THE SHORT AND LONG

Weekly Bulletin

Inflation stalls above target as growth forecasts improve

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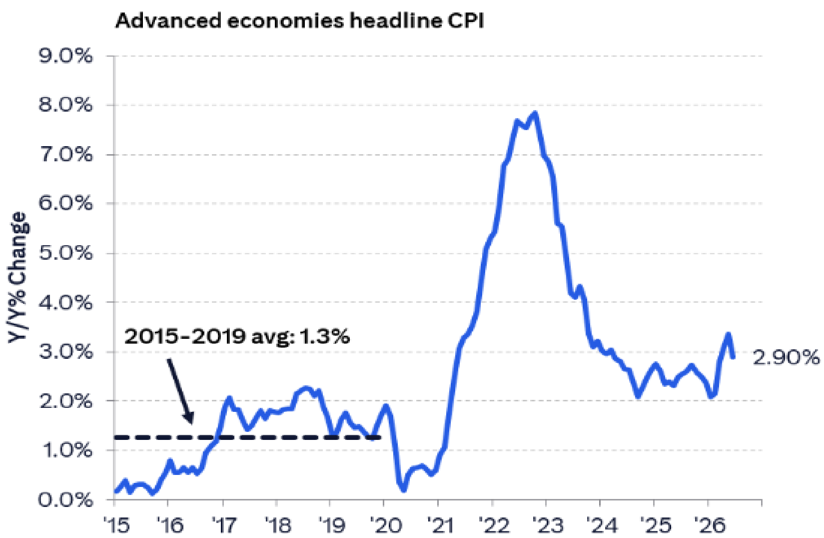
Inflation has moderated but remains above target. Firmer growth expectations allow central banks to keep their focus on price stability. We see this as supportive of higher policy rates globally.

The share of firms raising prices has fallen but remains well above pre-pandemic norms. Significant pressure also sits in the goods pipeline, which argues against assuming inflation resolves on its own.

Moderately tighter monetary policy to address above-target inflation should not pose a significant challenge to equities, which are being supported by strong earnings. Meanwhile, markets price in little inflation risk, which could leave investors inadequately compensated if inflation proves more persistent than expected.

THIS WEEK IN CHARTS

FIGURE 1: Advanced economy headline inflation remains elevated and above pre-pandemic levels



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LOOKING CLOSER

Inflation in advanced economies moderated since 2022 but remains above the objective of most central banks. We expect policymakers to remain focused on returning inflation to their targets.

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Underlying inflation has stalled above target

The inflation narrative has swung from one side of the boat to the other this year. The consensus view at the start of 2026 was inflation would fall and allow central banks to cut rates. Global conflicts pushed inflation higher and raised concerns that central banks would tighten aggressively. We viewed both positions skeptically. With energy pressures easing, the narrative has swung again toward the idea that the picture looks benign, so this week we step back and assess where inflation actually stands.

Start with the measure. Most commentary focuses on core inflation, which strips out food and energy. We find that framing difficult to defend because food and energy costs matter to every household. These items are also not necessarily the most volatile components every month. Removing volatile series helps in determining underlying trends, and we prefer trimmed means, which cut the tails of the distribution rather than pre-selecting categories. The Cleveland Fed's 16% trimmed mean removes the 8% tails on each side and shows the middle 84% of the distribution.

This measure now sits at 2.6% year-over-year versus a 2.0% average in the five years before the pandemic. The July reading annualizes to 2.7%, and 2026 to date also runs at 2.7%. Inflation has moderated from its peak, but it appears to be stalling somewhere between 2.5% and 2.75%.

The breadth of high-price gains tells the same story. Roughly 33% of Consumer Price Index (CPI) components are rising at 5% or faster on a one-month annualized basis, compared with a 25% average before the pandemic and roughly two thirds at the 2021 to 2022 peak[1]. The breadth has narrowed considerably, but it has not narrowed enough.

Looking beyond the U.S., CPI inflation across advanced economies now runs at 2.9% versus a 2015 to 2019 average of 1.4%. Both U.S. and global inflation remain too high, and it carries implications for both policy and portfolios. Higher policy rates around the world seem more likely than lower rates. We look to UK and Japanese inflation reports later this week for more color. On growth, three-month revisions to 2026 real GDP forecasts have moved higher for South Korea, the United Kingdom, Brazil, India, the United States, Germany, and Japan.

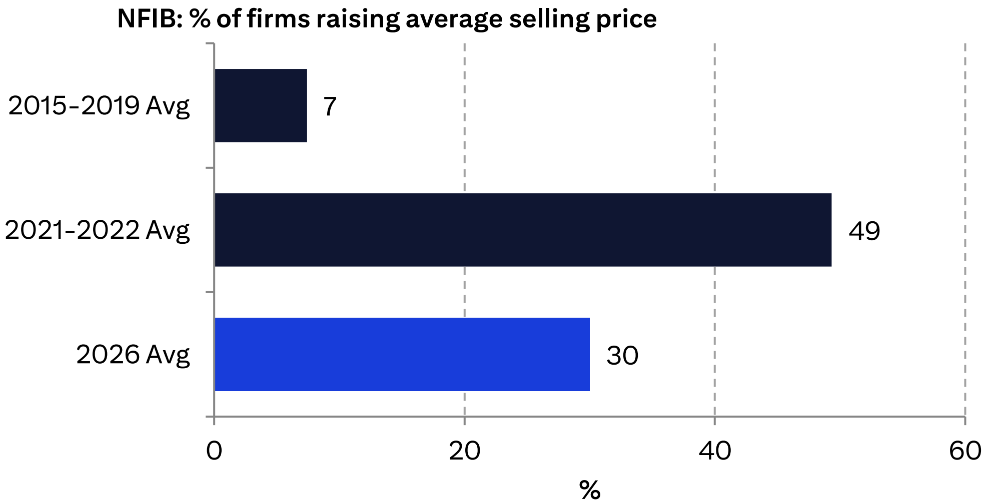
Bottom line: Inflation has moderated, but it has settled above target rather than returning to it. Firmer growth expectations allow central banks to keep their focus on price stability. We see this combination as supportive for higher policy rates globally.

Firms keep raising prices, and goods pressures build

Companies set prices, so what they tell us about their own pricing behavior carries real weight. The National Federation of Independent Business (NFIB) survey, updated last week, gives us a direct read on smaller firms.

Before the COVID pandemic, roughly 7% of small firms raised their average selling price in a given month. That share jumped to 49% on average across 2021 and 2022. It now averages 30% in 2026 (Figure 2). The share of firms raising prices has declined, but the level remains far higher than when inflation was near the 2% target.

FIGURE 2: The share of small firms raising prices remains high



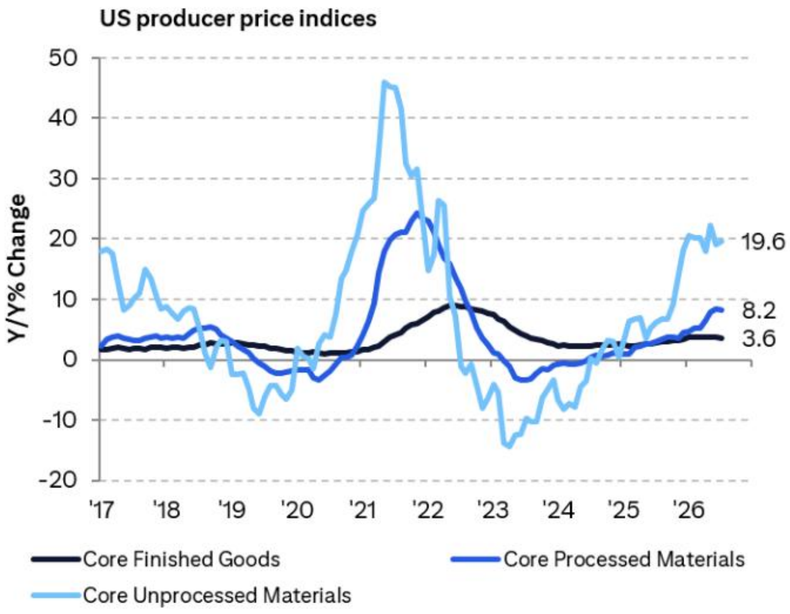
Source: Haver Analytics as of August 14, 2026.

[1] Haver Analytics as of August 14, 2026.

Producer prices highlight another risk. We look past the headlines to the stages of production in manufacturing. Core unprocessed materials are rising 19.6% year over year, core processed materials 8.2%, and core finished goods 3.6% (Figure 3). Copper provides a useful example of how price pressures move through these stages of production, from raw copper (unprocessed) to copper wire (processed) and ultimately to printed circuit boards (finished goods).

History shows that the price gains at earlier production stages lead trends in the later ones, both up and down, as the 2021 and 2022 experience demonstrated. Today those earlier stages are accelerating again, which tells us goods price pressures are still working their way down the pipeline.

FIGURE 3: Early-stage price pressures signal further goods inflation is building



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Bottom line: The share of firms raising prices has fallen but remains more than four times above pre-pandemic norms. Significant pressure also sits in the goods pipeline, which argues against assuming inflation resolves on its own.

Rates have repriced, but inflation compensation looks thin

We continue to believe the Fed's next move will be a rate hike rather than a cut. We also continue to believe that move is not imminent.

A shift toward tightening can unsettle investors, because past transitions have proved difficult for markets. But this cycle starts from a different place. The real five-year yield stands at 2.15% today, whereas it sat in negative territory ahead of some prior episodes. In the 2013 taper tantrum, real yields rose 140 basis points in four months, triggered an emerging market shock, and ended the idea of QE forever. In 2022, real yields rose 360 basis points in under a year and upended traditional 60/40 portfolios.

Because we expect any hikes to prove modest, and given the starting point, we do not expect a real yield move on the scale of past episodes. Today's real yield environment reduces the need for another valuation reset. But with five-year inflation breakevens sitting at 2.21%, we don't believe investors are being adequately compensated for current inflation risks.

Bottom line: While markets may react nervously to any shift toward tighter policy, much of the rate repricing that drove prior bouts of volatility has already occurred. The bigger risk, in our view, is that inflation expectations remain too subdued, leaving investors inadequately compensated if inflation proves more persistent than markets currently anticipate.

	What happened	What's ahead
ECONOMIC DATA	**U.S.** July CPI was in line at 0.1% M/M and 0.2% M/M for core, bringing yearly inflation rate to 2.5% core. Lower gasoline prices helped, but breadth ticked higher. July retail sales unexpectedly declined 0.6% M/M for the softest reading since May 2025. Some weakness was expected with lower oil prices and seasonality a factor.	**U.S.** Flash PMIs for August Import/export prices for July Industrial/manufacturing production for July
	Global Japan PPI for July rose 7.2% Y/Y, slightly below estimates. Eurozone industrial production stagnated in June with Germany auto industry disappointing.	**Global** Japan industrial production for June and trade/CPI for July German ZEW survey Eurozone flash PMIs for August UK CPI and employment
POLICY	**U.S.** U.S. threatened economic action against Iran in lieu of restarting hostilities. Fedspeak this week continued to warn of upside inflation risks and skepticism recent cooling will persist long enough to reach target. **Global** Confidence that UK Prime Minister Andy Burnham will limit borrowing and adhere to fiscal rules inherited from previous administration.	**U.S.** FOMC meeting minutes **Global** Economists expect European Central Bank (ECB) to deliver final rate hike in September. Bank of Japan (BoJ) tightening expectations pulled forward with market now pricing 80% chance of a September hike. Bank of England's (BoE) chief economist says better than expected growth points to higher rates.
MARKETS	**U.S.** Real yields being pushed to multi-decade highs while the U.S. paid its highest borrowing cost on a 30-year bond since 2001 (5.22%).	**U.S.** Big earnings week for retailers to provide additional insight on health and spending trends of the consumer.
	Global Dollar-yen reversing post-intervention declines as the pair nears 160 level.	**Global** Europe delivering one of its strongest Q2 earnings in years, headlined by energy. China tech stocks extend gains vs. U.S. as China narrows AI gap and government provides stimulus.

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April 2, 2026 | Global Investment Council

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Low grade (speculative)	B	B	B
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Most speculative	Ca	CC	CC
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In default	C	D	D

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