



TheECONOMY

Inflation Hits Another Minor Bump on Its Ride Down

U.S. inflation, as measured by the Consumer Price Index (CPI), showed mixed results in its most recent September reading. Both core inflation (which excludes volatile food and energy prices) as well as non-core CPI came in higher than estimated, which likely increases the probability of a quarter-point cut at the next Federal Reserve meeting in November.

Overall, while both core and non-core CPI have cooled significantly from their historic highs in 2022, the path back to the Fed's target rate of 2% has been somewhat bumpy and uncertain. While overall CPI grew 2.4% YoY in September, which is down from 2.5% in August, this was still higher than economists' expectations of 2.3%. Additionally, core CPI reversed course and rose over the month, climbing to 3.3% YoY versus 3.2% in August.

Some of the main causes of the surprisingly high core level include things like apparel, which rose 1.1%, car insurance, which rose 1.2%, and airfare, which rose 2.9%, all having increased materially month over month according to the U.S. Bureau of Labor Statistics. Non-core inflation was impacted largely by food prices, which posted their biggest monthly price increase since January, offset to some degree by energy, with gasoline falling 4.1% over the month.

While the path back down to 2% inflation was never going to be perfectly linear, this most recent bump comes at a particularly interesting time in our view. September's reading, the last before the presidential election in November, follows a relatively aggressive 50 bp cut from the Federal Reserve signaling to the markets that the Fed believed the prolonged period of higher rates had done enough to cool prices without causing profound damage to the economy.

Looking forward, attention is turning to the Fed's November meeting, at which time the market is currently pricing in a ~90% chance of a 25 bp rate cut. CPI is just one of many data points that the Federal Reserve uses to guide monetary policy. The Fed's preferred metric to gauge inflation, the Personal Consumption Expenditures Price Index (PCE), won't be available until October 31.

Overall, while the most recent CPI was higher than expected, it was likely not enough to change the underlying narrative that inflation is still heading in the right direction. We expect the Fed will maintain the course.

Treasury Yields

MATURITY	10/11/24	9/18/24	CHANGE
3 Month	4.625%	4.750%	-0.125%
6 Month	4.443%	4.507%	-0.064%
1-Year	4.181%	3.979%	0.202%
2-Year	3.955%	3.617%	0.338%
3-Year	3.875%	3.489%	0.386%
5-Year	3.902%	3.483%	0.419%
10-Year	4.100%	3.704%	0.397%
30-Year	4.411%	4.021%	0.390%

Source: Bloomberg

Agency Yields

MATURITY	10/11/24	9/18/24	CHANGE
3 Month	4.550%	4.750%	-0.200%
6 Month	4.390%	4.410%	-0.020%
1-Year	4.060%	3.900%	0.160%
2-Year	3.962%	3.681%	0.281%
3-Year	3.879%	3.543%	0.336%
5-Year	3.940%	3.567%	0.373%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	10/11/24	9/18/24	CHANGE
1 Month	4.790%	4.970%	-0.180%
3 Month	4.710%	4.880%	-0.170%
6 Month	4.610%	4.630%	-0.020%
9 Month	4.520%	4.380%	0.140%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '24	3.00%
US Unemployment	Sep '24	4.10%
ISM Manufacturing	Sep '24	47.2
PPI YoY	Sep '24	1.80%
CPI YoY	Sep '24	2.40%
Fed Funds Target	Oct 15, 2024	4.75%-5.00%

Source: Bloomberg

Source: Bloomberg. Data as of October 15, 2024. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.