

# CHART OF THE MONTH

FEBRUARY 2025



The highly anticipated January reading of the Personal Consumption Expenditures Price Index (PCE), the Federal Reserve's preferred measure of inflation, was released this morning. Annual "core" PCE — which strips out food and energy prices — matched expectations at 2.6%, perhaps calming nervous investors on the heels of elevated readings in the Consumer Price Index (CPI) and Producer Price Index (PCI) earlier this week.

The latest CPI report showed a 3% overall increase in prices in the last year, the highest level since last May (see chart at the top). Core inflation of 3.3% was the 45th consecutive month above 3%, the longest period of elevated inflation in the US since the early 1990s. Meanwhile, PCI climbed to 3.5%, the highest tally since February 2023. For the past ten years, CPI is running at a 4.2% annualized rate, drifting further away from the Fed's 2% target (see bottom chart above). Based on the mixed inflation data, the Fed is unlikely to lower the fed funds rate until June at the earliest based on the CME Group's target rate probabilities.

Part and parcel to the above, the Consumer Confidence Index (CCI) suffered its biggest monthly decline in 3-1/2 years in February according to the Conference Board's announcement on Tuesday. The reading was 98.3, the third consecutive month-on-month decline and a significant drop from January's 105 and short of the 102.5 estimate by economists. The Consumer Sentiment Index (CSI) also reported a similar decline at the end of last week. The CCI and CSI are two separately reported indexes with the CCI survey more affected by employment and the CSI more affected by inflation.

Meanwhile, according to the American Association of Individual Investors (AAII) (see below), bullish sentiment dropped from 29.2% last week to 19.4%, the lowest reading since March 2023, and bearish sentiment surged to over 60% for its largest weekly increase since August 2019. Not surprisingly, the S&P 500, which made an all-time high a week ago Wednesday, has fallen nearly 5% through yesterday with the "momentum" stocks (inside and outside the S&P) getting hit the hardest.

The CNN Fear & Greed Index gauges stock market behavior by looking at momentum, breadth, options activity, strength in the junk bond market, and demand for safe havens. The index was at 21, putting it in the "Extreme Fear" range (see below). From a contrarian standpoint, extreme fear is not a time to sell and may, in fact, make for opportunistic purchases for longer-term investors.

