

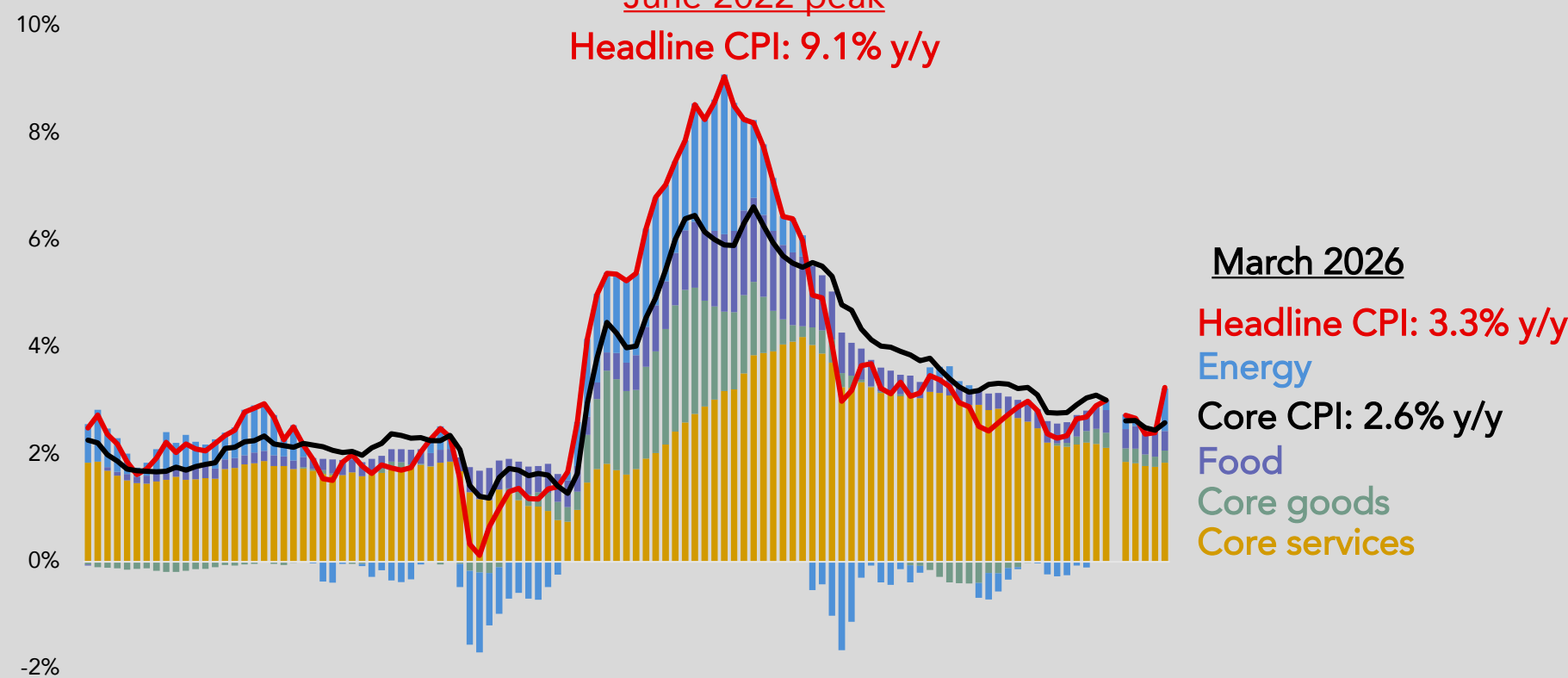
Chart of the Day

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Headline inflation rose 0.9% m/m and 3.3% y/y, the largest increases since 2022 and 2024, respectively, in the first major inflation report since the war in the Middle East began. The energy index rose 10.9% m/m, the biggest gain since 2005 with the gas price index rising over 20% and accounting for nearly three quarters of the monthly advance. Economists warn that this may be the best headline inflation number we see for a while. Even in the scenario that a deal is reached quickly and the Strait of Hormuz is fully opened, it would likely take months for oil, gasoline, diesel and other energy supplies to return to pre-conflict levels.

Breakdown of CPI by components



Source: (1) Bureau of Labor Statistics. CPI Report March 2026. Bloomberg. Data as of April 10, 2026.

The increase in headline CPI was immediate and expected as the war in the Middle East triggered the largest one-month increase in oil prices in history. While March core inflation came in better than expected, the passthrough from energy shocks to core prices typically takes longer as higher transit costs and energy inputs spill over into the broader economy.

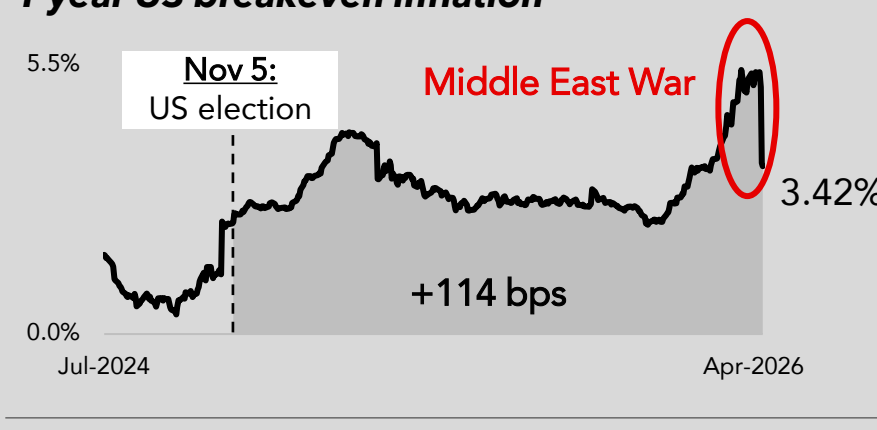
March CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	3.3%	3.4%	(-0.1%)
Headline CPI m/m	0.9%	0.9%	+0.0%
Core CPI y/y	2.6%	2.7%	(-0.1%)
Core CPI m/m	0.2%	0.3%	(-0.1%)

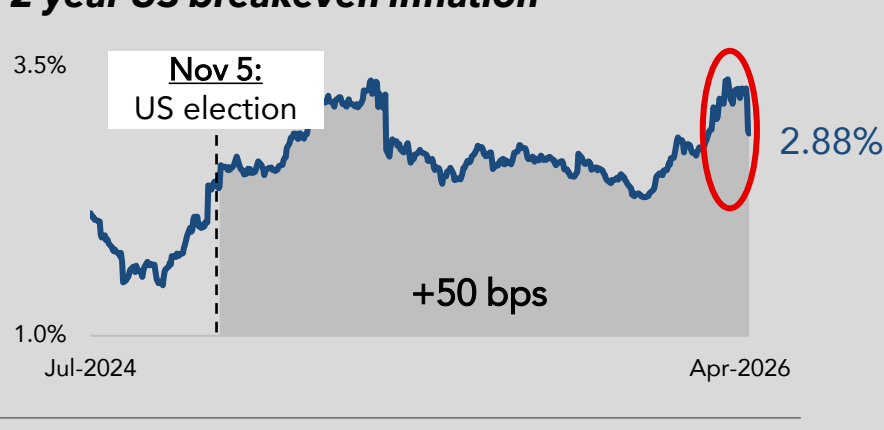
Source: (1) Bureau of Labor Statistics. CPI Report March 2026. Bloomberg. Data as of April 10, 2026.

One-year inflation breakeven prices fell sharply in response to the two-week ceasefire announced this week, though they still remain elevated vis-à-vis expectations one year ago. Consumers are already facing an affordability crisis with gasoline prices posting the highest monthly increase on record in March. Beyond the shock to energy, the disruption in the supply of fertilizer will lead to higher grocery bills and rising transportation costs will impact many consumer goods.

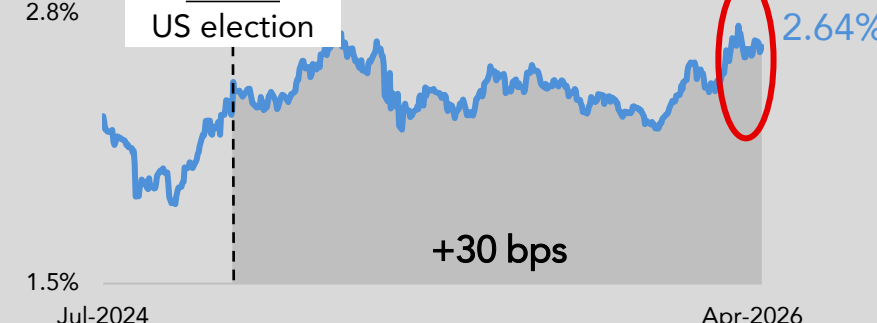
1 year US breakeven inflation



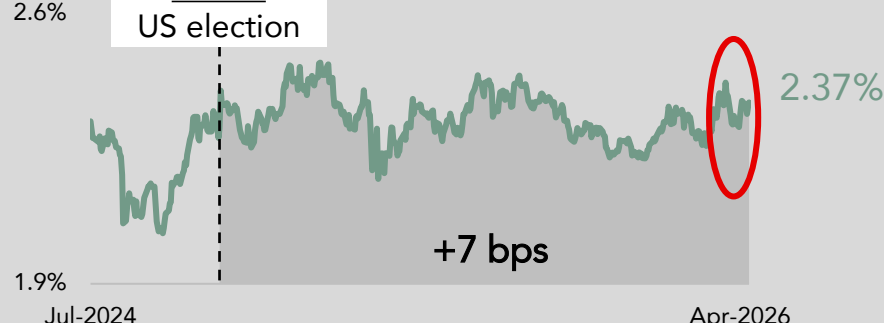
2 year US breakeven inflation



5 year US breakeven inflation



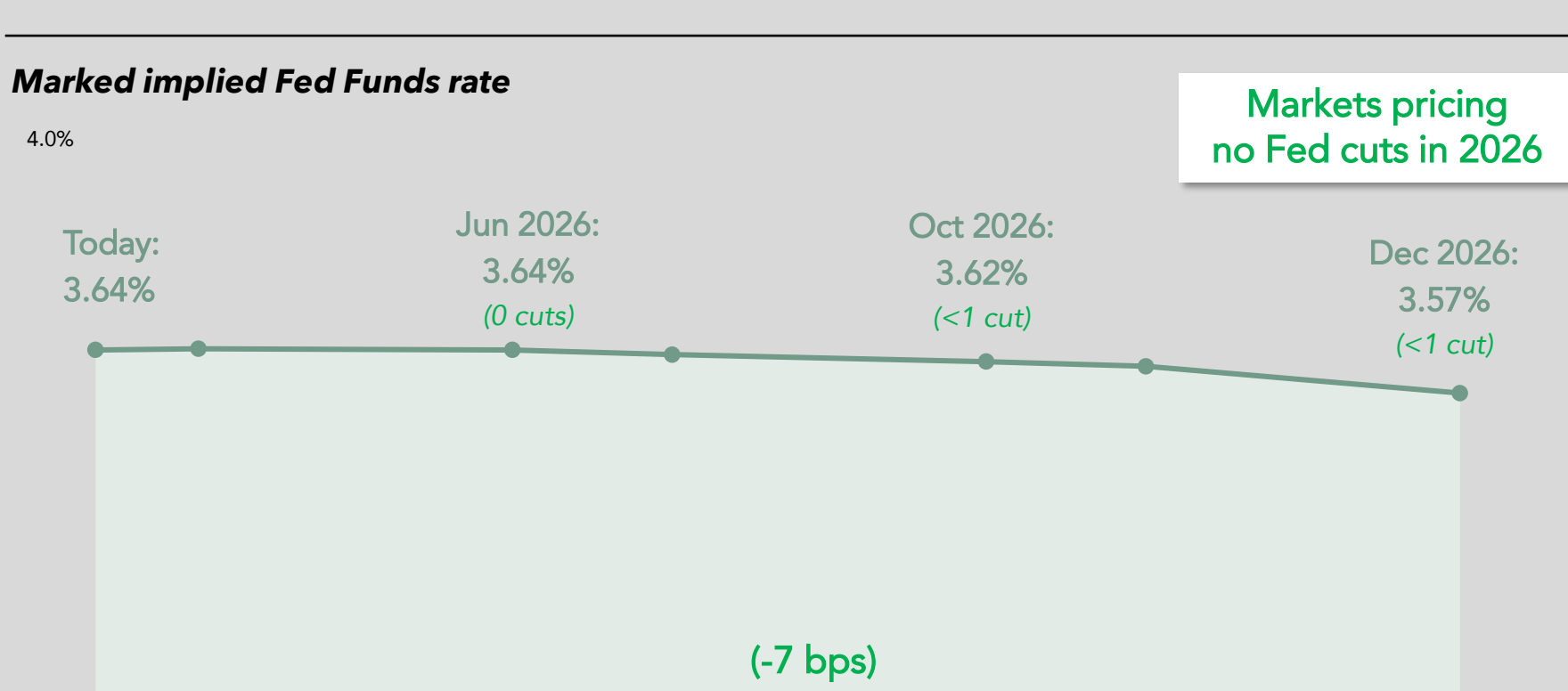
10 year US breakeven inflation



Source: (1-4) Bloomberg. Data as of April 10, 2026.

The market is pricing in "higher-for-longer" rates as the war in the Middle East has significantly altered the Fed's policy easing path in 2026. In a sharp departure from expectations earlier in the year, the market is expecting virtually no Fed cuts for the rest of 2026, compared to over 60 bps (2+ rate cuts) prior to the US/Israel attacks on Iran. Minutes from the March FOMC meeting suggest most participants would favor cutting rates if the oil shock weakens employment, though many officials are concerned that inflation could remain elevated.

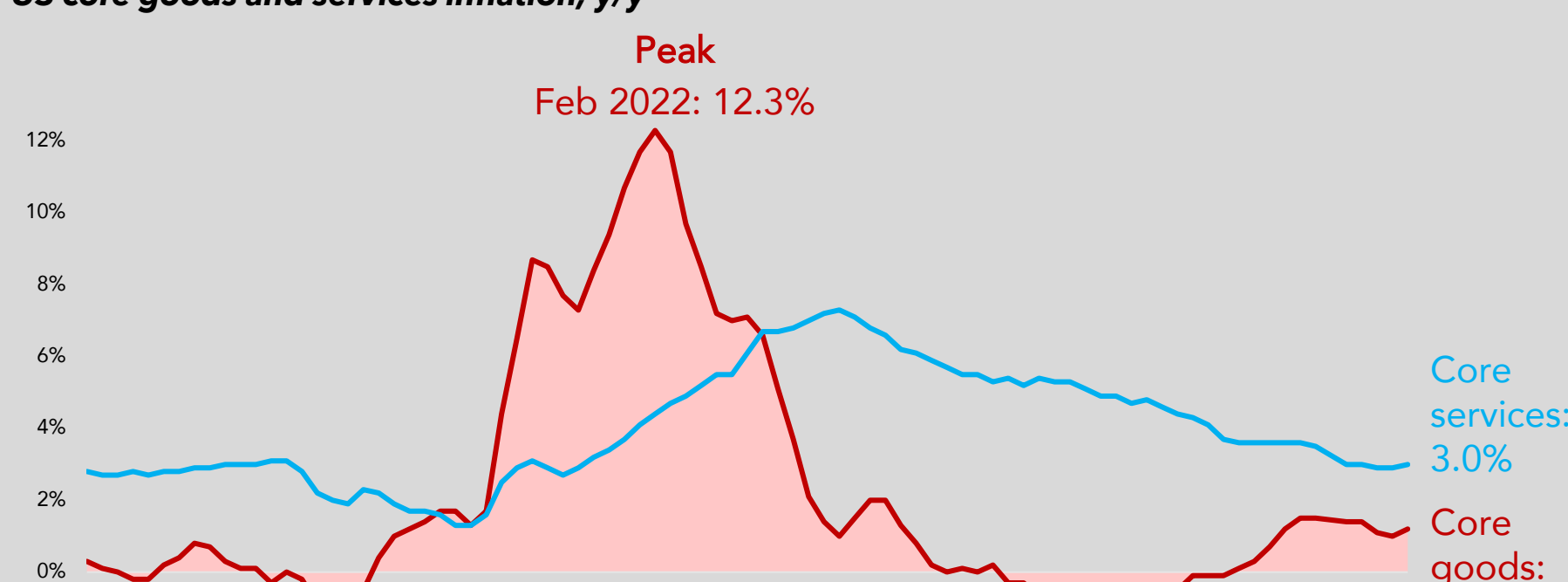
Marked implied Fed Funds rate



Source: (1) Bloomberg. Data as of April 10, 2026. First data point on market implied Fed Funds chart is Fed Funds effective rate.

Core goods prices rose a modest 0.1% for the second straight month as some categories showed signs of easing a tariff pressures after the SCOTUS ruling in February. Core services rose 0.2% in March, the slowest increase since last May, though airlines posted a strong 2.7% m/m gain as the cost of refined oil products (i.e., jet fuel) rose sharply. Shelter prices were up 0.3% m/m, a slight acceleration from last month but still a tame reading relative to recent years.

US core goods and services inflation, y/y



Source: (1) Bureau of Labor Statistics. CPI Report March 2026. Bloomberg. Data as of April 10, 2026. Goods is commodities less food and energy commodities. Services is less energy.

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.

March US inflation by sector (y/y)

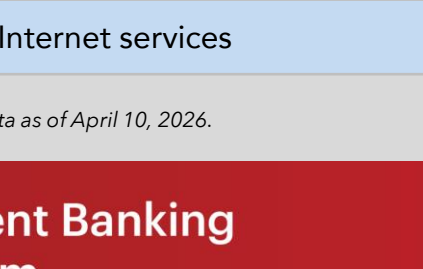
Sector	Inflation (y/y)
Energy commodities	19.4%
Motor fuel	19.2%
Audio equipment	15.0%
Airline fares	14.9%
Energy	12.5%
Photo equipment & supplies	12.2%
Computer software and accessories	11.9%
Public transportation	10.2%
Delivery services	9.8%
Jewelry and watches	9.4%
Car & truck rental	8.1%
Tools, hardware & supplies	8.0%
Tobacco & smoking products	7.4%
Meats	6.8%
Utility gas service	6.4%
Hospital services	6.4%
Motor vehicle maint. & repair	6.1%
Laundry & cleaning services	6.0%
Veterinarian services	5.6%
Music instruments & acces.	5.3%
Nursing homes	5.2%
Water & sewerage maint.	5.1%
Energy services	5.0%
Nonalcoholic beverages	4.7%
Electricity	4.6%
Outdoor equip. & supplies	4.6%
Vehicle accessories	4.6%
Sporting goods	4.5%
Professional services	4.1%
Transportation services	4.1%
Garbage & trash collection	4.0%
Day care and preschool	4.0%
Fruits and vegetables	4.0%
Motor vehicle parts and equipment	3.9%
Food away from home	3.8%
Tires	3.8%
Medical care services	3.7%
Household furnishings & supplies	3.6%
Intracity mass transit	3.4%
Apparel	3.4%
Furniture & bedding	3.1%
Owners' equivalent rent	3.1%
Pets & pet products	3.1%
Shelter	3.0%
Rent of shelter	3.0%
Services less energy services	3.0%
Funeral expenses	2.8%
School tuition	2.8%
Lodging away from home	2.6%
Housekeeping supplies	2.4%
Physicians' services	2.4%
Footwear	2.4%
Internet services	2.3%
Toys	2.3%
Personal care products	2.2%
Computers and smart home assistants	2.2%
Cereals & bakery products	2.1%
College tuition and fees	2.0%
Cosmetics	2.0%
Food at home	1.9%
Technical & bus. school tuition	1.9%
Alcoholic beverages	1.7%
Recreation services	1.6%
Appliances	1.1%
Land-line phone services	1.0%
Motor vehicle insurance	0.8%
New vehicles	0.5%
New trucks	0.3%
Medicinal drugs	(-0.2%)
Milk	(-0.4%)
Educational books	(-0.6%)
Recreational reading	(-0.9%)
Moving, storage, freight expense	(-2.0%)
Used cars and trucks	(-3.2%)
Wireless phone services	(-3.6%)
TVs	(-4.0%)
Health insurance	(-5.3%)
Financial services	(-9.2%)
Smartphones	(-13.8%)
Eggs	(-44.7%)

Source: (1) Bureau of Labor Statistics. CPI Report March 2026. Data as of April 10, 2026.

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