

Weekly Market Flash

The Least Useful CPI Report Ever

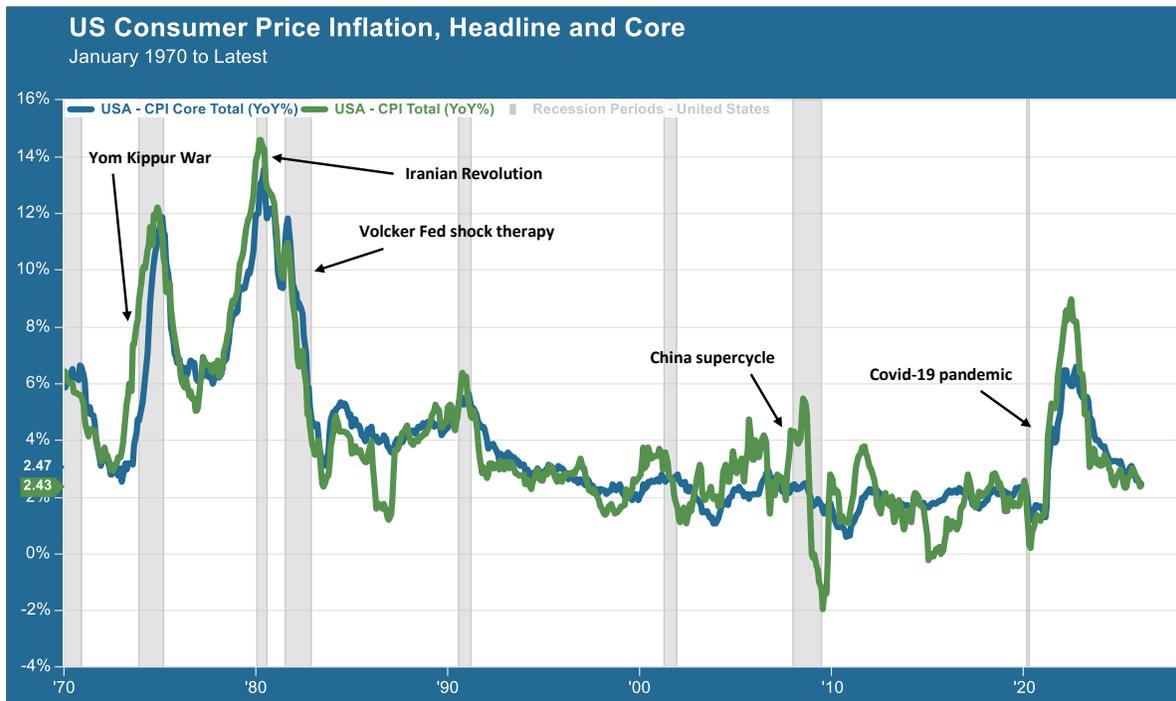
March 13, 2026

On Wednesday this week the Bureau of Labor Statistics released the Consumer Price Index report for February. Economists had been expecting to see a year-on-year increase of around 2.4 percent in the headline inflation number, with an attendant gain of 2.5 percent in core CPI, excluding the volatile categories of energy and food. That is more or less what happened. But it happened last month; in other words, before a series of air strikes by the US and Israel had the effect of shutting down the passage of shipping traffic through the Strait of Hormuz.

As a refresher from last week’s commentary: approximately 20 percent of the world’s oil exports pass through the Strait of Hormuz, a sea lane with a span of roughly 35 miles bounded on three sides by Iran and one side by Oman. How much longer will this critical bottleneck remain shut? Given the volatile state of play in this unfolding crisis, who knows? Maybe tensions will be resolved by the time you are reading this piece on Friday afternoon. Maybe it will be out of service for weeks or even months to come. In a column this week on Substack the economist Paul Krugman noted that the “hit to oil prices will if anything be bigger than earlier crises” (Krugman’s own words) if the Strait were to remain closed on an ongoing basis. With that in mind, it is worth spending some time looking at what those previous crises meant in terms of inflation – both the core number which is the main object of focus for the Fed, and the headline number which actually takes into account the money you and I spend every week on groceries and gas. Forget that February CPI report, and prepare for something different in March and April.

Not Just a Headline Story

In the chart below, we show the trend for both headline and core CPI since January 1970.



Source: Bureau of Labor Statistics, MVF Research, FactSet

We focus on four key events over this span of 56 years: the Yom Kippur War of 1973 that led to the first round of OPEC oil price shocks, then the Iranian Revolution at the end of the 1970s that sent prices soaring again, then the Chinese supercycle of explosive growth in the first decade of the twenty-first century, and finally the inflationary spike that came on the heels of the Covid pandemic.

In the two oil shock-related events of the 1970s we see an instructive message about the relationship between headline and core inflation. Again – this distinction is important because the Fed focuses most closely on core inflation for its monetary policy deliberations, due to its purportedly lower volatility. Most of the time that is a valid assumption. But consider the trend during those two bursts of inflation in 1973 and 1979. Headline inflation (the green line) started surging first, but core inflation (blue line) was fast on its heels. If an oil price spike is short-term in nature, then its knock-on effect into other goods and services will be relatively mild. But if it is structural – and the OPEC and Iranian events were both structural – then the inflationary effects will be far more pronounced across far more economic sectors.

We can contrast what happened in the 1970s with the China supercycle of the 2000s. You can see here that headline inflation went up by a lot while core inflation was actually pretty stable. Remember \$5 dollar gas in 2005? That was the supercycle. In fact, the inflation-adjusted price of a barrel of crude oil in this period was higher than it was in either of those 1970s-era crises. But the main cause of high oil prices in the 2000s was China’s voracious demand for any and all forms of energy inputs. Those inputs powered the manufacturing plants churning out loads of goods that made their way back to the US and other developed economies as consumer products sold at low, low costs. So higher energy prices didn’t bleed into the rest of the economy in the same way.

The inflation resulting from the Covid pandemic was a more complex mix of factors. The massive amount of fiscal and monetary stimulus enacted by the US government and the Fed, respectively, created an environment of high consumer demand. Meanwhile, the breakdown of global supply chains resulted in a supply crunch. This combination had an effect on just about everything. And right in the middle of all this, in 2022, Russia’s invasion of Ukraine sent energy prices skyrocketing, though those came down fairly quickly from their highs as it became evident that sanctions on Russian oil were not having much of a restrictive effect on total global exports.

Dire Straits

And that brings us to the present. Unfortunately, the inflation that threatens to make itself known in the next few CPI reports has the potential to look more like the oil-related crises of the 1970s, and less like either the China supercycle or the Covid pandemic. There is still time for the worst-case scenario not to play out, and the most effective way for that to happen would be enough of a cessation of hostilities, or a ceasefire or whatever else you want to call it, to allow the Strait of Hormuz to reopen safely for shipping traffic. Even if that were to happen this week – even if the Strait is already open by the time you are reading this – at least some of the inflationary cat will already be out of the bag. The longer the present state of play continues, though, the harder it will be to manage the spillover effects into the larger consumer economy.

Masood Vojdani
President & CEO

Arian Vojdani
Principal & Investment Adviser

Katrina Lamb, CFA
Head of Investment Strategy & Research

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