

FEBRUARY 18, 2025

Weekly Note

Orion OCIO On What Wall Street Is Wondering About, Worrying Over, Or Wishing For This Week...

Inflation Has Heated Up and Cooled Down Before ...

- The big market-moving news last week was Wednesday's hotter than expected January Consumer Price Index (CPI) Report, which showed year-over-year inflation rising 3%, the biggest jump since June of 2024 and above Wall Street's expectations for an increase of 2.9% (see chart/circle). Stocks wobbled on the news and bonds sold off, with the yield on the U.S. 10-Year Note jumping 13bps to 4.66%.
- As we know, the Fed cut interest rates three times last year and most recently had guided to two rate cuts this year. However, investors are worried that a too-hot economy and too-hot inflation will keep the Fed from cutting rates in 2025 and could even push the Fed to raise rates this year. And after the hotter than expected January CPI print, Wall Street dialed back its expectations for rate cuts in 2025, pricing in just a single quarter point cut at the Fed's December 2025 meeting.
- For now, we are not giving up on the possibility that the Fed will cut rates — and cut them more than once — this year. Our rationale is simply that one inflation data point — even four inflation datapoints — does not a trend make. More specifically, we recall how the CPI for December 2023, January 2024, February 2024, and March 2024 all came in above expectations (see chart/arrow), causing Wall Street to dramatically rein in its expectations for rate cuts in 2024; and to put a finer point on that point, consider that as 2023 wound down Wall Street was pricing in six rate cuts for 2024 before pivoting to just 1 to 2 rate cuts after the hotter than expected March 2024 CPI print (see Reuters headline from April 2024). But, after an inline April 2024 CPI print hit in May and better than expected CPI prints for May, June, July, and August, the door was open for the Fed to cut interest rates for the first time in four and a half years at its September 2024 meeting.
- The Fed considers itself a data dependent institution. We think its worth remembering we are only six weeks into 2025 and there is much more data to come.

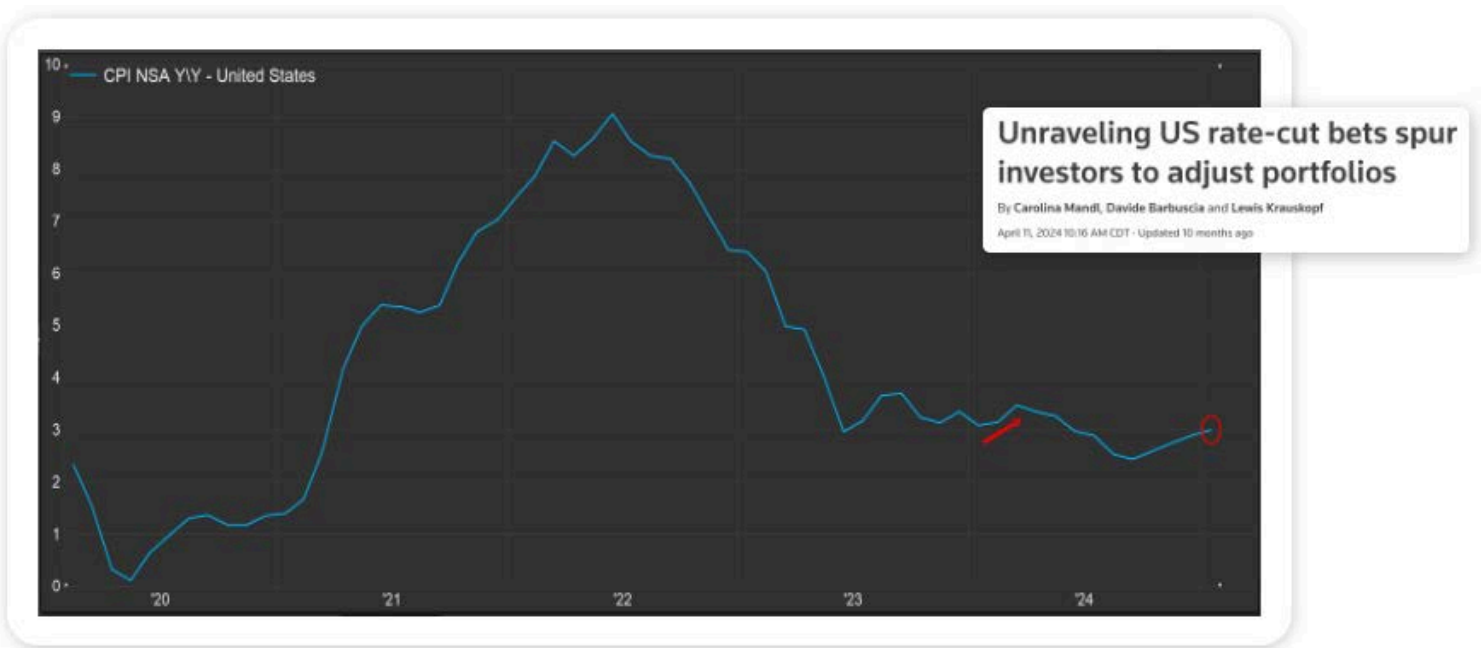


Chart Source: FactSet (February 13, 2025)

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