TheINVESTOR

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TheECONOMY

Inflation Reaccelerates

Economic data released throughout April reinforced concerns that inflation may not return to the Federal Reserve's 2% target as quickly as markets had previously expected. The Consumer Price Index (CPI) increased 3.8% year-over-year in April, the highest reading since 2023, while core CPI rose 2.8% annually. On a monthly basis, headline CPI increased 0.6%, reflecting broad-based price pressures across the economy. Importantly, much of the increase was driven by rising energy costs as escalating geopolitical tensions in the Middle East and disruptions surrounding the Strait of Hormuz pushed oil and gasoline prices sharply higher. Energy prices rose nearly 18% year-over-year during the month, while gasoline prices increased more than 28% from the prior year.

Prior to these releases, investors had increasingly expected the Federal Reserve to begin lowering interest rates later this year as inflation gradually eased and economic growth moderated. However, April's data complicated that narrative and further supported the Fed's decision to remain on hold for the time being. While inflation has cooled meaningfully from the peaks experienced in 2022 and 2023, recent data suggests progress may be uneven moving forward, particularly if elevated energy prices persist or geopolitical tensions continue to disrupt global supply chains. In addition to energy, shelter and labor-intensive service categories remained relatively sticky during the month, preventing broader inflation measures from declining as quickly as policymakers had hoped.

The Federal Reserve remains in a difficult position as it balances still-elevated inflation against signs of gradual economic slowing. The labor market has softened modestly compared to the exceptionally tight conditions observed over the last several years, though overall employment trends remain relatively healthy. Payroll growth has moderated, job openings have declined from prior highs, and unemployment has moved slightly higher, but labor conditions do not yet appear weak enough to force an immediate shift in monetary policy. Importantly, continued labor market resilience may also contribute to ongoing wage pressure within service-oriented sectors of the economy.

At this stage, the Federal Reserve appears increasingly comfortable maintaining a "wait and see" approach as policymakers seek greater confidence that inflation is sustainably moving lower before considering policy easing. April's inflation data reinforced concerns that prematurely lowering rates could risk reigniting broader price pressures, particularly as energy-driven inflation continues to filter through the economy. As a result, markets increasingly expect interest rates to remain elevated for longer than previously anticipated, with the path forward remaining highly dependent on future inflation and labor market data.

Treasury Yields

Maturity	5/13/26	4/13/26	CHANGE
3 Month	3.675%	3.683%	-0.008%
6 Month	3.724%	3.712%	0.012%
1-Year	3.779%	3.667%	0.111%
2-Year	3.979%	3.772%	0.207%
3-Year	4.020%	3.792%	0.229%
5-Year	4.117%	3.910%	0.207%
10-Year	4.469%	4.293%	0.175%
30-Year	5.034%	4.897%	0.137%

Source: Bloomberg

Agency Yields

Maturity	5/13/26	4/13/26	CHANGE
3 Month	3.570%	3.570%	0.000%
6 Month	3.580%	3.570%	0.010%
1-Year	3.590%	3.550%	0.040%
2-Year	3.680%	3.787%	-0.107%
3-Year	3.630%	3.826%	-0.196%
5-Year	3.750%	3.960%	-0.210%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

Maturity	5/13/26	4/13/26	CHANGE
1 Month	3.700%	3.714%	-0.014%
3 Month	3.817%	3.843%	-0.026%
6 Month	3.901%	3.919%	-0.019%
9 Month	3.979%	4.009%	-0.030%

Source: Bloomberg

Current Ecomomic Releases

Data	Period	Value
GDP QoQ	Q1 '26	2.00%
U.S. Unemployment	Apr '26	4.30%
ISM Manufacturing	Apr '26	52.7
PPI YoY	Apr '26	6.00%
CPI YoY	Apr '26	3.80%
Fed Funds Target	May 14, 2026	3.50% - 3.75%

Source: Bloomberg