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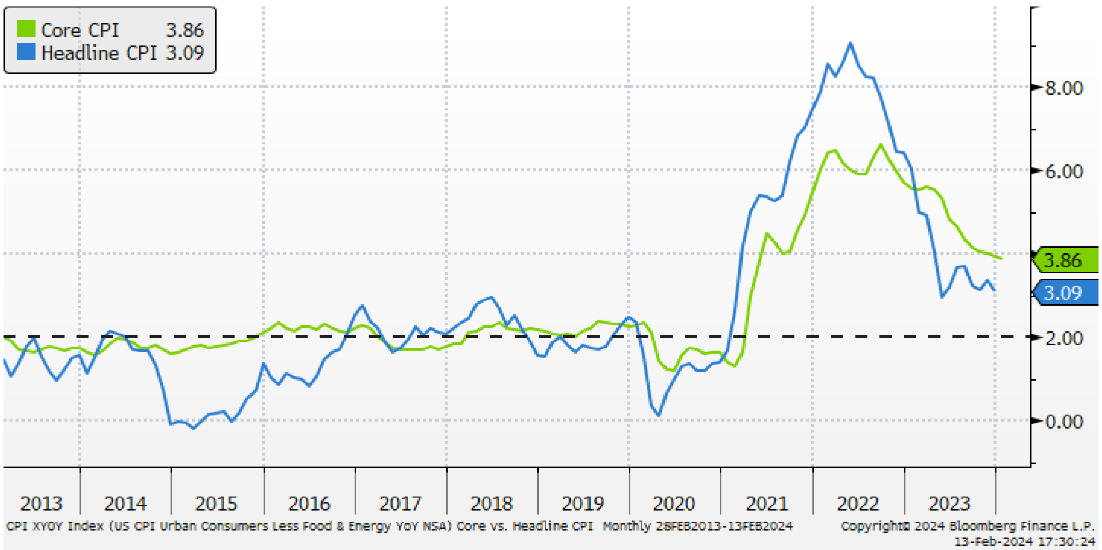
CPI Release



- Both headline and core consumer price inflation for January exceeded expectations.
- Investors focused on the core (which excludes food and energy prices) segment where price gains accelerated, as strength in the services segment more than offset goods deflation.
- The Cleveland Fed's trimmed mean measure, which excludes the biggest outliers in either direction and takes the average of the rest, saw its biggest rise since early 2023, **suggesting that the reading was due to broad-based factors**, not some quirky outliers.
- The upside surprise unwinds some of the recent progress on disinflation and is a reminder to investors that the path to 'normalization' is likely to be bumpy and possibly prolonged.
- Regarding Fed expectations, the **market pushed out expectations for the first rate cut to July**. The market is now pricing ~100 basis points of rate cuts to occur in 2024.
- The news drove interest rates sharply higher with the yield on the policy-sensitive 2-year U.S. Treasury increasing by 19 basis points (bps).
- While CPI is a widely followed measure of inflation, Fed policymakers favor an inflation metric known as the personal consumption expenditures (PCE) price index, which is computed differently than CPI and is likely to come in lower than the CPI reading.
- Investors should not overreact to one data point, and there are 'seasonal' factors that may have biased inflation readings higher in January. However, we remain vigilant about the potential paths for inflation.
- This is a good environment for active management, where investors can take advantage of bouts of volatility around single data points that swing the pendulum too far in one direction.

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