

Soft CPI

Are Rate Cuts Back on the Table?



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Inflation Softens, But the Fed's Guard Remains Up

The U.S. Consumer Price Index (CPI), a key gauge of inflation that influences interest rates, investment decisions, and market sentiment, came in **softer than expected in November 2025**. The headline **CPI rose 2.7% year-over-year**, below economists' forecast of **3.1%**, while the core CPI, which excludes volatile food and energy prices, increased **2.6%**, versus an expected 3.0%.

Food prices rose 2.6%, energy increased 4.2%, and shelter costs, a major driver of overall inflation, moderated to 3%. These figures suggest that **inflationary pressures may be easing**, potentially giving the Federal Reserve more flexibility in future policy decisions.

However, this report is not fully comparable to typical CPI releases because **the recent U.S. government shutdown disrupted data collection and led to the cancellation of the October CPI**. Some figures were calculated using alternative **"nonsurvey data sources,"** which adds uncertainty to trend interpretation.

For traders, this softer CPI **creates a window to reassess positioning** across equities, rates, and currencies. While the Fed may remain cautious, the reduced inflation pressure could support selective opportunities in rate-sensitive assets and risk markets without signaling aggressive policy easing just yet.

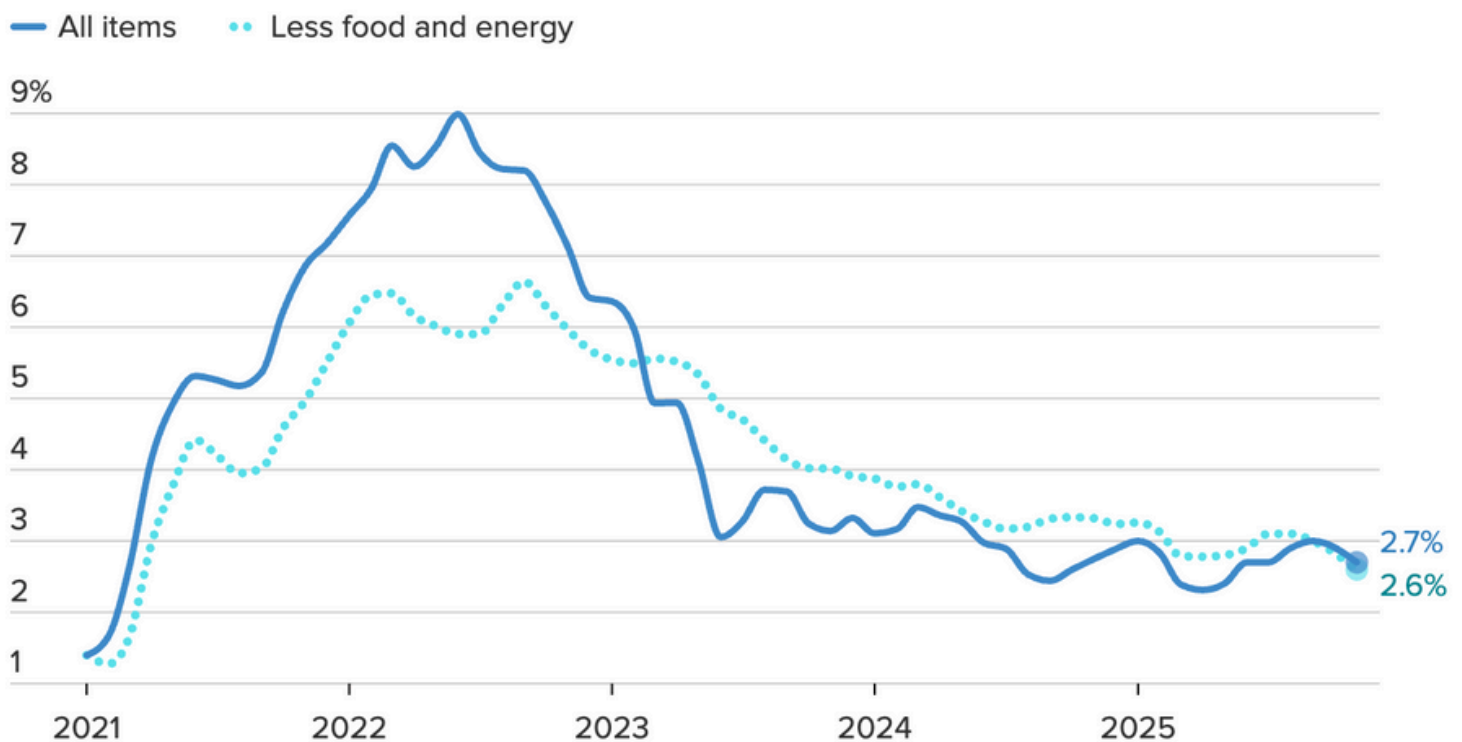
Macro Snapshot | What Just Happened

- **Headline CPI:** +2.7% YoY (vs. 3.1% expected)
- **Core CPI:** +2.6% YoY (vs. 3.0% expected)
- **Monthly Prints:** +0.2% headline & core (vs. 0.3% consensus)

This delayed CPI release, covering the period impacted by the U.S. government shutdown, came in meaningfully softer than expected, offering tentative evidence that inflation pressures are easing faster than consensus had priced.

U.S. consumer price index

Year-over-year percent change | Jan. 2021–Nov. 2025



Why This Matters

- Shelter inflation, a persistent inflation driver, slowed to **3% YoY**, signaling progress toward the Fed's 2% target.
- **Food (+2.6%)** and **energy (+4.2%)** remained firm but no longer accelerating.
- The **absence of October CPI data** tempers confidence in trend durability, limiting the Fed's ability to declare victory.
- In short: **disinflation is visible, but not yet bankable.**

Policy Lens

- The Fed has already delivered **three consecutive 25bp cuts**, reinforcing its sensitivity to downside growth risks.
- January easing remains unlikely, but March rate-cut odds rose to **~58%**, reflecting growing confidence that policy normalization is back on the table.
- A softer CPI strengthens the perception of a “Fed put”, supportive of risk assets if growth momentum falters.

Market Reaction | First-Order Effects

- **Equities:** S&P 500 futures +0.5%, snapping a four-day risk-off streak
- **Rates:** 10Y Treasury yield eased to ~4.11%
- **Risk Tone:** Improving, but still data-dependent

Trader Takeaways

- **Rates & Currencies:** Softer inflation prints reduce near-term volatility, favoring duration trades and selective positioning in USD-sensitive currencies. Treasury yields may drift lower, creating opportunities for tactical yield curve trades into Q1.
- **Equities:** A muted CPI release can spark a short-term relief rally, but leadership is likely to favor quality, defensive, and rate-sensitive sectors over broad market beta. Traders should focus on sectors that benefit from slower policy tightening.
- **Volatility & Risk Management:** Softer inflation lowers tail-risk potential, but gaps in the data due to the shutdown mean measured positioning is crucial. Avoid excessive leverage and emphasize tactical, rather than aggressive, exposure.
- **Bottom Line:** This CPI print reopens the door to Fed accommodation, but it is far from a guarantee. The opportunity lies in early, selective positioning, balancing potential gains from easing expectations with caution over incomplete trend signals.

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