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Charts of the Week

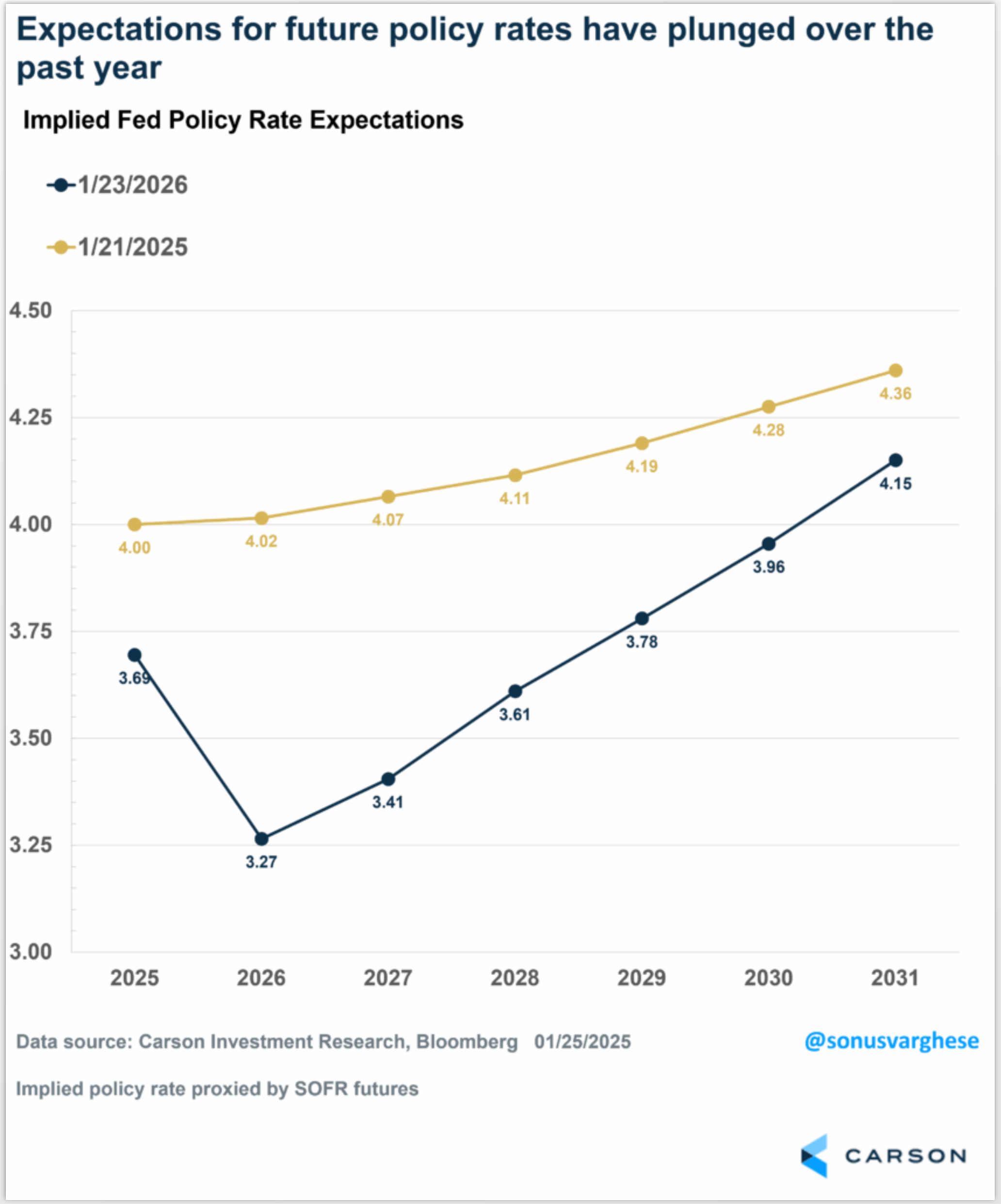
Carson Investment Research

January 26 - 30, 2025

Chart of the Week

The Market Cut the Fed Path, Long Rates Didn’t Care

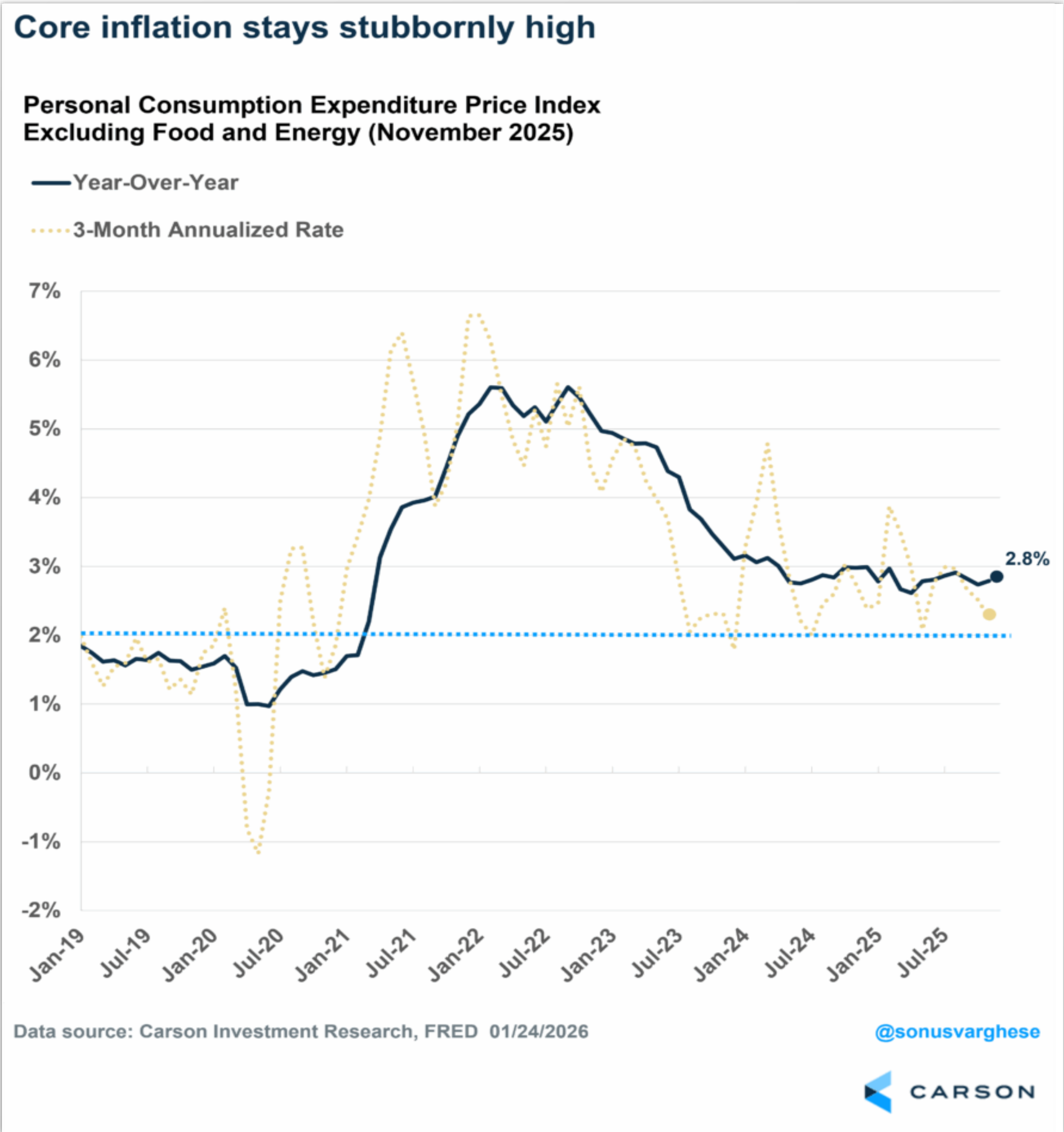
- In one year, the market’s implied policy-rate path shifted meaningfully lower: 2026 fell from ~4.02% to ~3.27% (~75 bps), while 2031 fell from ~4.36% to ~4.15% (~20 bps).
- At the same time, ultra-long Treasury yields are still sitting near cycle highs (~5% area). A clean signal that term premium / supply / deficit angst is doing more work than “Fed cuts” at the long end.
- Even if the Fed eases, financial conditions can stay sticky if the market demands more compensation for duration risk.



Macro

Inflation's "Quiet" Problem: Services Won't Behave

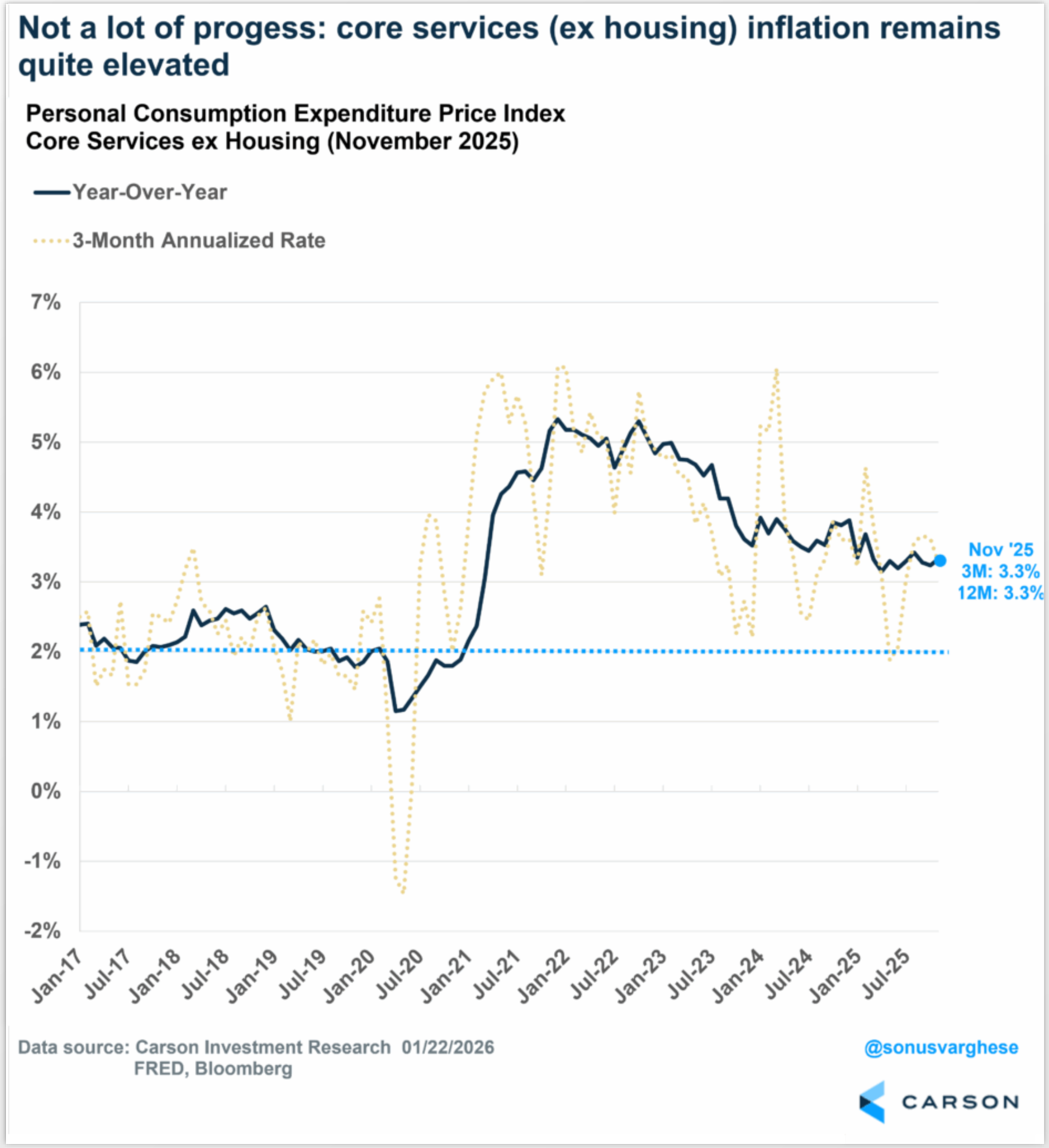
- Core PCE inflation is still ~2.8% YoY, clearly above the 2%
- The 3-month annualized rate keeps bouncing. Inflation progress isn't linear, it's sticky + choppy.
- This supports a "cut carefully" setup: inflation isn't re-accelerating broadly, but it's also not done.



Macro

Core Services Ex-Housing is Still Elevated

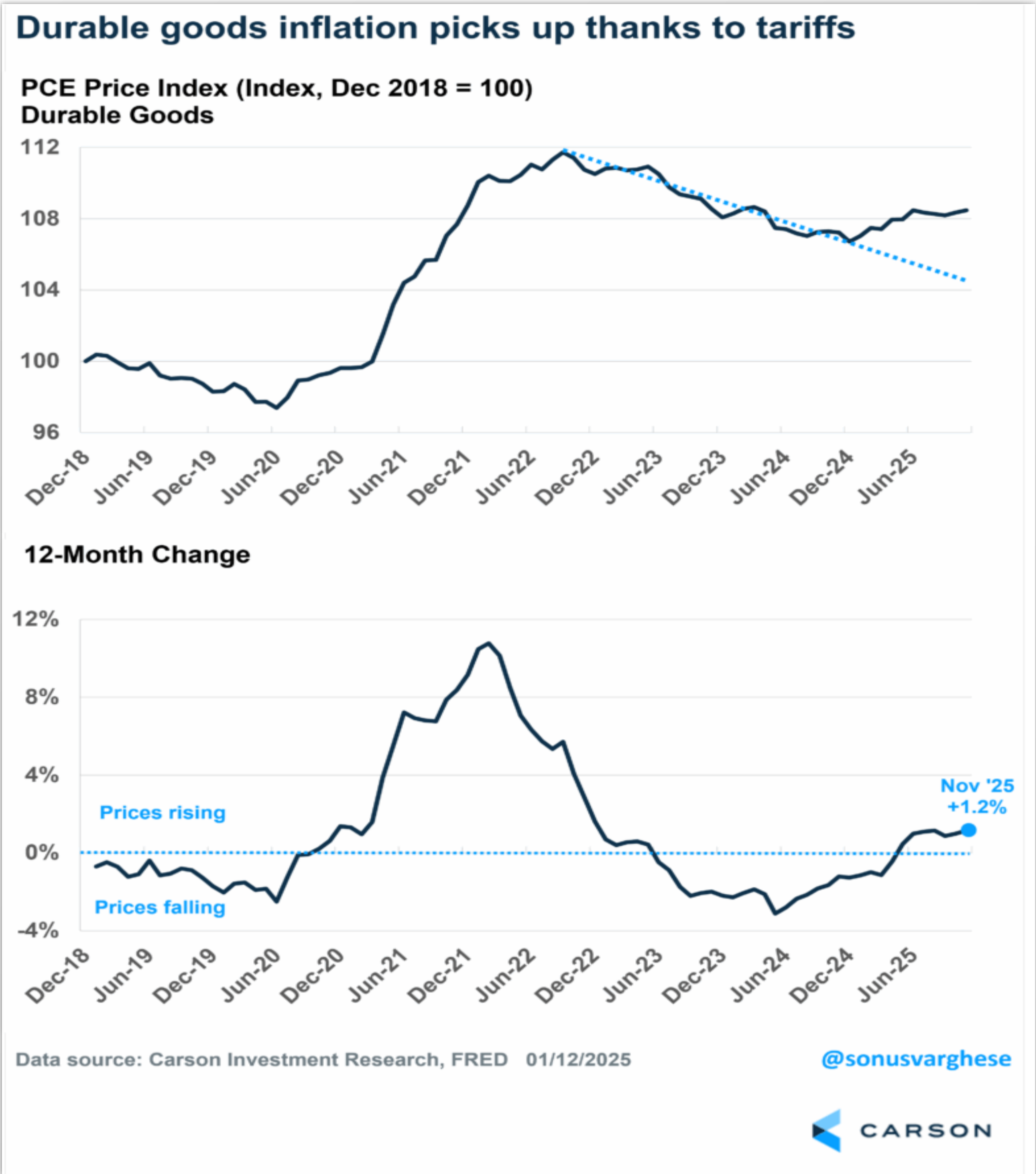
- Core services ex-housing is around the low-3% range (~3.3% YoY) which is still above pre-Covid norms.
- The chart shows "not a lot of progress" lately, meaning disinflation is slowing where it matters most.
- If this doesn't cool, inflation falls to wages/services dynamics, not goods.



Macro

Goods Inflation Is Back… Not Huge, but Noticeable

- Durable goods PCE has flipped to positive again with ~+1.2% YoY.
- The chart explicitly links the pickup to tariff effects, i.e., inflation can reappear from policy choices.

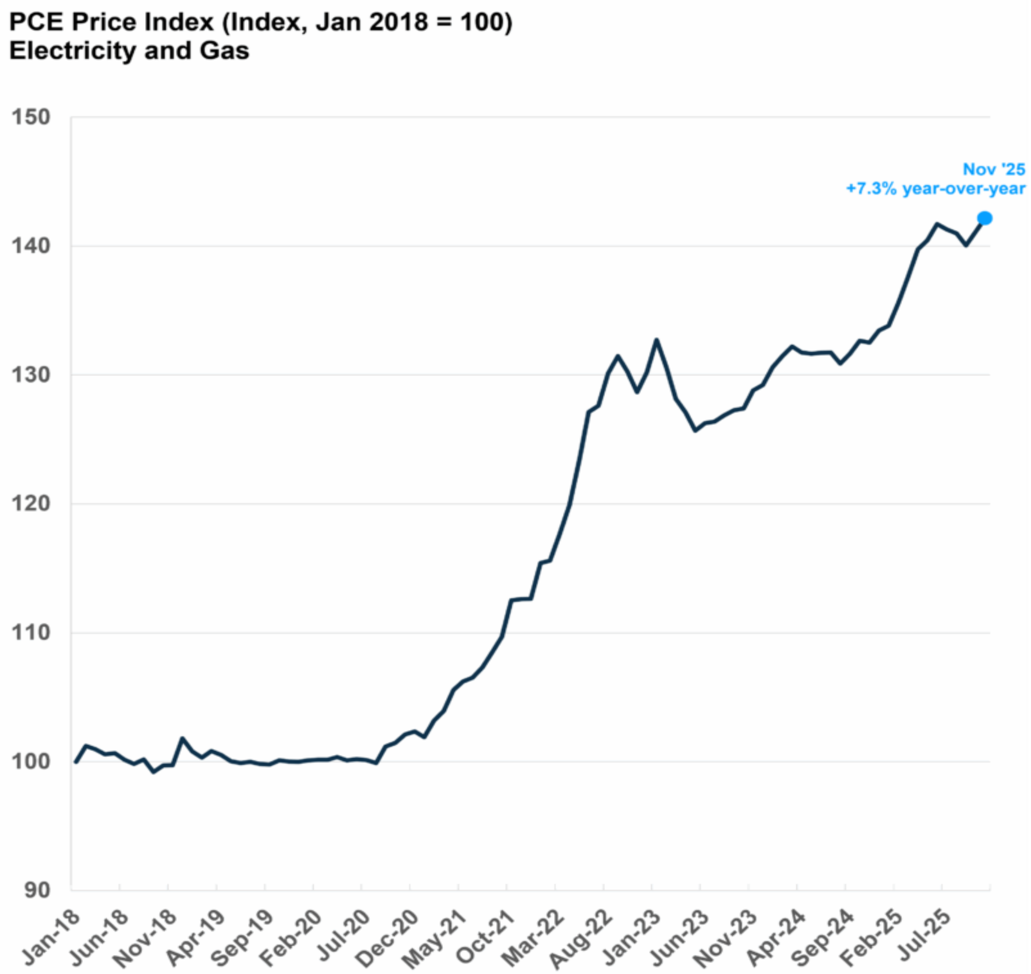


Macro

Utility Bills Are Replacing the "Gasoline Relief" Story

- PCE electricity & gas index is up ~+7.3% YoY (Nov '25) which is a big household pain point.
- Lower gas ≠ lower total energy bills for many consumers.
- This is why inflation can "feel" hot even when headline numbers cool.

Surging utility bills offset any benefit from lower gasoline prices



Data source: Carson Investment Research, FRED 01/24/2026 @sonusvarghese

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Sticky Service Inflation, Category by Category

- Several everyday services are still running hot YoY (Dec ’25): pet services 6.2%, admissions 5.7%, vehicle repair 5.4%, full-service restaurants 4.9%.
- Some categories cooled vs last year, but the table shows the broader point: services inflation is still widespread.
- This explains why “inflation is down” doesn’t always match what people pay week-to-week.

CPI Inflation For Select Services (Year-over-Year)

Category	Dec-25	Dec-24	Dec-19
Full service restaurants	4.9%	3.6%	3.3%
Fast food restaurants	3.3%	3.7%	3.0%
Vehicle repair	5.4%	6.2%	3.4%
Dental services	3.8%	3.0%	3.0%
Video/audio services (incl. streaming)	4.9%	1.5%	3.1%
Pet services	6.2%	6.2%	4.2%
Admissions (concerts, theaters, sports)	5.7%	0.6%	1.4%
Personal care services	4.8%	4.8%	2.7%
Day care & preschool	4.8%	5.9%	3.4%
Internet services and electronic info providers	2.8%	-0.4%	1.8%

Data source: Carson Investment Research, Bloomberg 01/13/2026 @sonusvarghese

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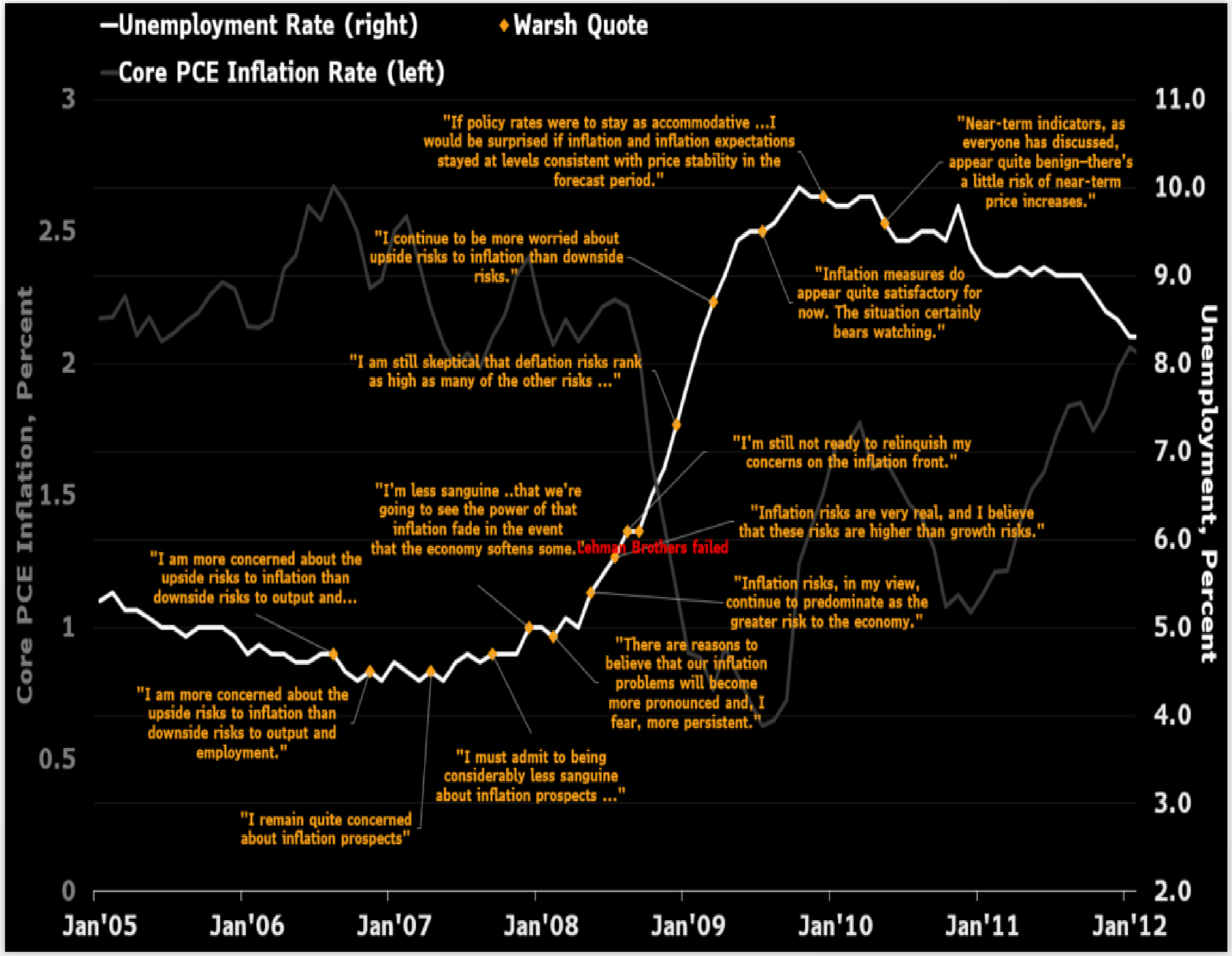
Kevin Warsh (New Fed Chair) Has a Hawkish History

- Even in crisis, Warsh leaned hawkish: April 2009 (core PCE ~0.8%, unemployment ~9%) he still said he feared upside inflation more than downside risks.
- If that mindset carries over, a Warsh Fed likely cuts slower and keeps policy tighter for longer unless the labor market cracks.
- The bigger market risk is Fed discord (hawkish chair + divided committee) → more volatility around meetings.



Source: Bloomberg Terminal, [Anna Wong]

Rates

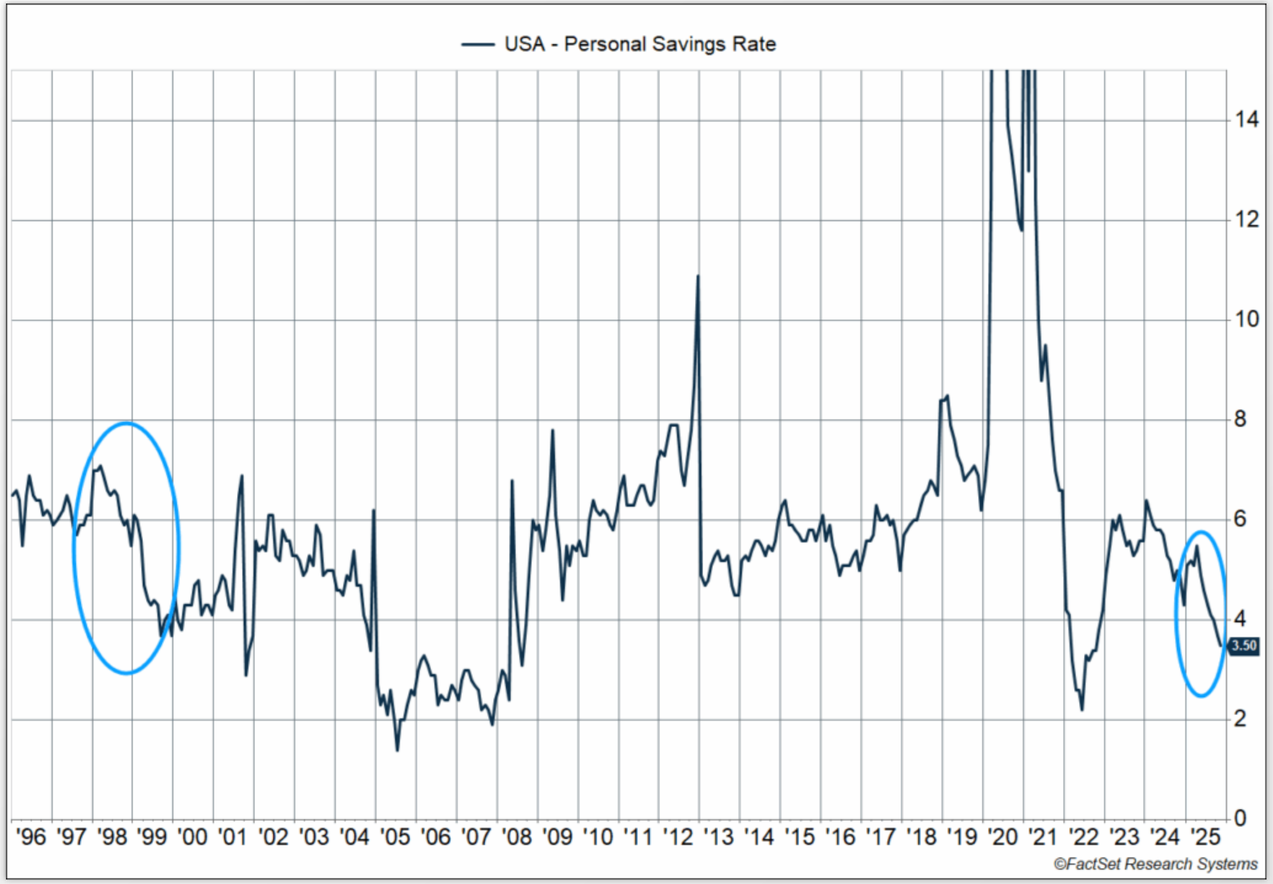
The 10-Year Yield Is Grinding Higher Again

- The 10-year yield pushed up to roughly the 4.2% area into late January.
- The pattern is higher highs/higher lows since the October low. Markets are not pricing a straight-line drop in long rates.
- That matters because long rates hit mortgages, capex hurdle rates, and equity discount rates even if the Fed cuts.

Rates

Spending Is Strong, Saving Is the Source

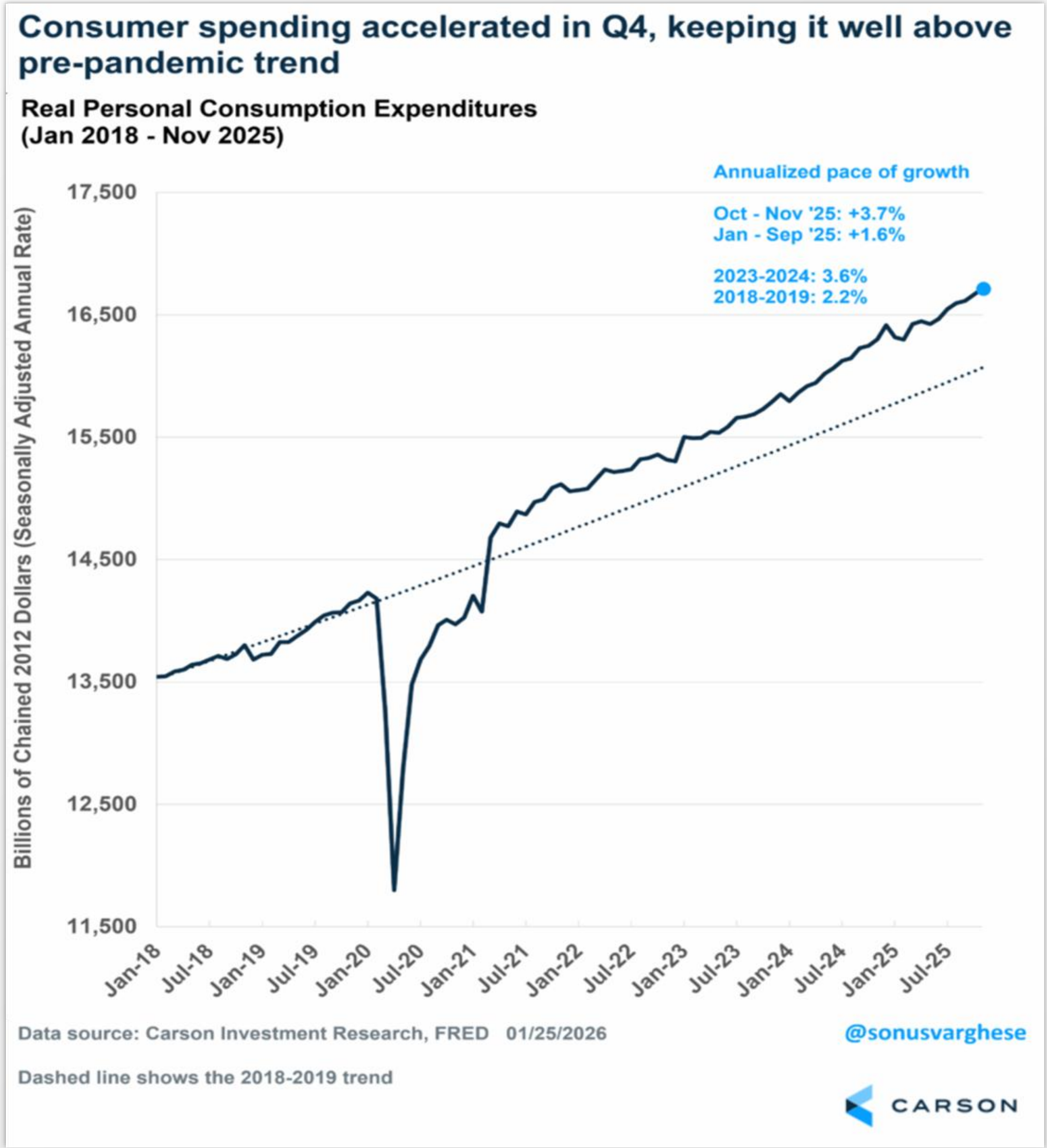
- With real income growth soft in 2025, consumers kept spending by saving less. The savings rate slid after April to ~4.5% (vs ~4.3% end-2024).
- That's not automatically bad: in booms, savings can fall (ex: 1998–99 ~7% → ~3.5%) as households feel wealthier.
- The risk is the next slowdown: savings usually rises when growth weakens, like the post-GFC rebuild (~5.3% in 2009 → ~6.9% in 2019).



Consumer

Consumers Re-Accelerated in Q4

- Real consumption’s recent pace improved: Oct–Nov ’25 ~+3.7% annualized, vs Jan–Sep ’25 ~+1.6%.
- That’s a real rebound, but paired with low savings, it suggests spending is being supported by less saving, not a giant income boom.



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