CIO Views – Weekly Bulletin

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How to think about the coming US inflation data

Vis Nayar
Chief Investment Officer
Eastspring Investments

Ray Farris
Chief Economist
Eastspring Investments

Viola Wang
Economist
Eastspring Investments

Will Warsh forecast or react to US inflation?

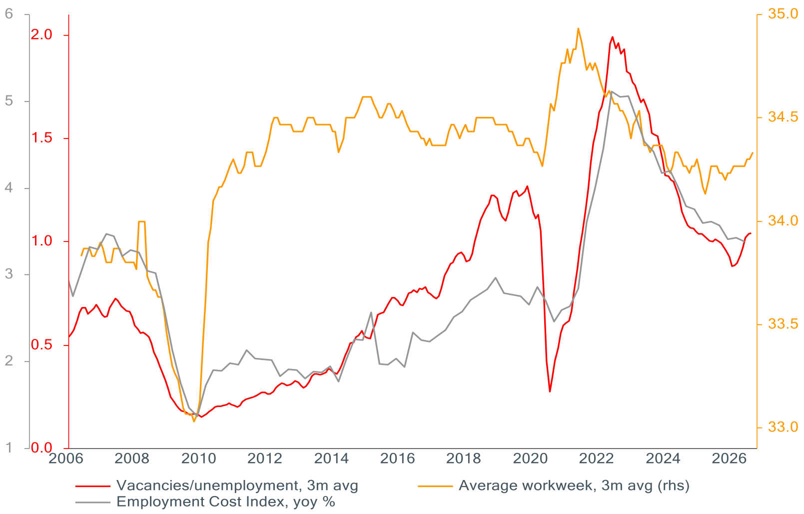
Following better than expected US employment data for August, the key question for US longer term yields and the USD is whether the Fed Chairman is a forecaster or a reactor to inflation data. The US CPI for August is scheduled for release on Friday. The current consensus is for a 0.4% month-on-month rise at the headline level and for the core ex-food and fuel measure to rise 0.2% month-on-month. The Fed is likely to focus on core and, on its own, a 0.2% month-on-month rise in core would probably not justify a policy rate hike at the September 17 FOMC meeting.

The problem we see is that whereas August is history, the labour market data combined with higher fuel prices and signals from the ISM purchasing manager surveys increase the risk of higher US inflation in the coming months.

Starting with Friday's labour market data, the August payrolls gain of 162k with 55k of upward revisions to the prior two months is impressive for this stage of the economic cycle, but the real reason for Fed concern lies with the rise in the work week and average hourly earnings.

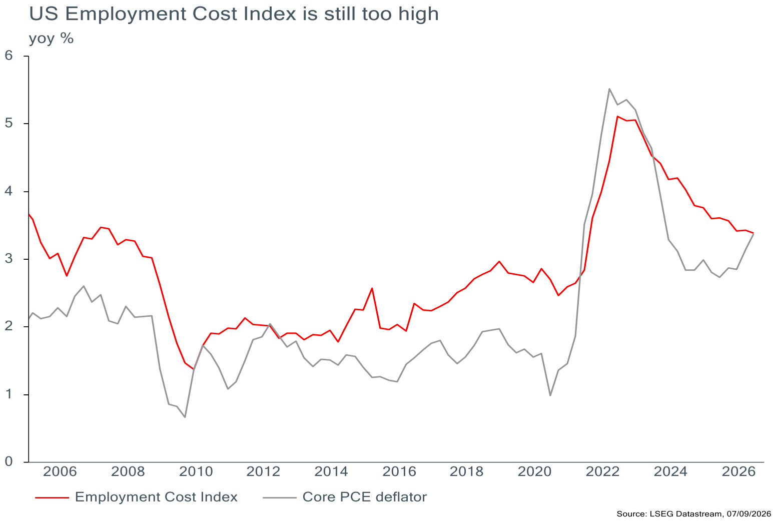
The chart below shows that the average number of hours worked per week and the vacancy/unemployment ratio is rising. Historically these have led increases in Employment Cost Index growth (ECI, which cumulates wages and benefits). The three-month rate of change in average hourly earnings in the payrolls report rose to 2.8% annualised in August from a local bottom of 2.4% in May. As we argued last week, we expect further gradual tightening in the US labour market that at least stabilises wage growth at recently higher levels and more likely increases wage growth somewhat.

US labor market tightening threatens faster ECI inflation

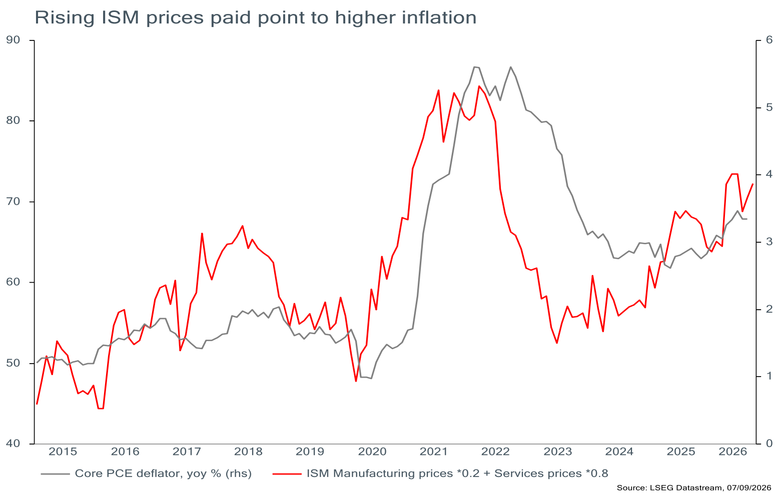


Source: LSEG Datastream, 07/09/2026

If correct, this will matter for the Warsh Fed because the chart below shows that ECI growth appears to be still too high to be consistent with the Fed's inflation target. Yet, if wage growth begins creeping higher it would likely prevent ECI inflation from falling further and might push it higher. To be clear, our concern is less that labour market conditions are so tight that they are going to push up inflation rapidly and more that they are too tight to allow inflation to fall sustainably to the 2% target Chairman Warsh has promised to deliver.



Importantly, these emerging labour market risks to inflation are coming simultaneously with rising supply chain pressure on goods prices. The chart below shows that the ISM purchasing managers Prices Paid indexes have risen sharply. This has historically led to higher inflation. The clear message is that the rise in the Brent crude price back to $97.16bbl that has resulted from the resumption of hostilities in the Persian Gulf is working its way into production costs. Higher oil prices have pushed the price of diesel, the key input into commercial transportation costs, back to the highest levels since the start of the war and close to the 2022 highs. Prices for other key manufacturing and transportation petrochemicals rose significantly.

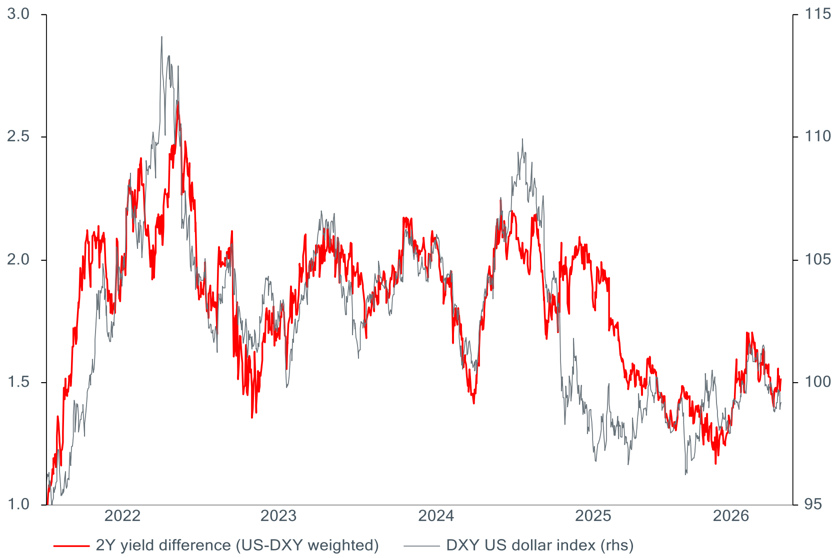


Returning to this week's US inflation data, we can imagine that if core CPI comes in at 0.2% month-on-month, fixed income might rally slightly in relief. However, our analysis above leads us to expect any rally to be small and short-lived.

As such we think that if the Fed uses a 0.2% month-on-month rise in core inflation as justification to postpone hikes, it will sustain the market's bias for higher longer-term bond yields. We remain cautious on duration and prefer to focus fixed income investments on short-term credits with strong cash flows.

A failure to hike would also probably keep the USD under pressure to fall. The chart below shows the USD is trading poorly, failing to follow the recent rise in interest rate differentials in its favour. Some of this reflects market uncertainty about US commitment to inflation and debt stability. However, it also reflects the fact that both G10 and emerging market central banks are raising their own policy rates. We expect the ECB to raise its rate 25bps this Wednesday followed by a further 25bps in December while we expect the Bank of Japan to hike 25bps at its September 18 policy meeting.

The USD is losing yield spread support again



Source: LSEG Datastream, 07/09/2026

In contrast, if the Fed chooses to hike 25bps at its September meeting even if core CPI inflation is only 0.2% month-on-month in September it would work to stabilise longer-term bond yields and give the USD temporary support. We believe this reduction in market uncertainty about the Fed's commitment to its 2% inflation target would also benefit equities. Modest pre-emptive rate hikes that temper inflation early offer the potential to sustain economic growth by forestalling the need for the more aggressive hikes that would be necessary if inflation rises more significantly.

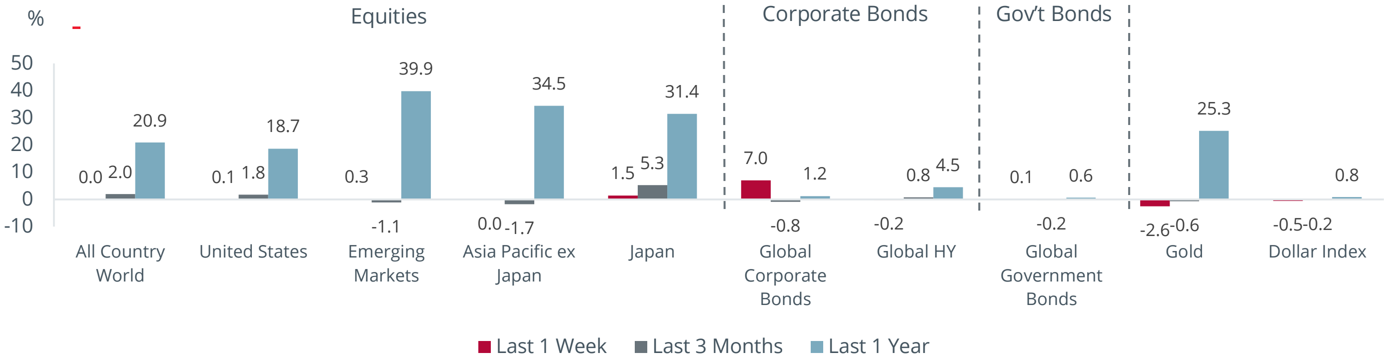
A final scenario is the less likely chance that core CPI comes in at 0.1% month-on-month or below. This would justify a more significant fall in longer-term yields and require us to reconsider our model of costs and inflation in the US.

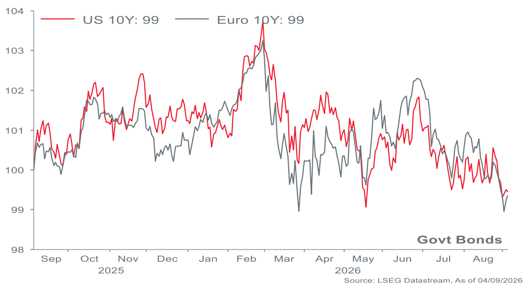
Market Review

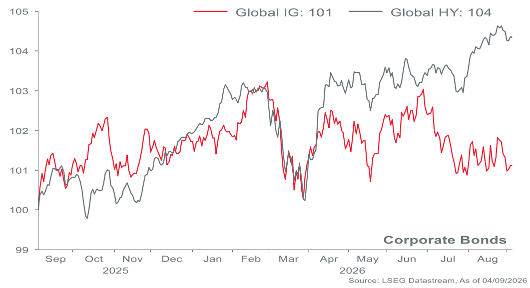
Global equity markets were largely flat to mixed over the week, with the MSCI AC World Index remaining unchanged at 0.0%. US equities saw modest gains, with the S&P 500 and Nasdaq rising 0.1% and 0.4% respectively. Emerging markets increased 0.3% followed by Japan which gained 1.5%. Asia Pacific ex Japan remained unchanged over the week.

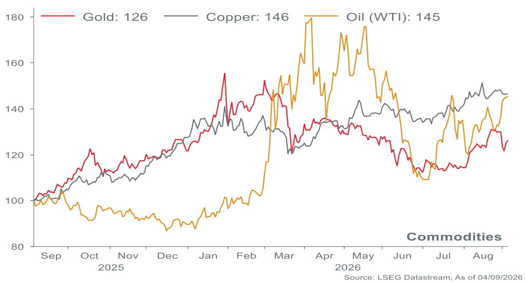
Gold fell 2.6% over the week, and the US dollar index weakened by 0.5%. Bond markets were mixed with Global Corporate Bonds increasing significantly by 7.0% and Global Government bonds rising 0.1%. Global High Yield bonds declined by 0.2%.

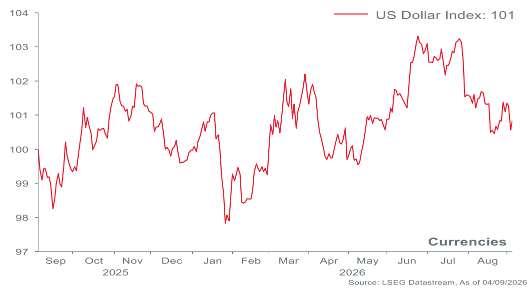
Asset Performance

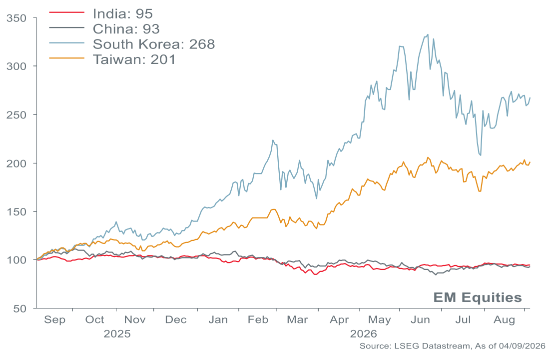


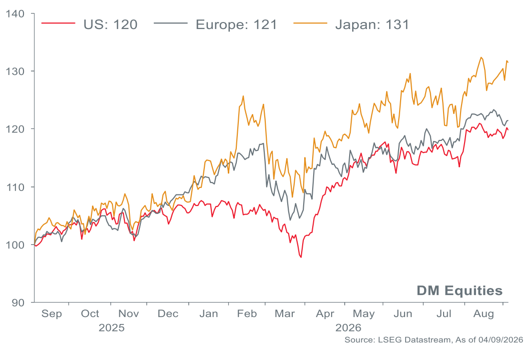












Market Data

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	4.78	1.31	3.39	6.86	14.56	15.19	4.80	3.95
10 Year Bond Yield (%)								
Japan	2.91	-0.78	2.11	8.75	81.07	40.48	3.02	1.56
China	1.68	-1.06	-1.23	-2.04	-4.92	-9.67	1.93	1.68
Australia	5.15	1.26	3.68	4.72	18.00	8.24	5.20	4.10
Singapore	2.38	1.76	1.12	13.57	27.63	7.19	2.47	1.75
Malaysia	3.98	2.49	6.43	11.55	16.55	13.88	3.98	3.40
Indonesia	7.10	2.04	-3.51	4.09	10.93	16.06	7.48	5.92

	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	92.34	-0.28	-0.73	-1.35	-2.35	-2.44	95.69	92.14
Bloomberg U.S. Aggregate USD	91.46	-0.33	-0.63	-1.54	-2.08	-2.77	95.21	91.31

Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	1,153.65	0.04	0.70	1.96	20.91	13.70	1,160.81	954.14
North America								
US S&P 500 Index	7,718.60	0.09	-0.23	1.77	18.71	12.75	7,816.70	6,316.91
US Nasdaq Composite Index	26,506.99	0.40	-0.29	-1.21	22.11	14.05	27,190.21	20,690.25
Europe								
MSCI Europe	2,873.19	-0.85	-0.25	4.00	17.91	8.72	2,917.43	2,436.74
Asia Pacific								
MSCI Asia Pacific ex Japan	890.86	-0.02	4.06	-1.75	34.47	23.36	925.80	662.48
Japan Nikkei 225	65,020.94	-2.09	1.66	-3.63	52.70	29.16	72,831.75	42,066.59
Shanghai Stock Exchange Composite	3,930.12	-0.56	2.82	-3.15	4.36	-0.98	4,258.86	3,732.84
Hong Kong Hang Seng	25,650.87	0.26	-0.78	1.57	2.36	0.08	28,056.10	22,518.00
Taiwan TAIEX	46,551.13	0.47	7.36	1.91	92.52	60.72	48,218.87	24,168.16
Korea KOSPI	6,687.21	-1.50	5.16	-22.60	108.92	58.68	9,385.59	3,185.49
India NIFTY 50	23,897.70	-1.15	-2.91	2.05	-3.38	-8.54	26,373.20	22,182.55
Australia Stock Exchange 200	9,005.90	-0.95	-1.53	3.68	2.03	3.35	9,296.70	8,262.40
Indonesia Jakarta Composite	6,636.48	1.82	5.01	13.64	-15.65	-23.25	9,174.47	5,317.91
Thailand SET	1,595.58	0.46	-1.33	0.05	27.39	26.67	1,657.55	1,232.40
Malaysia FTSE Bursa KLSE	1,708.10	-1.03	-1.42	1.48	8.23	1.67	1,771.25	1,575.99
Philippines Stock Exchange PSE	6,090.60	2.25	-3.27	3.02	-0.27	0.62	6,673.61	5,584.35
Singapore FTSE Straits Times Index	5,801.96	1.79	3.38	14.49	35.03	24.88	5,828.50	4,264.99

Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	-0.09	0.25	0.73	0.03	-0.31	-1.12	1.20	1.14
GBP	-	-0.10	0.54	0.75	0.66	0.36	1.38	1.30
CHF	0.25	0.04	0.07	2.55	0.52	2.17	0.82	0.76
JPY	0.29	-2.37	-0.94	-2.36	5.23	-0.26	163.85	146.48
Asia								
CNY	-0.11	-0.23	-0.63	-0.93	-6.03	-4.04	7.14	6.71
HKD	0.02	0.02	-0.02	0.08	0.51	0.75	7.85	7.77
INR	-0.01	-0.93	-0.94	-1.36	7.15	5.15	96.82	87.72
MYR	0.06	0.47	-1.08	0.77	-4.24	-0.37	4.23	3.88
KRW	-0.89	-2.35	-5.92	-12.25	-3.53	-6.69	1,559.08	1,344.20
SGD	-	-0.62	-1.19	-1.36	-1.78	-1.47	1.31	1.26
TWD	-0.30	-0.03	-2.40	0.52	3.01	0.92	32.40	30.05
IDR	-0.11	-0.31	-2.14	-2.16	7.40	5.76	18,170.00	16,300.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 4 September 2026. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. **(line charts**) Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

Market data: Eastspring Investments, Refinitiv, as of 4 September 2026. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.