

New York Life Investment Management's Global Market Strategy team

Crude awakening: cooling inflation meets rising oil

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Investment
Management

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Crude awakening: cooling inflation meets rising oil

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- February headline CPI rose 0.3% MoM, in line with expectations, while core CPI increased 0.2% MoM. Core CPI YoY was unchanged at 2.5%, reflecting continued moderation in underlying price pressures.
- Energy has been a consistently benign force, and sometimes an overt drag, on CPI over the past four years. Ongoing upside risks to energy costs, following [military action against Iran](#), could create renewed upward pressure. As a rule of thumb, every \$10/barrel increase in the price of oil adds 0.2 percentage points to headline inflation.
- The Fed is likely to look through energy-driven price increases in headline inflation, particularly if core services and [wage growth](#) remain contained. The recent oil move, however, may delay the timing of cuts on the margin. We still expect one to two rate cuts this year ([more on our base case here](#)).
- Higher oil prices support energy sector performance. At the same time, fuel-intensive industries such as airlines, transportation, and certain consumer sectors could face margin pressure, as higher gasoline prices may weigh modestly on discretionary spending.

CPI continues to moderate

Both core and headline CPI continued to moderate in February, following a slight acceleration in the second half of last year. Year-over-year core CPI came in at 2.5%, while headline CPI, which includes food and energy prices, registered 2.4%. Beneath the surface, the report was encouraging, with services inflation easing in February, following a sharp rise in January. Food prices, however, remain sticky, increasing 3.1% YoY.

Energy has not been a major contributor to CPI over the past year, with prices rising just 0.5% YoY between February 2025 and February 2026. Fuel price inflation was also subdued at 1.1% YoY. That said, we see meaningful upside risks to energy prices in the coming months, as we discuss below.

Higher energy prices pose near-term upside risks to inflation

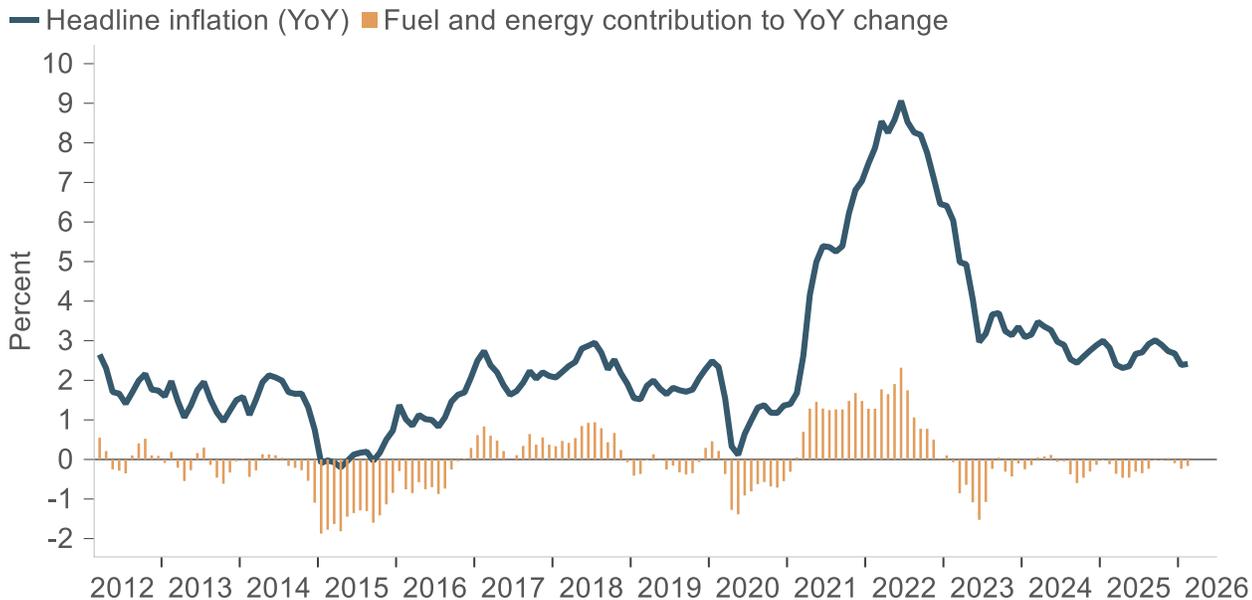
Since the U.S. and Israel launched attacks against Iran on February 28, energy prices have moved sharply higher, with West Texas Intermediate crude oil up from \$65/barrel to about \$87/barrel as of publication, and LNG (liquid natural gas) futures up approximately 50% in Europe.

This marks a material shift in the near-term inflation impulse. As a rule of thumb, every \$10 per barrel increase in oil adds about 0.2 percentage points to headline inflation. The magnitude of the recent move implies roughly 0.4 percentage points of potential upside to headline CPI in coming months, if prices remain near current levels.

The most direct pass-through will occur in gasoline prices. There is also risk of second-round effects through transportation, food, and other energy-intensive categories if prices remain elevated. The key question is persistence. A temporary spike would likely have modest macro impact, but a sustained period above \$80/bbl could slow or temporarily stall the recent disinflation trend in headline CPI.



Energy has been a consistently benign force, and sometimes an overt drag, on CPI over the past four years



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

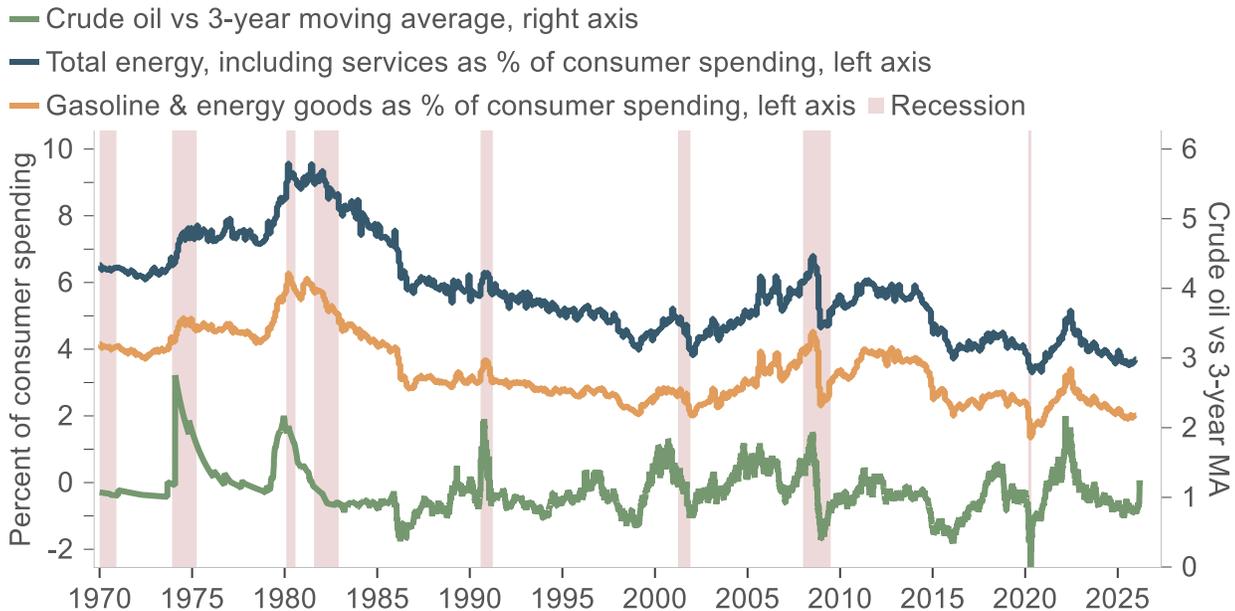
Economic impacts: oil shocks may pack less punch than in the past

Oil shocks have historically mattered most when they hit an economy that is already vulnerable. In past episodes such as 1973 and 1990, sharply higher energy prices compounded tight monetary policy and restrictive financial conditions, effectively acting as a tax on consumers and businesses and pushing growth into contraction.

Today, the U.S. economy is structurally less exposed to energy than in prior decades. Domestic production is far higher, net import dependence is lower, and energy intensity per unit of GDP has declined materially. As a result, the macro sensitivity to oil prices should be more muted than during earlier shocks. That said, a sustained rise in the price of oil still poses downside risks. Higher gasoline prices erode real household purchasing power, often leading consumers to pull back on discretionary spending, particularly big-ticket items. Notably, such a gasoline price shock would disproportionately impact lower-income households, exacerbating the K-shaped economy dynamic that [we have covered previously](#).



Past oil shocks have forced consumers to spend more on energy



Sources: New York Life Investment Management, Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), NBER (National Bureau of Economic Research), Macrobond, March 2026.

The Fed will likely look through energy-driven inflation

The Fed has tended to look through oil price shocks, particularly when they are supply-driven and do not appear to be feeding into wages, core services inflation, or inflation expectations. As long as core measures of inflation remain around trend, a rise in oil prices alone is unlikely to materially alter the policy path.

At this stage, we continue to expect one to two rate cuts later this year. The recent oil move may delay the timing of these cuts – we have seen market pricing of the first Fed cut pushed out from July to September.

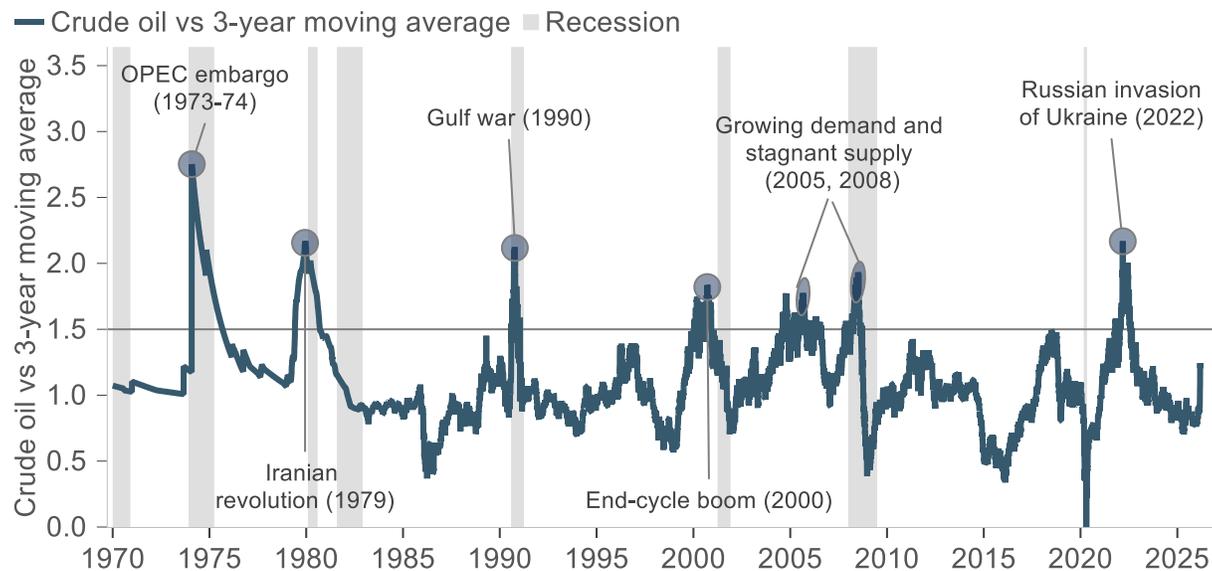
Market implications: oil shock playbook

While we do not expect a sustained oil price shock, defined as crude rising to more than 1.5x its three-year moving average, risks have clearly risen. We have previously published a playbook for navigating an oil shock, and many of those themes remain applicable in today's environment of rising crude and [heightened geopolitical uncertainty](#).



While not at oil shock levels, oil prices have risen meaningfully in the past two weeks

We define an oil shock as the price of oil exceeding 1.5x its 3-year moving average



Sources: New York Life Investment Management, Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, March 2026.

Position for energy strength. Energy equities remain a clear beneficiary of higher crude prices, with stronger earnings and cash flow if supply disruptions push prices up – as long as policy changes meant to shield consumers (gas tax holidays, gas subsidies, price controls) do not disintermediate these profits. Fuel-intensive industries, such as airlines and transportation, may face margin pressure from rising input costs. Higher gasoline prices can also act as a drag on household purchasing power, potentially weighing on consumer discretionary sectors relative to staples.

Expect bond volatility, not a straight line higher in yields. In past oil shocks, long-term yields initially rose on inflation concerns but later declined as higher energy prices weighed on demand and growth. A similar pattern may unfold: oil-driven inflation pressure may push yields higher in the near term – something we have seen occur over the past 10 days – but a growth slowdown could ultimately reverse that move.

Renewables and alternative energies gain relative appeal. As oil prices rise, the relative economics of renewable energy improve. Even without a structural shift, higher fossil fuel prices tend to accelerate investment interest in solar, wind, and related infrastructure. Renewed interest in nuclear power, initially stemming from the AI infrastructure buildout, could also benefit.

Consider currency implications. Since the U.S. became a net energy exporter, oil prices and the dollar have tended to move together. In a spike scenario, dollar strength suggests U.S. investors may want to hedge non-U.S. exposures. With the dollar already [experiencing volatility this year](#), we favor a *partial* currency hedge for global allocations.

Maintain commodity exposure as a portfolio hedge. Commodities can help cushion portfolios against inflation surprises and energy-driven volatility. For multi-asset investors, a modest allocation to a diversified commodities sleeve has historically improved diversification and reduced overall portfolio volatility when inflation surprises to the upside.



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