

Dutta's Monetary Thoughts

Taking on the influential inflationists

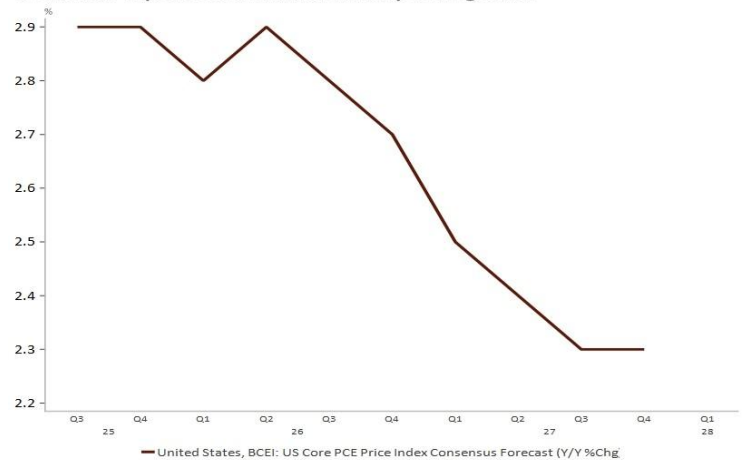
Neil Dutta

The Inflation debate: Why the Hawks are likely wrong

Some influential economists see upside risks to inflation this year. Former OMB Director Peter Orszag and Adam Posen, formerly of the Bank of England and currently President of the Peterson Institute, argue that inflation will surprise to the upside, potentially exceeding 4 percent by the end of 2026, driven by tight labor markets, loose monetary policy, and drifting inflation expectations. Ethan Harris, my former boss and former Head of Global Economics at Bank of America, has made similar arguments. So has Gita Gopinath, formerly of the IMF, who warns of an inflation snapback due to fiscal stimulus and dollar weakness

Two things stand out. First, this upside view runs counter to consensus. The BlueChip consensus sees core inflation sliding to 2.7 percent by the end of 2026 from roughly 3.0 percent now. Second, these economists are all credentialed. Even out of consensus, their views carry weight among policymakers. Being credentialed and having served in positions of repute gives them influence. Unfortunately, listening to them carries substantial risks. If the Fed holds off on easing in case they might be right, the cost will fall squarely on those of us who are not credentialed: higher unemployment

Consensus expects core inflation to keep sliding lower



Source: Renaissance Macro Research, Macrobond

Three musketeers: Labor, Housing, and Energy

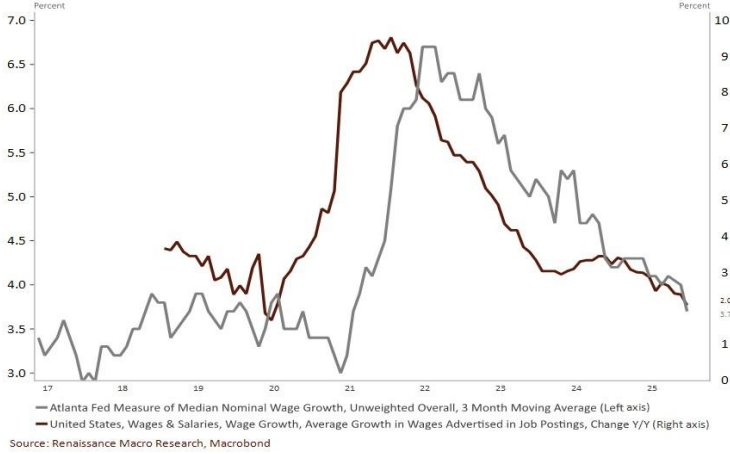
There are three primary conduits for upside inflation risks: labor, housing, and energy. Later, I'll address whether policy is loose and whether inflation expectations are becoming unglued.

Labor's pricing power is declining

On the surface, the labor market looks okay. The unemployment rate, at 4.4 percent, sits close to estimates of its long-run equilibrium. While payroll growth is sluggish, this is what we should expect if labor supply is also receding. The breakeven rate to keep unemployment flat has declined over the past year. Through this lens, the labor market slowdown looks benign.

I think this framing misses the point: labor is losing pricing power. If immigration enforcement were tightening the job market, wage growth would accelerate. Instead, it's cooling. According to Indeed, posted wage growth slowed to 2.08 percent in December, a fresh low.

Wage growth shows continued deceleration



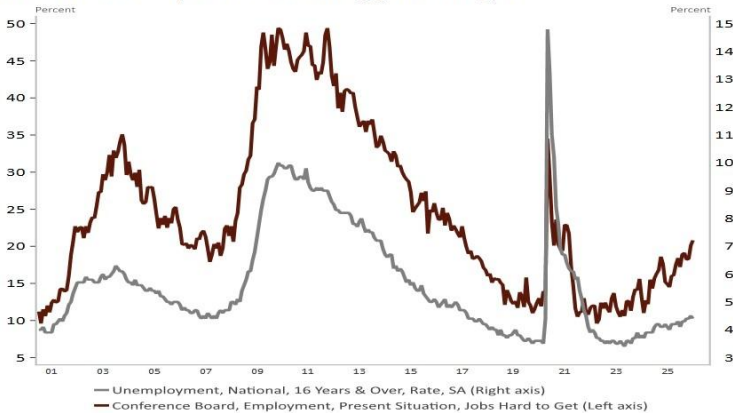
Cooling wage growth should ease non-housing services inflation



If advertised pay in job postings is slowing, actual wage growth will likely moderate as well. This slowdown should take pressure off non-housing services inflation.

Moreover, while the breakeven rate has likely declined, the widespread distribution of slowing job growth undercuts the notion that this is entirely about immigration. The big story over the past year is cooling in cyclical areas: logging, manufacturing, construction, transportation, and warehousing.

Consumers see jobs as increasingly hard to get



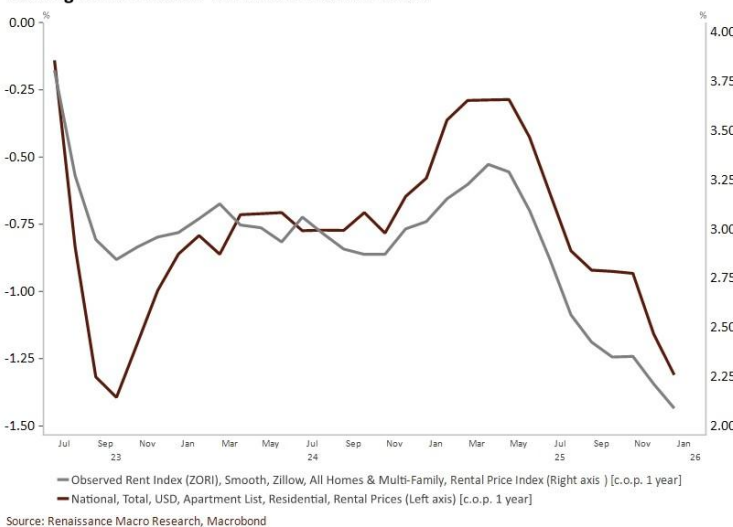
Finally, consumers aren't telling a tale of a booming jobs market. At the end of last year, Conference Board data shows that 20.8 percent of respondents in the Consumer Confidence Survey saw jobs as hard to get—the highest percentage since 2021. The lack of hiring, not an increase in firing, is the main reason why the unemployment rate has climbed in the first place

Private sector wage growth normalizing in current rate environment



Stepping back, aggregate wages and salaries have been cooling alongside the slowing jobs market. Despite strong GDP growth, over the last two quarters, nominal wages and salaries have expanded by just 2.9 percent at an annual rate. This is lower than the level of the overnight federal funds rate—historically not a great place to be and a sign monetary policy is tight

Housing rental inflation will slow in months ahead

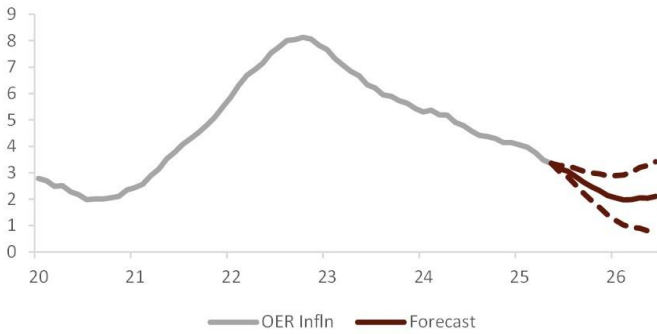


Housing is helping

Housing rental inflation is unambiguously disinflating, which makes the upside surprise scenario on inflation challenging. Market-based measures of home rents are cooling across a host of sources: CoreLogic, Zillow, ApartmentList, and others. There's a lag between marketbased rents and official measures because market indices capture rents of units currently on the market, not rents for units occupied by continuing renters, as the CPI does.

Housing rent inflation projected to slow through 2026

(VAR model fitted from Jan-01 to Nov-25, Forecast till Dec-26)



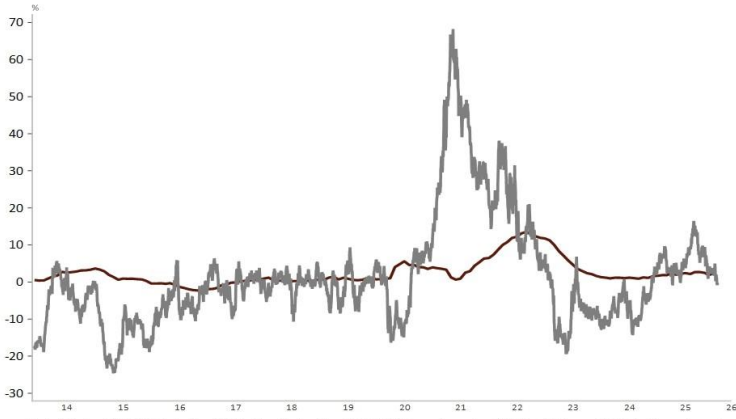
Source: Haver Analytics, Renaissance Macro Research

The critical point: it's hard to see an upside surprise to inflation with housing rents falling. Housing rents represent a relatively large share of consumer prices—about 40 percent of core CPI and roughly one-fifth of core PCE. Where could housing rental inflation go this year? Updating an analysis from the Federal Reserve Bank of Dallas, we estimate that primary and OER rents will slow to roughly 2.1 percent each by December 2026. By itself, this knocks 0.21 percentage points off core PCE inflation.

Energy remains restrained

Energy prices seem restrained in the aggregate, rising about 2 percent over the past year. Energy commodities have eased as OPEC+ has increased production, while energy services costs have increased amid rising natural gas prices and electricity demand from AI data centers. Looking ahead, I expect more of the same. The upshot: household inflation expectations are likely to be more informed by gas prices than utility bills, since going to the pump is something consumers do more frequently.

Falling commodity prices point to easing grocery inflation

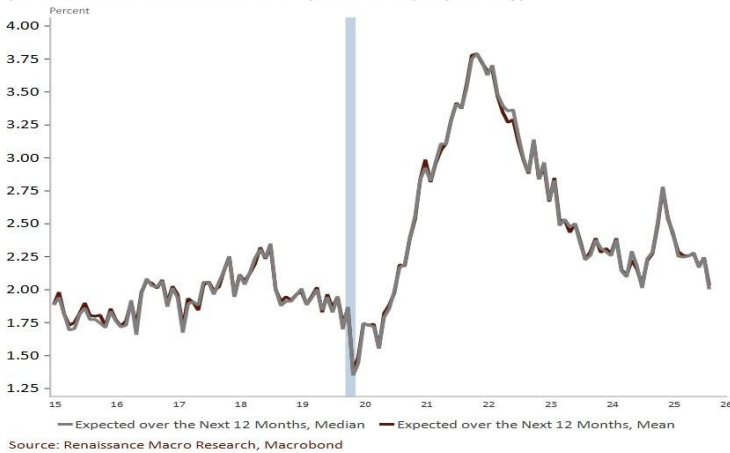


— United States, S&P GSCI Agricultural & LiveStock Index (Jan -2-70=100) [c.o.p. 1 year] — CPI, Food at Home, SA, Index [c.o.p. 1 year]
Source: Renaissance Macro Research, Haver Analytics

Cheap(er) Eats

An important corollary is food prices. Despite much talk of rising commodity prices, agricultural prices have declined against last year. The S&P GSCI Agricultural & Livestock Index has declined 0.3% against year-ago levels. Grocery store inflation will likely ease a bit this year. The decline in diesel prices will certainly help—the trucks that bring food to grocers generally run on diesel.

Firm unit cost expectations at lowest since Dec-2024
(Atlanta Fed Business Inflation Expectations (BIE) Survey)



Inflation expectations: A non-issue

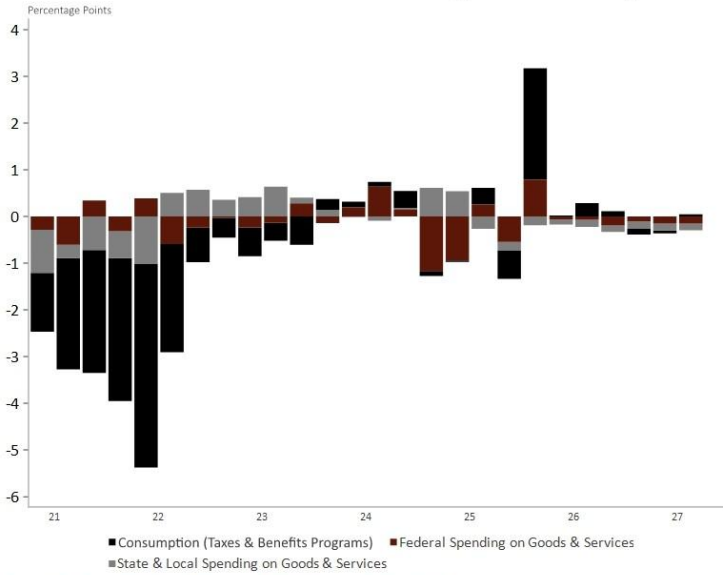
What about inflation expectations? It's important to look at businesses relative to households. After all, firms have a much stronger incentive to get the inflation call right, and their expectations are formed by views beyond just food and energy costs. The latest data from the Atlanta Fed show a benign backdrop. The Atlanta Fed's Business Inflation Expectations Survey shows that expected change to unit costs over the next 12 months slid to 2.0 in January, the lowest since December 2024. If firms were planning to pass on higher prices from tariffs, one would expect their assessment of inflation to be higher. Instead, expectations are exactly where they were just over a year ago.

Context is important. Inflation expectations don't magically translate into higher inflation. We follow expectations because there might be a link to wage negotiations—if people see higher prices, they'll demand higher wages, setting off a feedback loop. In today's cooling jobs market, however, the connection between household inflation expectations and wage pressure looks weak.

The Fiscal Fade

There's considerable enthusiasm about fiscal policy and the inflation risk it poses, but a few things are worth keeping in mind. First, the signature One Big Beautiful Bill was mostly about locking in existing policy, not introducing additional stimulus—removing a headwind rather than adding a tailwind. Looking at the entire year, the IMF shows that the cyclically adjusted deficit is falling in the US, not rising.

Fiscal stimulus is front-loaded and fades to drag over the rest of year



Source: Brookings Institution, Renaissance Macro Research, Macrobond

Second, formal analysis—like the Fiscal Impact Measure from the Brookings Institution—shows an interesting pattern. The stimulus is front-loaded and shifts to a drag over the rest of the year. State and local governments are expected to cut GDP growth through 2026. Indeed, state and local government construction spending and employment growth have already been easing.

Third, the impulse comes mainly from taxes and benefits. It's an open question whether the money gets spent. [As we've shown in the past](#), how people feel about their labor market prospects is an important factor in whether they spend refunds.

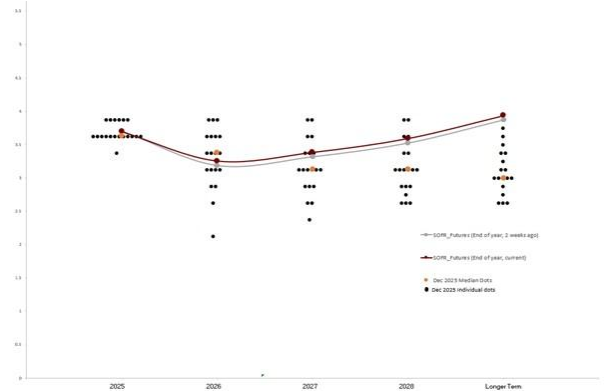
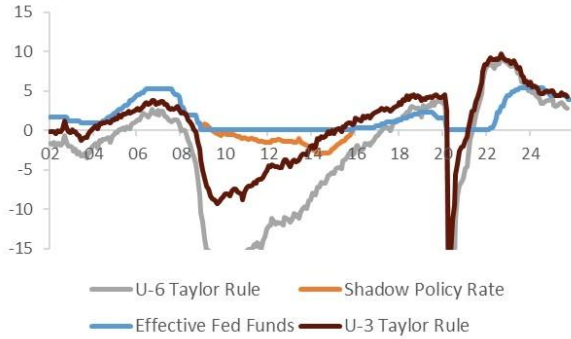
Academic Establishment vs. Wall Street Bets

The inflation debate is interesting across multiple dimensions. First, this feels like an economics version of “academic establishment vs. Wall Street Bets.” They have their fancy models around inflation expectations, and I'm looking at market-based breakevens and a handful of useful macro indicators.

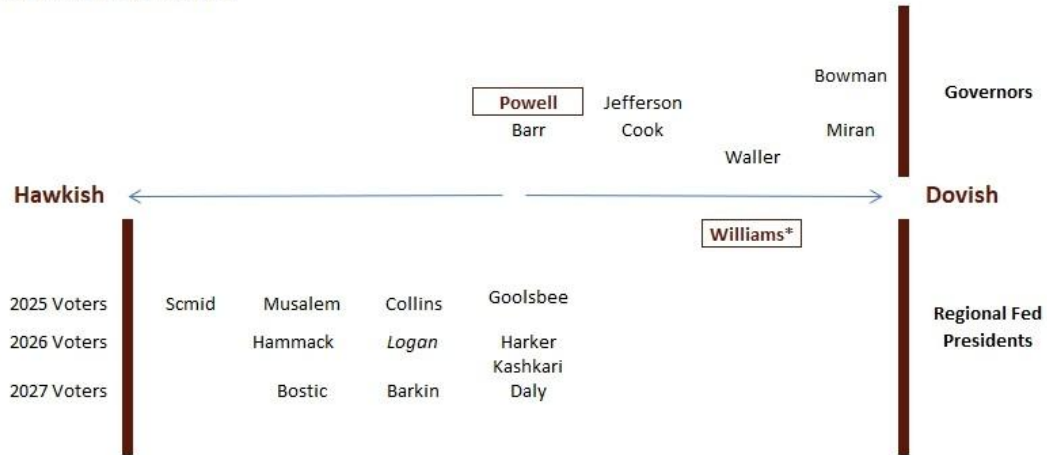
Second, they have much more influence than I do. True, the consensus sees inflation slowing. I think there's downside risk, but that's beside the point. People in positions of authority are much more likely to listen to the upside risk scenario based on who's making the argument rather than the merits of the downside case.

For market participants, two things are worth considering. First, will policy passively tighten as the Fed waits to see how conditions unfold, on the chance the inflation hawks might be right? This creates downside risks to the economic outlook. Second, if inflation continues to slide, bonds become an attractive investment. The Fed is likely easing this year, and taking long positions in the front end of the yield curve seems sensible.

Monetary metrics



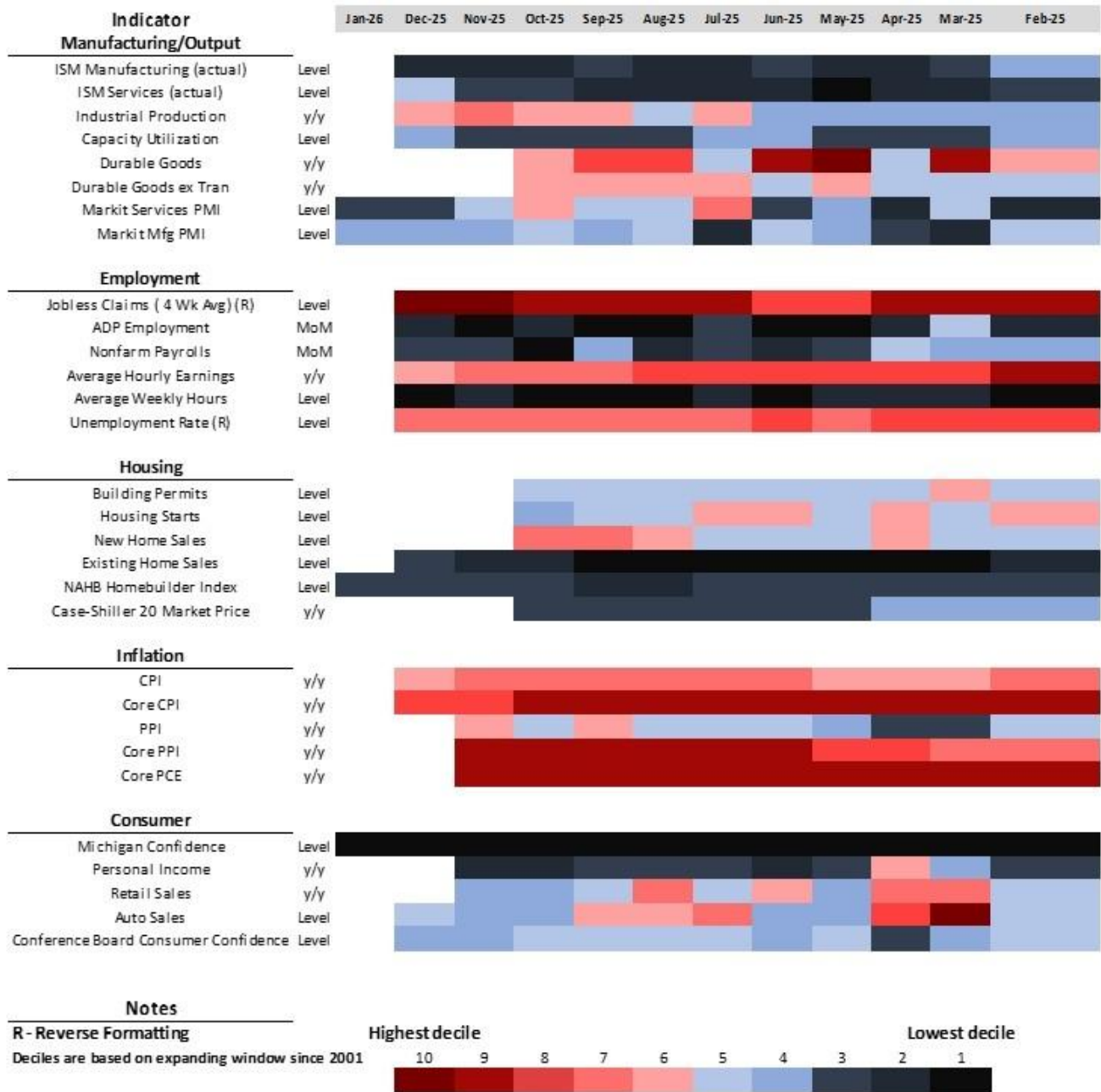
Hawks and Doves



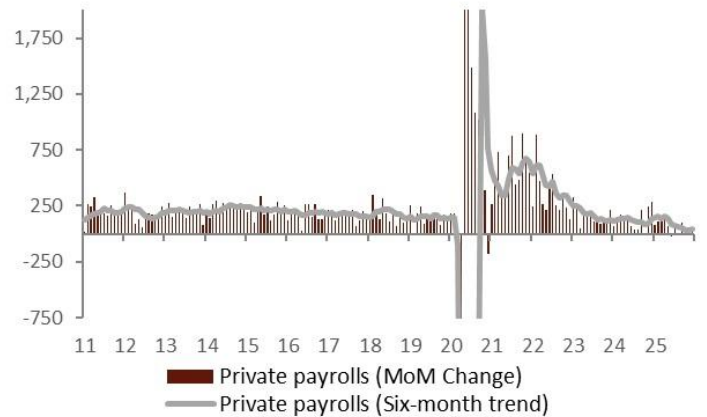
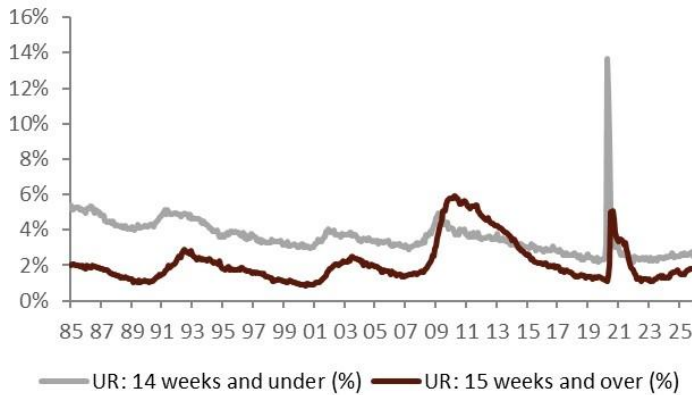
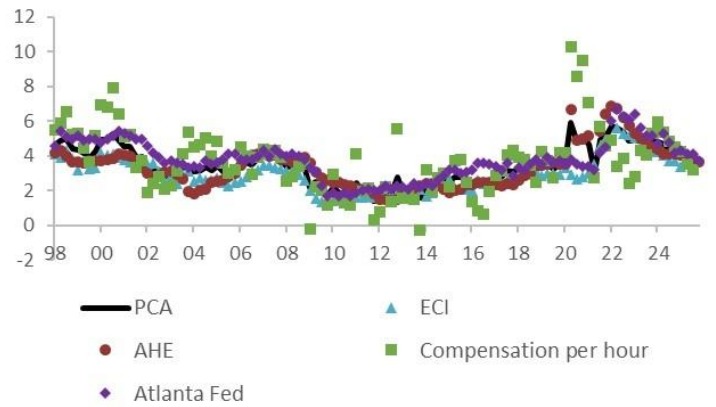
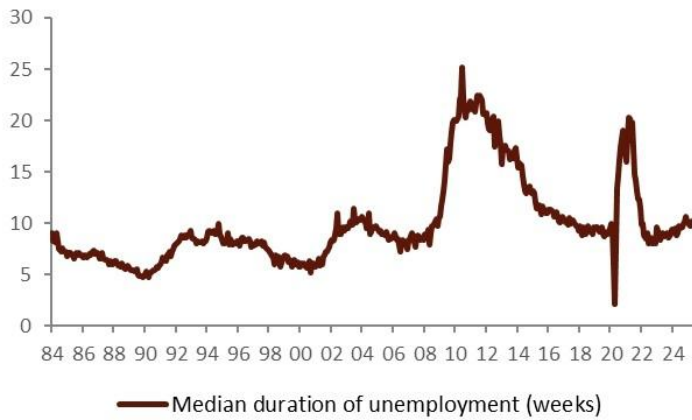
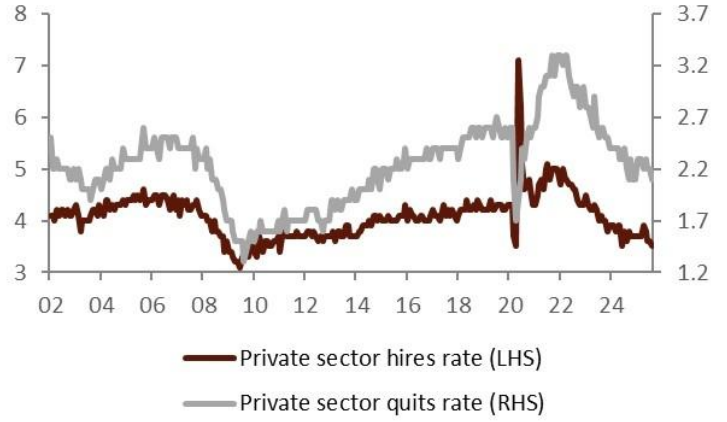
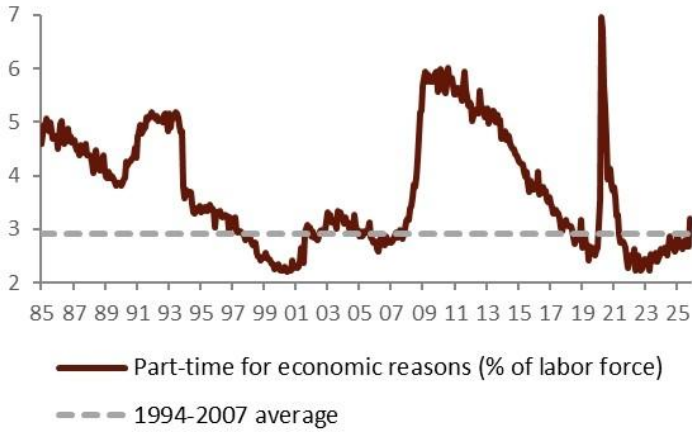
*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6-1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0
September projection	1.6	1.8	1.9	1.8	1.8	1.4-1.7	1.7-2.1	1.8-2.0	1.7-2.0	1.7-2.0
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5-4.6	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3
September projection	4.5	4.4	4.3	4.2	4.2	4.4-4.5	4.4-4.5	4.2-4.4	4.0-4.3	4.0-4.3
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8-2.9	2.3-2.5	2.0-2.2	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9-3.0	2.4-2.7	2.0-2.2	2.0	2.0
Core PCE inflation	3.0	2.5	2.1	2.0		2.9-3.0	2.4-2.6	2.0-2.2	2.0	
September projection	3.1	2.6	2.1	2.0		3.0-3.2	2.5-2.7	2.0-2.2	2.0	
Projected policy path										
Fed funds rate										
September projection	3.6	3.4	3.1	3.1	3.0	3.6-3.9	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5
	3.6	3.4	3.1	3.1	3.0	3.6-4.1	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5

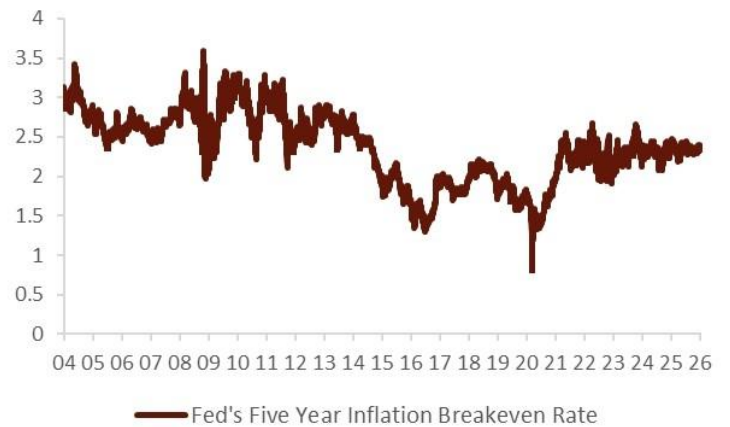
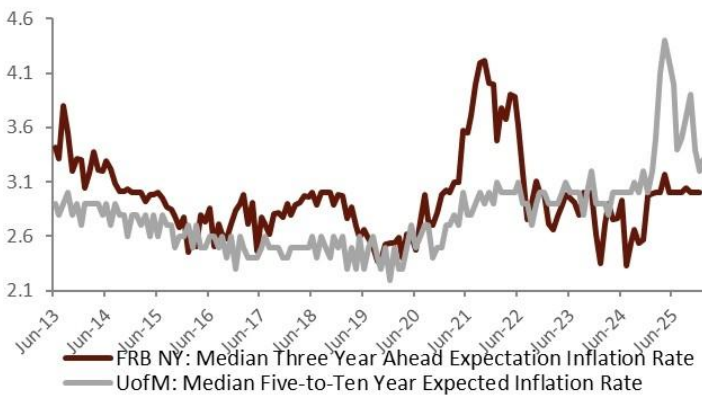
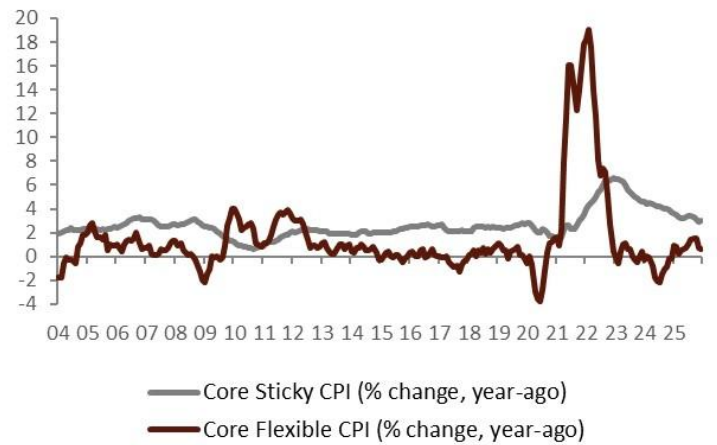
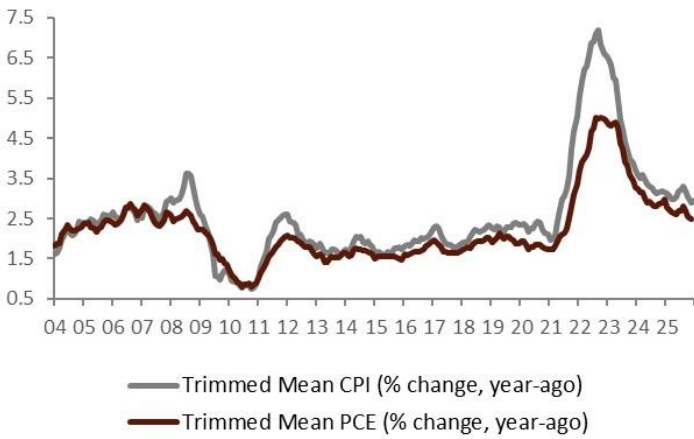
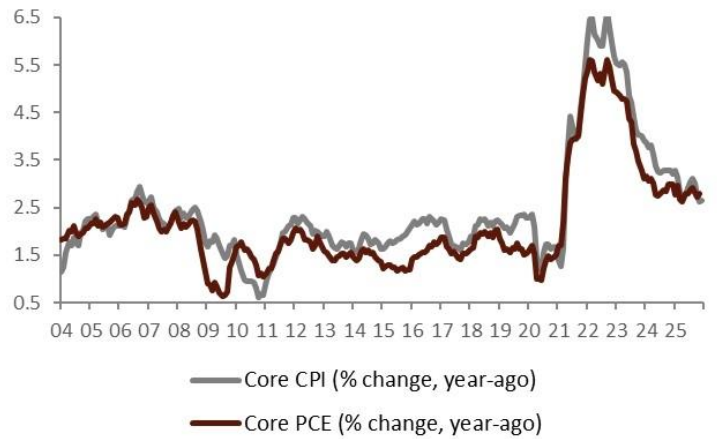
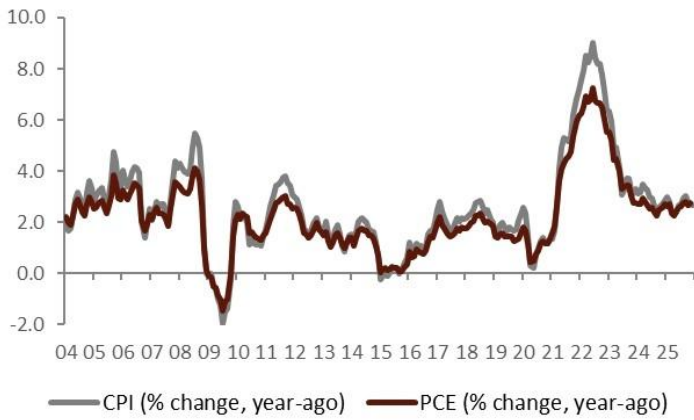
High frequency data heat-map



Labor market indicators

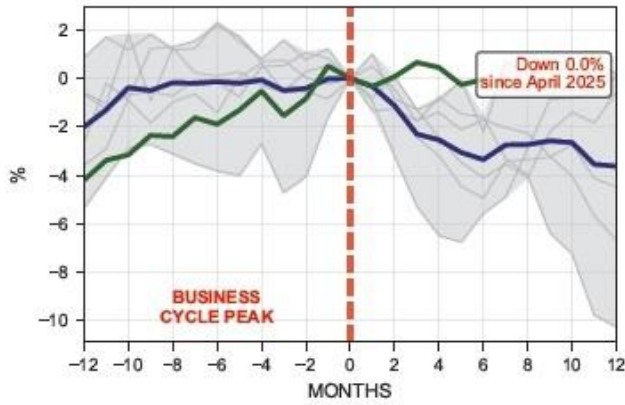


Inflation indicators

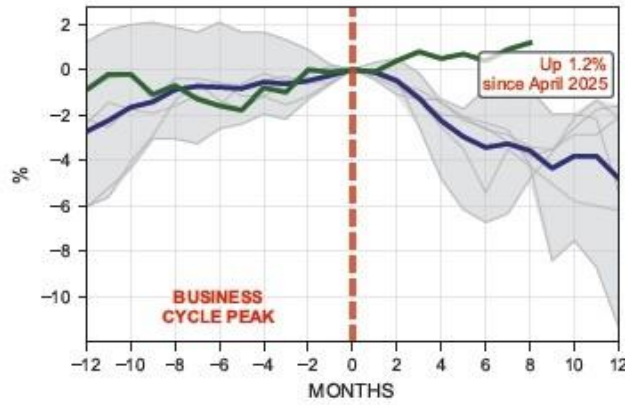


NBER RECESSION INDICATORS DASHBOARD

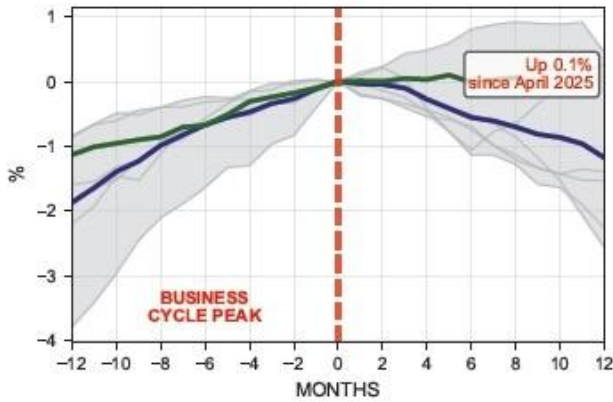
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



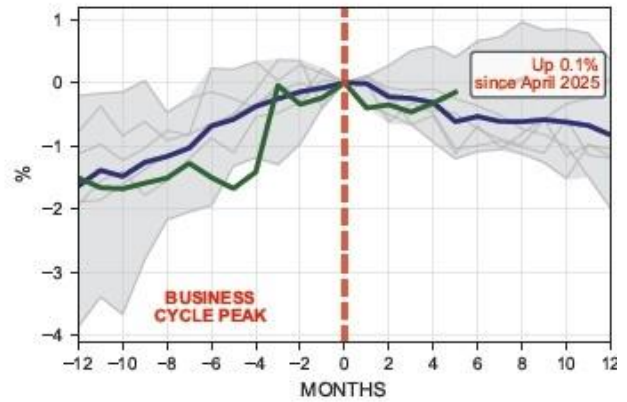
INDUSTRIAL PRODUCTION



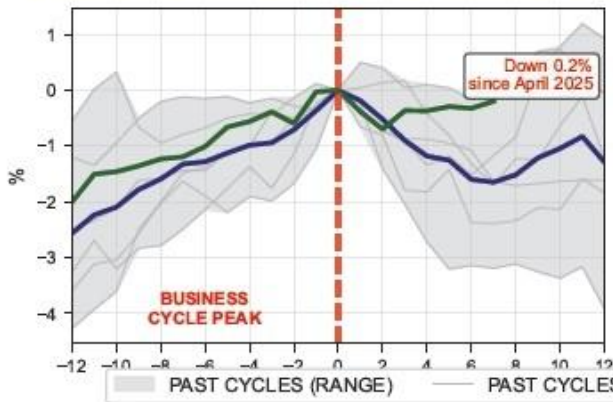
US NONFARM PAYROLLS



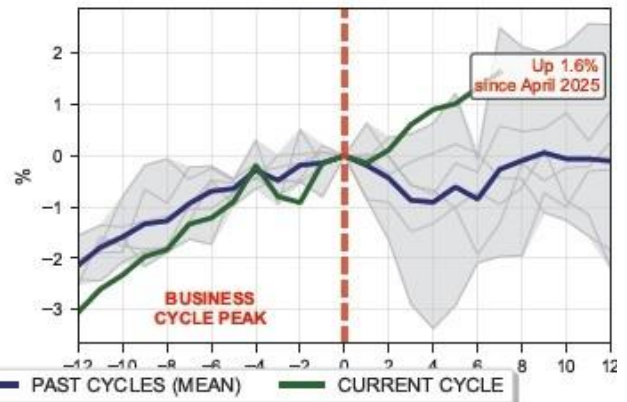
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



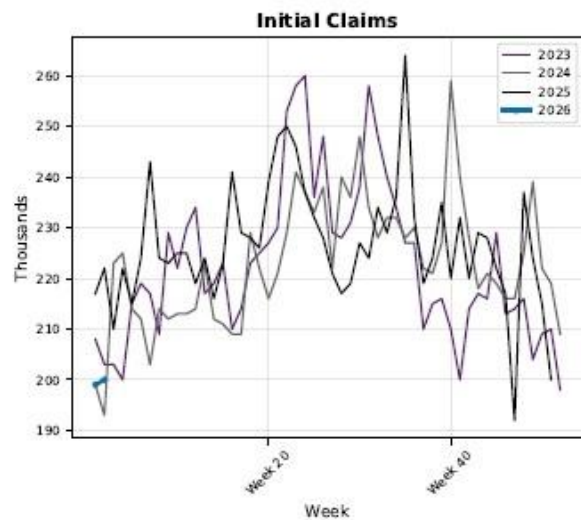
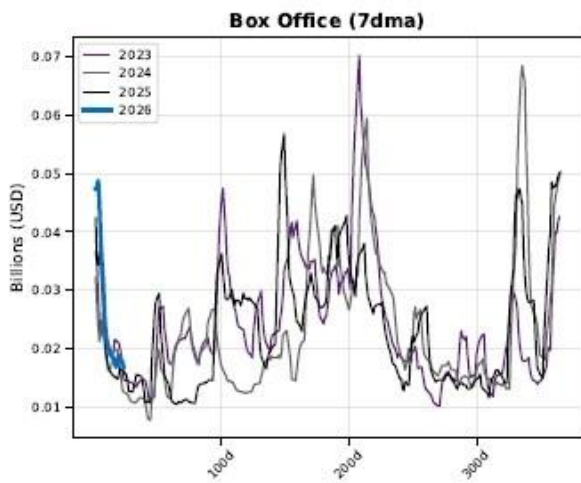
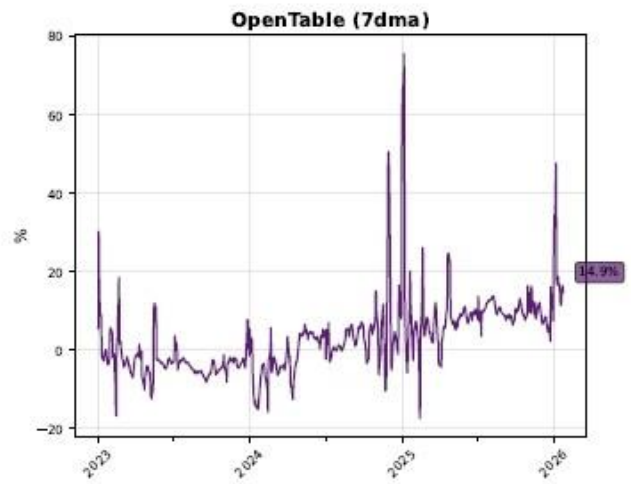
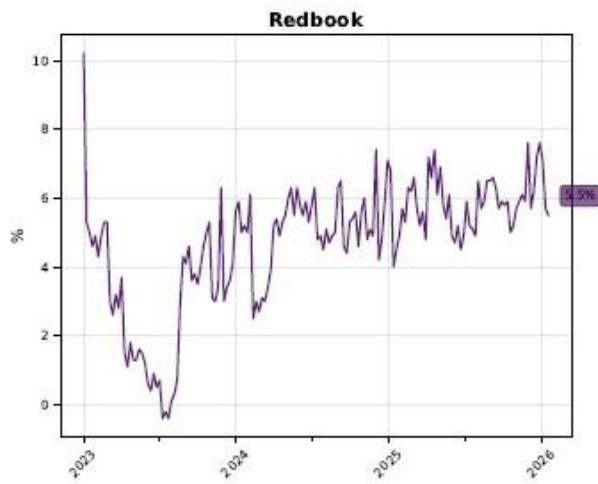
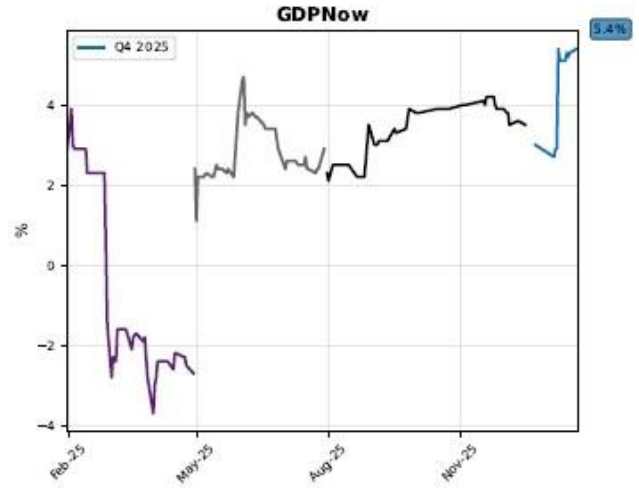
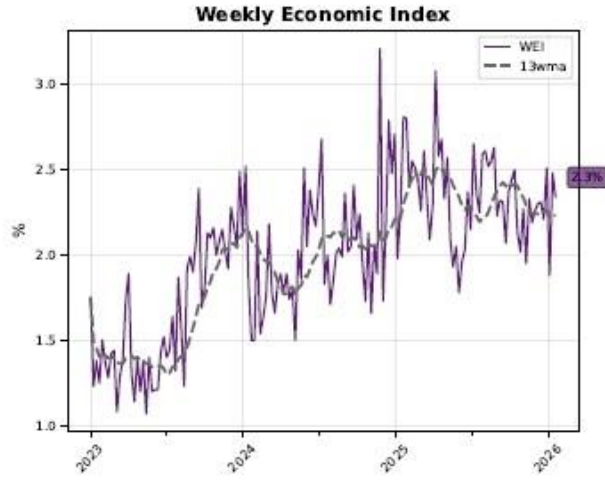
REAL PCE



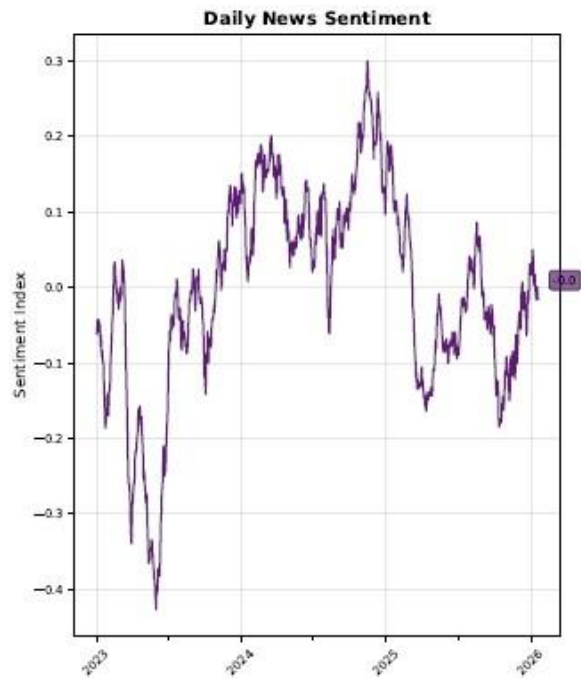
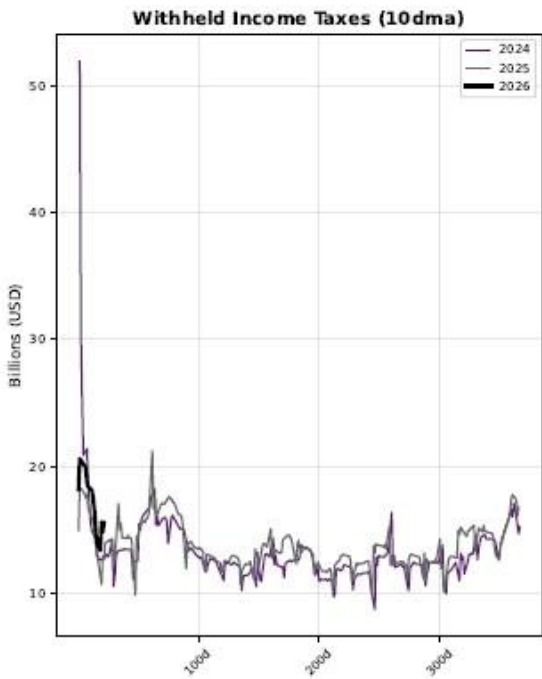
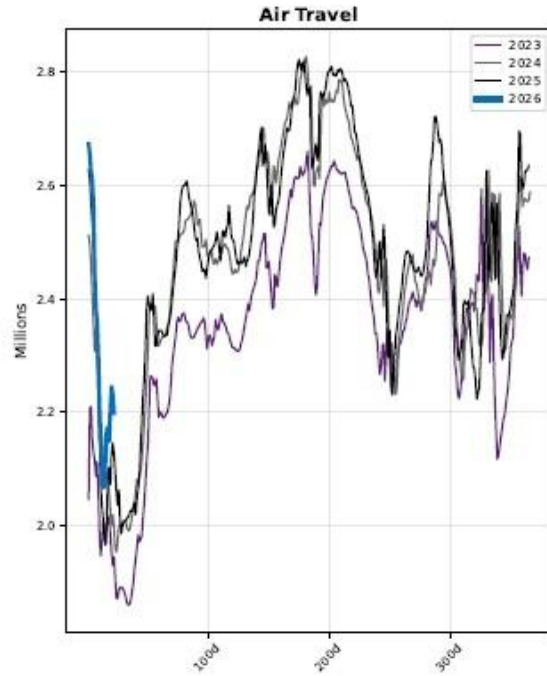
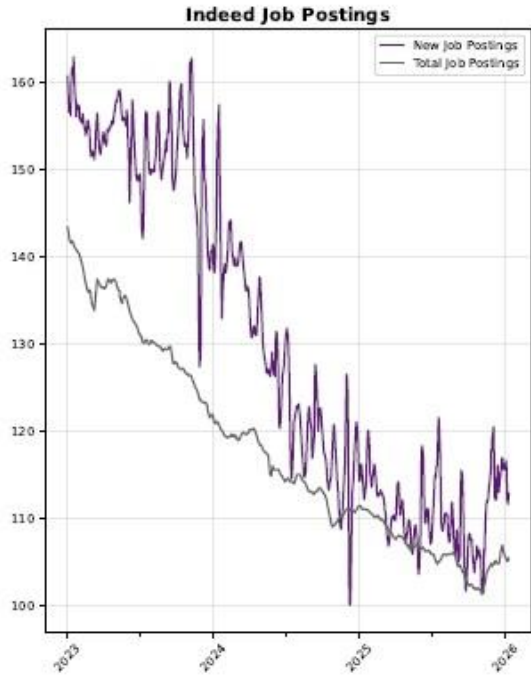
PAST CYCLES (RANGE)
 PAST CYCLES
 PAST CYCLES (MEAN)
 CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard



DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.

Copyright © RenMac 2026. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac. No portion of this material, including data, analysis, or commentary, may be input into, uploaded to, or otherwise used in connection with any artificial intelligence (AI) system, machine learning model, large language model (LLM), chatbot, or automated content generation platform, including but

not limited to ChatGPT, Claude, Gemini, or similar tools, without the prior express written consent of Renaissance Macro Research, LLC. Any such use is strictly prohibited and constitutes a violation of copyright and confidentiality protections.