



Weekly Commentary

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Redux: Will prices keep rising?

Last week, I asked that question as the Iran war is likely to negatively impact US inflation. A foretaste came with the March Personal Consumption Expenditures Index (PCE) showed inflation increased 3.5% year-over-year (y/y), higher than February's 2.8% rate. It is worth asking it again as two additional inflation reports arrived last week — the Consumer Price Index (CPI) and the Producer Price Index (PPI). They both covered April, meaning an additional month into the Middle East conflict compared to the PCE measure. And they came in hot.

CPI rose 3.8% y/y, a higher rate than March's 3.3%, while PPI increased 6.0%, higher than March's 4.3%. The annualized Core measures, which exclude more volatile factors like gasoline and food costs, followed suit. Core CPI increased 2.8% y/y compared to March's rate of 2.6% and Core PPI grew by 4.4%, higher than March's 3.7% rate. As a measure of wholesale costs, PPI does not filter into the consumer market in a predictable way, as producers and retailers sometimes eat the costs. But a jump in rates of this magnitude is concerning because it suggests the price pressures will be sustained for longer.

We will not know how the Federal Reserve interprets this data until its Federal Open Market Committee meets in June. But it will officially have a new leader. The Senate confirmed Kevin Warsh last week and his term as chair starts this week.

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