

# MBS & TREASURY MARKETS

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## The Day Ahead: Paradoxical Reaction to Slightly Higher Inflation

Inflation, via this morning's PCE price index, came in slightly hotter than expected, but bonds are rallying in response. There are a few ways to approach this paradox both in the long and short term. On a more nitty gritty level, the unrounded PCE numbers were fairly close to consensus and that can always help mitigate unfriendly data. In the bigger picture, we can consider a few other factors. On a data-related note, annual PCE (non-core) stayed at 2.5% vs 2.5%--not too terrible considering a 2.0% target. Data aside, we can also consider the gap that we've discussed several times this week and the fact that bonds could simply be rallying because it was finally filled yesterday.



**Chris Kobz**

SVP - Area Manager,  
Fairway Independent  
Mortgage Corp.

[FairwayMortgageChico.com](http://FairwayMortgageChico.com)

P: (530) 624-5388

300 Salem Street  
Chico Ca 95928  
208371