

Macro Pulse for October 18

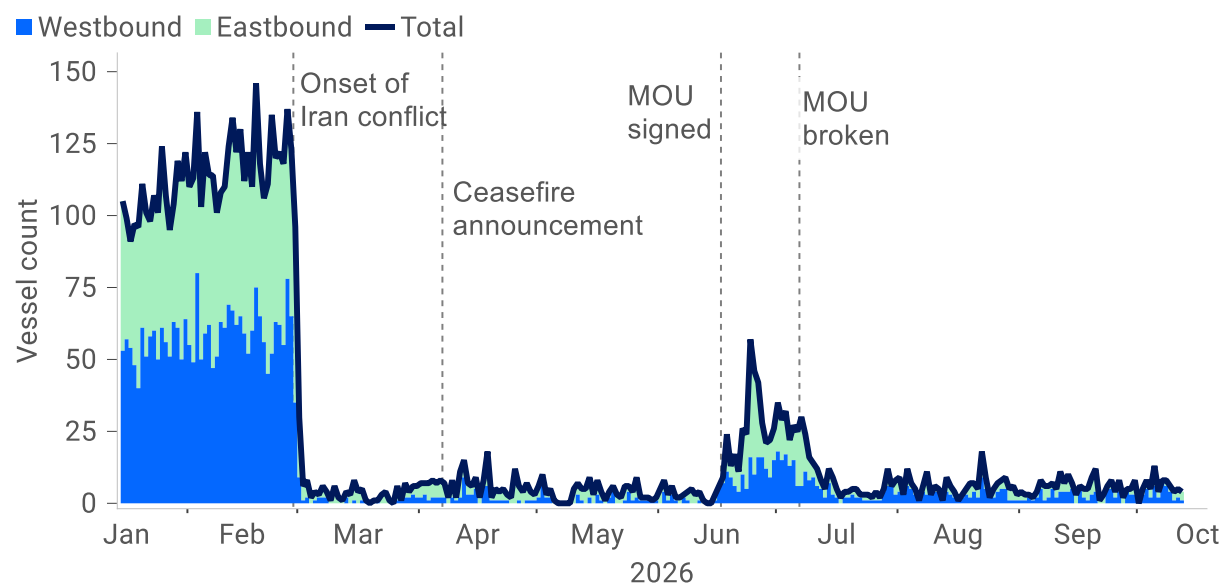
- September CPI rose 0.6% MOM, while PPI, which measures producer prices, increased 1.3%. Gasoline accounted for more than half the CPI increase, while higher diesel prices helped drive the rise in PPI. The concern is that rising fuel costs could push up transportation costs and eventually prices for other goods and services. In our view, these inflation pressures strengthen the case for another Fed hike this year.
- The U.S. 10-year Treasury yield has fallen back toward 5% as an AI-driven equity selloff sends investors into more defensive assets. We are encouraged that the pace of the Treasury selloff has slowed but continue to expect volatility in long rates driven by a combination of rising inflation expectations, a more hawkish policy path, and a rising term premium. We favor a buy-and-hold approach in shorter maturity credit, paired with selective long-duration opportunities in steeper yield curves, including those for municipal bonds.

Three paths for Iran, high stakes for markets

Now in its eighth month, the Iran conflict is testing how long the global economy can absorb disrupted energy flows. Oil supply buffers are thinning, and the pressure is again spreading beyond crude oil to the fuels that keep consumers and businesses running. The range of possible outcomes remains wide. Where oil prices settle, and how long they stay there, will shape the global outlook for growth and inflation. This week, we examine the diplomatic impasse, the growing strain in energy markets, and three potential paths forward for the conflict.

Hormuz traffic remains impaired, as alternative pathways emerge

Total commercial vessel crossings through the Strait of Hormuz



Sources: New York Life Investment Management Global Market Strategy, International Monetary Fund (IMF), Macrobond, October 2026.

Diplomacy buys time, but no breakthrough

Diplomacy has paused further escalation of the conflict, but the path to a lasting agreement remains elusive. Iran has made the reopening of Hormuz conditional on sanctions relief and a broader ceasefire. The U.S. and Iran remain divided over the sequencing of those steps. Meanwhile, additional U.S. naval deployments strengthen Washington's ability to launch renewed strikes if negotiations fail.



President Trump has said that the U.S. will not attack Iran before the November 3 midterms, giving diplomacy more time. As we have been highlighting throughout the conflict, we believe the test for investors is whether negotiations produce sustained, safe passage through Hormuz. The bar for restoring traffic through the Strait is high: further attempts at negotiations could bring immediate market relief, but restoring confidence among shippers and insurers will likely require true alignment between the U.S. and Iran.

The energy squeeze spreads beyond crude

The energy shock persists even as some crude exports resume. Refinery damage and elevated shipping costs have constrained how much usable fuel reaches consumers. Increased oil flows through the Strait offer some relief but cannot offset lost refining capacity or the higher costs of transporting fuel to the end markets.

Diesel, a fuel refined from oil and primarily used to power trucks and heavy machinery, highlights the pressure on fuel supplies. Its price has pulled away from crude as shortages push up the premium for turning oil into finished fuel, a difference known as the “crack spread.” This makes fuel availability an increasingly important challenge for policymakers. Releasing national-level crude reserves can ease supply pressures but does little to address refined fuel shortages.

We are watching diesel prices and transportation costs alongside crude oil prices as a core input to our inflation view. Persistent fuel shortages could keep transportation and manufacturing costs elevated and strain household budgets, even if oil prices ease.

Diesel prices move higher as the Iran conflict pressures refined products

Indexed to start of the Iran conflict



Sources: New York Life Investment Management Global Market Strategy, Energy Information Administration (EIA), Macrobond, October 2026.

Three scenarios and what they mean for markets

Where can the conflict go from here? Looking ahead, we see three potential outcomes: a negotiated reopening of the Strait, a prolonged stalemate, or renewed escalation. Each carries different implications for inflation, rates,

and risk assets. Even in the most constructive scenario, reopening Hormuz could provide near-term relief, but restoring damaged energy infrastructure and normal fuel supplies would take longer.

	Negotiated reopening	Stalemate with leakage (status quo)	Escalation
What it looks like	A deal or ceasefire with verifiable Hormuz transits resuming.	Strait stays formally closed but flows grow via alternate routes.	Renewed strikes, more U.S. forces deployed, and Gulf infrastructure or shipping targeted.
Crude prices	Sharp initial drop, but likely returns above pre-war levels because of inventory rebuilding and damaged capacity.	Range-bound with a high floor. Headline-driven spikes fade as alternate flows grow.	Spike, with a tail to the upside if Gulf production or export infrastructure is hit.
Diesel and other refined products	Prices fall more slowly than crude. Damaged refineries, low fuel stocks, and export limits keep supplies tight even if Hormuz reopens.	Supply stays tight. Crack spreads remain wide. Policy pressure continues.	Crack spreads widen further. Odds of a U.S. export ban on diesel rise materially.
Inflation	Inflation eases gradually as lower energy costs feed through.	Inflation stays elevated, with a risk that fuel costs push other prices higher.	Inflation accelerates as renewed disruption drives energy prices higher.
Fed and yield curve	Expectations for Fed hikes ease and Treasury yields decline, though fiscal concerns limit the decline in longer-term yields.	Another Fed hike before year-end is most likely, keeping Treasury yields elevated.	Expectations for further Fed hikes rise, pushing short-term yields higher, while inflation concerns put additional upward pressure on longer-term yields.
Equities	Broad relief rally. Cyclical, transports, consumer discretionary, and Asian oil importers lead. Energy lags.	Rotation story. Energy and refiners hold up; rate-sensitive sectors stay heavy.	Risk-off. Energy outperforms, cost-sensitive sectors and EM oil importers suffer.
U.S. dollar	Dollar softens as demand for safety eases.	Dollar stays firm, supported by elevated U.S. rates and uncertainty.	Dollar strengthens as investors seek safety.

Portfolio strategy

Given the range of potential outcomes, we favor a barbell approach across equities and credit that balances exposure to continued energy disruptions with opportunities from a potential recovery.

On one side, energy producers and select refiners could benefit from higher oil prices and tight fuel supplies. In credit markets, energy companies with strong balance sheets could also benefit from higher cash flows and improved debt repayment capacity.

On the other side, technology offers exposure to longer-term growth, while cyclical stocks could benefit as energy costs decline and economic conditions improve. Select technology and cyclical credit could also benefit from stronger earnings and tighter credit spreads.

This approach helps position portfolios for continued energy disruptions while maintaining exposure to a potential recovery. Careful security selection remains important, particularly for companies whose profit margins are vulnerable to higher fuel costs.

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