

Why the Stock Market Is Getting Ahead of Itself

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Stocks jumped after this week's inflation data. The problem is that there's not a lot to love in the numbers.

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The reality is that inflation remains well above the Federal Reserve's 2% goal. The average headline CPI has been 2.7% in the past three months, above the 2.6% average for the three months that ended in September. So the trend of inflation, when considering a larger sample size of results, is inching higher, not lower. To be sure, the Fed's preferred inflation metric, the [personal consumption index](#), has been running a few tenths of a percentage point below headline CPI. But PCE, too, has trended upwards in the past few months and remains above 2%.

The result is that the Fed is unlikely to reduce interest rates aggressively. The federal-funds futures market now expects just one interest-rate cut this year, according to data from CME Group, leaving it above 4%. The possibility of a rate hike remains on the table, especially given the incoming Trump administration's various inflationary policy proposals, including aggressive tariffs.

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