FROM THE DESK OF:

New York Life Investment Management's Global Market Strategy team

August Inflation: Not bad, but bad enough

Julia Hermann | Sarah Hirsch | Michael LoGalbo

New York Life Investment Management

September 11, 2026

New York Life Investment Management

FROM THE DESK OF:
New York Life Investment Management
Global Market Strategy team
Julia Hermann | Sarah Hirsch | Michael LoGalbo

August inflation: not bad, but bad enough

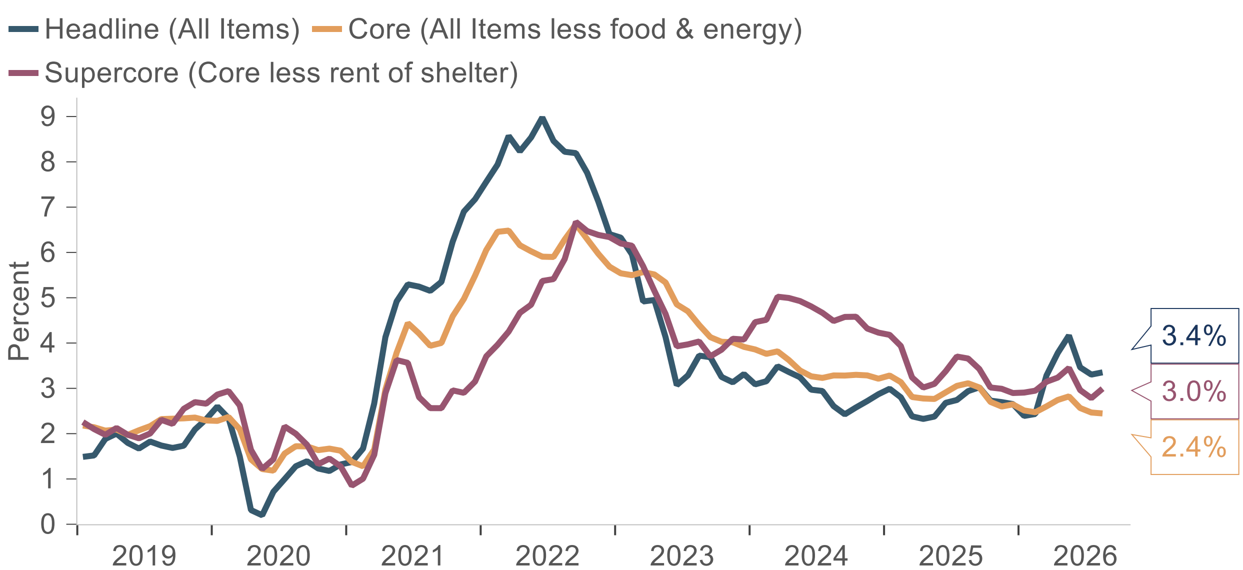
As of 9:30am ET, 11 September 2026

- August headline CPI came in at +0.4% MoM and +3.4% YoY, marking an ongoing monthly re-acceleration of price growth but a stabilization of year-over-year price growth.
- The market appeared to interpret the report as a license for the Fed to hike the policy rate next Wednesday, due to a slight upside surprise in MoM core inflation, as well as the re-acceleration in core and supercore inflation. Fed Funds Futures jumped from a 70% likelihood of a hike at the September FOMC meeting, toward 90%. Treasury yields across the curve initially spiked on the report but quickly normalized.
- This report, and the possibility of Fed hikes, come in a context of a global sovereign rates selloff. We have expected a higher and more volatile long rates environment for some time, and we expect this dynamic to continue. Fed hikes may help to suppress inflation expectations, but the term premium – the extra compensation investors demand to take duration – may continue to rise as corporate and sovereign borrowing remains elevated.
- The investor playbook from here depends on whether Fed hikes or long rates are the dominant driver of today's tighter rates environment. See below for our comprehensive views.

Inflation concerns – and Fed hike expectations – are increasingly about what lies ahead
On its own, we would not expect today's inflation report to drive a meaningful change in the expectations for rate hikes. The more concerning aspect of today's data is that it is backward-looking, with September crude oil and gasoline currently running well above August levels.

The primary concerns around the August CPI report reflect monthly, not year-over-year, changes

Inflation: supercore vs core vs headline (YoY%)



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, September 2026.

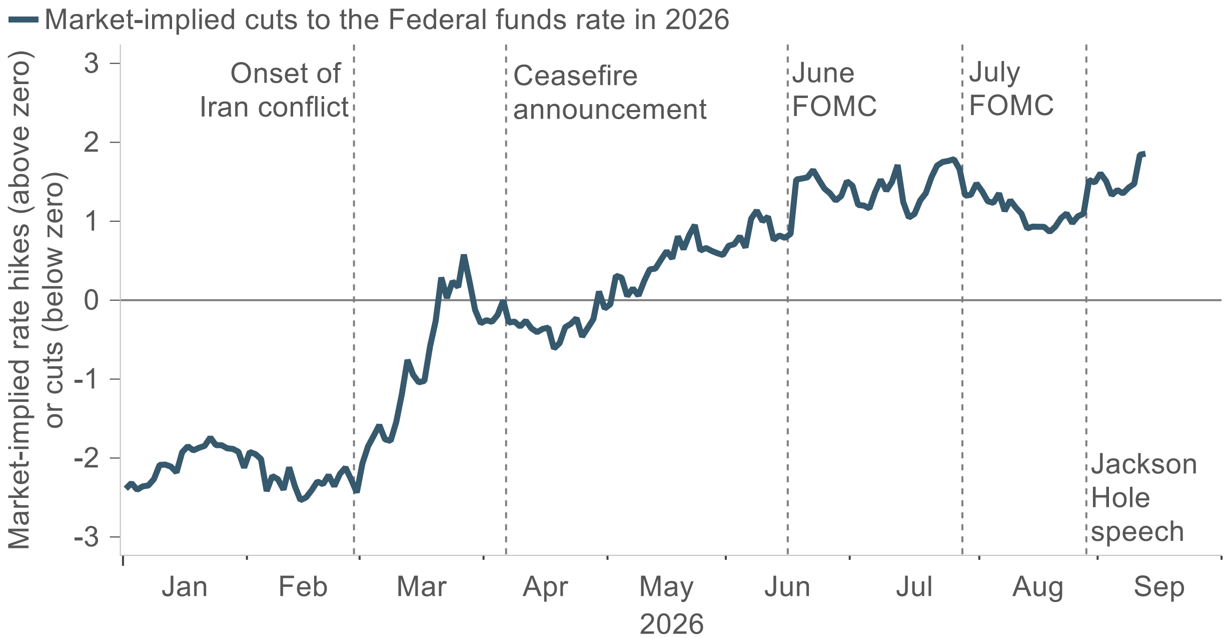
Investment Management

FROM THE DESK OF:
New York Life Investment Management
Global Market Strategy team
Julia Hermann | Sarah Hirsch | Michael LoGalbo

Consensus expectations for the Fed have moved by over 100bps over the course of this year:

- At the start of the year, consensus expected 2-3 rate cuts. GMS expected 1-2 rate cuts, making our call hawkish at the time.
- By midyear, consensus expected at least one rate hike, the shift primarily reflecting inflation concerns around the Iran conflict. GMS updated our call for the Fed to hold rates steady; now a dovish call relative to a much-changed market consensus.

Consensus Fed expectations have moved by over 100bps in 2026



Sources: New York Life Investment Management, Global Market Strategy, Blooomberg Finance LP, Macrobond, September 2026.

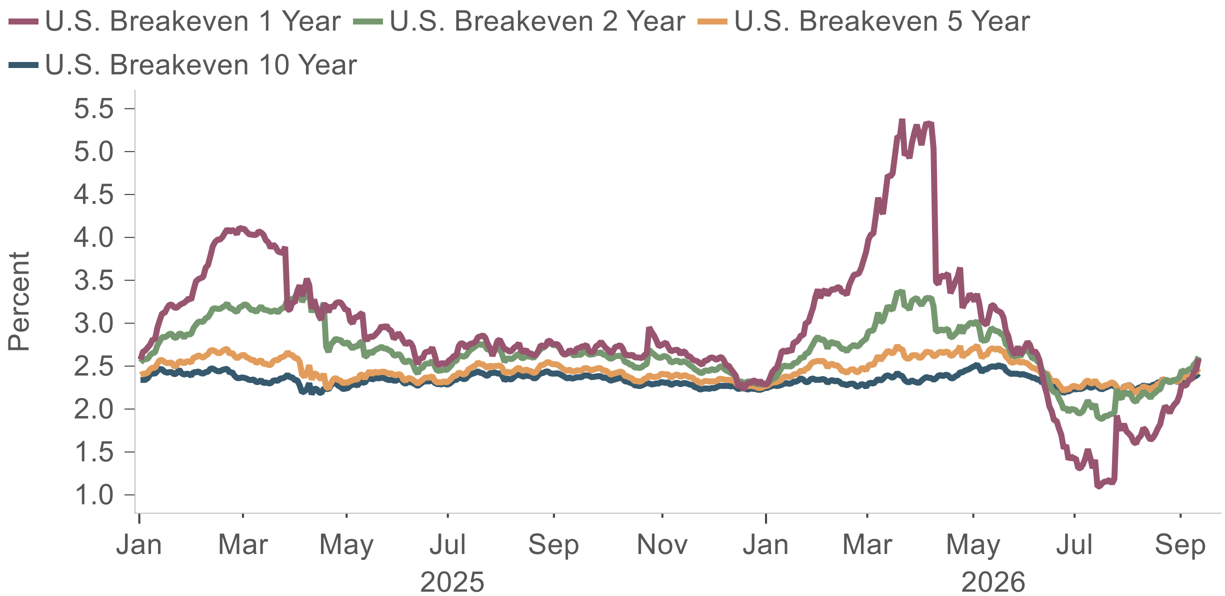
Today, the market expects two rate hikes by year-end. **Our call for a hold may well be proven incorrect on Wednesday, but we believe that the fundamentals still give the Fed some space to stay on hold – even if it chooses not to take that space.**

First, we believe the labor market is in equilibrium: job creation is resilient and the unemployment rate is healthy, while annual wage gains have decelerated toward a sustainable 3%. **We remain concerned that the labor market may not be able to withstand a hiking cycle.**

Second, **inflation expectations are not sending a clear signal that a hike is needed.** They remain well anchored and have not been the key driver of the Treasury selloff. Fed hikes may take pressure out of the short end of the curve, where we have seen inflation expectations rise, but **even short-term inflation expectations are lower today than they were from March to June of this year.**

Inflation expectations are re-contributing to, but not driving, higher Treasury rates

Inflation breakeven expectations baked into Treasury Inflation-Protected Securities (TIPS)



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg Finance LP, Macrobond, September 2026.

Breaking down the broader Treasury selloff

As we wrote in early May, we expected long rates to rise and the Treasury curve to steepen – and the 3M-10Y Treasury spread has indeed steepened by about 35bps since then. The 2Y-10Y spread, however, is around May's levels, because short-term inflation expectations have risen again, pulling the 2Y yield higher at the same time as the term premium drives long rates up.

While we can't attribute upward pressure on rates to any single macro factor, we see several forces in play:

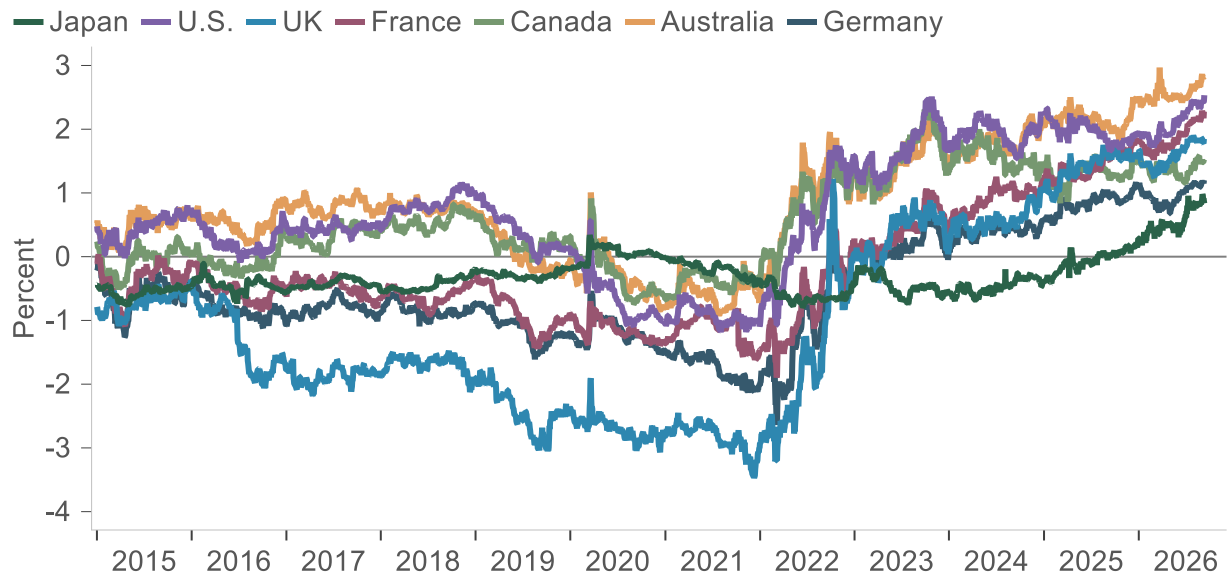
- Fiscal concerns: Elevated sovereign issuance is increasingly the supply of duration. In turn, rising Treasury rates increase the federal government's interest burden, reinforcing concerns around debt sustainability.
- Fed policy uncertainty: The market continues to digest reduced policy clarity from Chair Warsh, resulting in a whipsaw in market rate expectations between the July FOMC and the hawkish Jackson Hole press conference.
- Treasury buybacks: The expansion of Treasury buybacks has created a sense of policy desperation to move rates lower. This week's announcement of $6 billion in buybacks disappointed market expectations and pushed yields higher.
- Higher oil prices: Crude oil is back above $100 a barrel, adding to inflation concerns and complicating the outlook for monetary policy.
- Persistent inflation: As Chair Warsh has reiterated, inflation has remained above the Fed's 2% target for over 5 years, limiting the scope for policy easing and keeping uncertainty around the path of future rates elevated.

Fed hikes may ease the latter two concerns somewhat, but we have written many times before that the Fed's tools are ill-suited to contain supply-led energy inflation. Nor do we expect fiscal concerns to be addressed in a meaningful way, particularly after the upcoming midterm elections (**stay tuned for our full midterm elections guide, out this month!**). Accordingly, we expect to, at minimum, see ongoing volatility in long-term, market-determined interest rates, not just in the U.S., but globally.

Importantly, the global nature of this selloff means that implications for currencies and relative global capital flows remain ambiguous: most major developed economies face the same policy tradeoffs and present similar degrees of fiscal and inflationary risks.

Long-term interest rates are rising across developed economies

Real 10-year government bond yields



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Treasury, Macrobond Financial AB, Macrobond, September 2026.

Investment implications

Over the last few weeks, both short-term and long-term rates have continued to move higher. **But the predominant source of a higher rates environment from here matters.** Rates-related financial conditions could tighten primarily on the short end (expectations of Fed hikes) or the long end (ongoing volatility or selloff in long-dated Treasuries), with distinct implications for portfolios.

If the Fed hikes next week, we are not sanguine about the associated downside risks for the labor market, economic growth, and corporate earnings and margins over the following months. In this scenario, portfolios may benefit from some ballast against these downside macro risks associated with historic rate hiking cycles.

- At the margin, we would favor new adds to defensive over cyclical equities (staples relative to discretionary, for example), but energy supply-led inflation means that some traditionally cyclical sectors, including energy and materials, could well be more resilient than in typical cycles.
- Ex-U.S. exposure becomes increasingly important if the Fed joins the global hiking cycle, providing diversification potential in how major economies cope with an environment of tighter financial conditions.
- Rate hikes would improve absolute income generation potential in short-maturity credit, even if spreads remain tight.

If long rates continue to be the force tightening financial conditions, the risk-on playbook may continue to be resilient. Higher rates have coexisted with historically strong earnings growth and above-trend economic growth all year, and this environment could continue.

- We would favor strong quality and cash flow generation in equities, which can include even the more volatile segment of semiconductors within tech.
- Equities that can cope with a steeper yield curve environment, such as financials, may benefit.
- In fixed income, we continue to see opportunity to extend duration with the 10Y Treasury yield above 4.7%. If the 10Y surpasses 5% on a sustained basis, we may be in a new paradigm of how investors demand compensation for U.S. fiscal and policy risk, but this is not our base case.
- Alternatives, including commodity exposure, may be a critical diversifier in this environment. Upside inflation surprises can pull stock-bond correlations together, making alternatives a stronger diversifier.