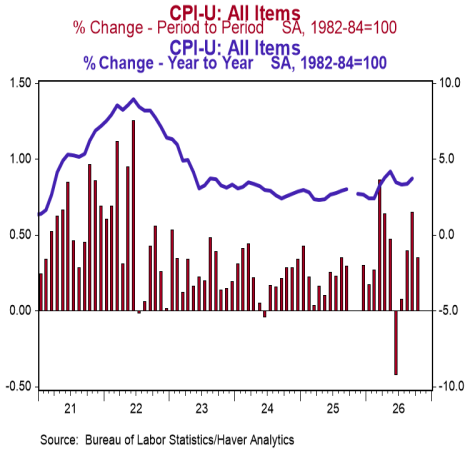
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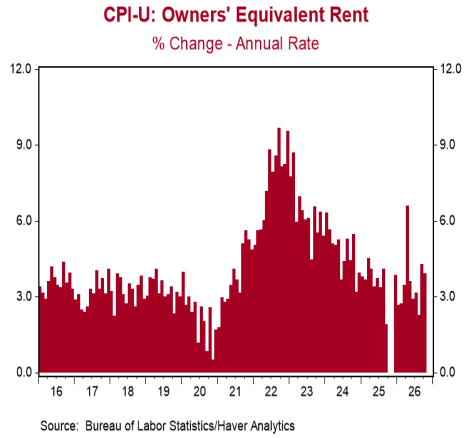
October CPI

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- The Consumer Price Index (CPI) rose 0.4% in October, above the consensus expected +0.3%. The CPI is up 4.1% from a year ago.
- Energy prices increased 0.7% in October, while food prices rose 0.5%. The "core" CPI, which excludes food and energy, rose 0.3% in October, above the consensus expected +0.2%. Core prices are up 2.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in October but are down 0.8% in the past year. Real average weekly earnings are down 0.4% in the past year.



Source: Bureau of Labor Statistics/Haver Analytics



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Implications: Inflation came in stronger than expected in October, likely cementing another rate hike from the Federal Reserve in December. Looking at the headline, consumer prices rose 0.4%, exceeding the consensus expected +0.3% and bringing the year-ago comparison to 4.1%. Energy prices continue to have an outsized impact, climbing another 0.7% in October and now up 21.5% versus a year ago. Meanwhile, food prices posted their largest gain in six months, rising 0.5%, now up 3.0% in the past year. The "core" CPI, which excludes the volatile food and energy categories, rose 0.3% for the third month in a row and is up 2.8% in the past year. Housing rents (both those for actual tenants and the imputed rental value of owner-occupied homes) have been the primary contributor to core inflation over the last few years and appeared to be trending toward slower gains in 2026, but that trend has stalled with rents rising 0.3% for the second month in a row. The impact is significant given that rents make up about one-third of the overall index, with October's increase accounting for about 30% of the headline gain. Meanwhile, airline fares continue to climb, rising 0.4% in October and 27.8% in the past year. Prices for intracity transportation (+6.6%), motor vehicle insurance (+0.7%), and hospital services (+0.8%) also made notable contributions, partially offset by declining prices for used vehicles (-1.2%) and internet services (-0.5%). October also marked the 67th consecutive month that both headline and core inflation have been above the Federal Reserve's official 2.0% target, a fact that will be hard for Chairman Kevin Warsh and the FOMC to ignore as they prepare for their final meeting of 2026. The problem is that rate hikes hit interest rate sensitive sectors like autos and housing, which are already soft, while doing nothing to open the Strait of Hormuz and little to slow investment in AI and data centers, which remains the economy's leading source of strength. We do expect the FOMC to raise rates once more in in December, but believe further hikes after that will be fewer than the markets are currently pricing in. Regardless of what the Fed decides to do, however, inflation will continue to weigh on the economy until supply-side conditions improve.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Oct-26	Sep-26	Aug-26	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.4%**	0.6%	0.4%	5.7%	3.1%	4.1%
Ex Food & Energy	**0.3%**	0.3%	0.3%	3.7%	2.7%	2.8%
Ex Energy	**0.3%**	0.3%	0.3%	3.6%	2.6%	2.8%
Energy	**0.7%**	5.2%	2.1%	36.8%	8.9%	21.5%
Food	**0.5%**	0.0%	0.1%	2.6%	2.2%	3.0%
Housing	**0.3%**	0.4%	0.2%	3.7%	2.7%	3.4%
Owners Equivalent Rent	**0.3%**	0.3%	0.2%	3.5%	3.4%	3.4%
New Vehicles	**0.2%**	0.2%	0.3%	2.5%	0.8%	0.7%
Medical Care	**0.3%**	0.1%	-0.2%	0.9%	1.5%	1.8%
Services (Excluding Energy Services)	**0.3%**	0.4%	0.3%	4.2%	3.2%	3.4%
Real Average Hourly Earnings	**0.0%**	-0.4%	-0.1%	-1.8%	0.2%	-0.8%

Source: Bureau of Labor Statistics

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.