

U.S. Economic Comment

- March CPI: Energy-related surge in headline; report leaves Fed calculus little changed
- Consumer sentiment: record low prompted by jump in near-term inflation expectations
- GDP update: 25-Q4 growth revised lower; expectations for Q1 adjusted downward

Lawrence Werther
 lawrence.werther@us.daiwacm.com
 +1-212-612-6393

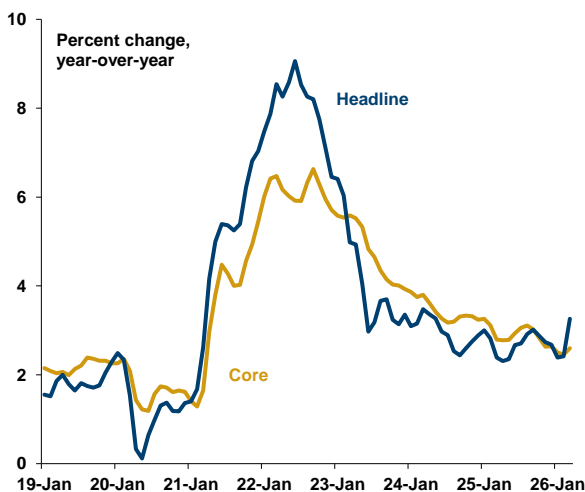
Brendan Stuart
 brendan.stuart@us.daiwacm.com
 +1-212-612-6172

Energy Prices Dominate in Hot March CPI Print

Earlier this week, Philip Jefferson, Vice Chair of the Federal Reserve Board, gave a clear assessment of the prevailing pre-conflict trajectory of inflation when he noted, “Inflation has eased from its pandemic-era peak, but progress has stalled over the past year mainly due to tariffs,” adding “It has been my expectation that the disinflationary process would resume once higher tariffs are no longer pushing up consumer prices.” His sentiments probably aligned with those of many colleagues on the FOMC, which had previously prompted the Committee to table consideration of further rate cuts until later this year – absent noticeable deterioration in the labor market from its current steady state. Complicating that view, however, the U.S.-Iran conflict of the past month led to an immediate surge in energy prices, disruptions to supply chains, and raised the possibility of second-round inflationary effects should tensions persist. Assimilating that new development, Jefferson continued by noting the aforementioned shift in energy prices “will apply some upward pressure on headline inflation, at least in the near term,” and “The ongoing trade policy uncertainty and geopolitical tensions pose upside risk to my inflation forecast.” That is, transient upward pressure on inflation is expected, a development that is unlikely to prompt a pivot to higher interest rates from the Fed, but the possibility of a protracted conflict has amplified risks to an already uncertain outlook. Inflation is projected to moderate later this year, but it will again accelerate for a time and therefore require heightened vigilance by policymakers until the tariff and energy shocks have been fully incorporated into consumer prices.

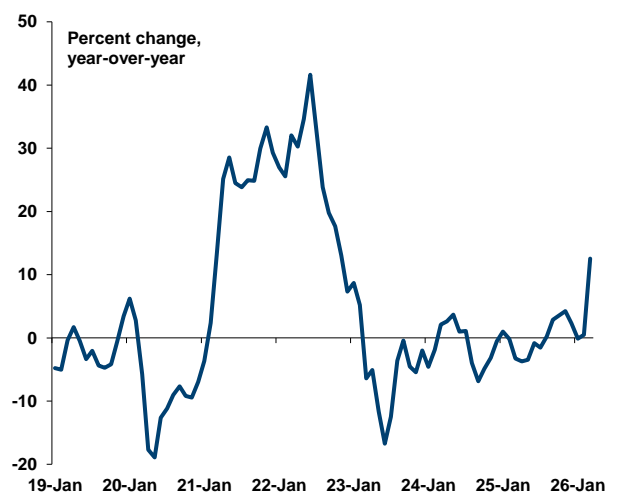
The March CPI report ratified Vice Chair Jefferson’s view on the inflation situation and left unchanged our assessment that Fed officials will be forced to maintain a wait-and-see approach in considering further adjustments to the target range for the federal funds rate. The headline index surged 0.9 percent (the fastest month-to-month increase since June 2022; +3.3 percent year-over-year versus +2.5 percent in February), while the core index increased a moderate 0.2 percent (+2.6 percent year-over-year, up from 2.5 percent in the prior month; chart, below left). Notably, the fallout of the Iran conflict on inflation was realized in the report by a burst of 10.9 percent in the energy component (+12.5 percent year-over-year; chart, below right), which was driven by a surge of 21.2 percent in gasoline prices. Contrastingly, the food component rounded up to no change in the latest month after hints of pressure around the turn of the year (+2.7 percent year-over-year versus +3.1 percent in February).

CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Energy

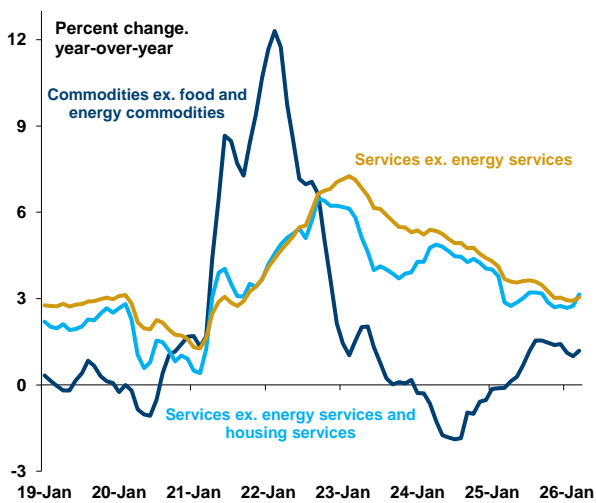


Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo (“Daiwa Securities”) and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

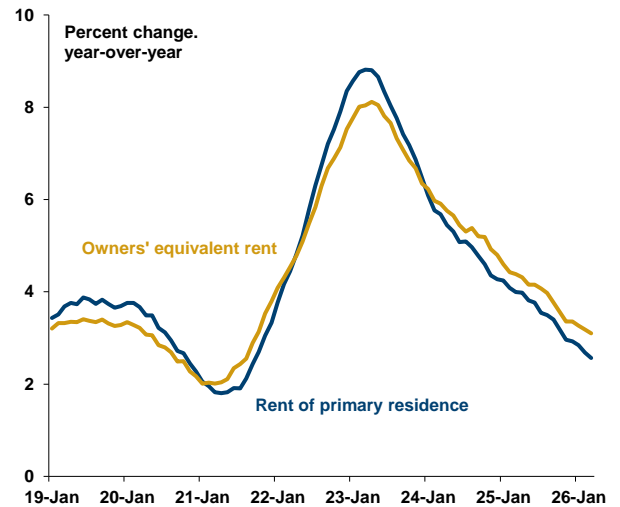
The advance in the core CPI showed relatively favorable dynamics for consumer inflation, provided that a persistent elevation in energy prices (or supply chain snags) do not filter meaningfully into downstream prices in the months ahead. On the goods side, the commodities less food and energy commodities rose 0.1 percent, continuing a string of recent modest changes – although the pickup in the year-over-year advance to 1.2 percent from 1.0 percent in the prior month suggests that tariffs are still exerting an influence on prices (chart, below left). In that regard, apparel prices jumped for the second consecutive month (+1.0 percent after a gain of 1.3 percent in February; +3.4 percent year-over-year). On the other hand, used vehicle prices fell for the fourth consecutive month (-0.4 percent in March; -3.2 percent year-over-year) while new vehicle prices continued to register only modest price increases (+0.1 percent month-to-month; +0.5 percent year-over-year). Additionally, other areas exerted downward pressure, including prices of medical care commodities which fell 1.0 percent (+0.3 percent year-over-year). Turning to services less energy services (i.e., core services), which rose 0.2 percent month-to-month (+3.0 percent year-over-year versus +2.9 percent previously). Advances of 0.2 percent and 0.3 percent, respectively, in the rent of primary residence and owners' equivalent rent of residences components left year-over-year trends squarely in line with pre-pandemic norms – which were broadly consistent with the 2 percent inflation target. (Rents and OER rose 2.6 percent and 3.1 percent year-over-year, respectively, both 0.1 percentage point slower than the February increases; chart, below right). Core services excluding primary rents and owners' equivalent rents (i.e., supercore) rounded up to 0.2 percent in March, with the year-over-year change accelerating to +3.1 percent from +2.7 percent previously. Disruptions to energy markets was evident in this area, as airfares jumped 2.7 percent month-to-month (+14.9 percent year-over-year), with airlines beginning to incorporate higher fuel costs into pricing. Other subcomponents of supercore services exhibited usual monthly variation, although the category has trended essentially sideways since the spring of last year and remains well above pre-pandemic norms (chart, below left).

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics

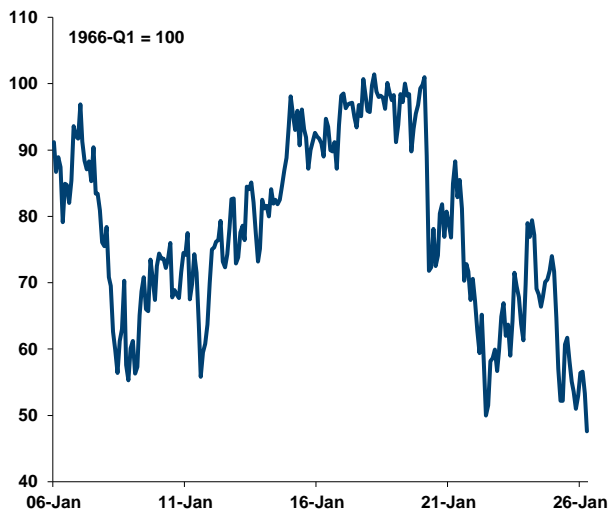
Turning back to the broad contours of inflation, we still expect that further deceleration this year will allow for the FOMC to ease further into neutral territory in support of a labor market where risks remain skewed to the downside. With that said, both the CPI and the Fed's preferred price index for personal consumption expenditures had been moving sideways before the latest shock, in part on account of tariff-related effects -- and we have little clarity thus far regarding when the conflict will be resolved and to the extent that energy prices will retreat. Thus, Fed officials will likely need to see further evidence of an abating of tariff influences, and a failure of elevated energy prices to meaningfully pass through to core inflation, before they again raise the possibility of rate cuts.

Other Friday Data: Consumer Sentiment Index

Beyond the March CPI, today also saw the release of the preliminary April estimate of consumer sentiment – a report which highlighted ongoing deterioration in household attitudes. The University of Michigan's metric eased 5.7 points (-10.7 percent) to 47.6, a softer result than the median expectation of a decrease to 51.5 from the Bloomberg economist survey and the lowest value observed on record (series spans back to 1952; chart, next page, left).

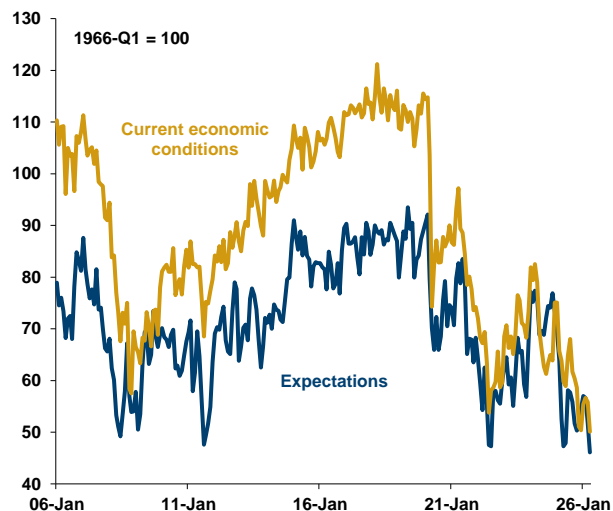
Unsurprisingly, the latest shift reflected growing concerns with respect to continued tensions in the Middle East, with Surveys of Consumers Director Joanne Hsu noting that “many consumers blame the Iran conflict for unfavorable changes to the economy.” On the point, the current economic conditions subindex fell 5.7 points (-10.2 percent) to 50.1, its second consecutive decline and also the lowest reading on record. Factoring into that decrease was deterioration in views on personal finances (-8.0 points or -10.8 percent to 66.0). Concurrently, consumer expectations dropped 5.6 points (-10.8 percent) to 46.1, its third straight decline and only 1.9 points off the record low of 44.2 in July 1979 (chart, below right).

Consumer Sentiment



Source: University of Michigan via Haver Analytics

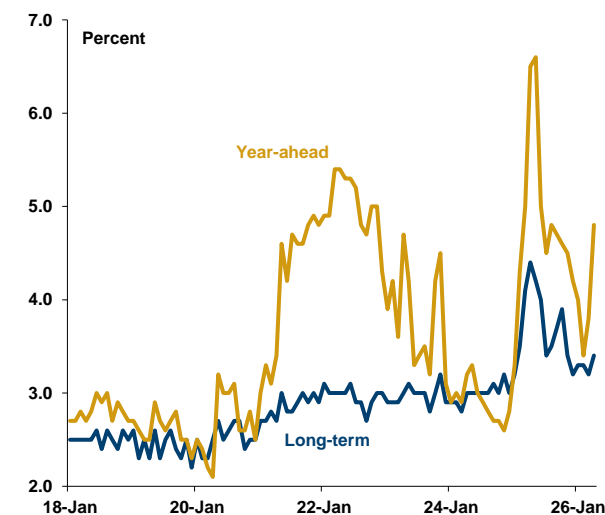
Consumer Sentiment



Source: University of Michigan via Haver Analytics

Circling back to the Iran conflict, in light of the recent oil shock and the attendant rise in gasoline prices, inflation expectations (as expected) worsened in early April. The year-ahead metric continued its recent deterioration from a 2026 low of 3.4 percent in February, jumping 1.0 percentage point to 4.8 percent – the highest observation since an equal-sized read in August 2025, when households were still processing the fallout from tariffs. Meanwhile, longer-term expectations, which measures the expected annual inflation rate over the next five years, rose 0.2 percentage point to 3.4 percent – the highest reading since November 2025 (chart). With that in mind, we suspect that policymakers will also be keeping a close eye on these metrics in the months ahead, as inflation expectations play a critical role in the path of actual inflation over time. Fed officials likely had expected some movement in near-term expectations – especially in light of the recent repricing of gasoline above \$4 per gallon -- but slippage in longer-term expectations could complicate the inflation fight and derail possible rate cuts later this year.

Consumer Inflation Expectations



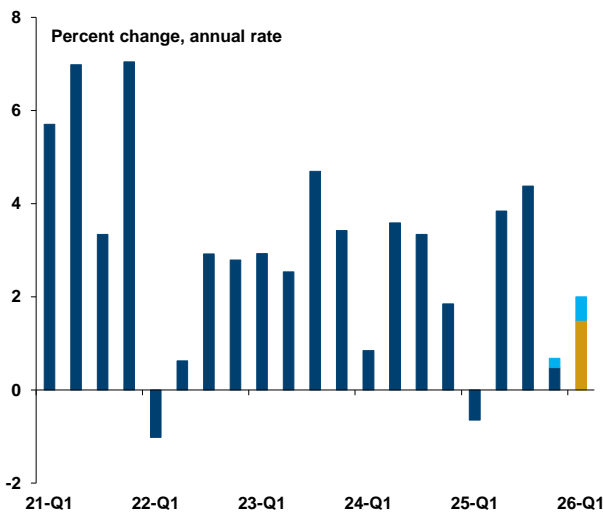
Source: University of Michigan via Haver Analytics

A Downshift in Economic Growth?

In light of the shock from high gasoline prices, and knock-on effects to sentiment and budgets, we have become increasingly concerned about household spending, especially given the downshift observed in the months preceding the conflict in the Middle East. Two data points published this week, the third estimate of 25-Q4 GDP and real personal consumption expenditures for February from the Personal Income and Outlays report underscore this notion. The former release indicated that growth in Q4 was adjusted to 0.5 percent, annual rate, from 0.7 percent

previously (the second downward adjustment; the first estimate indicated growth of 1.4 percent), with growth of consumer spending adjusted to 1.9 percent (down from 2.0 percent in the second estimate and 2.4 percent initially). The latter report noted that real consumer spending advanced 0.1 percent in February 2026 after rounding down to no change in January. Assuming a modest advance in March (+0.1 percent), we estimate that real consumer spending is set to increase 0.8 percent in Q1, one percentage point slower than our estimate of 1.8 percent published two weeks ago. Importantly, the adjustment suggests that Q1 GDP is tracking closer to 1.5 percent, annual rate, rather than 2.0 percent as of our previous projection (charts, below). To recap, we expect the expansion in the U.S. to continue, but the latest data have led us to adjust lower expectations – even before higher energy prices began weighing on households.

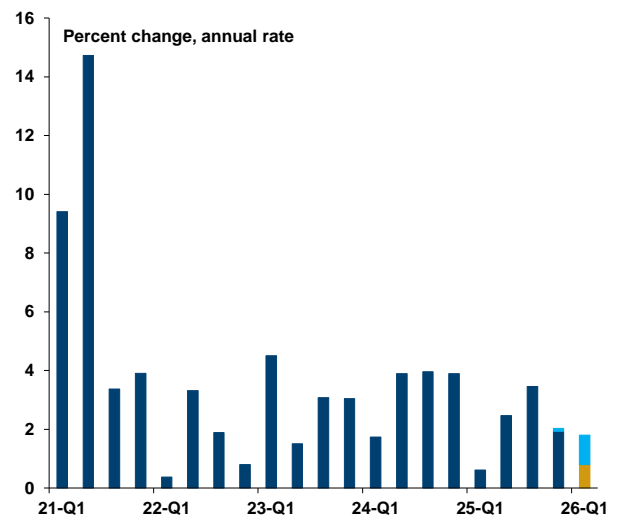
GDP Growth*



* The light blue bars show the size of the downward revisions for both 2025-Q4 and to our projection for 2026-Q1 (gold bar; +1.5 percent, annual rate, versus +2.0 percent previously).

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Real Consumer Spending Growth*



* The light blue bars show the size of the downward revisions for both 2025-Q4 and to our projection for 2026-Q1 (gold bar; +0.8 percent, annual rate, versus +1.8 percent previously -- a forecast which incorporates January and February data and assumes an increase of 0.1 percent in March).

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

The Week Ahead

Existing Home Sales (March) (Monday) Forecast: 3.95 million (-3.4%)

The recent performance in the index of pending home sales is suggestive of a decline in existing home sales in March (note that pending home sales, which measures contract signings, typically lead existing home sales, which measures closings, by about one to two months). With that in mind, the anticipated result would leave the pace of activity in the low end of the longer-run range -- highlighting ongoing affordability challenges in this segment of the housing market.

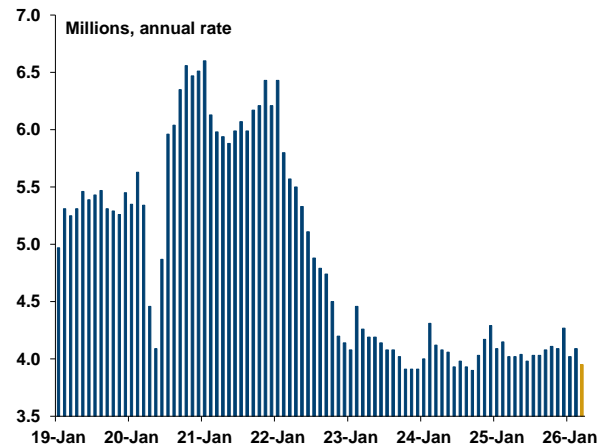
PPI (March) (Tuesday) Forecast: +1.1% final demand, +0.3% ex. food & energy

In the wake of ongoing tensions in the Middle East and the attendant spike in energy prices, available quotes suggest that the energy component of the PPI could surge in March. Following wide swings in the prior two months, growth in food prices at the producer level could moderate to a pace more in line with the 2025 monthly average of +0.1 percent. Beyond the more volatile categories, goods prices excluding food and energy have advanced 0.3 percent on average in the prior 12 months, a performance essentially equal to that for the broad services category. Similarly, the construction area also registered an average gain of 0.3 percent in the 12-month period ending February 2026.

Industrial Production (March) (Thursday) Forecast: -0.1%

An increase in factory headcounts points to a modest advance in the manufacturing component of industrial production in March, a result which would augment the ongoing upward drift in this series since early 2025. Mining activity could post a larger gain – a view supported by increases in both payrolls and hours worked. Meanwhile, warmer-than-average temperatures suggest below-average home heating usage, raising the possibility of a drop in utility output for the second month in a row. Keep in mind, however, this component is often volatile (range of -1.5 to +6.0 percent in the past six months), influenced by swings in weather rather than economic fundamentals.

Existing Home Sales*



Treasury Financing

April/May 2026																																											
Monday	Tuesday	Wednesday	Thursday	Friday																																							
6	7	8	9	10																																							
AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>13-week bills</td> <td>3.635%</td> <td>2.58</td> </tr> <tr> <td>26-week bills</td> <td>3.615%</td> <td>3.06</td> </tr> </tbody> </table>		Rate	Cover	13-week bills	3.635%	2.58	26-week bills	3.615%	3.06	AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>6-week bills</td> <td>3.615%</td> <td>3.57</td> </tr> <tr> <td>3-yr notes</td> <td>3.897%</td> <td>2.68</td> </tr> </tbody> </table> ANNOUNCE: \$69 billion 17-week bills for auction on Apr 8 \$80 billion 4-week bills for auction on Apr 9 \$75 billion 8-week bills for auction on Apr 9 SETTLE: \$69 billion 17-week bills \$80 billion 4-week bills \$75 billion 8-week bills		Rate	Cover	6-week bills	3.615%	3.57	3-yr notes	3.897%	2.68	AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>17-week bills</td> <td>3.600%</td> <td>3.34</td> </tr> <tr> <td>10-yr notes</td> <td>4.282%</td> <td>2.43</td> </tr> </tbody> </table>		Rate	Cover	17-week bills	3.600%	3.34	10-yr notes	4.282%	2.43	AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>4-week bills</td> <td>3.560%</td> <td>3.28</td> </tr> <tr> <td>8-week bills</td> <td>3.575%</td> <td>3.16</td> </tr> <tr> <td>30-yr bonds</td> <td>4.876%</td> <td>2.39</td> </tr> </tbody> </table> ANNOUNCE: \$166 billion 13-,26-week bills for auction on Apr 13 \$70 billion 6-week bills for auction on Apr 14 \$50 billion 52-week bills for auction on Apr 14 SETTLE: \$166 billion 13-,26-week bills \$70 billion 6-week bills		Rate	Cover	4-week bills	3.560%	3.28	8-week bills	3.575%	3.16	30-yr bonds	4.876%	2.39	
	Rate	Cover																																									
13-week bills	3.635%	2.58																																									
26-week bills	3.615%	3.06																																									
	Rate	Cover																																									
6-week bills	3.615%	3.57																																									
3-yr notes	3.897%	2.68																																									
	Rate	Cover																																									
17-week bills	3.600%	3.34																																									
10-yr notes	4.282%	2.43																																									
	Rate	Cover																																									
4-week bills	3.560%	3.28																																									
8-week bills	3.575%	3.16																																									
30-yr bonds	4.876%	2.39																																									
13	14	15	16	17																																							
AUCTION: \$166 billion 13-,26-week bills	AUCTION: \$70 billion 6-week bills \$50 billion 52-week bills ANNOUNCE: \$69 billion* 17-week bills for auction on Apr 15 \$80 billion* 4-week bills for auction on Apr 16 \$75 billion* 8-week bills for auction on Apr 16 SETTLE: \$69 billion 17-week bills \$80 billion 4-week bills \$75 billion 8-week bills	AUCTION: \$69 billion* 17-week bills SETTLE: \$58 billion 3-year notes \$39 billion 10-year notes \$22 billion 30-year bonds	AUCTION: \$80 billion* 4-week bills \$75 billion* 8-week bills ANNOUNCE: \$166 billion* 13-,26-week bills for auction on Apr 20 \$70 billion* 6-week bills for auction on Apr 21 \$13 billion* 20-year bonds for auction on Apr 22 \$26 billion* 5-year TIPS for auction on Apr 23 SETTLE: \$166 billion 13-,26-week bills \$70 billion 6-week bills \$50 billion 52-week bills																																								
20	21	22	23	24																																							
AUCTION: \$166 billion* 13-,26-week bills	AUCTION: \$70 billion* 6-week bills ANNOUNCE: \$69 billion* 17-week bills for auction on Apr 22 \$80 billion* 4-week bills for auction on Apr 23 \$75 billion* 8-week bills for auction on Apr 23 SETTLE: \$69 billion* 17-week bills \$80 billion* 4-week bills \$75 billion* 8-week bills	AUCTION: \$69 billion* 17-week bills \$13 billion* 20-year bonds	AUCTION: \$80 billion* 4-week bills \$75 billion* 8-week bills \$26 billion* 5-year TIPS ANNOUNCE: \$166 billion* 13-,26-week bills for auction on Apr 27 \$70 billion* 6-week bills for auction on Apr 28 \$69 billion* 2-year notes for auction on Apr 27 \$70 billion* 5-year notes for auction on Apr 27 \$44 billion* 7-year notes for auction on Apr 28 \$30 billion* 2-year FRNs for auction on Apr 28 SETTLE: \$166 billion* 13-,26-week bills \$70 billion* 6-week bills																																								
27	28	29	30	1																																							
AUCTION: \$166 billion* 13-,26-week bills \$69 billion* 2-year notes \$70 billion* 5-year notes	AUCTION: \$70 billion* 6-week bills \$44 billion* 7-year notes \$30 billion* 2-year FRNs ANNOUNCE: \$69 billion* 17-week bills for auction on Apr 29 \$80 billion* 4-week bills for auction on Apr 30 \$75 billion* 8-week bills for auction on Apr 30 SETTLE: \$69 billion* 17-week bills \$80 billion* 4-week bills \$75 billion* 8-week bills	AUCTION: \$69 billion* 17-week bills	AUCTION: \$80 billion* 4-week bills \$75 billion* 8-week bills ANNOUNCE: \$166 billion* 13-,26-week bills for auction on May 4 \$70 billion* 6-week bills for auction on May 5 SETTLE: \$166 billion* 13-,26-week bills \$70 billion* 6-week bills \$13 billion* 20-year bonds \$26 billion* 5-year TIPS \$69 billion* 2-year notes \$70 billion* 5-year notes \$44 billion* 7-year notes \$30 billion* 2-year FRNs																																								

*Estimate