CPI's April data was welcomed by investors, with both rates and equities markets rallying (UBS).

CIO First Take: April CPI print — Slow progress, but progress nonetheless

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The Chief Investment Office reacts to the CPI results for April — the data supports our base case of a soft landing and monetary easing before year-end.

What happened?
Headline inflation was 0.3% m/m in April, below market expectations of 0.4% m/m. Although it may appear just as a slight decline (only 10bps lower than expected), it should be noted that there has not been a downside inflation surprise since October's CPI report.

Meanwhile, core inflation was 0.3% m/m in April, in line with market expectations. This marks the lowest monthly core print of the year and is rather positive news after three consecutive months of higher-than-expected results.

Inflation and PPI data (released yesterday) suggest that core PCE inflation (the policymakers' preferred inflation gauge) was likely near 0.24% in April. That would be the smallest increase so far in 2024, but perhaps still slightly too high to support a Fed rate cut.

Moreover, retail sales were flat (0.0% m/m) in April, below market expectations of 0.4% m/m growth. Control group retail sales fell -0.3% m/m, lower than expectations of a +0.1% m/m increase. This data will likely cause downside revisions in the GDP tracking for 2Q 2024.

Overall, inflation and retail sales data in April supports CIO's base case of a soft landing scenario. We stand by our call of two 25bps Fed rate cuts this year, with the first easing move taking place in September.

Comments on fixed income
The recent economic data is a bit of a relief to the market, as it re-consolidates the notion that rate cuts will come in the second half of the year. This optimism is particularly apparent in the market's pricing of the terminal rate, which now sits at 3.8% after peaking at 4.1% in late April.

The ongoing re-pricing in the rates market is particularly positive for our high-quality bond recommendations, which should benefit from the decline in yields. We stand by our forecast of 10Y US Treasuries at 3.85% by year-end.

Comments on equities
Equities are taking the CPI data positively, with the S&P 500 reaching all-time highs and approaching the 5,300 points handle. The rally in rates gives ammunition to market bulls and supports a move higher in the equity universe.

We think the macro context is particularly positive for small-caps, which should benefit from looser financial conditions.

At this point, it seems that the investor concerns we witnessed a few weeks ago have been largely wiped out. In this context, we recommend clients to stay invested in equity markets, given healthy earnings growth, strong AI investment, and the potential for lower rates.

Finally, we highlight an increase in the probability of the S&P 500 trending to our upside scenario of 5,500 by year-end.

CIO First Take: April CPI data & Market response
Join members of the UBS Chief Investment Office for some timely thoughts and reflections around the April Consumer Price Index (CPI) print, and what this latest inflation data might mean for monetary policy, and the markets. Featured are **Brian Rose**, Senior Economist Americas, **Leslie Falconio**, Head of Taxable Fixed Income Strategy Americas, and **David Lefkowitz**, Head of Equities Americas. Host: **Daniel Cassidy**

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