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Oil Shocks and the Fed's Next Move

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Joining me now with more is Patricia Zobel, head of macroeconomic research and market strategy at Guggenheim Investments. Patricia, welcome.

Patricia Zobel: Thank you for having me on.

Yeah, great to have you. There's a lot to talk about right now. And we see this choppiness persisting in the past few weeks in the stock market, certainly amid the conflict in the Middle East. What stands out to you?

Patricia Zobel: Well, so over the weekend, the prospects for a near-term end to the conflict in Iran dimmed. And what you saw was an oil price spike. And I think what markets are grappling with is that this may not be a temporary spike in oil prices. This could endure. You know, there isn't any near-term plan for the Strait of Hormuz to open, and that cuts off an extraordinary amount of oil, in particular to countries in Asia and other areas. So it's a big oil price spike, and markets are pricing the potential for some period of rising headline inflation, along with consumer wallets being pinched by higher gas prices. And so I think that's what markets are grappling with right now.

Okay, so where do we go from here? And your outlook. Do you see this as something that could have a two week, four week, six week outlook an impact or something more?

Patricia Zobel: Well, so we've been pretty constructive on the U.S. economy in 2026. But the range of potential outcomes is widening. You know, as a base case, there are some strong tailwinds for the U.S. economy right now. You have fiscal stimulus kicking in, you have AI investment, and financial conditions have been pretty easy. And so those are all supportive for U.S. growth. You know, oil, as I said before, the U.S. economy is pretty resilient to oil shocks. You know, the U.S. economy, it takes about a third of the oil to produce a unit of GDP than it did in the 1970s. And the U.S. is actually one of the largest oil producers. But if you have an extended period of elevated oil prices, it will start to both lift headline inflation as well as pinch consumer wallets. And what I worry about most is that it could feed through lower consumer spending. It could feed through

financial conditions that tighten. And it could also hurt business and consumer confidence. I don't think we're there yet, but I think those are the things that markets are beginning to price the potential for.

We are going to get two key inflation reports this week at least, of course the consumer price index so our viewers you know, that will reflect of course the prices that they're paying as well as the Fed's preferred inflation measure the personal consumption expenditures index. What are you going to be watching for in those reports?

Patricia Zobel: Well, I think, you know, this is going to come at a time when people are a little bit more concerned about inflation because of rising oil prices. You've seen that in the policy rate path. It has lifted up a little bit. You've seen that in near-term break evens inflation break evens in fixed income. And I don't think anything this week is going to shift the narrative on that. Personal consumption expenditure prices could be a little bit hot. What we've seen from the prior CPI for January and the PPI is that that's going to feed through, and that number could be somewhat elevated. And I think that's going to challenge the narrative of disinflation, at least in the near term. Our view is still in the second half of the year, falling tariff effects and fading house price inflation are going to bring core down, but I think it's going to be a little bit of a challenging period for inflation statistics.

We do get a Fed meeting next week. What will you be watching for when we hear from Fed Chair Jerome Powell?

Patricia Zobel: Yeah. It's a tricky period for the Fed. And inflation has been above target for about five years, and they're facing the prospect of a potential additional supply shock. And so they're going to sound I think a little bit cautious. I think Chair Powell is going to note that challenges to both sides of the Fed's mandate are increasing again, and this is going to make them cautious. They were going to be on hold anyway at this meeting. But I think this kind of solidifies that they're going to want to see more data. Now the good news is that headline increases in inflation from oil don't feed through to their preferred core measure very much, so it's about less than a fifth of, typically, a big increase in headline inflation from energy feeds through to core. And core is what the Fed really cares about. But they're cautious about the potential for lived experience with inflation among consumers to erode inflation expectations. And so I think that's what you should watch out for. They're going to say that challenges to both sides of their mandate are increasing again. They're going to be cautious about easing anytime in the near term because they're going to want to make sure those inflation expectations stay anchored. And I think you're going to see still a lot of divisions in terms of the policy outlook among different FOMC participants. Some are going to be focusing on the potential for higher inflation and erosion of inflation expectations, while others are still worried about the jobs market. And so I think that's going to be the outcome of the meeting: on hold, but still a lot of diversity of opinion.

It's a lot to talk about these days. Patricia, thank you so much for joining us. Breaking down the headlines with us on NYC line. That's Patricia Zobel, head of macroeconomic research and market strategy at Guggenheim Investments.

Patricia Zobel: Thank you for having me.

Great to have you.

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