NATIXIS INVESTMENT MANAGERS | SOLUTIONS

MACRO COMMENTARY | January 2026

Charts and Smarts®

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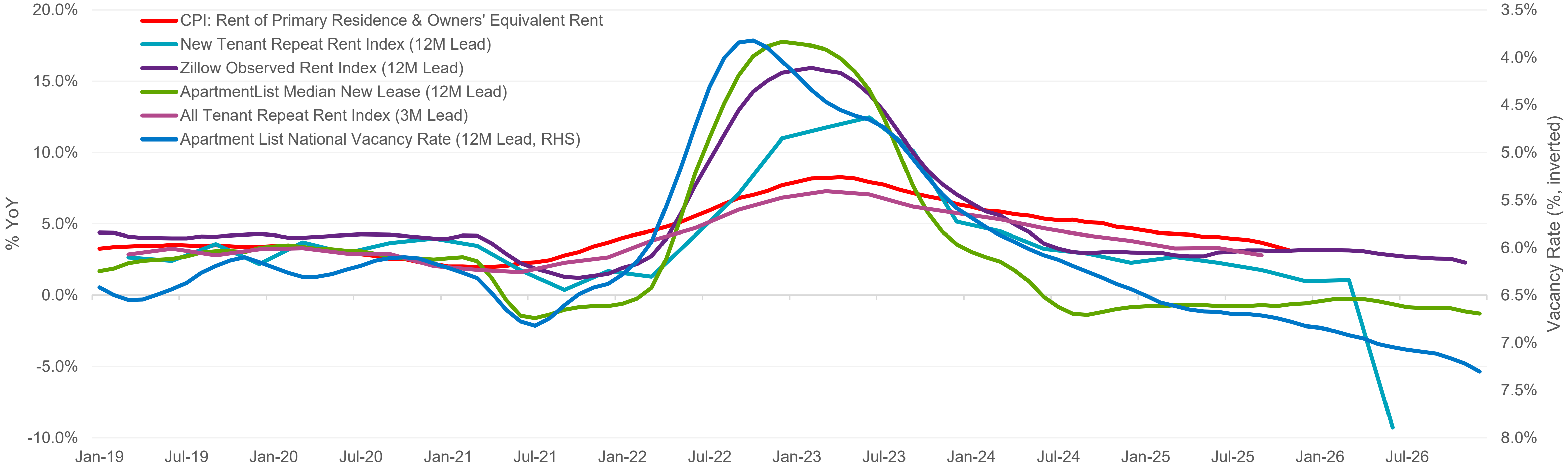
Black-Throated Wind

Rents vs Vacancy Rate (1/31/19–12/31/25)

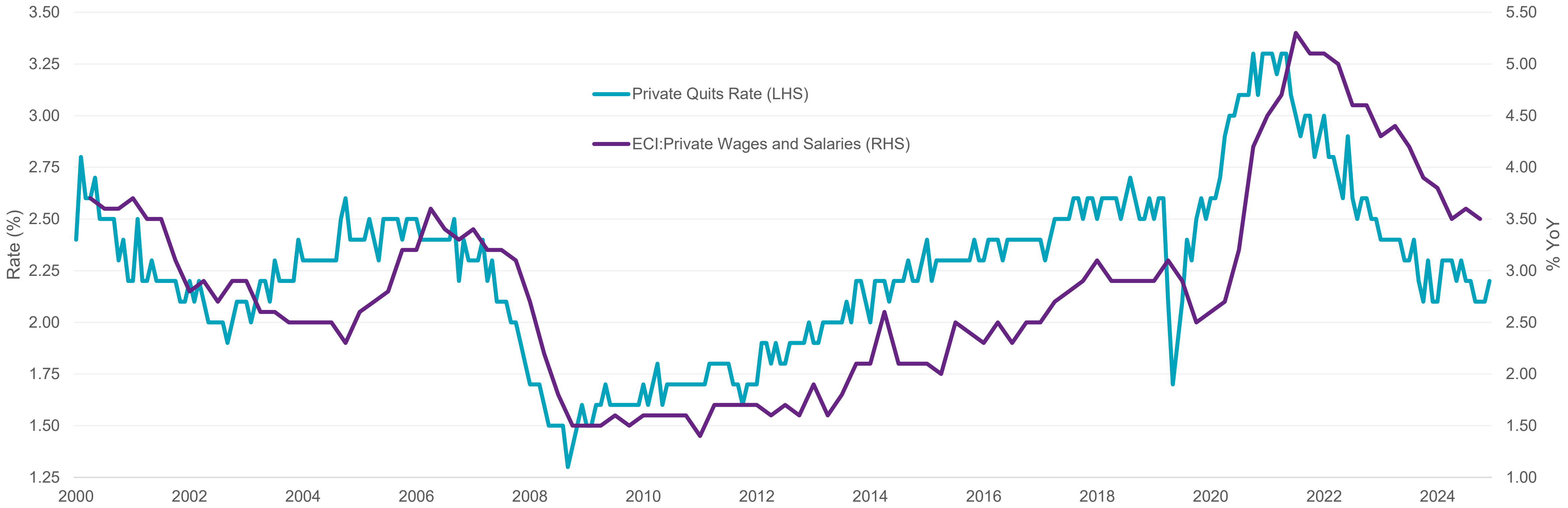


Despite the lack of timely inflation data over the past few months, we've repeatedly pounded the table that inflation risks were in fact skewed to the downside. And we'll gladly join the ranks of those grumbling over broken charts thanks to permanent gaps in the inflation data time series courtesy of the shutdown. But we push back aggressively on those claiming the latest CPI print understates inflation risks. A particular myopia has taken root widely that the November print is artificially low and will be understating inflation through at least April thanks to the BLS' decision to effectively plug in zero price growth for rent and owners' equivalent rent in October as it was unable to gather price samples. While this is indeed likely to artificially depress prints over the coming months, with the potential for giveback after the October data exits the sample in April, the debate is a red herring. The October shelter print and potential distortions matter little when the trend remains abundantly clear. We've reiterated this point for years now, and it still holds true: Market rents remain incredibly weak as vacancy rates continue to push steadily higher. Shelter disinflation is locked in through all of 2026 and looks likely to continue well into 2027. Who cares what the BLS did with the October print? One of the primary conduits for a structural inflationary impulse remains very much on a preset course lower, suggesting inflation continues to be yesterday's problem.

Source: Portfolio Analysis & Consulting, Bloomberg, Apartment List.

Looks Like Rain

Quits vs Employment Cost Index (ECI) (12/31/00–11/30/25)

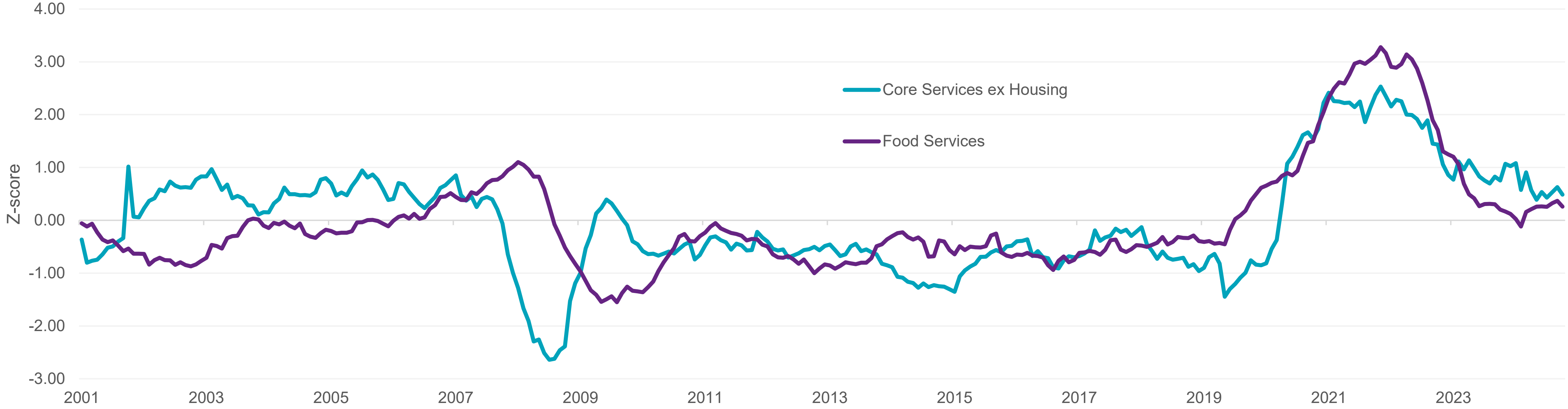


The inflation myopia isn't just with respect to shelter prices, but also to core goods. Another common refrain we've heard in recent months is that the timing of the end of the shutdown meant that the sampling window for goods prices was later into the month of November than is typical. As a result, goods prices were also artificially depressed, in this case thanks to the effects of holiday season discounting. Again, that very well may be true, setting up the potential for some giveback via higher goods prices in December. But again, those making this claim are missing the forest for the trees. The tariff passthrough has been smaller and slower than feared, and while there are those that continue to fear a second round of passthrough looms as inventories are restocked, the nominal anchor of declining wage growth remains intact. Despite hope for stabilization in labor markets, slack continues to build, translating to further downside pressure on nominal wage growth as leverage shifts further from employees to employers. Strong nominal wage growth is the second primary channel via which inflation pressures can become structurally entrenched, and barring a sharp reversal in labor market trends, that's two key inflation drivers firmly off the table.

Source: Portfolio Analysis & Consulting, Bloomberg.

Estimated Prophet

PCE Food Inflation vs Supercore Services PCE (12/31/01–9/30/25)

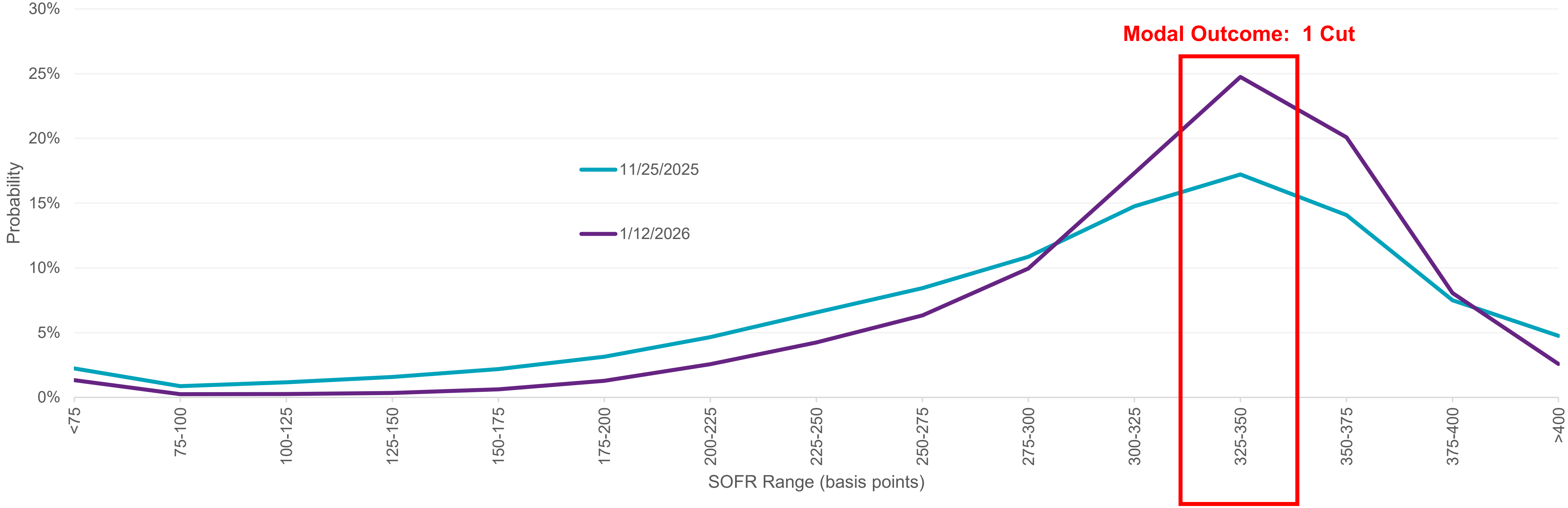


With two of the primary levers of durable inflationary pressure of the table, that leaves one final channel for the inflationistas to hang their hats on: Energy prices. While there certainly is a risk of a crowding out effect for utility prices thanks to the massive power needs for AI data centers, that effect has so far been limited. Meanwhile, crude remains mired in a downtrend, trading with a 50 handle, and wholesale gasoline futures continue to lead the way lower for average gas prices. While we may not be able to reliably count on a deflationary impulse from energy prices month-in, month-out, energy prices are clearly not a problem. More importantly, muted energy prices combined with falling wage growth, cooling rents, and easing food prices bodes well for the broader disinflationary backdrop into 2026. Outside of core goods, one area where the claims of sticky inflation have rung somewhat true has been with respect to supercore services. Progress here has been slow going, but that looks to be changing. Prices for food away from home tend to provide a good read for underlying inflation pressures as it is a microcosm of the broader inflation basket, combining food and energy prices with labor and rent costs. As goes food away from home so generally goes core services prices and more broadly, core inflation. While more recent CPI prints have shown a firming in prices for full-service dining, it’s worth noting the CPI series has proven more volatile than the PCE measure, both to the upside and downside. That firming bears watching closely, but stepping back, the key point remains: With each of those three structural inflationary forces moving decisively lower, the outlook for what has been one of the stickier portions of the inflation basket looks to be getting brighter as we flip the calendar. Inflation risks may have provided tension to the Fed’s dual mandate in 2025, but that tension looks set to fade in 2026.

Source: Portfolio Analysis & Consulting. Bloomberg. PCE represent personal consumption expenditures price index.

Jack Straw

Target Range Probabilities for December 2026 SOFR (As of 1/12/26)

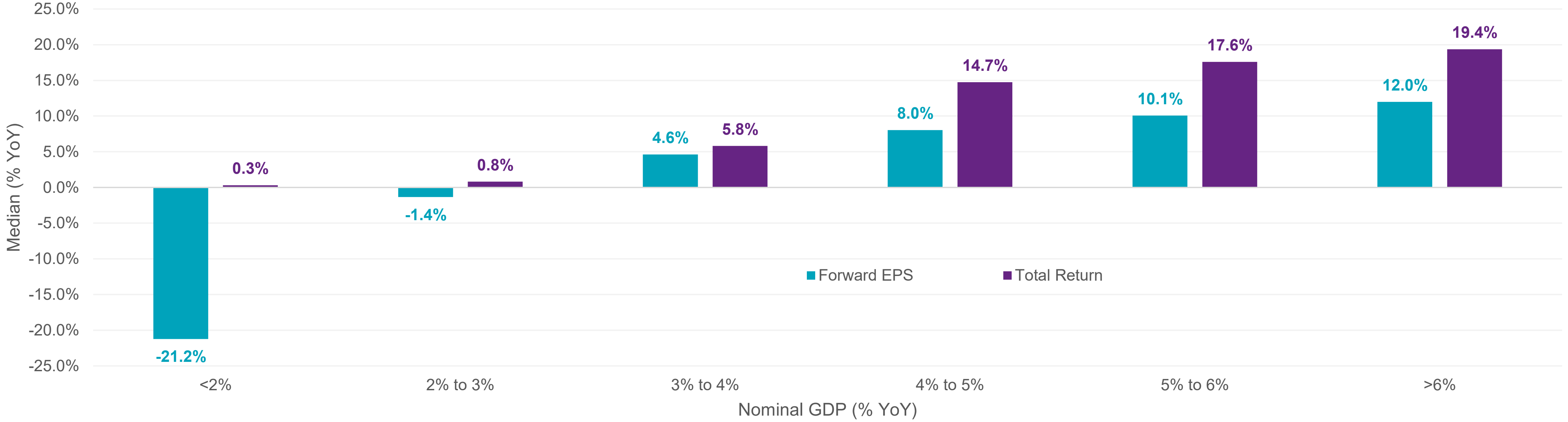


With tension in the dual mandate rapidly fading, market pricing is looking more and more offsides in the hawkish direction. Recall that when we discuss the number of rate cuts markets are pricing, we're referring to the weighted average of the distribution of potential outcomes. But those averages can be swayed meaningfully by the tails. While the left tail has compressed to some degree over the past month or so, it remains long given hedging dynamics of recessionary tail risk. But what matters more for market pricing relative to the likely path of policy rates is the modal outcome, or base case, discounted by markets. The range of likely outcomes with respect to rate cuts for 2026 spans from zero to two cuts, but market pricing has increasingly been coalescing around just 1 more cut for this cycle, with over 55% odds of 1 or fewer cuts by year end. The market has been busy pushing cuts further out in 2026, but given tension between the two sides of the dual mandate is likely to cool, the easing bias is likely to remain intact. That will allow the Fed to respond to the downside risks that continue to loom over the labor market. In many ways, we're entering 2026 just as we started 2025: With the market overly sanguine on the growth outlook and overly hawkish on the policy backdrop.

Source: Portfolio Analysis & Consulting. Federal Reserve Bank of Atlanta. The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Sugar Magnolia

S&P 500® Returns and Forward EPS Growth vs Nominal GDP (9/30/96–9/30/25)



While we have our doubts about the stimulative effects of the One Big Beautiful Bill Act, we still expect real growth to run close to 2% while inflation continues to cool from the high 2's back toward the Fed's 2% target. That puts us on track to book nominal growth between four and five percent in 2026. It should come as little surprise that higher levels of nominal growth tend to translate to stronger earnings growth environments. Nominal growth drives top line revenues while operating leverage, expense control, and efficiency gains translate to even stronger bottom line growth. Historically, the S&P 500® has seen median growth in forward earnings estimates on the order of 8%, providing a healthy starting point for returns. Multiple expansion has taken the reins from there providing median returns of almost 15% during these healthy growth periods. We may not have the most bullish of macro outlooks on the surface, but nominal growth in the range of 4%-5%, driven by trend levels of real growth and compressing inflation paired with a continued easing bias from the Fed, sure sounds like a supportive backdrop to us. The path will almost certainly not prove to be a straight line up and to the right, but in the spirit of keeping things simple, unless your base case is for anemic growth or a recession, healthy nominal growth is likely to put in a sound foundation for another year of double-digit returns. After all, it's worth remembering the market has generated positive returns in 74 of the past 100 years, with just 14 of those years growing just single digits and the median positive year returning over 20%. Double digit gains are more the rule than the exception.

Source: Portfolio Analysis & Consulting. Bloomberg. **Performance data shown represents past performance and is no guarantee of future results.**

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