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Market Commentary

Does The Fed Face a Reckoning on Inflation?

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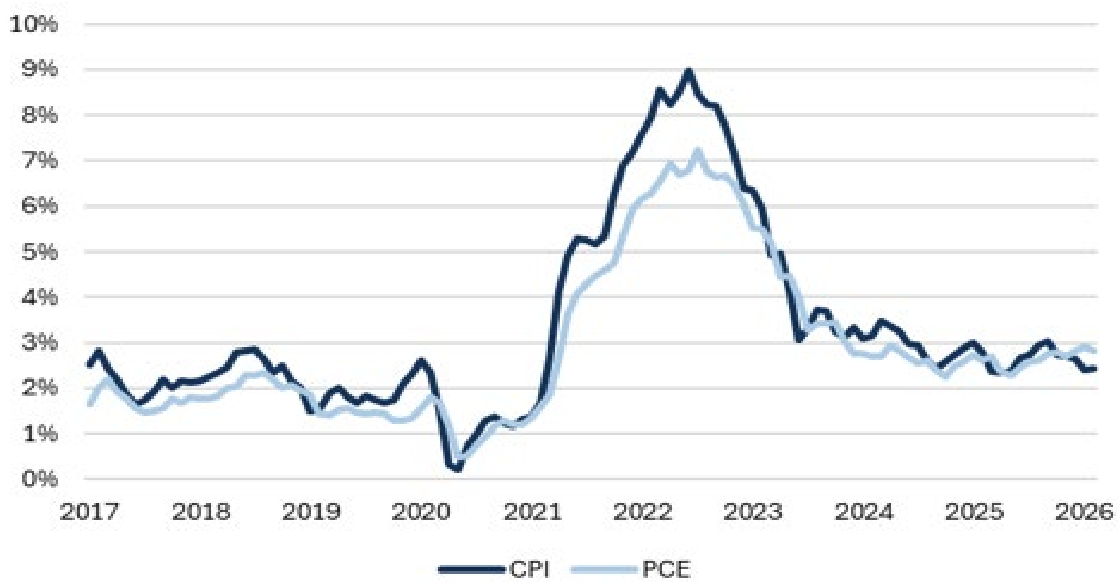
Too-high inflation has been a background risk for the Fed, but Operation Epic Fury has made it a pressing issue that will likely prevent the Fed from making any rate cuts this year.

- Our two main inflation measures for the US, the consumer price index (CPI) and the Personal Consumption Expenditures Price Index (PCE) tell the same story: inflation has been above the Fed's 2% target since 2021 (Fig. 1) and has stabilized around 2.5-3%.
- The Fed has pointed to market-based inflation expectations as a rationale for cutting the Fed Funds rate. Their rationale has been if the market expects inflation to fall to 2%, they can lower rates without fear of stoking inflation.
- Market-based measures of inflation have jumped over the last three weeks. Inflation expectations for the next 5 years are now at their highest level since early 2023 (Fig. 2).

Fig. 1: US inflation never returned to 2%



Source: Bloomberg, Mill Creek. As of 3/19/2026.

Fig 2: Market implied inflation over the next 5 years (Treasury breakeven)

Source: Bloomberg, Mill Creek. As of 03/19/2026.

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