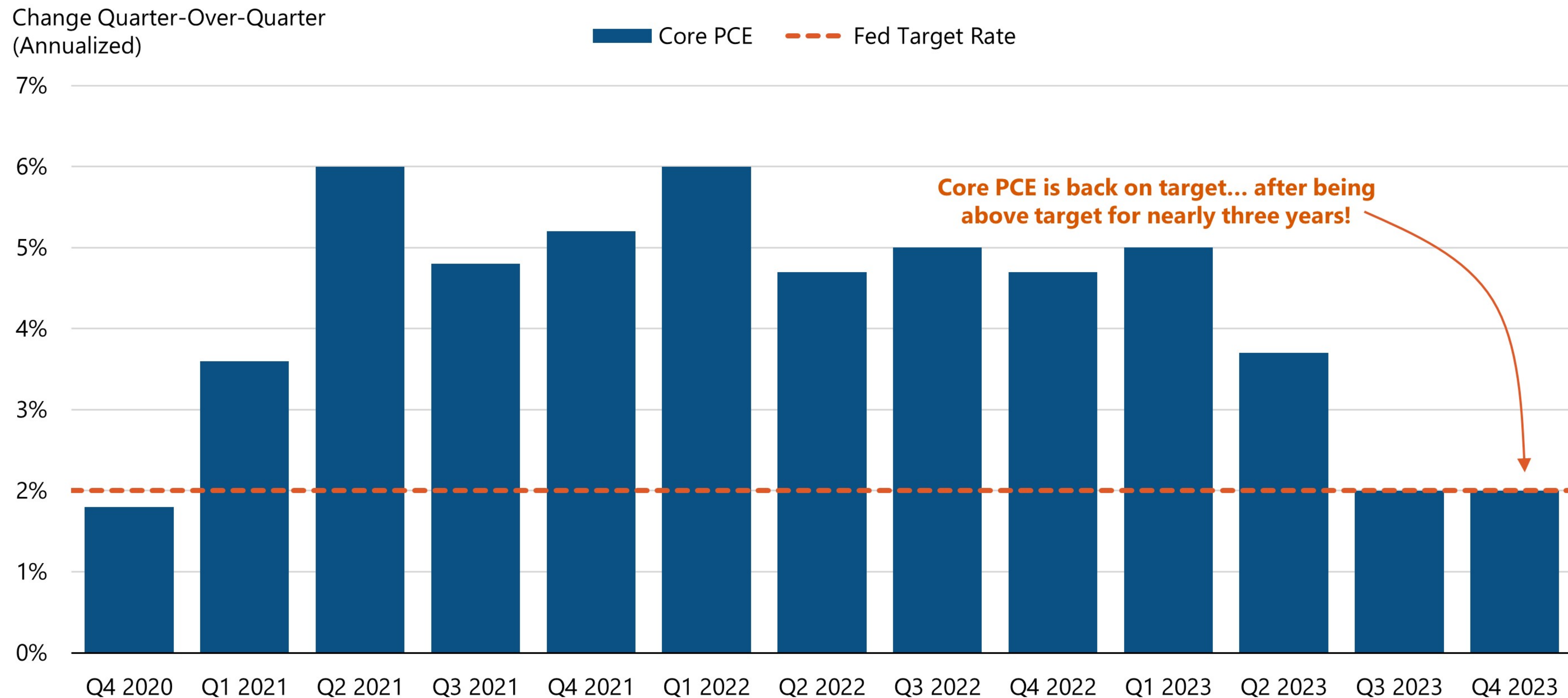


Necessary But Insufficient

Quarterly Core* Personal Consumption Expenditures (PCE) Price Index

For The Week Ending 01/26/2024



Source: Bureau of Economic Analysis

*Excludes food and energy

According to data released by the Bureau of Economic Analysis, the U.S. economy grew at an annual rate of 3.3% in Q4 2023, well above consensus expectations of 2.0%. More importantly, consumer spending drove much of the outperformance, contributing +1.9 percentage points in Q4 and about 60% of the total GDP growth for the year. In the meantime, the core Personal Consumption Expenditures (PCE) Price Index clocked in at a 2% annual rate over the quarter, right in line with the Fed's target. What does this mean for the March rate cut that bond investors have been hoping for? Well, two percent inflation is a *necessary* but insufficient reason to cut rates, as the above-trend growth over the last ten quarters may pose an upside risk to inflation. Policymakers would probably like to see a moderation in GDP growth (cooling toward 1%) and a slight uptick in unemployment before concluding confidently that inflation will sustainably hover around 2% to ratify rate reductions.