An “Interesting” CPI & FedSpeak Day

Yesterday we got the “new” CPI.

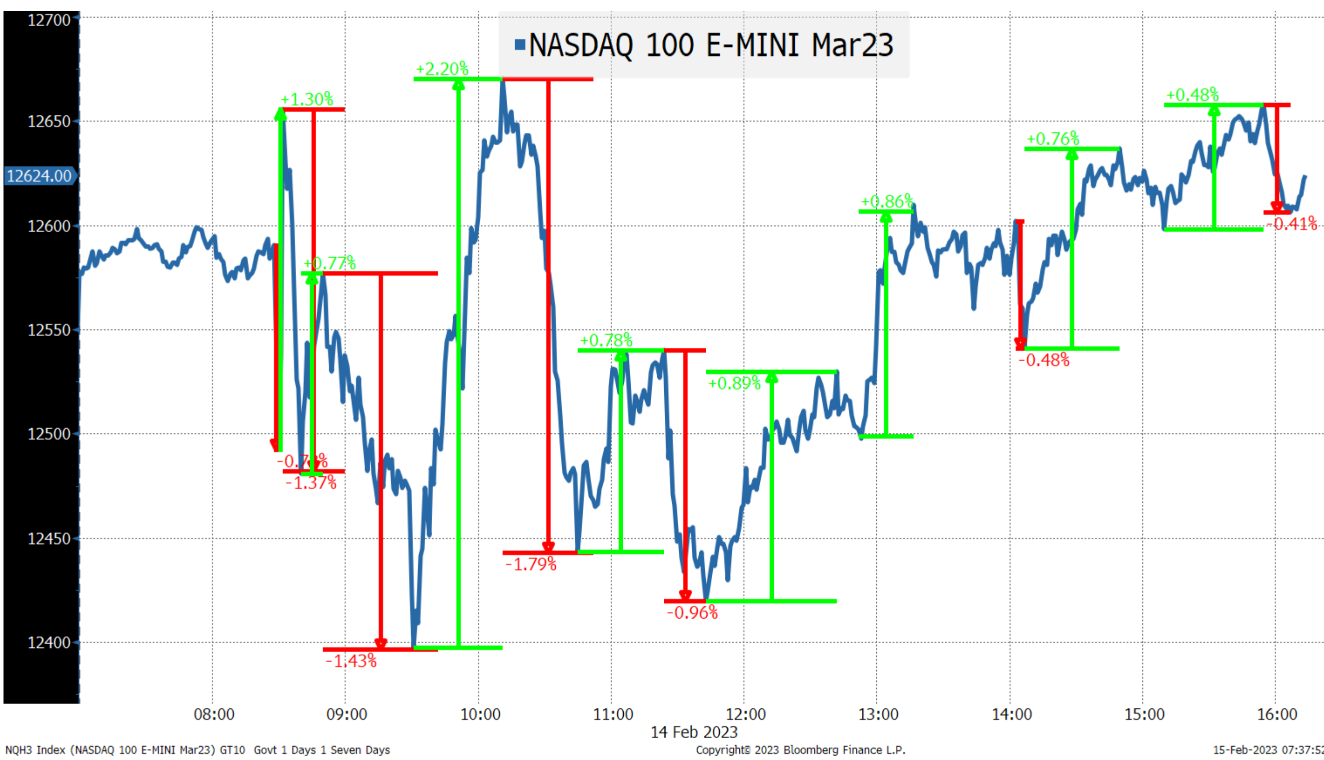
We already knew about the upward revisions to the prior months. The way they changed the weightings to focus more on “sticky” inflation metrics meant that inflation was lower earlier in the year, but higher later in the year (relative to what had been thought a mere week ago).

CPI came in right around revised expectations on a monthly basis. Many had thought that we would get an upside surprise **so just meeting expectations might explain some (but not all) of the initial market reaction**. Goods inflation continues to be weak (I expect that to continue because excess inventory is still an issue). Services inflation remained strong, but we will start seeing how that does in the coming months and whether or not it is persistent or subject to the wave of pent-up demand that was largely satisfied after the spending binge late last year.

The 10-year yield dropped from about 3.68% down to a low of 3.62%. It then rose back to 3.7%, dropped down to 3.65%, then pretty much steadily climbed up to 3.795% where buyers emerged (right on cue), and finished the day at 3.75%.

There were 4 Fed speakers yesterday as well. My overall sense is that while sticking to the more “watchful” and “data dependent” theme that Powell has been leading with, the mentality is starting to shift away from “disinflation” and back to “inflation resurgence.”

Though clearly equities did not get that message. However, to be perfectly honest, I have no idea what message equities got yesterday.



The fluctuations in and around the number seemed unusual, even by recent standards.

“Program” trades seemed to be able to drive the market very quickly.

Given the data, the Fed comments, and Treasuries, stocks were very resilient which is worth noting (especially as they move off of their overnight lows as the U.S. open nears).

The bulk of the equity rally (from the European close at 11:30am) did coincide with Treasuries improving. This makes sense, but **even then, stocks seemed to be trading with little liquidity**.

My Takeaways from this "Chop Chop" Trading

There is little depth to liquidity.

At any level there are all sorts of algos competing for a fraction of a cent, but any material flow is cutting through the "faux" liquidity like a knife through butter.

This does not seem normal or healthy.

Given the shift in the inflation narrative (at least for the coming week or so) along with Fed speakers, I expect to see some pressure on Treasury yields. **The Citi economic surprise indicator went from a 6-month low of -25 on January 18th to an almost 9 month high of +25 last week (a move worth paying attention to).**

Equities went from trading "long" last week (where barely any bid was held) to trading "short" yesterday (where there was an almost palpable "urge" to rally).

That fits my narrative that this market swings from overbought to oversold (and vice versa) in record time (likely helped by a healthy dose of 0DTE trading).

While I have to respect the stock market resilience yesterday, it is difficult to be bullish with a (slightly) bearish view on rates here. Maybe stocks can trade the "good news" as "good news", but I suspect that will be difficult.

My view is that equities can change their positioning far more rapidly than in the past (so I don't think that the "squeezy" feeling we got yesterday will last). The relative YTD performance of the Dow (3%), the S&P 500 (8%), and the Nasdaq Composite (14%) is striking. If you dig into the "most shorted" stocks, the relative performance is somewhere between stunning and mind-boggling. Yes, there is generally more breadth in the recent rallies than we saw in 2022, but it is still a high beta/highly shorted grab more than anything else.

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