

## Shootout at the Inflation Corral

By John Mauldin | May 16, 2026



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One of the things I've learned after more than two decades of SIC is that the conference doesn't really end when the final session wraps up. In some ways, that's when the real work begins. It's afterward, when I begin reviewing transcripts and notes, that the larger patterns start to emerge. I think there are a lot of attendees doing the same thing. What did we learn that will cause us to change something? Either in our portfolios or our lives?

It's easy to hear what you want to hear, but when you have speakers challenging your prior assumptions you need to think about it. When I curate our faculty/speakers, I make a concerted effort to make sure that there are people that don't always agree with each other or me. Iron sharpens iron and all that. As you probably noticed, the macro and micro markets are changing and geopolitics is a wildcard.

Over the next few weeks, I want to pull together some of the most important ideas from SIC 2026, organized less by speaker and more by themes. Today we'll start with inflation. Specifically, the very different perspectives from Lacy Hunt, David Rosenberg, Danielle DiMartino Booth, Barry Habib, René Aninao, David Bahnsen, and Jim Bianco.

In one sense, focusing just on inflation will be frustrating because there are so many data points that figure into inflation and inflation then reflects back upon them. I truly, viscerally, get that you are going to want to try to tie together unemployment and interest rates and markets and so forth. After 26 years, I can hear your questions in my head when I say something about inflation and you want to ask, "what does that mean for employment or interest rates or...?"

Perfectly on target questions. The problem is space. I really do try to hold this letter to about 3000 words. We will get to interest rates/Fed policy, employment, markets as well as geopolitics and technology in later letters. You can't cover it all in one letter.

First, let me remind everyone we have transcripts from every session. It's not quite the same as being there live, but it's awfully close. You can get the transcripts and slides at [this link](#). If you haven't participated in SIC otherwise, this is the way to do it.

Now let's talk about inflation.

## I Felt the Earth Move under My Feet

I think everyone knows that Dr. Lacy Hunt has been a bond bull for 44 years. He turned bullish on bonds as Paul Volcker started raising rates in the early 80s and has stuck to it over time and it is up until recently been the right call. The funds he managed at Hoisington have been the top performing funds off and on for decades. Not so much in the last few years.

Lacy is a dear friend and mentor, but I must admit since I was part of the Q&A process, I was prepping to push him on his belief that long-term rates would go down. It seemed to me that things were changing. You don't challenge Lacy unless you have your thoughts in serious order. Even if you are right, his logic will make you think you are wrong.

So... 30 minutes before the presentation, I get a note from Lacy basically saying, "I just want you to know that I am going to be making the case for a rise in long-term interest rates." That started some internal text messaging with my team because this was not on my bingo card. A major 180° change after 44 years? He had two basic reasons, one that everyone is aware of (the oil price shock) and the other was a significant problematic change in Fed policy. When Lacy Hunt starts talking about higher long-term interest rates you have to pay attention. Let's start with oil first.

By Lacy Hunt's math, oil prices directly and indirectly account for roughly 12–15% of CPI. If oil prices settle even 20% higher than pre-war levels after the Strait eventually reopens—and I have no particular reason to question Lacy's arithmetic—that alone could add roughly 240–300 basis points to the price level. Our price shocks have had significant negative effects on the economy:

## Historic Oil Shocks and Global Recessions

	Oil Shock	Date	Price Change	Start of Ensuing Recession
		1.	2.	3.
1.	Arab Oil Embargo	11/73 - 03/74	+\$9 per barrel (\$3 to \$12)	11/73, one month later
2.	Fall of the Shah of Iran	02/79	+\$21 per barrel (\$14 to \$35)	01/80, 11 months later
3.	Oil spike during the Gulf War	08/90 - 01/91	+\$20 per barrel (\$20 to \$40)	07/90, already in recession
4.	Global oil surge preceding the Global Financial Crisis	07/07 - 06/08	+\$97 per barrel (\$50 to \$147)	12/07, 5 months later
5.	Average lag time	-	-	5.7 months (row 1+2+4) 8 months (row 1+4)

Oil price shocks have been associated with recessions and bear markets in the past. This is not predictive, but it does warrant our paying attention. Energy is the main driver of our economy. We convert energy into everything. And oil is a big part of that energy equation.

	Oil Shock	U.S. Real GDP Peak-to-Trough Decline	Global Real GDP Change	U.S. Stock Market Decline (S&P 500)	Global Equity Market Decline	Change in World Trade Volume
		1.	2.	3.	4.	5.
1.	Arab Oil Embargo	-3%	Global per-capita real GDP declined in 1975	-48%	-34% to -43%	-5% to -7%
2.	Fall of the Shah of Iran / Iranian Revolution	-2.2% (1980 recession) -2.9% (Jul. 1981-Nov. 1982 recession)	Global recession 1982	-17% and -27%	-20% to -30%	-2% to -3%
3.	Oil spike during the Gulf War	-2%	Mild global recessionary conditions in 1991	-20%	-10% to -20%	-1% to -2%
4.	Global oil surge preceding the Global Financial Crisis	-4%	-2% to -3% global real GDP contraction in 2009	-57%	-50% to -60%	-10% to -12%

That inflation pressure is not insignificant, to say the least. Of course, that's before demand destruction even enters the equation. But the oil shock didn't arrive in an otherwise clean system. And therein lies the rub...

Starting in mid-December, the Jerome Powell led Fed began purchasing roughly \$40 billion a month in Treasury bills, lifting holdings from just under \$200 billion to nearly \$430 billion by late April. The Fed framed this as a technical liquidity or "plumbing" operation.

Lacy sees that explanation very differently.

"The Fed said that they were upping the bill purchases because the banks were short of liquidity, and this was a technical operation. Nothing could be further from the truth. This was not a plumbing issue. If the banks were in dire need of liquidity... the bulk of those purchases would have gone into idle balances, but they were not. They were directly used and explosively sold."

The money that flowed directly into bank balance sheets was put to work. Loans and leases grew at nearly a 10% annualized rate, while commercial and industrial lending was running closer to 20%. You can see in the chart below that what Lacy calls a **Fed Driven Liquidity Impulse** meant that something different happened this time when the Fed started expanding their balance sheet.

Normally, that expansion showed back up on the Fed balance sheet. This time it didn't. It became hot money that got multiplied throughout the system, expanding the money supply and triggering inflation not just in the first quarter but in future quarters as well.

### Impact of Fed Driven Liquidity Impulse on Loans and Deposits

	Category	Q1 2026 (3-mo % change, a.r.)	10-yr %, a.r. (Dec'15–Nov'25)	Difference (column 2 - 3)
	1.	2.	3.	4.
1.	Loans & leases	9.9%	4.9%	4.9%
2.	C&I loans	19.0%	3.3%	15.7%
3.	Real estate loans	1.6%	4.0%	-2.5%
4.	Consumer loans	5.4%	4.0%	1.4%
5.	Revolving consumer credit	4.7%	4.9%	-0.3%
6.	Loans to nondepository FIs	28.4%	17.1%	11.3%
7.	Core loans (ex NDFI)	7.1%	3.8%	3.3%
8.	Large time deposits	4.4%	3.6%	0.8%
9.	Other deposit liabilities (ODL)	9.4%	5.7%	3.7%

Source: Federal Reserve.

I remember asking Lacy and a few others over the last decade why the massive QE and liquidity expansion after the Great Recession didn't result in an explosion of loans and other bank activities. Partially, it was because the demand wasn't there and partially the banks were repairing their balance sheets from the aftermath of The Great Recession. That has changed.

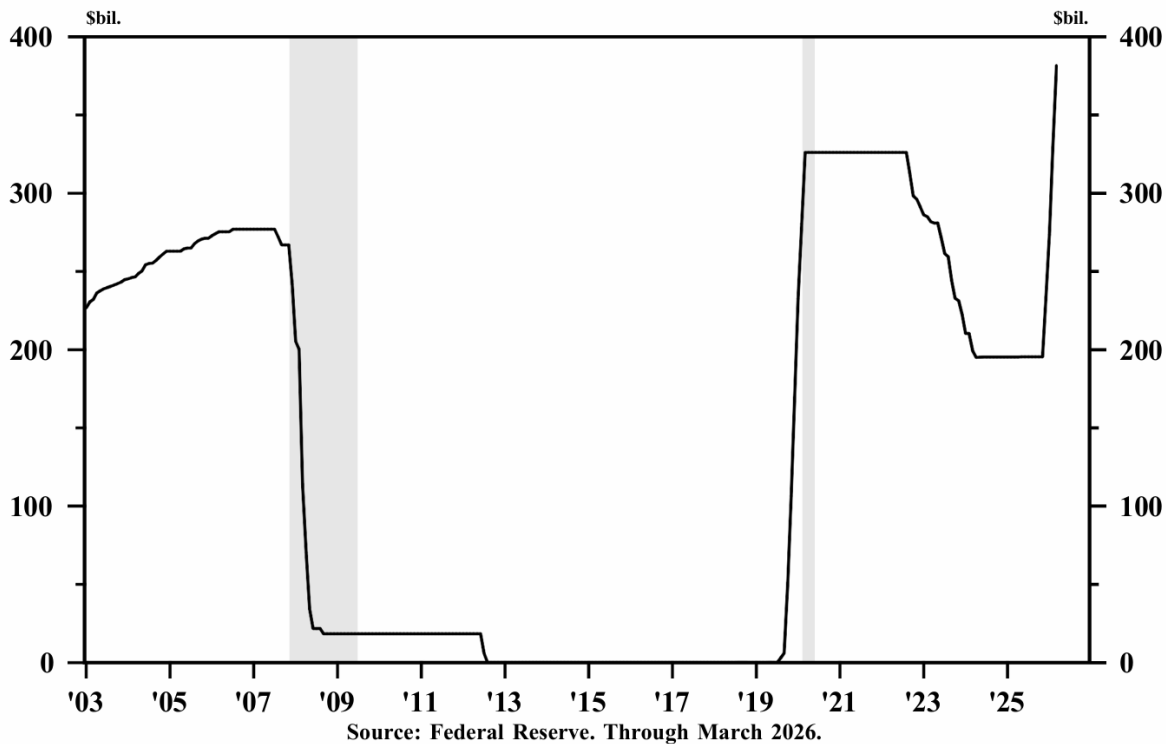
This is the part of Lacy's presentation I kept coming back to afterward.

"In essence, what the Fed did starting in mid-December is they actually were reversing the elements that had been previously pushing the inflation rate generally downward.

***So now we have the issue of not only solving the oil shock, but we have to unwind the Fed balance sheet as well.***" (Emphasis mine.)

I asked Lacy in the Q&A why a 5% move in the Fed balance sheet made a difference. Part of it is answered in this next chart, as it is what is in the balance sheet that makes a difference. They are partially moving from longer-term debt to shorter-term debt.

## Federal Reserve Holdings of U.S. Treasury Bills *monthly level*



You can see why Lacy thinks this changes the arithmetic rather dramatically.

***His inflation outlook is fairly blunt: inflation will climb above 4%, with periods that could push closer to 5% or even 5.5%!!!*** That's a very different world than the one investors got used to after 2008. The historical parallel Lacy reaches for is Arthur Burns easing monetary policy into the 1973–74 oil shock, which he views as one of the great policy mistakes of the modern era. The difference this time, in Lacy's view, is that the Fed began easing conditions before the oil shock fully arrived.

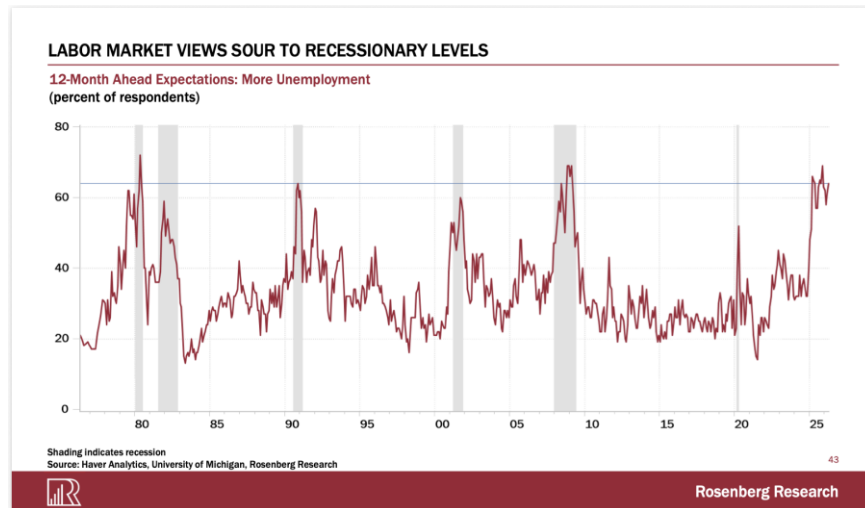
(By the way, I asked Lacy off-line if he agreed with me that Jerome Powell has been the worst Federal Reserve chair since Arthur Burns. He said yes and then said why. A number of other speakers said the same thing to me, but I don't have their permission this morning to mention their names, but I will try to. If it was just this one mistake, I wouldn't say that. But his disastrous handling of monetary policy during and after Covid, his 2019 debacle and other various misadventures didn't speak well for his tenure. I am sure he is a very nice man, educated and thoughtful. But his core understanding of the mechanics of monetary policy and the outcome from his choices leaves something very lacking.

In future letters about this SIC, we will talk about the extraordinarily difficult situation that Kevin Warsh finds himself in as he begins his tenure as Fed chair. I can't recall a time since Volcker that a Fed chair came into his position with such extreme externalities. If Lacy is right and we see 4.5% or 5% inflation, how can he cut? We will get to that when we talk about interest rates and Fed policy in a later letter.)

## Fog Beneath the Surface

David Rosenberg was our leadoff hitter this year (as he has been for almost 20 years) with a presentation titled *The Fog of War*, though he quickly moved beyond the war itself. In Rosie's view, what mattered more was oil, and beyond that the economic and financial imbalances already embedded in the system before the conflict even began. Rosie offers a somewhat different view on inflation.

Rosie's not an inflationista. In his view, the larger danger is recession, not inflation. He pointed out that inflation lingered in 2021–22 because workers had real bargaining power and wages could chase prices higher. That mechanism, he believes, is largely missing today. Several of his charts suggested the labor market may be softening faster than many appreciate, with unemployment expectations already approaching recessionary territory.



Unemployment expectations are already at recessionary levels, and workers who fear losing their jobs generally don't push for raises.

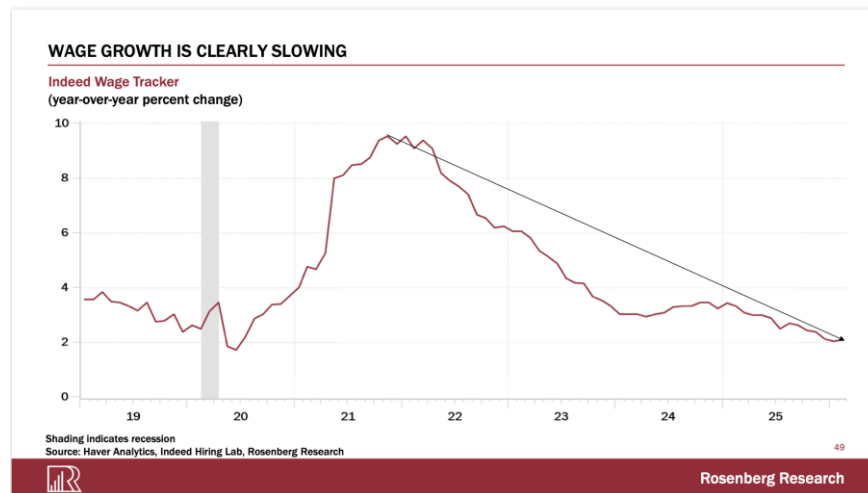
Barely more than 40% of Americans expect a pay increase in the next year.



The median expected wage gain is just 0.6%, and the Indeed Wage Tracker is back near 2%. Rosie's point is straightforward: this is not what an inflationary labor market looks like.

As he put it:

“What is more important than labor? This is the stuff the Fed never talks about.”



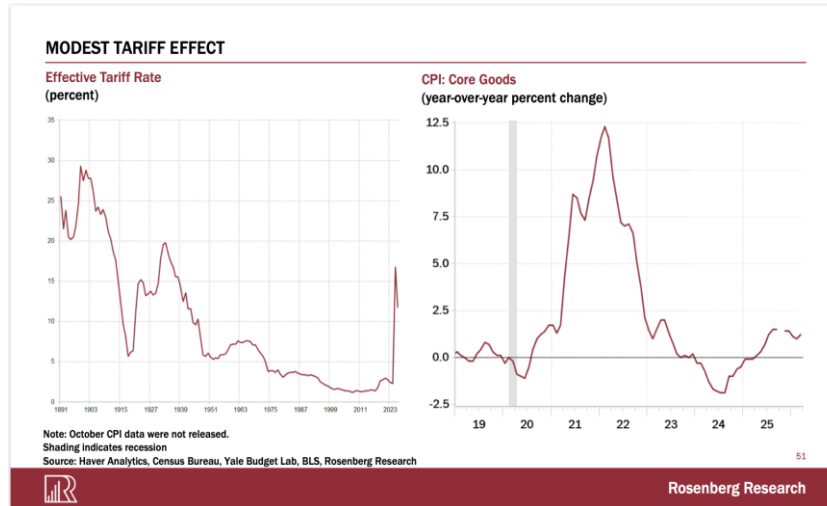
He also has little patience for the headline payroll numbers the Fed keeps reacting to. He’s not alone in that. March 2025 was first reported at 228,000 jobs and later revised down to 67,000. June 2025 came in at 147,000 and was later revised to negative 20,000. In Rosie’s telling, the labor market is significantly weaker than the headlines suggest.

“Over 90% of the time since January 2025, these numbers have been revised down by 1.1 million. You’ve got people, their brain is fudge, that think that we have a healthy labor market on our hands. You’ve got people in the Fed that don’t even talk about it. They’re so consumed with inflation fear, they don’t even talk about employment.”

Rosie then turned to productivity, which I think is one of the more interesting parts of his framework.

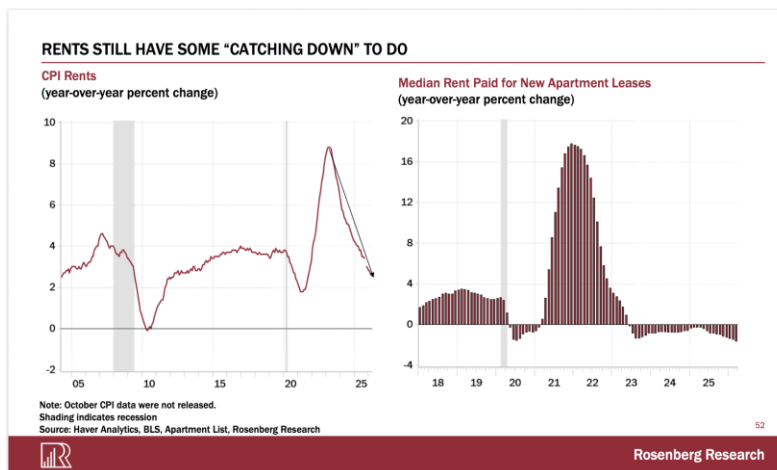
“In the past two years, 92% of the economic growth in the US economy came from productivity. 8% came from labor input... In any given year, what is normal? What is normal is that there’s an even split, 50/50... At those technology peaks, it’s 70% productivity, 30% labor input. This is 92 to 8. How does anybody think that 92% contribution to the economy of productivity... is inflationary?”

At 92/8, Rosie's point is not simply that inflation is slowing. It's that this is no longer an economy where labor has enough leverage to generate the kind of embedded wage inflation the Fed still seems worried about. He sees tariffs in a similar way. In his framework, tariffs are primarily a price shock, not a self-sustaining inflationary cycle. Without wages chasing prices higher, inflationary spikes tend not to become self-reinforcing. At least not without wages following along.



He also spent time on the shelter story, which in Rosie's view still doesn't get enough attention. Shelter costs, including rents and owners' equivalent rent, make up roughly 30% of CPI and nearly 40% of core CPI. Real-time housing data already show new lease rents falling, vacancy rates near cycle highs, and home prices cooling.

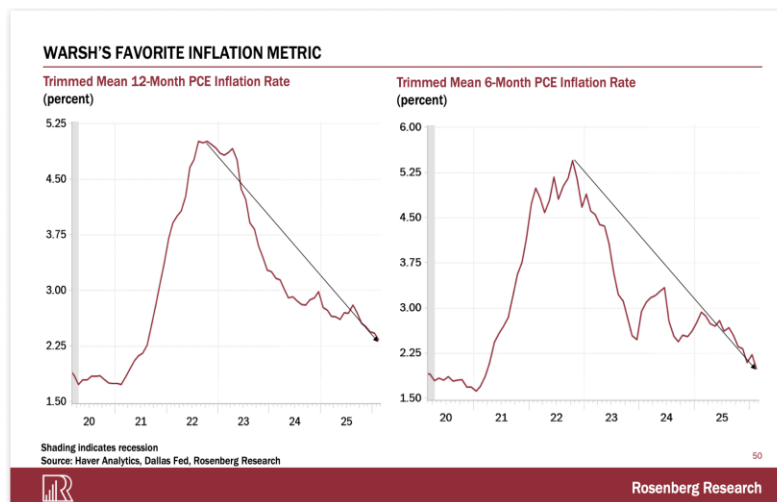
The problem is that the BLS shelter calculation lags reality by 12–18 months. That means the disinflationary impulse is still slowly working its way into the official inflation data and should continue doing so for some time.



Finally, before the war introduced a new oil shock into the equation, Rosie pointed to the Dallas Fed's trimmed mean PCE as evidence the inflation problem was already beginning to solve itself. Both the 12-month and 6-month trends were already moving steadily back toward 2%.

As Rosie put it:

“Here's Warsh's favorite inflation metric. The underlying-underlying trimmed mean 12-month PCE, the six-month trend, they're already heading back down to 2% before the war started.”



## Revisions, Revisions, Revisions

Danielle DiMartino Booth thinks we should probably stop talking about recession entirely in the future tense. In her reading of the revised data, the US economy may already be in one.

The BLS initially reported 1.7 million jobs created in 2025. After revisions and quarterly census adjustments, that number fell to just 123,000. In Danielle's framing, eleven out of every twelve reported jobs effectively disappeared. That should probably get more attention than it does.

More importantly, beneath the headline numbers, the private sector posted net job losses in both the second and third quarters of the year.

“You do not have two consecutive quarters of job losses — and this is the hardest data that exists — without the United States economy being in recession. Mark my words.”

Danielle also pointed to consumer data that increasingly tell the same story: flat real retail sales, a depleted savings rate, and growing use of buy-now-pay-later financing not for discretionary purchases, but for utility bills and dental work.

You can see why she believes the Fed is drifting toward an uncomfortable corner. Layer a five-sigma gasoline CPI shock on top of an already weakening consumer, and Danielle sees a central bank trapped between inflation it cannot really fix and a recession it still refuses to acknowledge.

## Institutional Questions

I also want to spend a moment on a conversation at SIC that we'll almost certainly be returning to in the coming weeks: René Aninao and David Bahnsen.

Neither was really arguing about whether inflation is transitory. Instead, their concern was whether the institutional architecture surrounding the Federal Reserve is capable of responding correctly to the next major shock without further distorting the system.

David believes that much of the Fed's expanded role ultimately emerged because Congress increasingly abandoned its own fiscal responsibilities. He said:

"I do not believe the Fed took this excessive authority. I believe Congress failed to do its job. The Fed stepped into a vacuum."

Whether you agree or not, it's an important point.

René's concern was what happens during the next crisis, which he believes is inevitable under a future Warsh-led Fed. The real test, in his view, is whether emergency measures remain temporary, or whether each crisis permanently expands the Fed's footprint once again.

He also made a point I am still thinking about. Embedded inside every Treasury yield is an assumption about American institutional and military credibility as guarantor of global trade and financial order. Read that last sentence again.

They also both believe that under Warsh the Fed will move away from longer-term bonds to short-term bonds, trying to take the Fed's hand off the scale. More on that in a later letter.

## Middle Ground

Let me briefly touch on Barry Habib's inflation framework as well. Barry has won four out of the last seven Crystal Ball awards from Zillow for the most accurate mortgage interest rate predictions out of 150 economists and has always been in the top five.

Barry's view is that oil matters and matters a lot. Tariffs matter too, but more as a one-time price adjustment than a permanently compounding inflation cycle.

As he put it:

“Inflation looks like a staircase. One on top of another, every year, higher, higher, higher. Tariffs are different. A tariff is a one-time price adjustment. It’s like one step and it stops.”

Most of the tariffs were imposed last summer, so as those year-over-year comparisons begin rolling off, they eventually become disinflationary mathematically.

He also pointed back to shelter, which still makes up roughly 44% of core CPI and is measured using a BLS methodology that has barely changed since the mid-1980s. Barry believes real-time shelter inflation is running closer to 1% while the official data still shows something closer to 3%. If Barry is right, official inflation data may still be materially overstating real-time shelter inflation. That lag alone should continue pulling reported inflation lower over the coming months regardless of what happens with oil prices.

Thus, his government-calculated CPI inflation forecast is between 3.2% and 3.5%. He would agree that CPI might not be the best measure of inflation, but it’s what we pay attention to. And he has a pretty good track record of forecasting that number.

## Post-COVID Economy

I should also mention Jim Bianco, who kept coming back to the idea that we are trying to analyze a post-COVID economy using pre-COVID assumptions. In his framework, the low-inflation world that defined the post-2008 era is largely gone, replaced by a structurally different environment shaped by demographics, de-globalization, energy shocks, and changing work patterns.

“So inflation in the post-COVID period has definitely moved higher and has been at a much higher rate. In other words, what I’ve argued is, it’s a different cycle. It’s a different cycle on inflation altogether right now... There’s more going on with inflation than just whether or not we’re going to have technology. There’s de-globalization, there’s instability in the world with wars. There’s changing of work habits with remote work... Everybody’s lifestyle is vastly different today than it was in 2019, and we’re not going back to that.”

Investors built portfolios around the assumption that the post-2008 world would continue indefinitely. Jim’s point is that it may not. We are going to revisit Jim’s session in depth in later letters, but I wanted to give you his thoughts on inflation.

My take? I think inflation is heading higher. That is going to take a rate cut off the table. Warsh is going to start reducing the balance sheet quickly. And will use the balance sheet reduction as a way to deal with inflation rather than actually raising rates. Nothing tectonic, unless the oil price shock continues for longer than the market currently thinks. We will get to energy in later letters.

Again, as a reminder, you can get the transcripts and slides from the [presentations here](#). There is just so much more than I can cover in a few letters. This deserves some of your attention.

## **Boston and ????**

I will be in Boston the second week of June for the next Inner Circle meeting. I am thoroughly enjoying getting to know my fellow members, and I really look forward to each and every meeting and call. Even more, I enjoy the camaraderie that our members are developing with one another. This is one of the best things we've done at Mauldin Economics in a long time, at least from a personal standpoint. Interestingly, there is a direct four hour flight on Delta from San Juan to Boston. I have not flown Delta in a long time, but I am glad there is a direct flight and not one of those seven or eight hour long days with one or two stops.

One of the small pleasures I have is our family group text/chat, and keeping up with my grandkids through that. I wish they would actually post more. I am hoping to see a few of them here in Puerto Rico this summer.

And with that, I will hit the send button. You have a great week!

Your cranking on his books analyst,



John Mauldin

[subscribers@mauldineconomics.com](mailto:subscribers@mauldineconomics.com)

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