

Whither Inflation, Does it Matter

CIO Insights
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Markets are cheering a softer inflation print (PPI), foreshadowing rate cuts. On Friday, markets were happy about less than expected initial jobless claims in support of a "soft landing" - "head I win, tails you lose...". Probability of a 50bp rate cut has gyrated in sync with S&P movements rather than economic data (see figure 3 below).

In our view, the simple fact of lower inflation, which is already on a downward glide path (fig 1 below), is probably not enough to warrant rate cuts, leave alone an aggressive one. Growth concerns are and will likely be the reason for rate cuts, both logically and echoed by the FED.

We reiterate that growth headwinds matter more than the benefit from lower interest rates and just as monetary tightening has a lag effect, so does an easing cycle. Historically, equity weakness coincides with the beginning of a rate cutting cycle (see note, "[When The Fed Cuts, Cut Your Risk](#)").

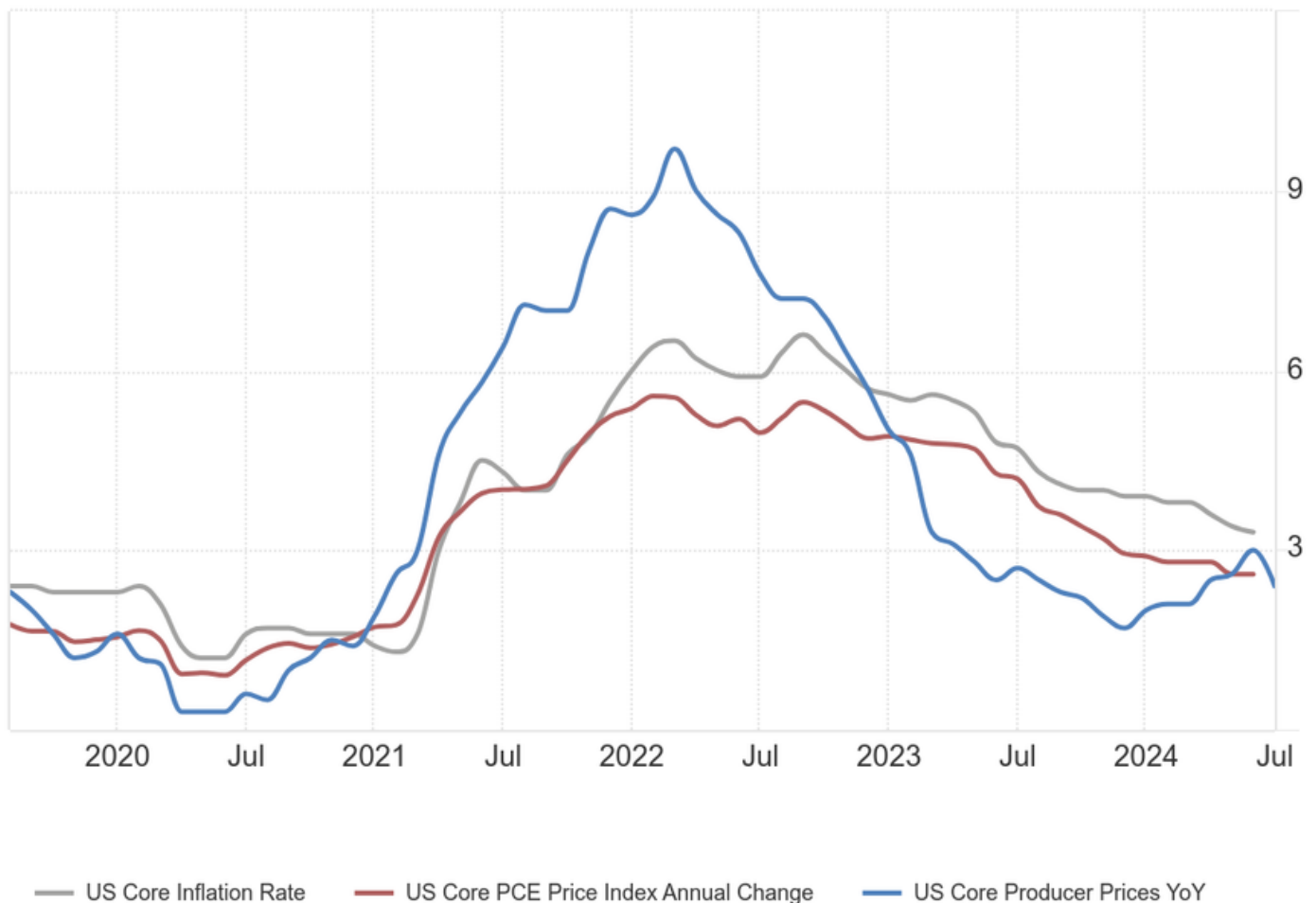
Technically, we classify the trend as down and lacking strength (more than half of S&P constituents have RSI below 50 and more than a fifth an RSI below 40 - in both cases, this includes major index heavyweights).

In summary, unless we see a clear re-mergence of an uptrend (fashionably late is our preferred approach), "buy-the-dip" approach needs to be replaced with "sell-the-rip".

- **Inflation On a Downward Trend** (fig 1) - All measures of inflation, PPI, CPI, PCE, Core, headline, all show the same trajectory, down.
- **Rate Cut Probabilities** (fig 2 & 3) - Expectations of a 50bp rate cut spike on Monday (5th Aug) as equities sold off. This has since come down from over 80% to c55%. Importantly, aggressive rate cut expectations have followed SPX movements rather than economic data.
- **Jobless Claims** (fig 4 & 5) - While markets found relief from a lower than expected initial jobless claims data (avoiding recession), this data series is noisy and at the minimum, the 4-week average gives a better picture of trend, which continued to deteriorate. More importantly, continuing claims, an indicator of the difficulty in finding jobs, have continued to worsen.

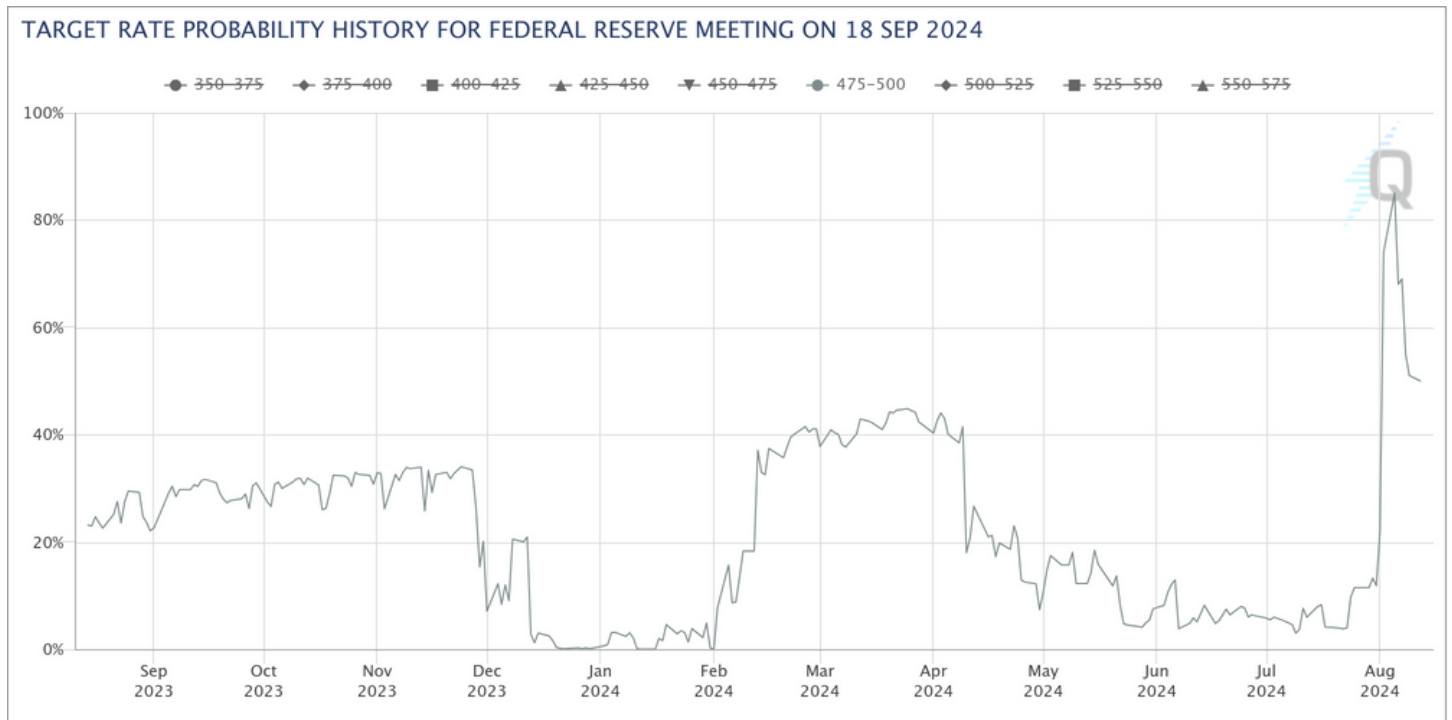
We get the perils of calling or timing a recession. Our concern is much more with the trend in macro trends, and they appear to be weakening. Not quite the environment to be betting on growth equities.

Fig 1 - Inflation is on a Glide Path - Downward (Core PPI, Core CPI, Core PCE)



source: [Tradingeconomics.com](https://tradingeconomics.com)

Fig 2 - Probability of a 50bp cut in Sep - Spiked to over 80% on Turmoil Monday, now 55%



source: cme.com

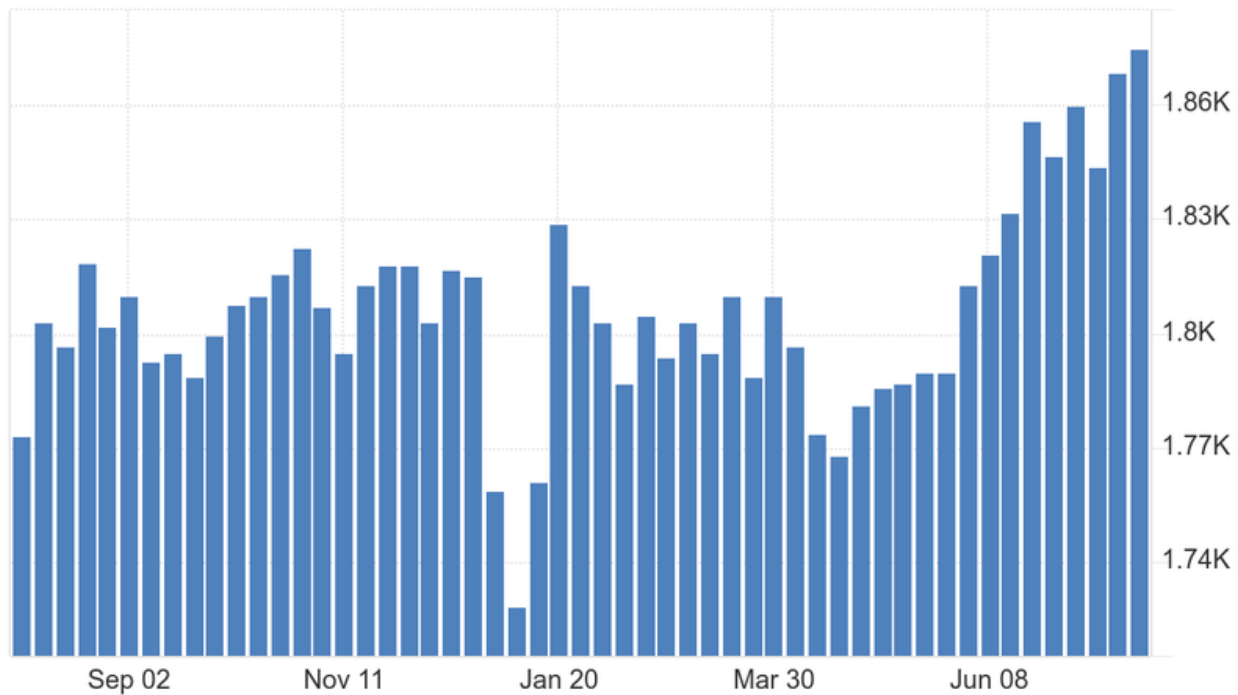
Fig 3 - Rate Expectations - More in Sync with SPX rather than Economic Data



source: Tradingview.com

Fig 4 - Continuing Jobless Claims - Upward Trend Continues

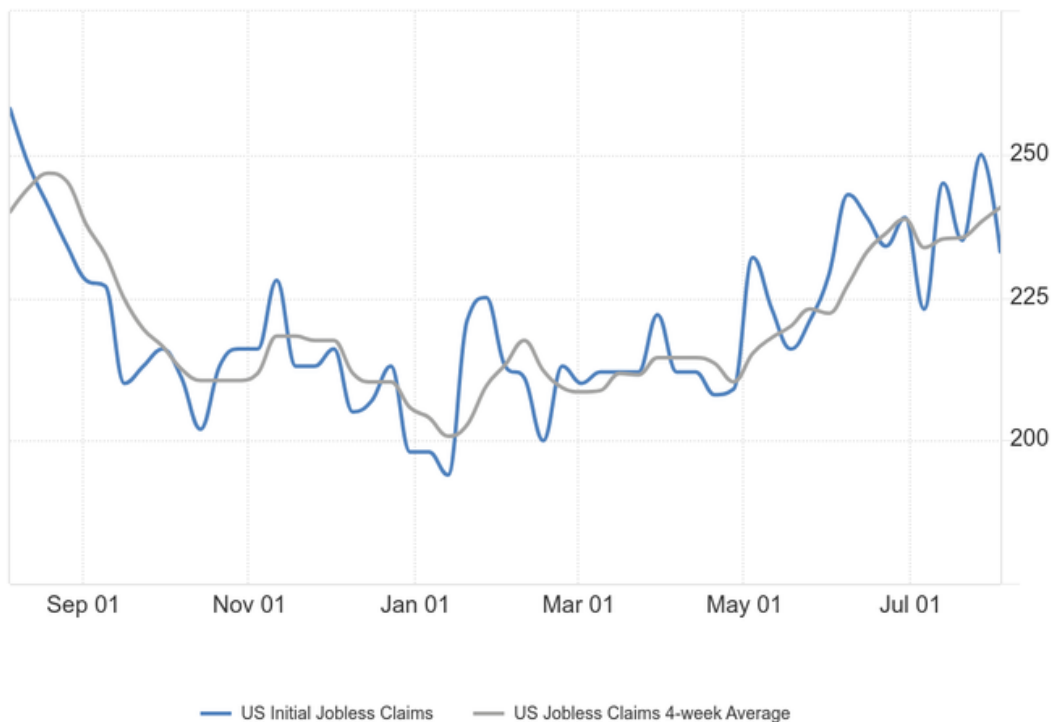
US Continuing Jobless Claims - Thousand



Source: tradingeconomics.com | U.S. Department of Labor

source: Tradingeconomics.com

Fig 5 - Weekly Jobless Claims Are Noisy - 4-week Average Shows a Worsening Trend



source: Tradingeconomics.com

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