



Headline CPI was slightly higher than expected in September; underlying data was somewhat mixed, which, along with data-dependent policymakers, maintains a degree of uncertainty regarding the next moves by the Fed (UBS).

CIO first take: Inflation in September was a tad hotter than expected

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Headline inflation was 0.2% m/m in September, marginally higher than market expectations of 0.1% m/m. The result was driven by notable increases in foodstuffs, airfares, and select service-related items. Annual headline inflation fell to 2.4% from 2.5% in August, marking the lowest print since early 2021.

What about the underlying CPI trends?

A notable development was the deceleration in owners' equivalent rent (OER), which rose 0.33% in September, versus a preceding 0.50% monthly print. As a reference, OER represents 27% of the CPI, thus its behavior going forward is of significant importance in order for annual headline inflation to decline sustainably toward the 2% target.

As a reference, core inflation came in at 0.3% m/m in September, also a tad higher than consensus expectations of 0.2% m/m. In annual terms, core inflation was 3.3%, up from 3.2% in August.

Our base case continues to be for 25bps of cuts at each of the meetings scheduled for the rest of the year (November and December). Yet, we acknowledge that upside price surprises increases the risks that policymakers decide to stay on hold at one of these meetings.

Bottom line

The disinflation process continues, which should enable the Fed to further ease financial conditions. In this context, we believe that we are headed toward a lower-rate environment. With an economy set for a soft landing, we believe this favors being positioned in higher-quality fixed income and being well exposed to the US equity market.

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