



# TAKING STOCK: NOT OUT OF THE WOODS YET DESPITE TAME INFLATION DATA

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Markets [celebrating](#) the recently reported benign inflation data may be getting ahead of themselves.

We believe markets are counting on interest rates coming down sooner rather than later, while discounting the relative health of the U.S. consumer and the underlying strength of the economy. With low unemployment and steady economic signals, the Federal Reserve is likely to move with extreme caution when considering a potential interest rate cut. Furthermore, should we see long-term interest rates fall further and financial conditions ease, we believe the central bank will be even less likely to shift its stance.

October's CPI report, published on November 14, showed that prices were unchanged for the month, while increasing 3.2%—the lowest uptick in two years—over the last 12 months. CPI ex-food/energy increased 0.2% last month and is up 4% over the last 12 months. Energy and used car prices fell, down 2.5% and 0.8%, respectively, in October.

In response, equities moved higher globally, especially U.S. financials and small-cap stocks, underscoring their sensitivity to interest rates. The U.S. dollar weakened, and the 10-year Treasury fell to below 4.5%, with hopes of multiple Fed rate cuts being priced in for 2024. The market pricing for Fed Funds expectations moved aggressively lower; it now reflects four rate cuts in 2024.

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At NEPC, we believe markets are overlooking the upside risk to inflation. We think interest rates will remain “higher-for-longer.” The relative strength of the U.S. economy and a modest recovery in the manufacturing sector could reinforce an uptick in inflation; meanwhile, the potential for energy prices to move higher also remains, given the conflicts in the Middle East and Ukraine.

Investors also will be keenly examining the next slew of inflation prints, with the Fed's preferred inflation measure PCE out on November 30, the next CPI report will be published on December 12, and the final inflation report for the year landing on December 22 for PCE.

For questions, please reach out to your NEPC consultant.

# IMPORTANT DISCLOSURES

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