HB Wealth

Market Sense – Wholesale Prices Show Inflation Risks Were Rising Before Middle East War

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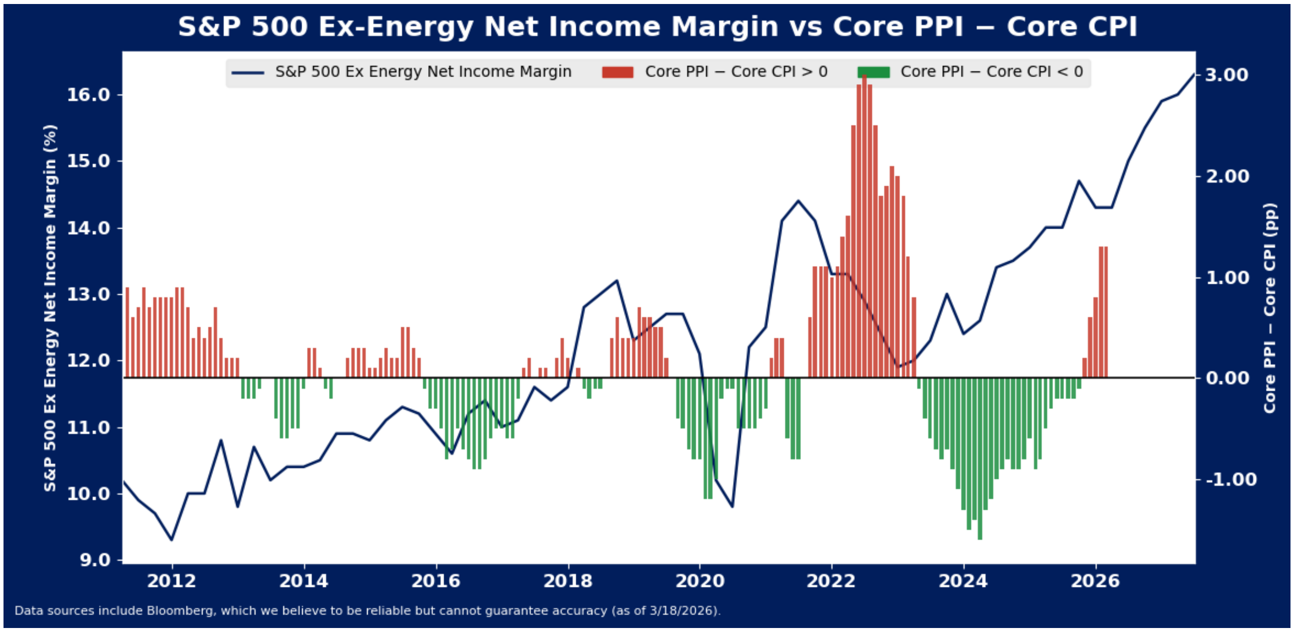
Producer prices rose at a faster than expected pace in February, continuing a streak of worrisome inflation signals for stocks. Core producer prices rose 3.9% over the last year, outpacing core consumer prices for the 5th consecutive month. Headline producer prices rose 3.4%, likewise outpacing overall consumer price growth by 100 bps.

The rise in pipeline inflation pressures is a challenge for stocks in two ways. First, it limits prospects for Fed ease, as the FOMC remains focused on maintaining an inflation target closer to 2%. Core producer prices hit a low in August last year and have been rising at 3% or faster since October 2025. While consumer price growth has been more contained, persistent gains in PPI hint at an element of inflation pressure in the pipeline that may keep the Fed on guard.

In the meantime, the difference between producer and consumer prices is an indicator of pricing power for US companies. S&P 500 margins tend to struggle in periods when producer prices are rising quickly, and faster than consumer prices. These inflation dynamics contrast with consensus views for margin expansion this year. As higher prices for food and energy emerge via the closure of the Strait of Hormuz, it will likely exacerbate existing pricing power pressures, further suppressing margin potential for ex-energy segments of the index.



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