Good afternoon. I want to pass along a quick update on the monthly CPI (Consumer Price Index) report that was released yesterday. The report largely met the market's expectations which is why you didn't see a an overly volatile reaction from the market. Here are the primary take-aways:

1. August CPI came in at 3.7% which is an increase of .6% and Core CPI at 4.3% for an increase of .3% (Source CNBC). This is "good enough" for the market and doesn't materially change the overall disinflation theme.
2. Conversely, the CPI report will not ease concerns about a potential bounce back in inflation as evidenced that inflation may be stickier than expected.
    a. This could lead to concerns there could be one more .25% Fed rate increase or a delay in cutting rates in 2024. So far, that has not crept into the market.
3. Stagflation concerns will remain on the table although still on the back burner for now. Going forward, economic data will be critical because if we get sluggish data then stagflation concerns will grow. As of now, that is not showing up but we will be keeping a close eye on things.
4. The Fed Meeting next week just got that much more important. Look out for the "Dot Plots" for 2024. The anticipated direction of rates, and when the Fed thinks they may start cutting rates, will be important. This will either reinforce the "higher for longer" theme or give people hope that rates will eventually start to come back down. Either way, the market anticipates today that there will be no more Fed Funds rate increases for the balance of 2023.

The bottom line is yesterday's CPI number largely met expectations and the market will continue to be laser focused on economic reports as they are released. We remain cautiously optimistic on the outlook for the markets will a small hedge in place in case that ends up not coming to fruition. Please reach out to me with any comments or questions.

Regards,

Tim

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