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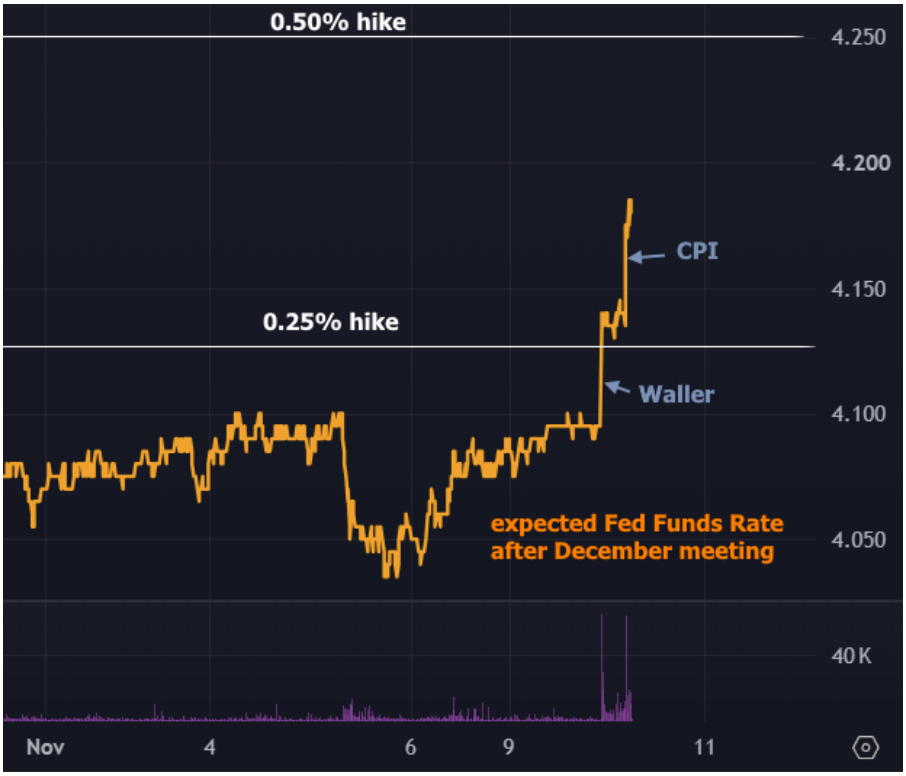
The Day Ahead: No "Yeah Buts" in Today's CPI. It's All Bad For Bonds

Some inflation reports have counterpoints even if they appear high at first glance. This one is just all-around not great for bonds. It would be a genuine surprise to see a meaningful reversal from this morning's weakness without a major, unexpected news headline or massive stock sell-off.

Really the only way someone could try to find a silver lining would be to say that month-over-month inflation moved a hair lower in a few key categories, but considering last month's report saw very high readings in those categories, that silver might actually be a lightning bolt. As a reminder, there is no y/y CPI number today because of last year's gov shutdown. The asterisk below denotes an interpolated baseline from Sept/Nov 2025.

- m/m Core CPI : .296 vs 0.22 f'cast
- y/y Core CPI*: 2.8 vs 2.7 f'cast, 2.6 prev
- Supercore: : .399%

The bond market hit was immediate. As expected, shorter-term yields are hit hardest as they're the most closely related to Fed Funds Rate expectations. December's expected rate shot sharply higher in 2 phases. The first came before the data when Fed's Waller (not Warsh) said they Fed should consider a 50bp hike if core CPI came it at 0.3% or higher. The second phase was in response to CPI itself. Markets are now pricing in a bit more than one full rate hike in December.

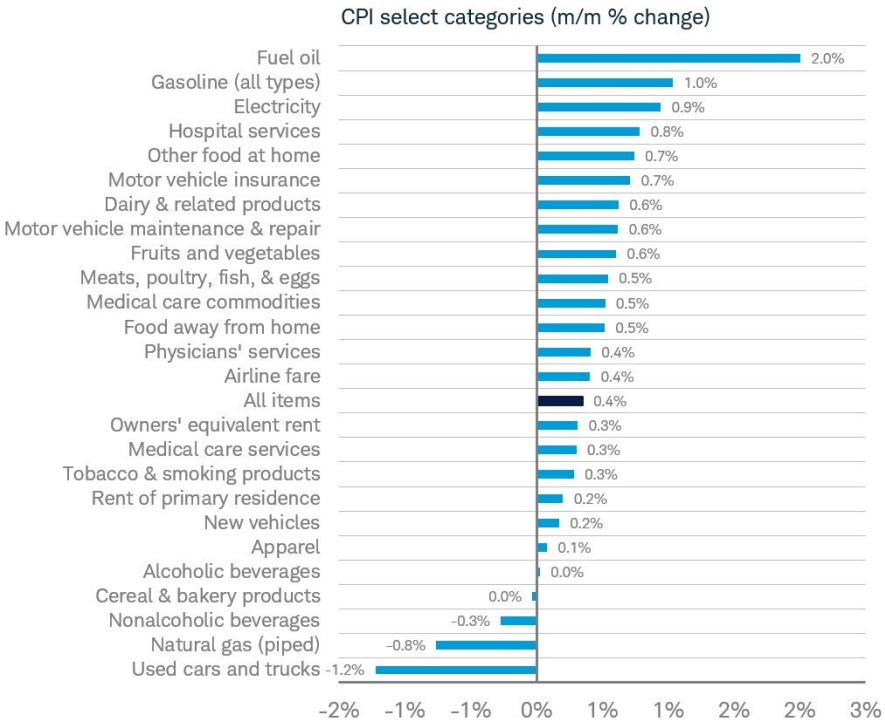




Dale R. Packer, MBA
Owner/Broker, Great American Lending LLC
GreatAmericanLending.us
M: (801) 391-6566
dale@greatamericanlending.us
3918 Badger Ct.
Heber City Utah 84032
MLO-4493
Company-201546

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