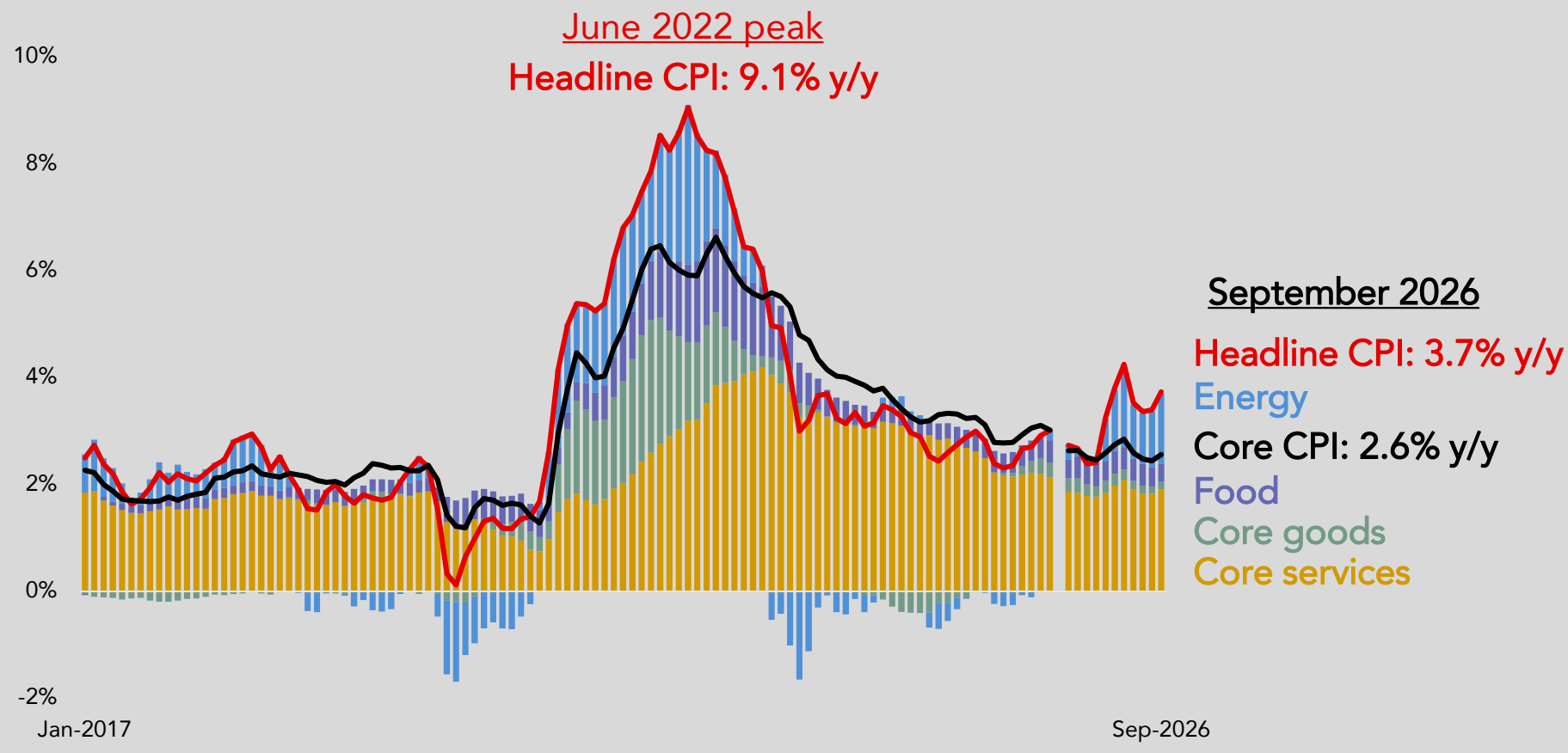
Capital Markets Strategy
Essential inCights for the C-Suite

MUFG

Chart of the Day

While energy prices pushed headline inflation higher, broad-based pressures drove another upside surprise for core inflation this month. Gasoline prices rose 9.1% m/m, accounting for over half of the monthly all items increase. Prices for used cars and trucks, recreation, education, airline fares, medical care and apparel all increased. Persistent energy inflation increases the risk of broader price pass-through into core goods and services.

Breakdown of CPI by components



Source: (1) Bureau of Labor Statistics. CPI Report September 2026. Bloomberg. Data as of October 14, 2026.

Headline inflation rose 3.7% y/y, the largest increase since May, and 0.6% m/m. The core reading came in above expectations on both a monthly and yearly basis rising 2.6% y/y and 0.3% m/m. Higher energy prices, trade policy and the AI buildout continue to keep prices elevated.

September CPI inflation actual vs. estimates

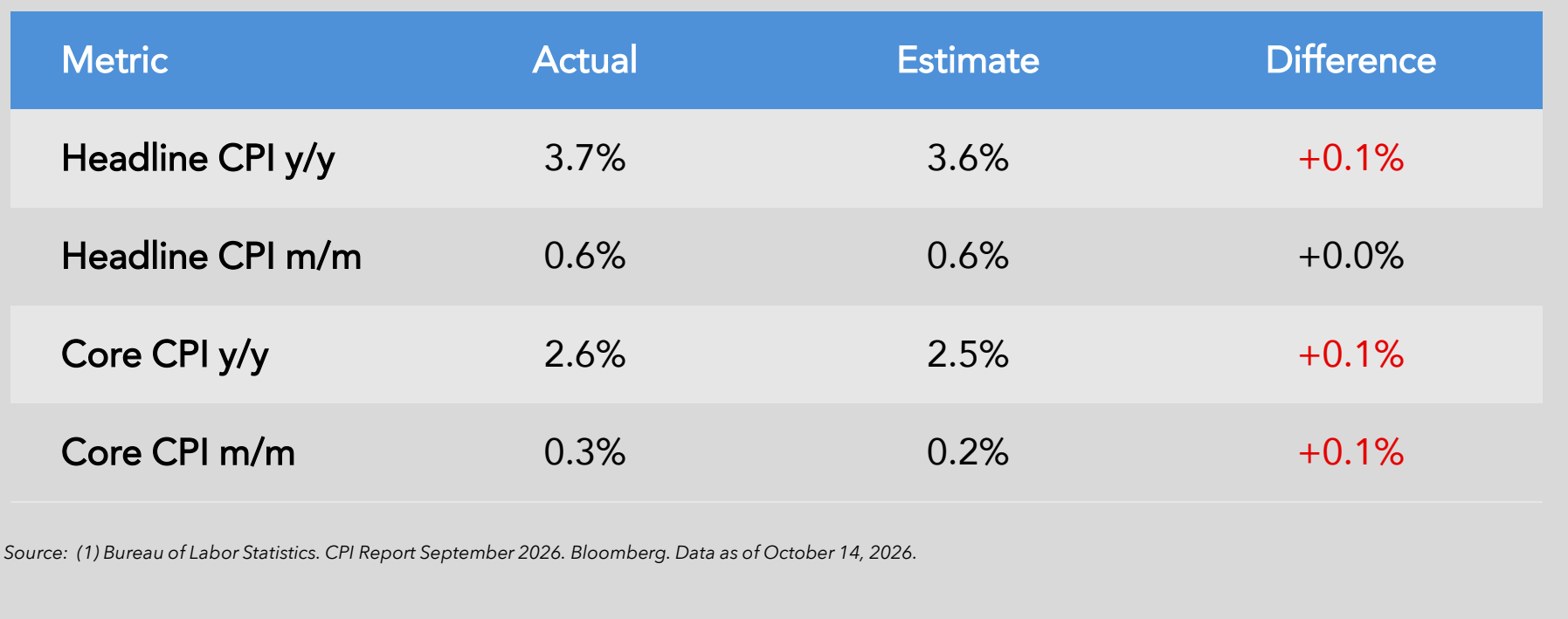
Metric	Actual	Estimate	Difference
Headline CPI y/y	3.7%	3.6%	+0.1%
Headline CPI m/m	0.6%	0.6%	+0.0%
Core CPI y/y	2.6%	2.5%	+0.1%
Core CPI m/m	0.3%	0.2%	+0.1%

Source: (1) Bureau of Labor Statistics. CPI Report September 2026. Bloomberg. Data as of October 14, 2026.

Average hourly earnings continued to decelerate in September with real wage growth negative for the sixth straight month. Today's report suggests the economy will remain front and center ahead of the US midterm election on Nov 3rd.

Inflation above 2% and re-accelerating

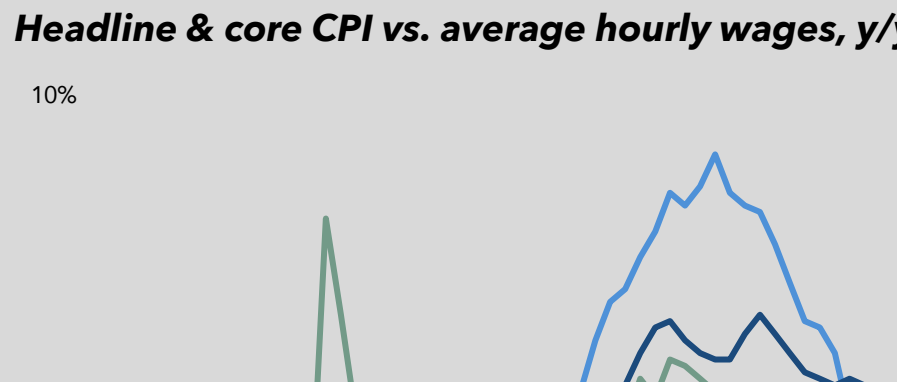
Headline & core CPI vs. average hourly wages, y/y



Source: (1) Bloomberg. Data as of October 14, 2026.

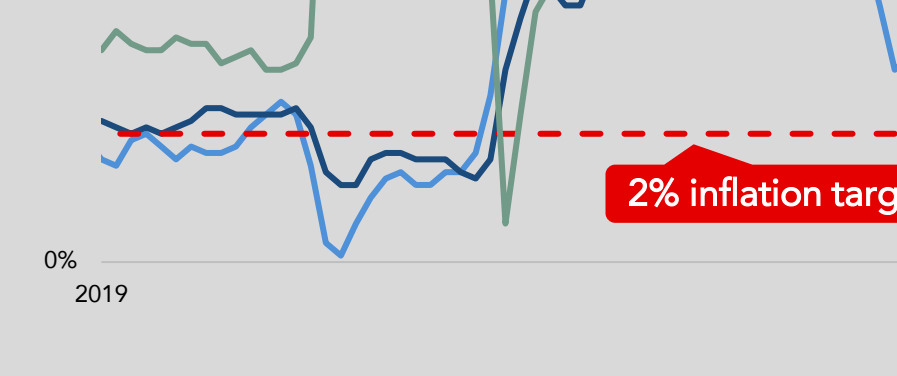
Following the release of the September CPI report, market-based inflation breakeven rates moved higher across the curve.

1 year US breakeven inflation

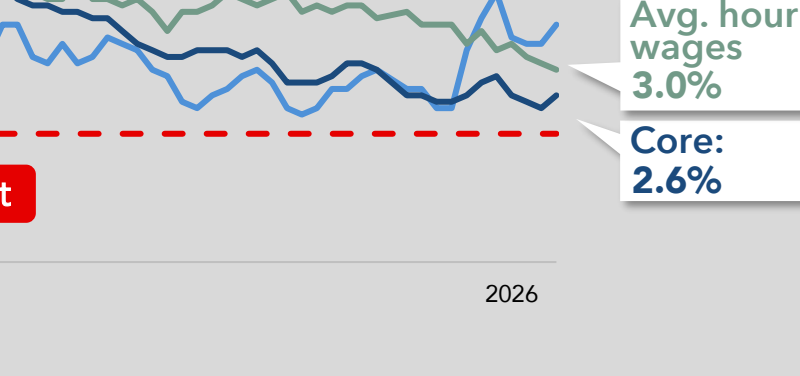


2 year US breakeven inflation

5 year US breakeven inflation



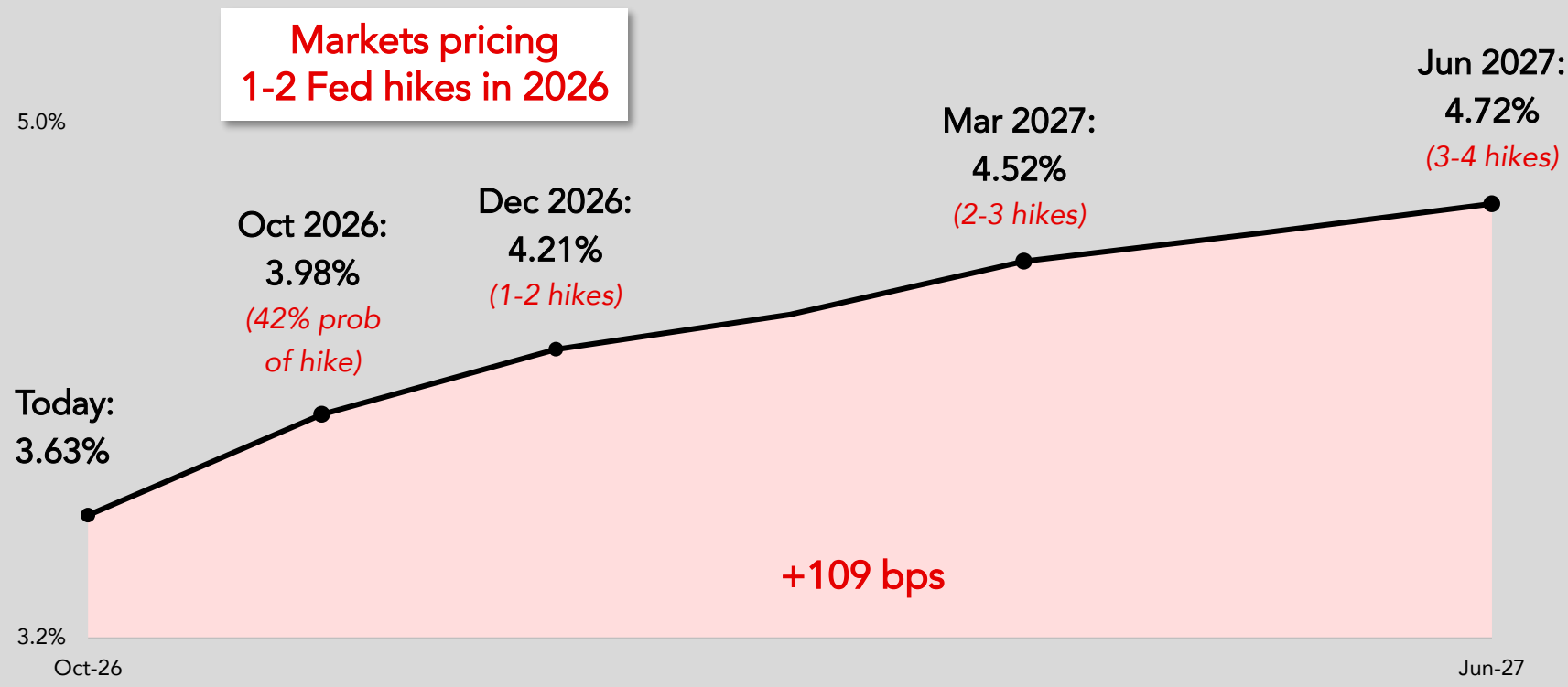
10 year US breakeven inflation



Source: (1-4) Bloomberg. Data as of October 14, 2026. Inflation breakevens are USD inflation swap zero coupon.

Weaker job growth and higher inflation in September are posing a challenge for the Fed as they adversely impact both components of its dual policy mandate. Market-implied odds for an October rate hike surged from 20% to nearly 45% after today's inflation report.

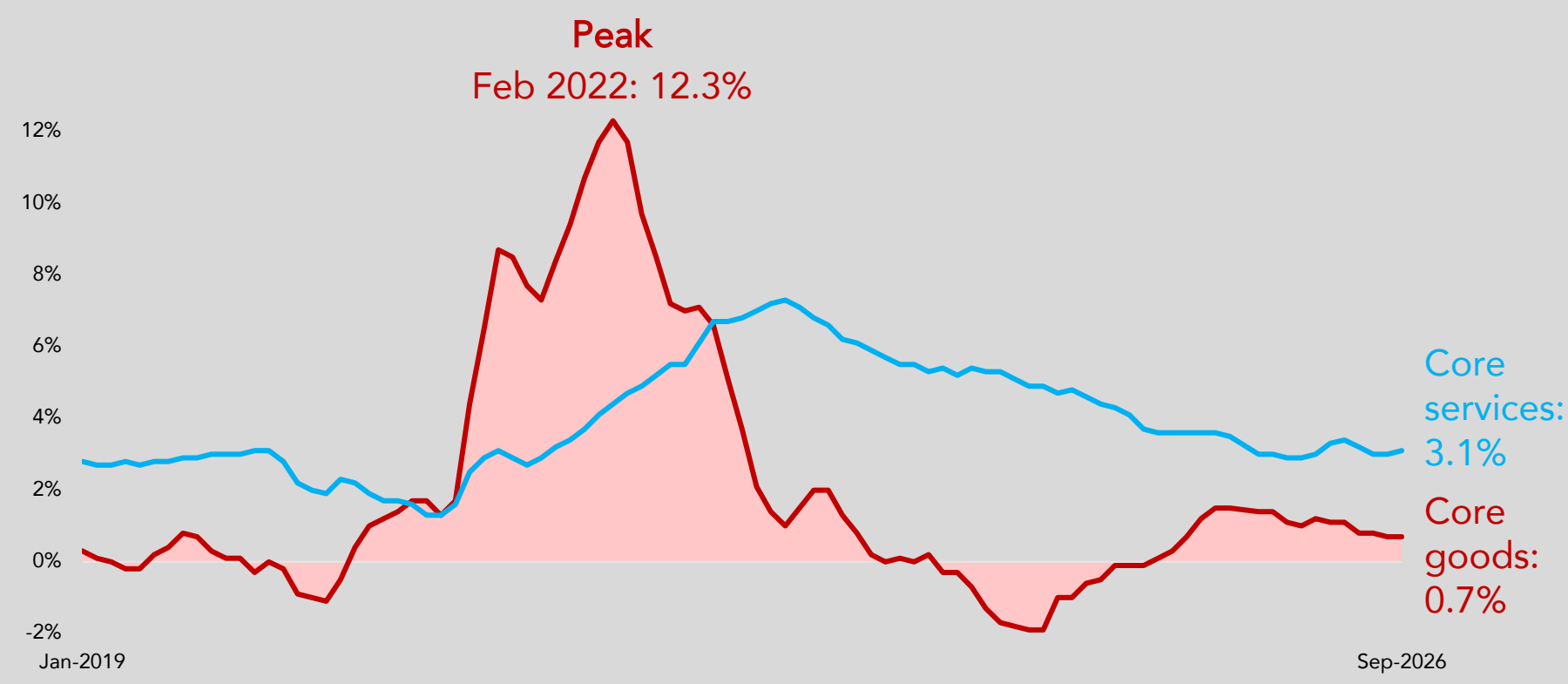
Market implied Fed Funds rate



Source: (1) Bloomberg. Data as of October 14, 2026. First data point on market implied Fed Funds chart is Fed Funds effective rate.

Core goods and services inflation continue to exhibit a structural split. Core goods prices remain relatively muted. Conversely, core services prices have re-accelerated driven by persistent shelter inflation and the energy-input pass through to transportation categories. The CPI report also highlights the ongoing pressures from the data center buildout with computers, software and accessories rising a record 28.4% y/y and adding to the increased pressure on the Fed's 2% inflation target.

US core goods and services inflation, y/y



Source: (1) Bureau of Labor Statistics. CPI Report September 2026. Bloomberg. Data as of October 14, 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.

September US inflation by sector (y/y)

Energy | Food | Core goods | Core services

Energy commodities	35.3%
Motor fuel	34.9%
Computer software and accessories	28.4%
Airline fares	22.4%
Energy	20.4%
Delivery services	16.2%
Public transportation	15.6%
Jewelry and watches	10.8%
Computers and smart home assistants	9.7%
Intracity mass transit	9.6%
Car & truck rental	9.1%
Recreational reading	7.0%
Toys	6.6%
Tobacco & smoking products	6.4%
Motor vehicle maint. & Repair	5.8%
Hospital services	5.6%
Laundry & cleaning services	5.3%
Garbage & trash collection	5.2%
Utility gas service	5.0%
Sporting goods	4.7%
Water & sewerage maint.	4.7%
Nursing homes	4.7%
Veterinarian services	4.6%
Energy services	4.6%
Electricity	4.4%
Lodging away from home	4.4%

Vehicle accessories	4.2%
College tuition and fees	4.0%
Nonalcoholic beverages	3.8%
School tuition	3.8%
Fruits and vegetables	3.7%
Food away from home	3.5%
Apparel	3.4%
Footwear	3.4%
Professional services	3.4%
Financial services	3.4%
Owners' equivalent rent	3.3%
Wireless phone services	3.2%
Shelter	3.2%
Rent of shelter	3.2%
Day care and preschool	3.1%
Services less energy services	3.1%
Tools, hardware & supplies	3.0%
Music instruments & acces.	2.9%
Funeral expenses	2.7%
Transportation services	2.7%
Medical care services	2.5%
Milk	2.3%
Land-line phone services	2.3%
Recreation services	2.3%
Personal care products	2.1%
Cereals & bakery products	2.1%
Physicians' services	2.1%

Educational books	1.9%
Food at home	1.8%
Outdoor equip. & supplies	1.7%
Technical & bus. school tuition	1.6%
Cosmetics	1.4%
Alcoholic beverages	1.4%
Meats	1.3%
Pets & pet products	1.3%
Housekeeping supplies	1.2%
Motor vehicle parts and equipment	0.8%
New vehicles	0.6%
New trucks	0.5%
Internet services	0.2%
Household furnishings & supplies	0.2%
Tires	0.2%
Photo equipment & supplies	(-0.8%)
Appliances	(-1.0%)
Audio equipment	(-1.4%)
Used cars and trucks	(-1.5%)
TVs	(-1.9%)
Furniture & bedding	(-2.4%)
Medicinal drugs	(-3.4%)
Motor vehicle insurance	(-5.0%)
Moving, storage, freight expense	(-7.1%)
Health insurance	(-9.0%)
Smartphones	(-9.9%)
Eggs	(-20.6%)

Source: (1) Bureau of Labor Statistics. CPI Report September 2026. Data as of October 14, 2026.

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