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# Weekly Commentary

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## Inflation's double speak

And so the debate continues. December's Federal Open Market Committee meeting revealed a suddenly dovish Federal Reserve. It changed its tune from keeping rates "higher for longer" to penciling in 75 basis points of cuts this year. But time and time again, policymakers have said this trajectory depends on that of inflation. They simply aren't going to ease if they aren't convinced they have pushed it back into the 2% range.

That's why the latest Consumer Price Index (CPI) report is less than helpful. Released last week, it said headline inflation rose from an annualized 3.1% to 3.4% in December, but the measure that strips out volatile food and energy prices declined from 4.0% to 3.9%. While the Fed watches the latter, the so-called Core CPI, closer than the main number, it was not much of a relief.

At best, the report means the markets are ahead of themselves by forecasting five to six rate cuts this year, and investors move closer to the Fed's expectations. That might result in the plateau in rates that would benefit liquidity products. At worse, it marks the beginning of inflation trending up, meaning the Fed might not stick the soft landing they are hoping to make.



***The Chicago Fed National Activity Index is a gauge the level of economic activity in the United States.***

***The Conference Board's Composite Index of Leading Economic Indicators is published monthly and is used to predict the direction of the economy's movements in the months to come.***

***The University of Michigan Consumer Sentiment Index is a measure of consumer confidence based on a monthly telephone survey by the University of Michigan that gathers information on consumer expectations regarding the overall economy.***

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