

Good morning. Given yesterday's Consumer Price Index (CPI) inflation report, I thought I would put out a few comments and chime in on the Fed Meeting later today.

CPI came in at 7.1% yesterday which indicates that disinflation continues for the second straight month. Furthermore, the "core" inflation number fell to 6%, barely beating expectations of 6.1%. At the market open, stocks opened much higher with the Dow Jones up 700+ points but the rally was short lived. Why? An article by the Wall Street Journal's Nick Timiraos, a must-follow in the financial community and often considered the "mouthpiece of the Fed", reported that Fed Chairman Powell could indicate that the "terminal rate" of the Fed Funds might end up higher than 5% which put some cold water on the rally. It's also worth mentioning that:

1. With rates where they are, the market is just about fairly valued with yield stubborn (for now) and a slowing economy
2. At 7.1% inflation is still high and the Fed has still not shown any signs of a Pivot.

The Fed decision will be announced later today and most economist are expecting a .50% increase. We also may see some positive commentary on inflation in the Fed Statement and/or the Powell press conference. Look for an update on where the Fed anticipates the Terminal Rate to go which at this point is just above 5%. Keep in mind, per my last comments on rates, the bond market will begin to anticipate short-term rates peaking before it actually happens which means longer-term rates will begin to decline in advance. We are already seeing this with the inverted yield curve which is indicating a material slowdown in the economy in the coming months/quarters. Thank you to Tom Essaye at the 7's Report for some of the data used in this update.

As you can see, lots of data to digest this week and its only Wednesday morning. As always, we are trying to stay in front of things by being proactive and tactical in our asset allocation and portfolio management. Please feel free to reach out to me with any comments or questions.

Regards,

Tim

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