

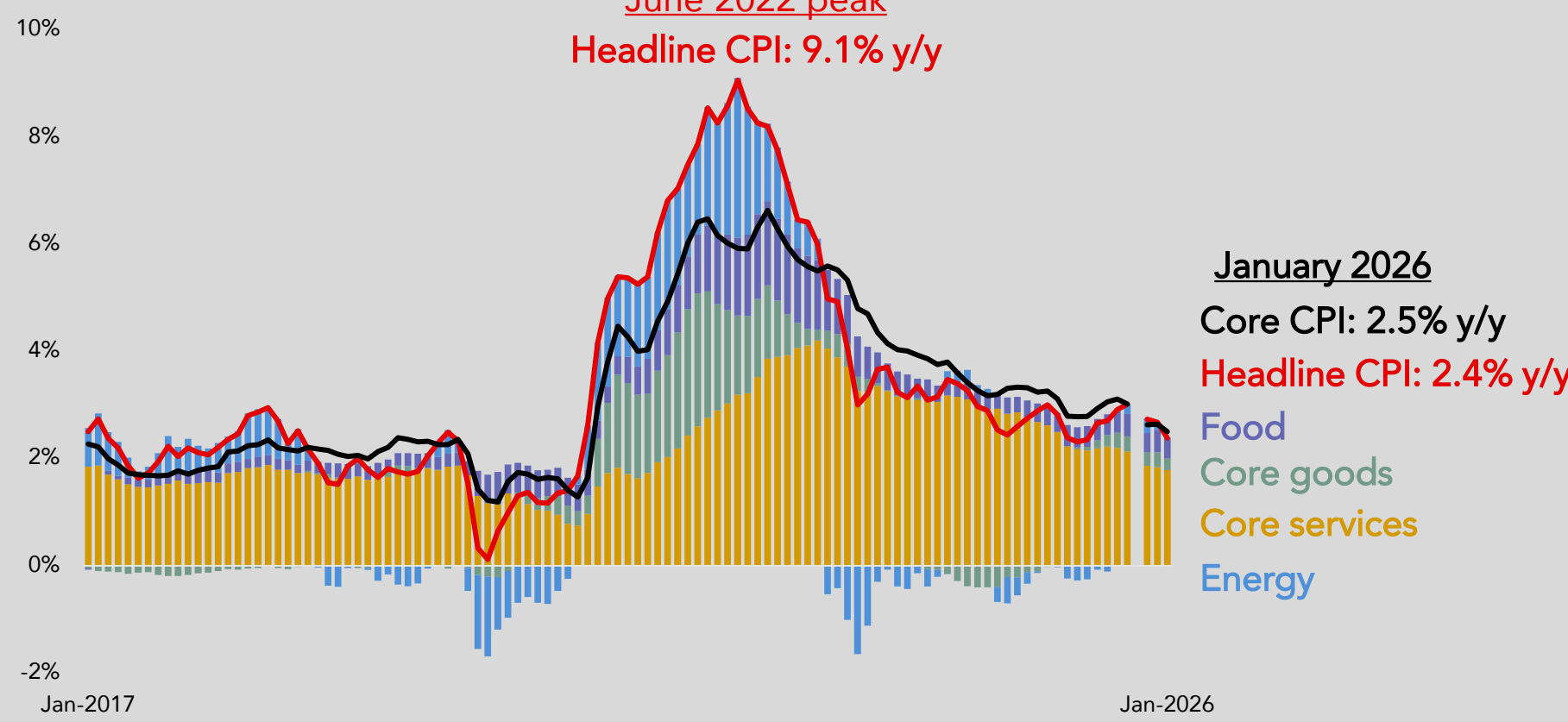
# Chart of the Day

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Though US inflation has historically run higher at the beginning of a new year as companies adjust prices, core US CPI came in notably cooler this January vis-a-vis both prior years and current forecasts. While the price of core goods remained stable, lower energy and gasoline prices were the primary driver of the slowdown in headline inflation over the period.

### Breakdown of CPI by components



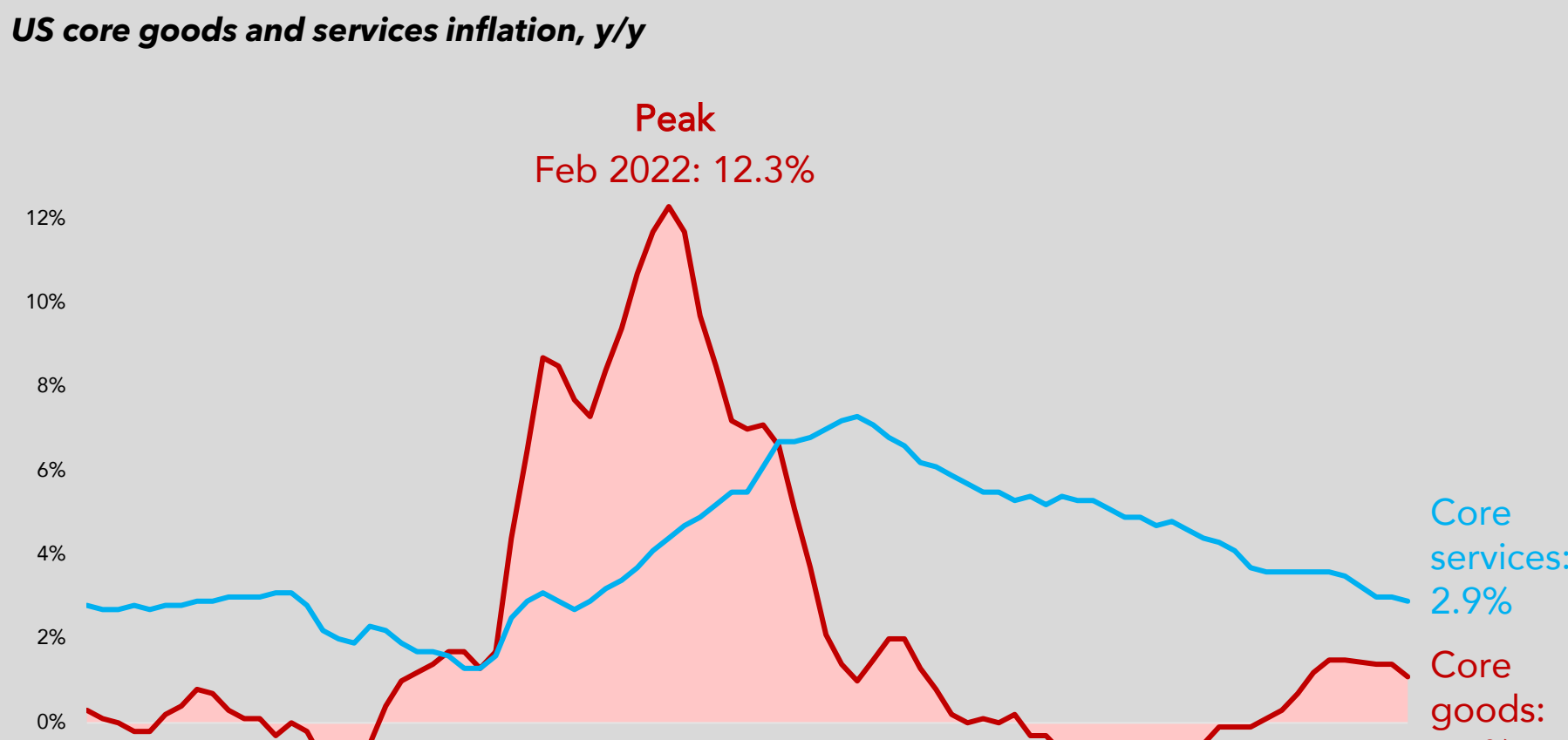
Headline inflation for January rose 2.4% y/y and 0.2% m/m, the lowest annual increase since May 2025. Core prices rose 2.5% y/y and 0.3% m/m, the smallest yearly rise since spring 2021. Shelter costs were the largest share of the CPI increase, though the 0.2% m/m increase was relatively benign compared to recent years.

### January CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	2.4%	2.5%	(-0.1%)
Headline CPI m/m	0.2%	0.3%	(-0.1%)
Core CPI y/y	2.5%	2.5%	+0.0%
Core CPI m/m	0.3%	0.3%	+0.0%

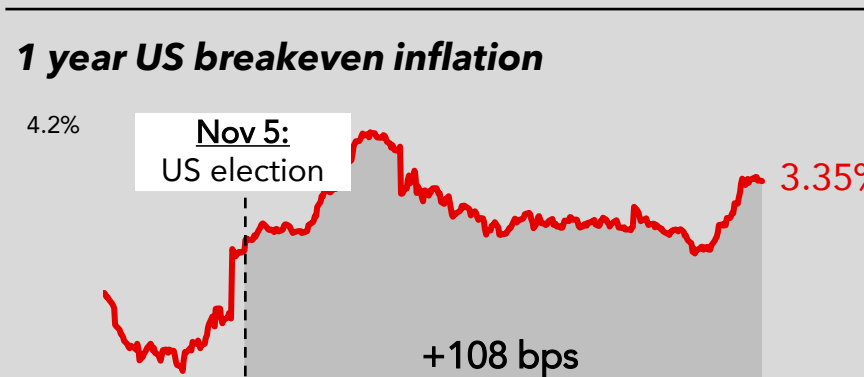
While services inflation ticked up last month, the prices of core goods remained stable and several politically sensitive categories showed signs of improvement. Electricity and gasoline prices declined and grocery prices rose the least since July of last year. Firms are still absorbing the majority of tariff costs helping to keep inflation pressures fairly subdued.

### US core goods and services inflation, y/y

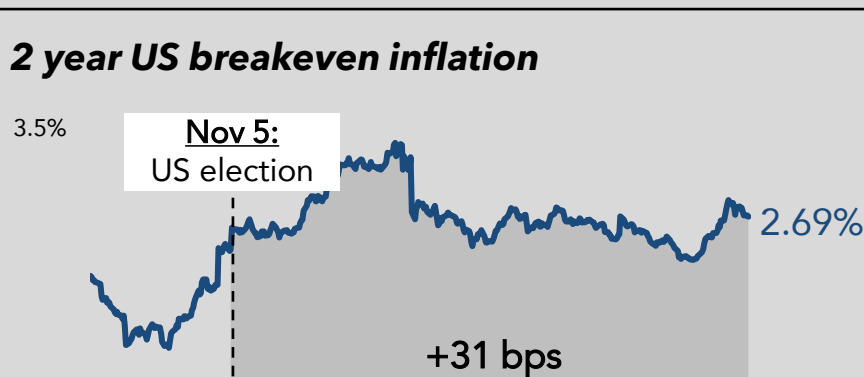


US inflation break-evens declined following the cooler than expected January inflation report, though they remain elevated vis-a-vis expectations one year ago. Markets have wavered between June and July timing for the next Fed rate cut, especially as the stronger than expected employment report from last week casts doubt over the prospect of an earlier move.

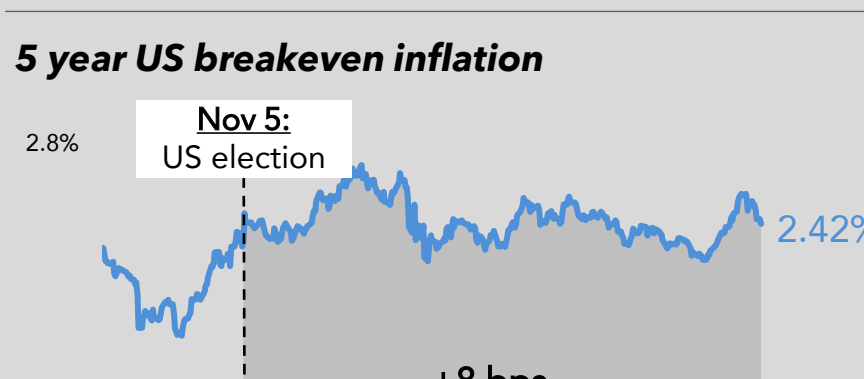
### 1 year US breakeven inflation



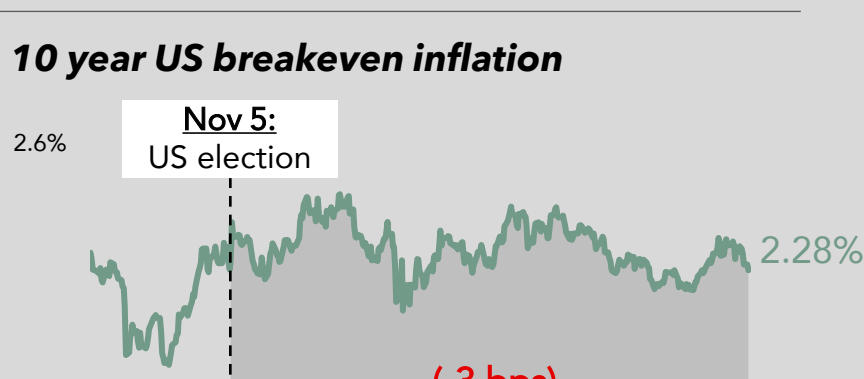
### 2 year US breakeven inflation



### 5 year US breakeven inflation

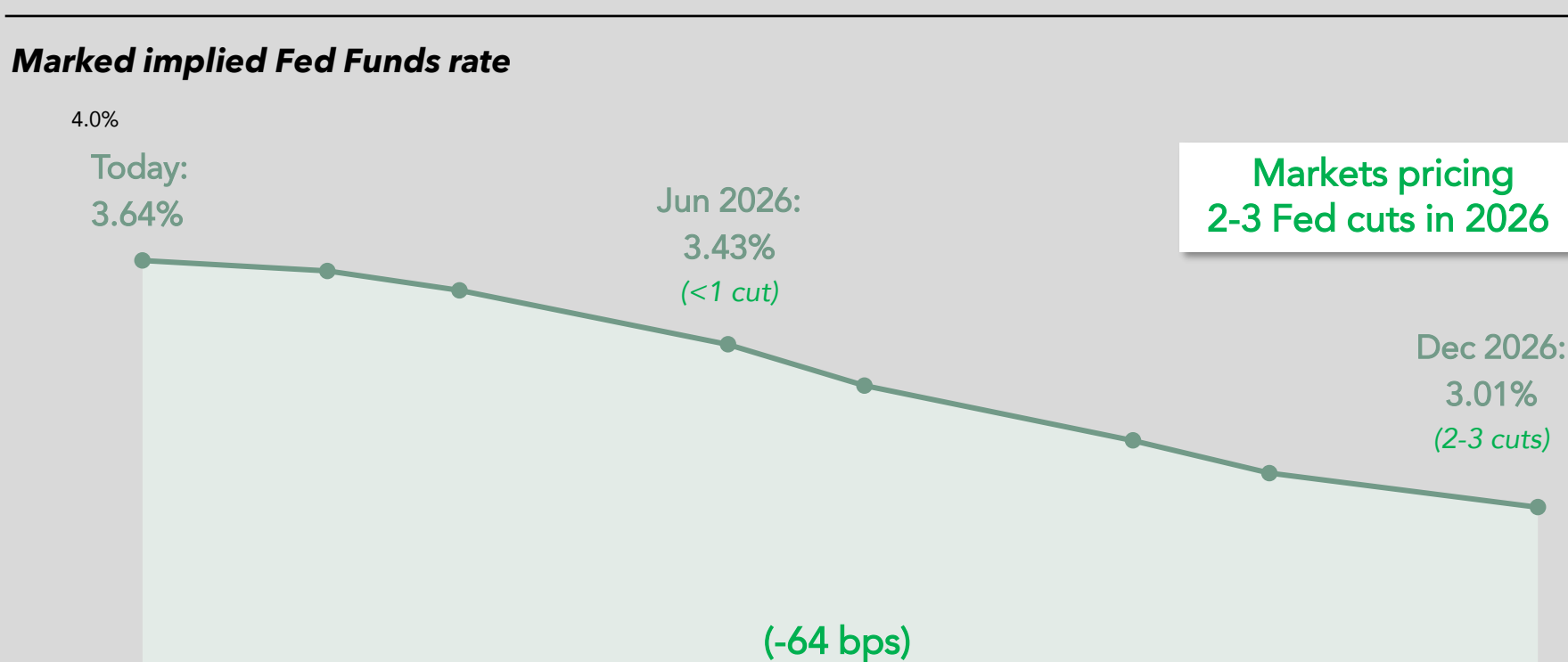


### 10 year US breakeven inflation



Against the backdrop of a global monetary policy easing cycle that accelerated in 2024-25, the Fed's policy easing path in 2026 is expected to be shallow compared to historic cycles. With inflation still "sticky" above target, we expect a "divided" Fed to be cautious in balancing its dual mandate, maintaining an "easing bias" as labor markets weaken, but moving slowly so as not to reignite inflation. Shallow Fed easing in 2026 likely translates to: (1) modestly lower rates; (2) modestly positive real rates; and (3) contained term premia.

### Marked implied Fed Funds rate



While m/m inflation data provides very useful information on the recent momentum in (dis)inflation, a look at today's CPI data on a y/y basis provides a useful lens on the categories in which the consumer is feeling the most cost pressure (and relief) relative to one year ago.

### January US inflation by sector (y/y)

Sector	Inflation (y/y)	Sector	Inflation (y/y)	Sector	Inflation (y/y)
Audio equipment	13.5%	Household furnishings & supplies	3.8%	Transportation services	1.3%
Utility gas service	9.8%	Internet services	3.5%	Pets & pet products	1.3%
Meats	9.2%	Professional services	3.4%	Fruits and vegetables	0.8%
Tobacco & smoking products	8.5%	Owners' equivalent rent	3.3%	Sporting goods	0.7%
Photo equipment & supplies	7.4%	Recreation services	3.1%	Motor vehicle insurance	0.5%
Veterinarian services	7.4%	Land-line phone services	3.1%	Toys	0.5%
Energy services	7.2%	Cereals & bakery products	3.1%	Appliances	0.5%
Jewelry and watches	7.1%	Shelter	3.0%	New vehicles	0.4%
Hospital services	6.6%	Rent of shelter	3.0%	New trucks	0.3%
Tools, hardware & supplies	6.4%	Services less energy services	2.9%	Milk	0.3%
Electricity	6.3%	School tuition	2.9%	Energy	(-0.1%)
Laundry & cleaning services	5.8%	Tires	2.8%	Medicinal drugs	(-0.1%)
Funeral expenses	5.6%	Motor vehicle parts and equipment	2.2%	Vehicle accessories	(-0.8%)
Music instruments & acces.	5.5%	Housekeeping supplies	2.2%	Car & truck rental	(-1.2%)
Outdoor equip. & supplies	5.3%	Airline fares	2.2%	Financial services	(-1.6%)
Garbage & trash collection	5.0%	Food at home	2.1%	Used cars and trucks	(-2.0%)
Motor vehicle maint. & Repair	4.9%	Technical & bus. school tuition	2.1%	Lodging away from home	(-2.0%)
Intracity mass transit	4.9%	Physicians' services	2.1%	Health insurance	(-2.2%)
Computer software and accessories	4.8%	College tuition and fees	2.1%	Wireless phone services	(-4.3%)
Nursing homes	4.8%	Alcoholic beverages	2.0%	TVs	(-4.8%)
Water & sewerage maint.	4.6%	Footwear	2.0%	Energy commodities	(-7.3%)
Nonalcoholic beverages	4.5%	Recreational reading	1.9%	Motor fuel	(-7.3%)
Food away from home	4.0%	Personal care products	1.9%	Smartphones	(-10.6%)
Furniture & bedding	4.0%	Apparel	1.7%	Moving, storage, freight expense	(-15.9%)
Medical care services	3.9%	Computers and smart home assistants	1.6%	Eggs	(-34.2%)
Day care and preschool	3.8%	Public transportation	1.6%		
		Cosmetics	1.4%		

Source: (1-9) Bureau of Labor Statistics, CPI Report January 2026. Bloomberg. Data as of February 17, 2026. Goods is commodities less food and energy commodities. Services is less energy. First data point on market implied Fed Funds chart is Fed Funds effective rate.

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"Macro stability isn't everything, but without it, you have nothing."