JUPITER WEALTH

Notes on

# U.S. Inflation

May

2026

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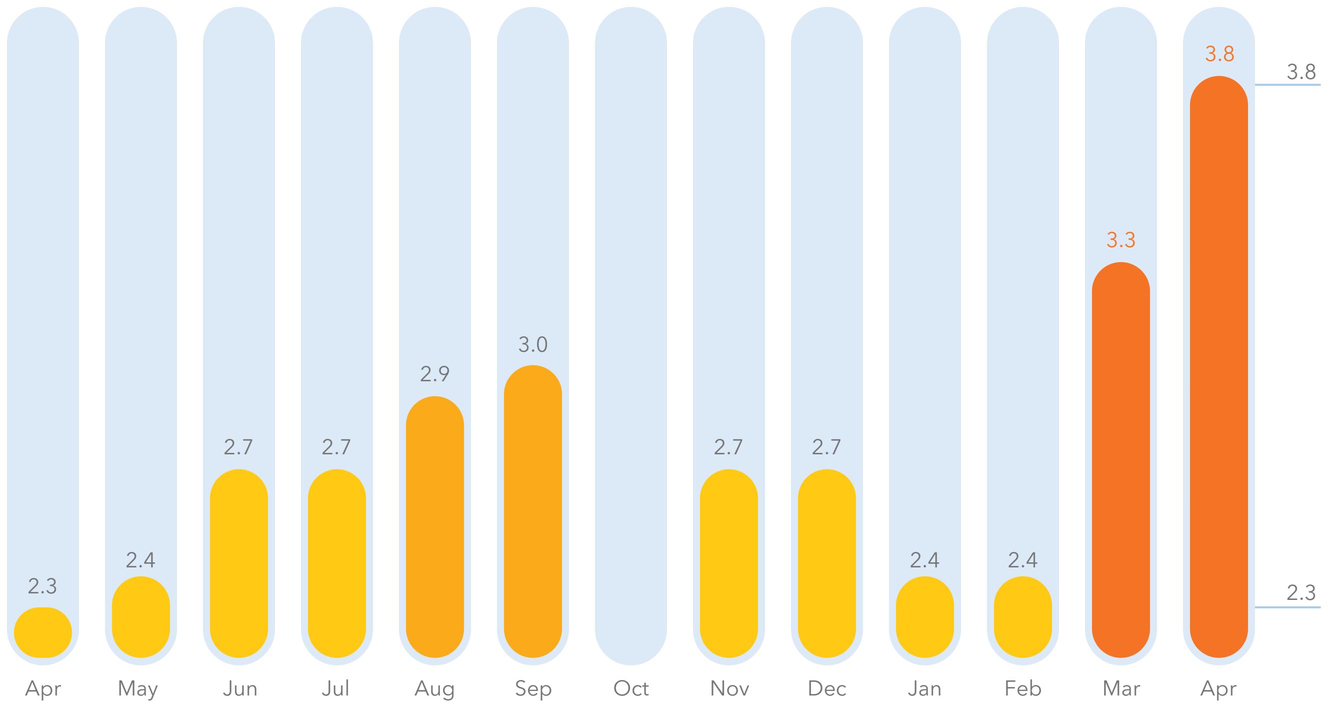
Last week, the U.S. Producer Price Index (PPI Inflation) posted its biggest increase in four years in April 2026, on the back of soaring energy prices. This stronger-than-expected rise in the PPI reported by the U.S. Labor Department on May 13th 2026, has raised fears that producers may pass on these increased costs to consumers. On a monthly basis, the index increased 1.4% which is twice the pace that analysts had expected.

A day before, the U.S. Consumer Price Index (CPI Inflation) reported a rise of 0.6% on a monthly basis, driving the annual rate to 3.8%, the highest since May 2023. Prior to the beginning of the Iran conflict in February 2026, inflation had eased to 2.4% from the post-pandemic highs.

Cont. CPI Inflation chart ↘




## Energy costs jumped 17.9%, the steepest annual increase since September 2022, compared to 12.5% in March

| Reference: April 2026 | Last | Previous |
|---|---|---|
| Core Inflation Rate YoY | 2.80% | 2.60% |
| Energy Inflation | 17.90% | 12.50% |
| Food Inflation | 3.20% | 2.70% |
| Shelter Inflation | 3.30% | 3.00% |
| Services Inflation | 3.40% | 3.10% |

Source: U.S. Bureau of Labor Statistics

# Impact on USD Fixed Income Portfolios

As the markets reacted to the news of this inflation volatility, U.S. treasury yields extended their climb, with the 10-year yield at 4.5%. The 30-year yield crossed 5% last week. Bond markets have turned shaky and the expectations of Federal Reserve rate cuts in early 2027 are weakening. In fact, chances of a rate hike by end of 2026 are gaining momentum.

With Jerome Powell's term as Fed chair drawing to a close, the incoming chair Kevin Warsh, a long-time advocate of a smaller Fed balance sheet and more aggressive quantitative tightening, is likely to keep upward pressure on longer-dated yields, even if he proves more open than Powell to lower short-term rates. That said, with President Trump publicly pressuring the Fed for lower rates, Warsh may lean dovish on the short end while remaining hawkish on the balance sheet.

While many of the analysts think that markets are over-pricing the risk of central bank hikes, that the energy-driven inflation spike will fade, and that investors should lock in attractive yields by extending into longer-duration high-grade bonds, there are others who see structural forces (active quantitative tightening, supply pressure, foreign demand) dominating.

# Some themes to note

**The AI capex cycle:** The capital expenses of large AI & related companies has been the dominant source of GDP growth for three quarters. Combined capex of around $675 billion in 2026 represents a fourfold increase over the last three years.

**Government spending:** The deficit run-rate of ~6% of GDP is the de-facto fiscal stimulus that keeps nominal demand resilient. This is the primary reason the labour market has not cracked. A growing share of outlays is being absorbed by interest expense.

**The wealth effect:** Equity highs and rising property values keep a flow of discretionary spending intact at the top end of the income distribution. Goldman Sachs estimates that the wealthiest 20% of Americans account for 40% of expenditure.

**Goods and rate-sensitive services:** Hiring intentions in these sectors have softened materially. The aggregate is held up by AI and government, but the median worker is not enjoying the same conditions as the overall data suggests.

In summary, the economy looks too hot for cuts in headline terms but too bifurcated to ignore the cyclical drag.

# Safeguarding your portfolio

- While the effects and the longevity of the energy shock is difficult to predict, inflation may remain sticky in the near term. Brent oil prices have rallied ~ 35% to ~$98/barrel. Even if the Strait of Hormuz were to reopen tomorrow, the inventories will keep falling for weeks because tankers would move slowly, and supply and production would restart gradually. Cash holdings could erode value, as the gap between cash yields and inflation is thinner than before.

- In this scenario, it would be prudent to diversify portfolios beyond traditional stocks and bonds with real assets and select hedge fund strategies. Gold continues to be a reliable hedge against inflation, supported by structural factors such as central bank reserves and geo-political risks. Investments in global infrastructure and energy assets continue to provide attractive yields and have relatively low correlation to other asset classes.

- Apart from higher inflation volatility, markets are also grappling with larger deficits on sovereign balance sheets and increased volatility and divergence in exchange rates across different currencies, rather than uniform movements. Diversification in currency exposures would be prudent.

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