an earlier start and more than one hike in 2022. As usual, the wildcard will be what Powell says in the post-meeting press conference . . . and how it's interpreted. Market participants will listen for his thoughts on this morning's CPI report and his tightening expectations.

In short, the market breathed a sigh of relief that inflation wasn't any worse.

The bond market has rallied across the curve this morning (yields lower), while stocks are rebounding from yesterday's dip. This isn't the reaction you'd normally expect with headline inflation at a four-decade high, but the actual numbers matched the median forecast. *In short, the market breathed a sigh of relief that inflation wasn't any worse.* There's also a sense that the Fed is on track to adjust policy in response. And finally, several contributing price pressures are likely to abate in the coming months. All of this suggests headline inflation may be near its peak.

Market Indications as of 9:47 A.M. Central Time

DOW	Up 58 to 35,813 (HIGH: 36,432)
NASDAQ	Up 22 to 15,539 (HIGH: 16,057)
S&P 500	Up 27 to 4,694 (HIGH: 4,705)
1-Yr T-bill	current yield 0.25%; opening yield 0.25%
2-Yr T-note	current yield 0.66%; opening yield 0.69%
3-Yr T-note	current yield 0.98%; opening yield 1.01%
5-Yr T-note	current yield 1.23%; opening yield 1.27%
10-Yr T-note	current yield 1.46%; opening yield 1.49%
30-Yr T-bond	current yield 1.85%; opening yield 1.87%

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