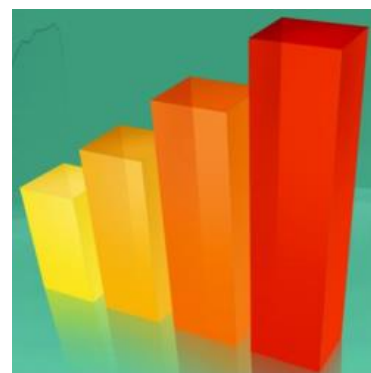


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The Day Ahead: Tariffs Show Up in CPI, But Not Enough to Hurt

If market watchers get out their magnifying glasses, they can certainly find some evidence of tariffs impacting inflation in various goods, but those goods are such a small part of the overall CPI calculation that they didn't account for any of this month's higher inflation. Rather, it was the usual suspects (housing, medical care, professional services) that did most of the damage of the damage. Bonds are certainly able to rally based on the fact that CPI came in below forecast, but bonds are just as certain to have second thoughts about that rally based on the persistence of non-tariff-driven inflation (housing alone accounts for almost half of inflation year over year). The net effect is a fairly half-hearted rally that falls well short of launching yields triumphantly back toward recent lows.



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