



Silence is golden

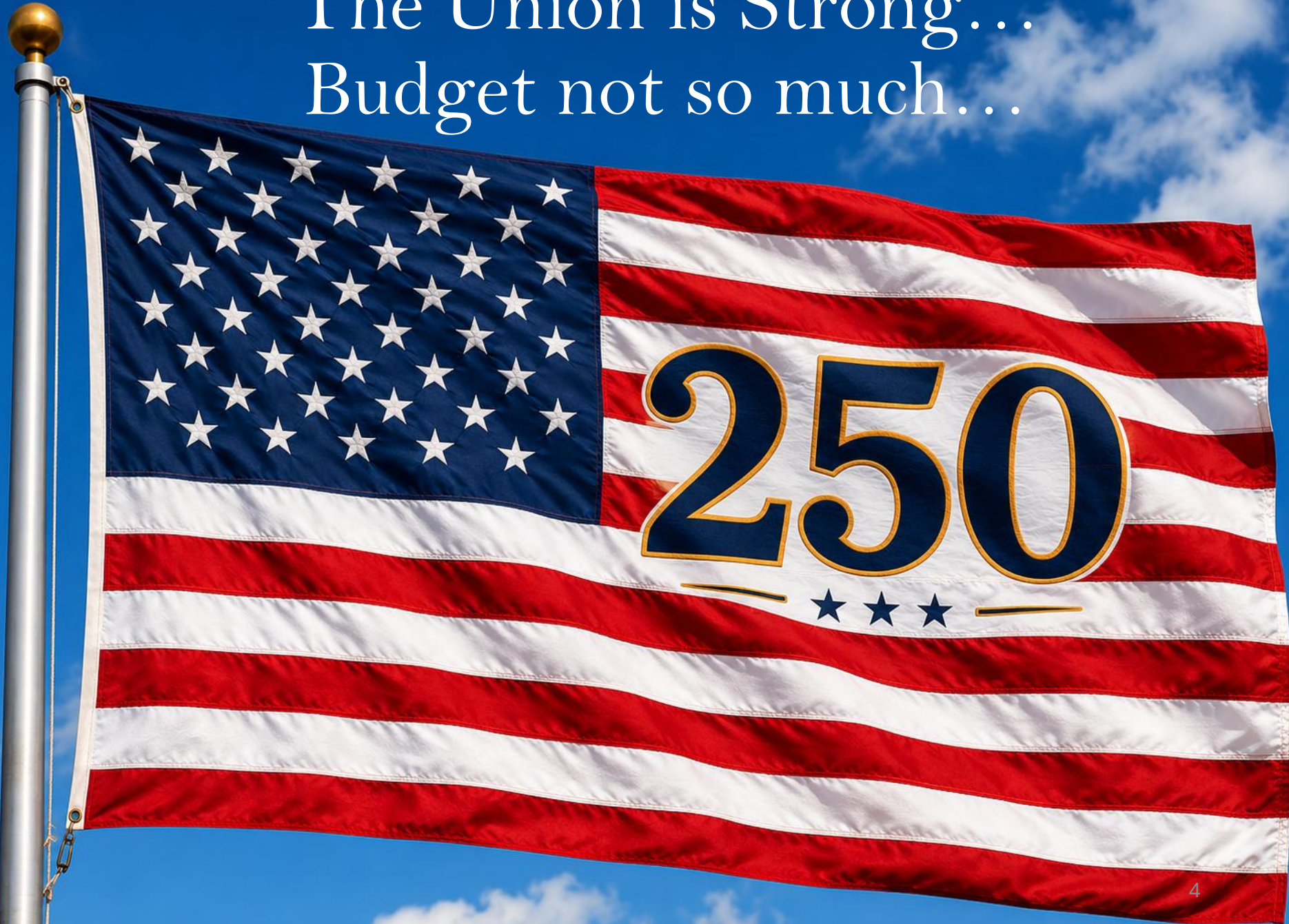


2026 July

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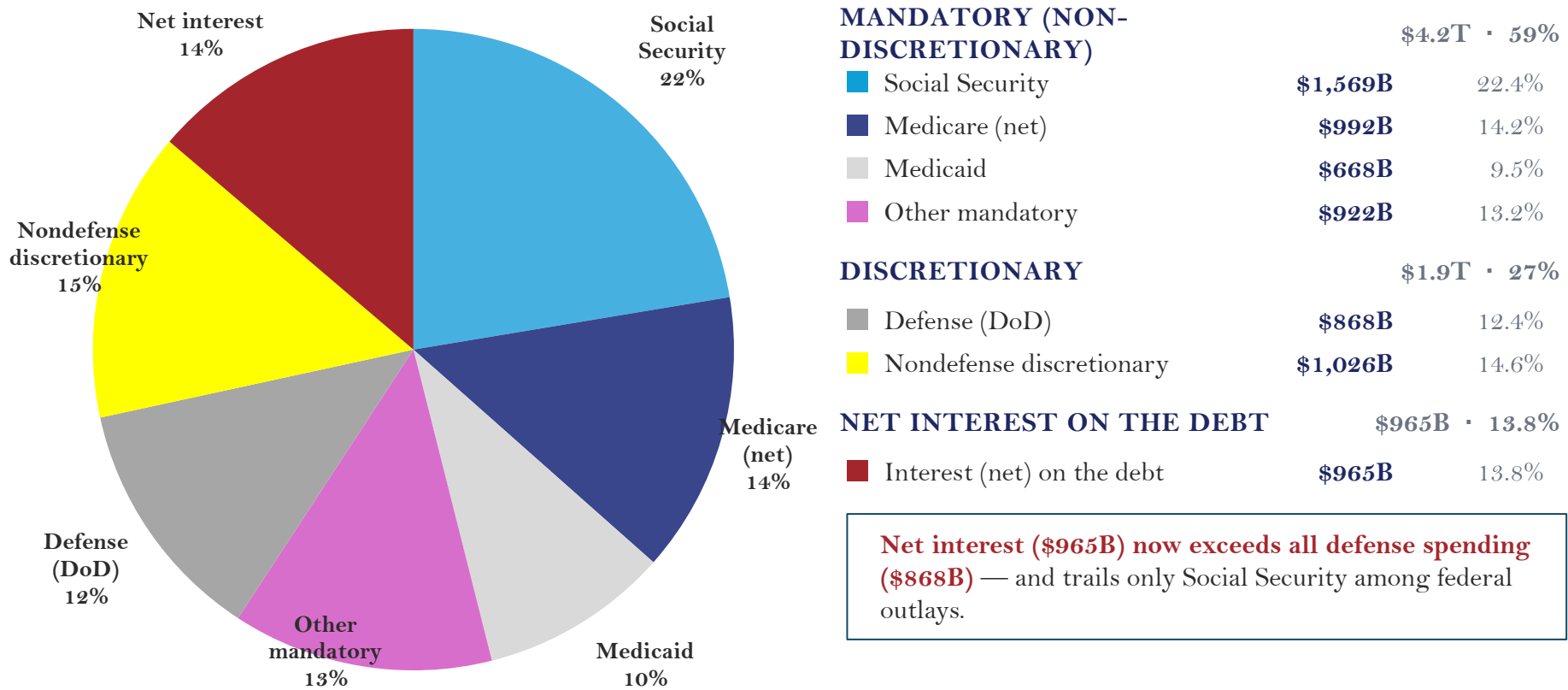
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The Union is Strong...
Budget not so much...



The Federal Budget by Category — FY2025 (Actual)

\$7.0 trillion in outlays across mandatory benefits, discretionary spending (including defense), and net interest on the debt



Source: Congressional Budget Office, *Monthly Budget Review: Summary for Fiscal Year 2025* (Nov 10, 2025) — total and program outlays; mandatory/discretionary totals per CBO functional classification. Net interest shown on the net-interest-outlays basis; net interest on the public debt topped \$1.03T. cbo.gov/publication/61307

GDP, Deficits, and the Cost of the Debt — 2000–2030

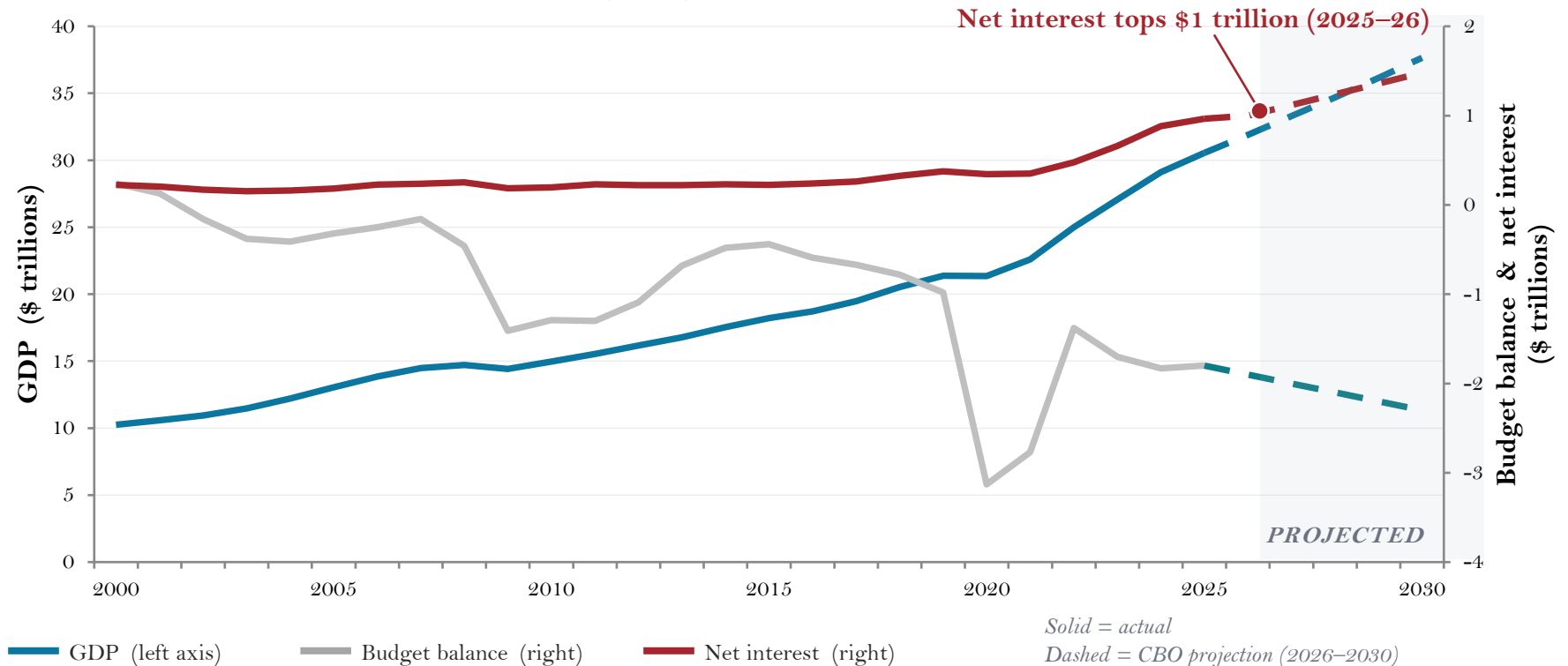
Nominal GDP (left axis) against the budget balance and net interest on the debt (right axis); 2026–2030 are CBO projections.

PROJECTION ASSUMPTIONS — CBO BASELINE (2026–2030)

GDP: nominal ~4–5%/yr (real 1.8–2.2%, inflation 2.8%→2.0%)

Net interest: 10-yr Treasury ~4.3%, fed funds ~3.4%

Deficit: ~5.8% of GDP (2026) → ~6.1% avg through 2030



Sources: Historical actuals — CBO Historical Budget Data and U.S. Treasury (FY2000–FY2025). Projections 2026–2030 — CBO, *The Budget and Economic Outlook: 2026–2036* (Feb 2026). GDP is fiscal-year nominal GDP; net interest is net interest outlays.
[cbo.gov/publication/61882](https://www.cbo.gov/publication/61882)

Three Ways to Shrink the Deficit

*Close the gap by taxing the existing base harder — or by enlarging the base itself.
Two of the three levers grow the base rather than tax it more.*

1

A political challenge

Raise Revenue

Collect more from the existing base

Higher taxes fund a larger share of spending — including interest — with revenue instead of borrowing, narrowing the gap directly.

The scale of the lift: revenues run ~17.5% of GDP against a deficit near 5.8%, so closing it on taxes alone is large.

2

Easier said than done

Grow the Economy

Enlarge the base through output

A larger economy lifts revenue at today's rates and shrinks debt and deficits relative to GDP. When nominal growth outpaces the average interest rate on the debt, the debt-to-GDP ratio can fall on its own.

The catch: the least painful lever, but growth is uncertain and hard to engineer — driven mainly by productivity and investment.

3

A political challenge

Expand the Workforce

Enlarge the base through people

More workers (immigration historically) add to the labor force, GDP, and the payroll- and income-tax base without higher rates — and support the worker-to-retiree ratio behind Social Security and Medicare.

CBO estimate: the 2021–26 immigration surge raises GDP by ~\$8.9T and lowers deficits by ~\$0.9T (net) over 2024–34.

Sources: Congressional Budget Office — *The Budget and Economic Outlook: 2026–2036* (Feb 11, 2026; FY2026 projections) and *The Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024, pub. 60165; figures span 2024–34). [cbo.gov/publication/61882](https://www.cbo.gov/publication/61882) · [cbo.gov/publication/60165](https://www.cbo.gov/publication/60165)

The Amount: Borrowing and Refinancing Both Keep Rising

Every year the government must roll a growing pile of maturing debt and fund a ~\$2 trillion new deficit — with net interest compounding on top.

Amount (\$)	2020–21	2025–26	2030 (proj.)
Debt held by the public	~\$22T	~\$31.6T	~\$40T
New borrowing (deficit / yr)	~\$2.8T*	~\$1.9T	~\$2.3T
Debt maturing within 1 yr	—	~\$9–10T ($\approx \frac{1}{3}$ of marketable)	$\approx \frac{1}{3}$ rolls each year
Net interest (adds on top)	\$0.35T	~\$1.0–1.2T	~\$1.4T → \$2.1T by 2036

**2020–21 deficits were COVID-elevated; the structural deficit still runs ~\$2T a year.*

- Two bills to pay every year, both rising: roll the maturing debt and fund the new deficit.
- Net interest is now the fastest-growing outlay, and it becomes new borrowing itself (interest on interest).
- The debt stock has nearly doubled since 2021 and is headed toward \$40T, with deficits near \$2T even outside a crisis.

Sources: U.S. Treasury — Monthly Statement of the Public Debt and Monthly Treasury Statement (figures as of May 2026). 2030 column: CBO, Budget & Economic Outlook 2026–2036 (projections).

The Interest Cost: The Same U.S. Debt Reprices from ~0% to 4%+

Debt issued at near zero% in 2020–21 rolls over at roughly 4%+ today — and keeps repricing higher as it matures.

Interest rate	2020–21	2025–26	2030 (proj.)
Average rate on marketable debt	1.49%	3.39%	higher as cheap debt rolls
New-issue Treasury bills	~0%	~4.0–4.3%	~3–4%
New-issue 10-year note	~0.9–1.4%	~4.3%	~4.3%+
Share maturing within 12 mo.	—	~1/3 of marketable	~1/3 (rolls on)

- About one-third of marketable debt matures within 12 months, so higher rates pass through fast.
- Treasury leans on the short end (bills ~22% of the stock) to hold interest cost down, but it must refinance yearly, increasing reset risk.
- With a flatish curve, the short-end savings are modest; the average rate keeps climbing as low-rate 2020–21 paper rolls off.

Sources: U.S. Treasury — Monthly Statement of the Public Debt (average rate on marketable debt and maturity structure, May 2026). 2030 rates: CBO baseline (10-yr ~4.3%).

“The U.S. Can Always Borrow” — Three Pressures on the Assumption

The comfort rests on reserve status and market depth. Both are real — and both are thinning.

1

Reserve status — a hegemon's privilege in a changing world

“No alternative” assumes a unipolar U.S. As that fades, the Treasury safety premium erodes, and reserve managers diversify.

Foreign share ~30% (was ~50% in 2008–14); central-bank gold now exceeds Treasuries; IMF flags an eroding Treasury safety premium.

2

Deepest market — but depth is liquidity, not a free or stable price

Depth lets you sell; it doesn't let you name your price. The cost is the yield — set against record global sovereign supply.

OECD gross issuance a record \$17T (2025); global public debt → 100% of GDP by 2029; the U.S. is now ~70% of OECD refinancing.

3

Crowding out — the same dollars can't fund Washington and U.S. companies

Finite savings: federal borrowing displaces private investment, and a ~4%+ risk-free rate lifts corporate hurdle rates and weighs on equity valuations.

CBO: 33¢ of private investment lost per dollar of deficit.

Bottom line: The U.S. can keep borrowing — but not at a price of its choosing and not without cost to growth, equities, and the private economy.

Sources: IMF, Fiscal Monitor (April 2026); OECD, Global Debt Report 2026; Congressional Budget Office; U.S. Treasury / TIC.
<https://www.pgpf.org/article/the-national-debt-can-crowd-out-investments-in-the-economy-heres-how/>
<https://finance.yahoo.com/economy/policy/articles/explosion-u-debt-wiping-safety-192424920.html>

IMF: Fiscal Monitor Report 07-2026 - Caution

For global public finances, the accumulation of shocks is increasingly testing fiscal resilience. Governments had been managing the fiscal consequences of the COVID-19 pandemic, the 2022 energy crisis, and major trade disruptions when a war in the Middle East introduced an additional and consequential source of pressure. The war has material global reach and, as this chapter shows, poses meaningful risks to public finances across country groups. Even under relatively benign scenarios, the conflict threatens fiscal positions through multiple and reinforcing channels. The most immediate is higher commodity prices, which constitute an adverse supply shock with direct budgetary implications. Tightening financial conditions and elevated uncertainty further weaken growth and revenues, compounding pressures on fiscal balances. In many countries, policy choices to cushion households and firms from energy price spikes risk adding substantially to budgetary costs, with durable effects on deficits and debt. In 2025, a series of policy-induced shocks kept global uncertainty at the forefront, with no tangible progress in addressing global public debt dynamics. Countries contended with a global push toward protectionism, testing the resilience of international trade and capital markets. Policy uncertainty—particularly in the trade domain—has receded from recent sharp spikes but remains well above historical norms. Another key driver of the global fiscal deficit has been the rising burden of interest expenditures, which have climbed from 2 percent to nearly 3 percent of GDP in only four years. Financing costs continue to adjust upward as governments refinance maturing long-term debt at markedly higher market rates. Despite the normalization of monetary policy, long-term yields in advanced economies remain at multidecade highs. While upward pressures had largely abated year to date—with the notable exception of Japan—the war in the Middle East triggered a renewed increase. Since late February 2026, government bond yields across advanced economies have risen noticeably—by as much as 60 basis points in the case of the United Kingdom—reflecting higher inflation expectations and markets’ reassessments toward a less accommodative monetary policy. Term spreads, measured as the difference between the yields of 2- and 10-year government bonds, have stayed elevated, largely reflecting higher-term risk premiums. This persistence reflects broader systemic risks, including uncertainty surrounding trade developments, fiscal policy trajectories, and long-term debt sustainability. The term spreads compressed, however, around mid-March 2026 despite rising 10-year yields, as a faster move higher in short-term rates reflects increased inflation concerns and expectations of a restrictive monetary policy. Beyond headline debt aggregates, the shifting composition of buyers and the shortening maturity structure of public debt are adding new layers of fiscal vulnerability. As monetary policy continues to normalize and central bank balance sheets unwind, countries must increasingly place new issuance, and even rollover maturing debt, with private investors. This shift in holders of governments’ debt heightens their exposure to market conditions. Compounding these vulnerabilities is the increased reliance on short-term issuance in some economies, most notably the United States, which has risen over the past decade. Initially undertaken to contain near-term borrowing costs, this shift has compressed refinancing cycles and increased the frequency with which governments must return to markets. The fiscal outlook is subject to unusually high economic and policy uncertainty.

<https://www.imf.org/-/media/files/publications/fiscal-monitor/2026/april/english/text.pdf>

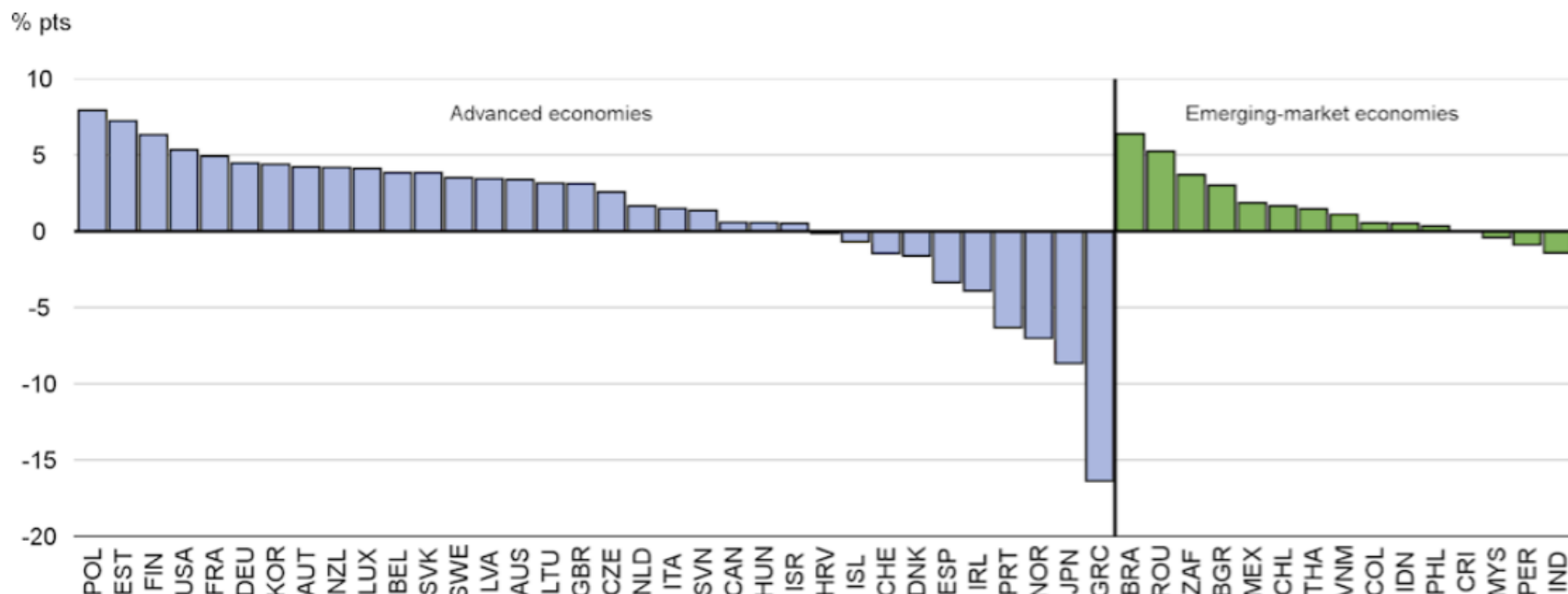
Historical Perspective: Imperial Decline

Historians have a multi-causal view they attribute to historical imperial decline — military defeat, demographics, loss of a commercial or technological edge, institutional decay, and external rivals all matter. Unsustainable debt and the debasement that follows are usually the financial symptom and accelerant of overreach rather than the sole cause. And the "years from overreach to handover" is inherently interpretive — the start and end points are judgment calls. With that framing, here are the clearest cases.

Power (era)	Fiscal overreach	Debt → debasement / inflation	~Years: overreach → displacement	Inflation?
Western Rome (1st–5th c.)	Perpetual frontier defense, army pay, bureaucracy; 3rd-century crisis	Denarius cut from ~95–98% silver under Augustus to under ~5% by the 260s AD; runaway prices; Diocletian's price edict (301AD) failed	~2–4 centuries; no single successor (the East endured)	Severe/runaway, but not "hyper" (peaked ~35%/year, not per month)
Byzantium (11th–15th c.)	Two-front wars; catastrophe at Manzikert (1071)	Gold <i>nomisma</i> stable ~700 years, then debased from ~24 to ~10–12 carats in the 11th c.; Alexios I reformed (hyperpyron, 1092)	~130–380 yrs → Ottomans (1453)	Debasement inflation
Yuan China (13th–14th c.)	Mongol campaigns, court spending	Over-issue of paper money → hyperinflation	~2–3 decades → Ming (1368)	Paper hyperinflation
Habsburg Spain (16th–17th c.)	Endless dynastic/religious wars (Netherlands, France, Thirty Years' War)	~ 9 crown bankruptcies, 1557–1662 , despite New World silver; copper <i>vellón</i> debased → 17th-c. inflation	~60–100 yrs → Dutch , then Britain/France	Severe inflation
Dutch Republic (17th–18th c.)	Anglo-Dutch and French wars; War of Spanish Succession	Sound money (Bank of Amsterdam), but crushing public-debt burden	~40–80 yrs → Britain	No hyperinflation; fell on debt load + competition
Bourbon / Revolutionary France (17th–18th c.)	Louis XIV's wars; Seven Years' War; funding the American Revolution	Chronic debt → 1789 Revolution; Law's paper collapse (1720); assignats hyperinflation (1790s)	~70–100 yrs → Britain (naval/colonial primacy, 1763/1815)	Classic paper hyperinflation
Ottoman Empire (16th–20th c.)	Overextension, then 19th-c. modernization borrowing	<i>Akçe</i> repeatedly debased from the 16th c.; foreign-debt default 1875 → European Public Debt Administration (1881)	Decades–centuries → European powers (dissolved 1922)	Mostly severe; WWI-era approached hyper
Imperial → Weimar Germany (1914–23)	WWI financed by debt, not taxes	Post-war money-printing → 1923 hyperinflation (mark to ~a <i>trillionth</i>). <i>A challenger, not the incumbent hegemon</i>	<1 decade to monetary collapse	Hyperinflation, the textbook case (a challenger, not the incumbent hegemon)
British Empire → U.S. (1914–56)	Two World Wars; imperial defense beyond means	Creditor→debtor after WWI; off gold (1931); sterling devaluations (1949, 1967); reserve status ceded to the dollar (Bretton Woods, 1944)	~ 30–42 yrs (WWI 1914 → Bretton Woods 1944 / Suez 1956) → U.S.	Fell on debt + war exhaustion

Rising Deficits is a Global Phenomenon

Change in the ratio of general government gross financial liabilities to GDP, 2025-2027



Note: The chart is based on central government gross financial liabilities for Chile, Colombia, Costa Rica, Malaysia, and Thailand and on broader government definitions (often general government) for the other economies. For emerging markets, gross liabilities are often not comparable across countries as different concepts are applied. Data for India refer to fiscal years.

Source: OECD Economic Outlook 119 database; and OECD calculations.

https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2026-issue-1_2d1956f0-en/full-report/general-assessment-of-the-macroeconomic-situation_fe9bdcd6.html#chapter-d1e152-4030131ba0

The Warsh Regime Change



Remembering Alan Greenspan –The Maestro

“If I seem unduly clear to you, you must have misunderstood what I said.” Speaking to a Senate Committee in 1987

The Arc

- Took the helm in Aug 1987 — weeks before Black Monday; flooded markets with liquidity and won instant credibility.
- Presided over the “**Great Moderation**” and the long 1991–2001 boom; crowned “the Maestro.”
- Warned of “**irrational exuberance**” (1996) yet declined to prick asset bubbles.
- Slashed rates after the dot-com bust and 9/11; kept them low into the mid-2000s.
- A libertarian who trusted markets to self-correct and championed deregulation.

How He Is Remembered

- The rock-star central banker - near-deified during the boom years.
- Later faulted: low rates plus light regulation helped inflate the housing bubble behind the 2008 crisis.
- Admitted a “mistake” in assuming banks could regulate themselves.
- Verdict of former Fed officials: both the worship and the blame were overdone.

Era & Circumstance

ECONOMIC REALITY

Tenure	1987–2006 • 18½ yrs (2nd-longest)
Appointed by	Reagan; served four presidents
Inflation backdrop	Great Moderation — low, already tamed
Shocks navigated	'87 crash, '97–98 Asia/Russia, dot-com, 9/11
Policy posture	Low rates; light regulation
Communication	Cryptic “Fedspeak”; opened up decisions (1994)

- Alan Greenspan died at his home in Washington, D.C., on June 22, 2026, at the age of 100 due to complications from Parkinson's disease.

The Warsh Era Begins...

The Arc

- Ex-Morgan Stanley banker and Bush White House aide; Fed governor 2006–2011 under Bernanke.
- Sworn in 2026 as Trump’s pick, succeeding Powell (who stays on as a governor).
- First FOMC, June 17, 2026: held rates at 3.50–3.75% with a terse ~130-word statement.
- Abstained from his own dot in the SEP and downplayed forward guidance.
- Launched five task forces — communications, balance sheet, data, jobs/productivity, inflation framework.

How He Will Be Judged

- Betting that saying less, but more clearly, restores credibility and flexibility.
- Wants real-time data over “stale” 30–60-day figures to drive policy.
- Inherits high inflation plus White House pressure to cut — independence under scrutiny.
- Legacy unwritten; the risk is “discretion in a storm,” echoing Greenspan’s cautionary tale.

Era & Circumstance

ECONOMIC REALITY

Tenure	Began 2026 (succeeded Powell)
Appointed by	Trump (2026)
Inflation backdrop	CPI ~4.2% — first real fight in decades
Triggering shock	Oil / Iran-war supply shock
Policy posture	Lighter regulation; smaller balance sheet
Communication	Cutting back — shorter statements, fewer pressers

First FOMC: June 17, 2026

5 task forces • 130-word statement • no chair’s dot.

Speak Softly and Carry a Big Stick

Greenspan & Warsh — where they converge, and where they part



WHERE THEY ARE ALIKE

- Discretion over rules — keep the Fed's hands free
- Reject mechanical forward guidance
- Scarcity keeps communication valuable
- Markets-and-Washington operators, not academics
- Prize real-time data over lagged aggregates
- Lean toward lighter regulation
- Power lives in tools & credibility — not in the talking



WHERE THEY DIFFER

	GREENSPAN	WARSH
Transparency path	Opened a closed Fed (1994)	Less open (cuts dot/Less Press Confs)
Preference	Stylistic — cryptic “Fedspeak”	Structural — formal reforms
Who holds the stick	Concentrated it in himself	Seeks committee inputs

Through-line: Both trust the Fed's hard tools over its talking and deliberately lower the volume - Greenspan by mumbling, Warsh by editing. Roosevelt's unspoken corollary: a big stick reassures only if swung wisely - the 2008 shadow over any return to quiet, high-discretion central banking.

Why Warsh's silence may be his loudest signal – An Opinion

- The question hanging over Kevin Warsh when he took the gavel was not competence but “political capture”. He was Trump's pick, installed by a president who treats lower rates as the cure for every economic ill, and the market assumed he would arrive pre-committed to that script. His first press conference was the opposite. He held rates, retired the committee's easing bias, withheld his own dot, and promised, in as many words, that the Fed would deliver price stability. Half the committee now pencils in a hike this year. For a Trump appointee, it was a defiant opening, and it worked. Overnight the lapdog narrative lost its teeth, and independence fear diminished.
- I would caution against taking the performance at face value; trust must be earned. There is a reading of these events in which the hawkishness is not conviction but choreography; a way to quiet a nervous market and clear room to maneuver. A chairman who has loudly established his anti-inflation credentials can cut, when it suits him, from credibility rather than capitulation to the Administration. A tough opening is not in tension with eventual easing; it is the permission slip for it.
- What makes me lean toward choreography is the silence at the other end of Pennsylvania Avenue. A president who joked months ago about suing his own nominee if rates didn't fall has gone conspicuously quiet, and the administration that built its messaging around cheap money has eased off in near-unison — the NEC counseling patience, the president's own trade adviser suddenly discovering a case for holding steady, the Treasury Secretary assuring audiences that Warsh will be left alone. When the most rate-obsessed White House in living memory abruptly stops talking about rates, that is not an accident. It is a decision. Which points to the real architecture of the moment. Scott Bessent did not merely bless Warsh's appointment. He ran the search that produced it and keeps a standing weekly breakfast with him, and he has publicly applauded the very moves — the death of forward guidance, the retired dot plot — that Warsh has made. This is not an administration holding a central banker at arm's length. It is a coordinated play, with Bessent as the hinge: the president appears to surrender control, the chairman appears to seize independence, and each gets the story he needs.
- There is a deeper irony in the silence itself. Warsh casts saying less as humility — a Fed that no longer pretends to know the future. But silence is not the absence of a signal; it is a more controllable one. A chairman who refuses to publish a path does not stop shaping expectations; he simply moves that shaping off the record. Formal guidance binds the guide. Informal guidance does not. Warsh has not stopped managing the public mind. He has privatized it.
- And he has the gifts to do it. The Wall Street principals who dealt with him during the 2008 crisis describe a temperament built for quiet control — steady under fire, hard to rattle, quick to tell whether the man across the table is lobbying his own book or telling the truth. As a young banker, he floated mergers and leaned on boards many times his seniority. That is the skill set of a closer, not a technocrat, and the closer's craft is exactly where the power of the chair lives.
- The one-vote-of-twelve FOMC of the civics textbook has never been real. The authority operates between meetings: in persuasion conducted one governor at a time, in the framing of the question before it is put to a vote, in a consensus that surfaces looking like the committee's idea rather than the Chairman's. Greenspan ran the table this way for eighteen years. Warsh knows the building, the people, and the levers too well to decline.
- Nor does he carry himself as a caretaker. He has said plainly that he wants “regime change” at the Fed, and he chose to be sworn in at the White House rather than the central bank, the first since Greenspan in 1987. This is not a man who sees himself as the temporary custodian of an institution; he is one convinced the institution lost its way and that he, specifically, is the correction. He means to remake the Fed and has the relational gifts to bend a committee toward him without appearing to push. He is a more consequential figure than his soft-spoken debut let on.
- I read the opening act this way: a chairman telling the world he is an inflation hawk, content to let all to believe he is ready to hike, while keeping every real card to his chest. The opacity is not a side effect of his philosophy; it is the instrument of it. Whether the destination is a genuinely restrictive Fed or an eventual, carefully credentialed pivot, the man steering has arranged to be the only one who can see the road. That may be the most consequential thing about his debut, not what he said, but how completely he reserved the right not to.

Warsh – Regime Change - Opacity

- On Wednesday, May 13, 2026, with a Senate vote of 54 to 45 in favor of Kevin Warsh, he was confirmed as the new Fed Chair replacing Jerome Powell for a 14-year term. In the meantime, Powell is staying on as a governor rather than leaving the Fed entirely.
- Warsh presided over his first FOMC meeting on June 16–17 and held the funds rate unchanged at 3.5%–3.75%.
- Warsh first called for "regime change" on July 17, 2025, in an interview on CNBC's "Squawk Box"¹ while he was still a Hoover Institution fellow campaigning for the chairmanship. He said that one reason the president was right to push the Fed publicly was that "we need regime change in the conduct of policy." He also stated that "the credibility deficit lies with the incumbents that are at the Fed." It was framed as a critique of the sitting leadership; he was targeting Chair Powell and the "incumbents." Warsh also said:
 - (1) "...the Fed has the balance wrong. A rate cut is the beginning of the process to get the balance right,"
 - (2) "We need a new Treasury-Fed accord, like we did in 1951 after another period where we built up our nation's debt and we were stuck with a central bank that was working at cross purposes with the Treasury. That's the state of things now."
- As so stated in the June 17 press release and press conference,
 - 5 review task forces to rethink policy "from first principles" covering (1) communications, (2) the \$6.7T balance sheet and a path to shrinking it, (3) the data the Fed relies on, (4) productivity/jobs and the impact of AI and other technologies, and (5) the Fed's inflation framework.
 - Minimize communication:
 - Dropped forward guidance: no signaling of future moves
 - He declined to submit his own rate projection to the SEP, calling it "not helpful".
 - The press statement was cut to 130 words (from 341 at Powell's final meeting).
 - Dropped mention of future intentions and what the Fed is watching
 - Refocused on price stability and omitted the full-employment mandate

¹<https://www.cnbc.com/2025/07/17/kevin-warsh-touts-regime-change-at-fed-and-calls-for-partnership-with-treasury.html>

Five Task Forces Established

- Chair Warsh announced the establishment of five task forces at his June 17 press conference. He described them as "independent" and composed of subject-matter experts both inside and outside the institution, supported by Fed staff, with members drawn from both inside and outside the economics profession. Their charge is "start with first principles, ask hard questions, examine current practice, consider alternatives, and ultimately propose next steps for policymaker consideration." He expects the task forces to be assembled within weeks and operational shortly thereafter with recommendations expected by the end of the year. He stressed that no decisions would be outsourced, where the task forces recommend, policymakers decide.
- Here are the five task forces:
 - 1) **Communications.** Warsh's underlying complaint is that the Fed talks so much it corrupts its own best signal: "Financial market prices are probably the most important source of information to guide central bankers, but when all the financial markets are doing is reflecting back what we've said, then we're taking the most important source of information, and we're being blind to it." It will review the Fed's various communications tools, such as the quarterly summary of economic projections, the minutes and transcripts from FOMC meetings, and even the post-meeting press conference. Proposed changes are expected to include the Summary of Economic Projections.
 - 2) **Balance sheet.** It will review the benefits and risks of the current ample reserves regime and the composition of the Fed's balance sheet and assess alternative frameworks for the conduct and operation of monetary policy. The scope covers both size and composition. Warsh has long objected to the Fed's large bond-market position, with the balance sheet having gone from ~\$4.1 trillion pre-pandemic to now \$6.7 trillion. A faster Quantitative Tightening (QT) would drain liquidity.
 - 3) **Data sources.** It will evaluate new information sources and consider methodological changes to improve data gathering and real-time accuracy. Warsh has long been critical that the Fed's 2021–22 inflation error came partly from relying on lagging official data. The aim is better real-time reads on the economy, likely leaning more on private data and analytics.
 - 4) **Productivity and jobs.** It will survey the pace, reach, and economic impact of new general-purpose technologies, including AI, and explore the implications for the Fed's employment and inflation mandates.
 - 5) **Inflation frameworks.** It reexamines how the Fed defines and measures inflation. Warsh reaffirmed the 2% target but directed the group to examine the drivers of inflation and weigh the full range of ideas for delivering price stability. Analysts expect it to lean toward trimmed-mean measures of inflation rather than traditional CPI and PCE methodologies. Powell's 2025 review scrapped the 2020 flexible average inflation targeting (FAIT) regime and returned to more conventional flexible inflation targeting. Warsh signals he wants to go further than that revision, reexamining "not just the target but how inflation is defined and measured".

How Did the Fed's Balance Sheet Get So Big?

Before 2008, the Fed's balance sheet was small and simple at roughly \$800 billion, consisting mostly of Treasury securities held to supply the nation's currency. The Fed set interest rates by making tiny adjustments to the supply of bank reserves, keeping them scarce. That reality ended in three waves.

Wave 1: The Global Financial Crisis (2008–2014). When markets froze, the Fed cut rates to zero and hit the "lower bound". To provide more stimulus, it turned to quantitative easing (QE) by creating reserves to buy Treasuries and mortgage-backed securities, aiming to lower long-term rates and support the economy. Three rounds of QE plus Operation Twist (2011–12, which lengthened the maturity of its holdings) took the balance sheet to about \$4.5 trillion. These emergency tools were meant to be temporary but proved politically and economically hard to unwind.

Wave 2: The plumbing changed permanently (2014–2019). After the crisis, new post-crisis bank regulations (Basel III) required banks to hold large quantities of "high-quality liquid assets", chiefly reserves and Treasuries. This manufactured permanent structural demand for reserves. The Fed formally adopted an "ample reserves" operating system in 2019, setting rates through administered tools rather than by keeping reserves scarce. This meant a large balance sheet was no longer just a crisis leftover; it became a structural necessity of how the Fed now operates. When the Fed tried to shrink reserves in 2019, the repo market spiked, forcing it to reverse course. This was clear evidence that the system now required abundant reserves.

Wave 3: COVID (2020–2022). The pandemic triggered the largest expansion yet. The Fed bought Treasuries and Mortgage-Backed Securities (MBS) at unprecedented scale to stabilize markets and finance the economy through the shutdown, roughly doubling holdings to a peak near \$9 trillion. This is where the fiscal-monetary line blurred. The Fed bought vast government debt just as Congress ran historic deficits. This is effectively financing the deficit, even if done through secondary markets.

Beyond crises, the balance sheet stayed big for reasons tied to the dollar's global role. First, the Fed acts as a de facto world central bank, opening dollar swap lines with foreign central banks during stress. Second and more lasting, global regulation pushed banks worldwide to hold more safe assets, and U.S. Treasuries remain the world's premier safe asset. Rising global demand for dollars and Treasuries reinforced a larger footprint. After quantitative tightening (QT) began in 2022, holdings fell from ~\$9 trillion to about \$6.7 trillion. QT ended in late 2025 when money-market rates rose, signaling reserves were approaching scarcity again.

What began as emergency intervention became embedded operating architecture, sustained by regulation, the dollar's global role, and the sheer difficulty of unwinding. That entrenchment is what Warsh set out to challenge.

Shrinking the Fed's Balance Sheet

Kevin Warsh has been a consistent critic of the Fed's balance sheet for over a decade. His case rests on four arguments.

- **First, distortion and fairness:** at roughly \$6.7 trillion (down from a ~\$9 trillion peak but far above the pre-2008 ~\$800 billion), the balance sheet inflates asset prices and, in his framing, "disproportionately helps those with financial assets" — Wall Street over Main Street. He argues that, unlike the interest-rate tool which "gets in the cracks" and reaches the whole economy, the balance-sheet tool favors the wealthy.
- **Second, independence:** when the Fed holds vast quantities of government debt and suppresses long-term rates, it quietly finances deficits and blurs the line between monetary and fiscal policy. This erodes the boundary that protects Fed independence.
- **Third, it enables lower rates:** Warsh contends that redeploying balance-sheet "largesse" would let the Fed set a lower policy rate than it otherwise could.
- **Fourth, resilience:** with debt and Fed liabilities both at record levels, a smaller footprint restores flexibility for the next crisis.

Underlying all of this is a rules-based, pre-2008 philosophy. He believes that emergency tools became permanent features which they never should have. Under the post-2019 "ample reserves" regime, driven partly by post-crisis regulation (Basel III), requiring banks to hold reserves and Treasuries as safe assets demanded large reserve balances. Draining reserves too far causes the Fed to lose control of the funds rate, as the 2019 repo spike and late-2025 money-market stress showed, forcing quantitative tightening to end in December.

A materially smaller balance sheet likely requires regulatory reform to reduce banks' reserve appetite first, a process analysts say takes "quarters, not months," and which is unlikely to return the balance sheet to pre-crisis levels. Given that constraint, Warsh's realistic path is incremental. The Fed is already shortening the portfolio's maturity by buying T-bills and reinvesting into the front end rather than shrinking its overall size. A bills-heavy, shorter-duration book is the near-term move.

Chair Warsh pairs balance sheet shrinkage with a proposed new Treasury-Fed accord (modeled on 1951). The Fed chair and Treasury secretary would jointly state a target for the balance sheet's size (managing market expectations), and Treasury would adjust issuance by tilting away from long bonds and toward bills. This may keep long-term rates from spiking: as the Fed's long bonds run off, Treasury refinances them by issuing bills rather than new long bonds, shrinking the supply of long-dated debt the public must hold. Thus, the Treasury-Fed accord is, in effect, a joint effort to manage the yield curve.

Treasury Secretary Bessent says changes are "at least a year" away. This balance-sheet project is best understood as a direction of travel, constrained by market mechanics, committee consensus, and its own internal tensions.

Easier Said Than Done

- Shrinking the balance sheet may be easier said than done. Just to highlight two issues:
 - First: shrinking is going to be accomplished by lessening the required holdings of “safe assets” by banks in compliance with Basel III, To change this requires the Fed, OCC, and FDIC to change the existing regulations.
 - Second, there are two historical events that, when the Fed attempted, the plumbing rebelled.
 1. After years of crisis-era bond buying, the Fed started letting its balance sheet shrink in 2017–2019 by letting bonds mature without replacing them. The idea was to drain the excess money (bank reserves) it had pumped in. The Fed was under the impression that it had plenty of room left. But, in September 2019, the "repo market" suddenly seized. Repo is the market where banks and firms borrow cash overnight against Treasury bonds as collateral. Normally, overnight borrowing costs a hair above the Fed's target rate, but in this case, it spiked from around 2% to nearly 10%. Cash suddenly wasn't there. Banks didn't have as much reserves as everyone believed.
 2. COVID had lifted the balance sheet up to a record ~\$9 trillion. Starting in 2022, the Fed began "quantitative tightening" (QT) by mostly letting bonds roll off rather than selling down to roughly \$6.7 trillion. By late 2025, the warning lights came on again. Money-market rates started creeping up, a signal that reserves was getting scarce again. Some firms had to borrow directly from the Fed's emergency facility to cover short-term needs, a sign the system was tightening toward the danger zone.
- Both episodes make the same point but in different tones. Shrinking is not a smooth dial you can turn as far as you like. There's a hard floor set by how many reserves the banking system needs to function (a floor that post-2008 regulation raised in compliance with Basel III). Nobody knows exactly where that floor is until they get close and the money markets start flashing red lights. Both times, the Fed hit the limit and had to reverse.

One More Thing - Fed's Ample Reserve Framework

- Reserves are the money banks keep in their accounts at the Fed. Every commercial bank has an account there, and the balance in that account is its "reserves." It's the cash banks use to settle payments with each other at the end of each day. Reserves are created by the Fed. When the Fed buys bonds, it pays by crediting reserves into banks' accounts. The size of the Fed's balance sheet and the quantity of reserves in the system move together. This means big balance sheet equals lots of bank reserves.
- The OLD way was "scarce reserves" (pre-2008). The Fed kept reserves deliberately tight and banks had just barely enough. When reserves are scarce, they're precious, so banks lend them to each other at a meaningful interest rate. Thus, small changes in supply moved the price a lot. If the Fed wanted rates a bit higher, it would drain a small amount of reserves (sell some bonds) and rates would rise. This required the Fed to intervene constantly, fine-tuning the supply almost every day to hit its target. Because reserves were kept scarce, the system had little cushion, which is partly why funding markets could seize up.
- The NEW way of "ample reserves" (since ~2019) - After the 2008 crisis flooded the system with reserves through QE, the Fed switched to the opposite approach. Now it keeps reserves abundant with banks having far more than they strictly need. The Fed pays interest on the reserves banks hold in their Fed accounts ("interest on reserve balances"). No bank will lend money to anyone else for less than it can earn risk-free just by parking that money at the Fed.
- By definition, Ample Reserves require a large balance sheet. The abundant reserves are the large balance sheet. They are the money the Fed created by holding all those bonds. Ample Reserves and a small balance sheet are the antithesis of each other. For Chair Warsh to shrink the balance sheet, he will likely need to alter the Ample Reserve regime. The question is how lean or how ample. This may not be a small tweak to a number; it has the potential of swapping out the entire engine of how the Fed sets and implements interest rates. In 2021, the Fed created a backstop - the Standing Repo Facility (SRF). This serves as a safety valve; when reserves get uncomfortably tight and overnight rates start to spike, banks can instantly borrow cash from the Fed against Treasuries at a set rate. That puts a ceiling on how bad a squeeze can get in theory. Thus, SRF may also need to be revisited under Chair Warsh.

What does Independence mean?

Federal Reserve "Independence" means two things. Warsh defends "Fed independence" constantly but never defines it. The word covers two very different things. The listener is left to assume the reassuring one, while the critical one is perhaps quietly not addressed.

Type 1: Independence from the President (rate-setting autonomy)

"The White House does not dictate the policy rate; the FOMC decides on the merits." This is the independence Warsh performs loudly — the "I won't be a sock puppet" posture, refusing to promise Trump rate cuts. It is the LESS significant one to lose as a central banker. Political pressure on rates is visible, contestable, and self-correcting: if the Fed is bullied into cutting and inflation follows, markets see it immediately, yields rise, and the pressure defeats itself.

Type 2: Independence from the Treasury (debt-financing autonomy)

"The Fed's monetary policy tools are not used to grow and keep the government's debt cheap." This is the independence the Fed-Treasury accord actually breaks by coordinating with Treasury to hold financing costs down or by buying Treasury securities that indirectly keep the deficit cheap to finance. This is the far more important independence to hold on to. It is quiet, technical, deniable, and slow. It triggers no immediate market alarm because it looks like plumbing, a silent internal bleed with no self-correction. Once the debt is short and the Fed is trapped, no election or market signal easily reverses it.

Warsh loudly defends Type 1 (which would largely protect itself) while potentially surrendering Type 2. The visible defense of independence-from-Trump becomes cover for the invisible loss of independence-from-Treasury. By never defining which independence he means, Warsh lets the audience hear Type 1, even as he speaks, in the same breath, of Fed-Treasury coordination. The word survives; the substance does not.

Can Warsh have his cake and eat it too?

Chair Warsh has stated 2 explicit goals:

- (1) Shrink the balance sheet – "A", and
- (2) Preserve independence – "regime change to restore credibility," with the fiscal-monetary-line concern central to his balance-sheet argument – "B".

To achieve these explicit goals, his plan must also satisfy two factual constraints he doesn't address:

- (1) the deficit must be funded – "C", and
- (2) long Treasury rates can't be allowed to spike – "D".

The trap is that the two stated goals cannot both survive those two conditions. The goal he'll likely surrender is Fed independence.

Warsh's accord → front end rates down / long end rates up → government issues and funds through short treasuries → high rates for long treasury bonds → causes some disinflation but strangles real long-term economic growth → economy sinks into 1970s-style malaise (stagnant but not crashing) → AI capex, also changes to fund in the short end → government + AI economy crowd onto the same fragile short term bonds → the nation's average debt maturity collapses → perpetual refinancing treadmill → the Fed is trapped, unable to raise rates without detonating both the fiscal and corporate structures it now underwrites → fiscal dominance is complete, and monetary independence, the feature the whole plan intends to protect, is gone.

NOTE: By shifting new borrowing towards the short maturity end of the yield curve, the government issues more Treasury Bills instead of long-term bonds. The short end rate is set and controlled by the Fed. The government can now fund/borrow cheaply and predictably at rates the Fed holds down.

2 Warsh objectives + 2 reality constraints...only 3 can co-exist

WARSH OBJECTIVE A: Shrink the balance sheet Fed retreats as a buyer	WARSH OBJECTIVE B: Keep Fed independence No Fed-Treasury coordination
REALITY CONSTRAINT C: Fund the rising deficit Debt gets absorbed	REALITY CONSTRAINT D: Keep long rates low No long-end rate spikes
A+B+D cannot coexist Holding long rates low while shrinking requires coordination – no independence	
Only three combinations are possible – each gives up one goal “Fund deficit” = absorbed at market rates “Hold long rates low” = keep rates down via coordination	
Keep A, C & D Shrink, fund deficit, hold long rates - Treasury tilts to bills, only via an accord	✗ B Independence
Keep A, B & C Shrink, stay independent, fund deficit - Long rates spike	✗ D Low long rates
Keep B, C & D Stay independent, fund deficit, hold long rates - Can't shrink	✗ A Shrink

The long end bond rates are set by the market, driven by investors' demand and their expectations for inflation and risk. As the Fed shrinks its balance sheet and steps back as a buyer of long-dated debt, that supply must be absorbed by private investors, who demand higher yields to take it on. Thus, long maturity rates drift up even as short maturity rates are pushed down. This results in a steeper curve where the U.S. near-term financing gets cheaper on the end the Fed governs, while borrowing costs rise on the end it doesn't; this is the end that sets mortgage rates and long-term business loans.

“The U.S. Can Always Borrow”: 3 Pressures on the Assumption

The comfort rests on reserve status and market depth. Both are real — and both are thinning.

1

Reserve status — a hegemon’s privilege in a multipolar world

“No alternative” assumes a unipolar U.S. As that fades, the Treasury safety premium erodes and reserve managers diversify and the dominant trading currency also diminishes (i.e., less transactions and thus less demand).

Foreign share ~30% (was ~50% in 2008–14); central-bank gold now exceeds Treasuries; IMF flags an eroding Treasury safety premium.

2

Deepest market — but depth is liquidity, not a free or stable price

Depth lets you sell; it doesn’t let you name your price. The cost is the yield — set against record global sovereign supply.

OECD gross issuance a record \$17T (2025); global public debt → 100% of GDP by 2029; the U.S. is now ~70% of OECD refinancing.

3

Crowding out — the same dollars can’t fund Washington and U.S. companies

Finite savings: federal borrowing displaces private investment, and a ~4%+ risk-free rate lifts corporate hurdle rates and weighs on equity valuations.

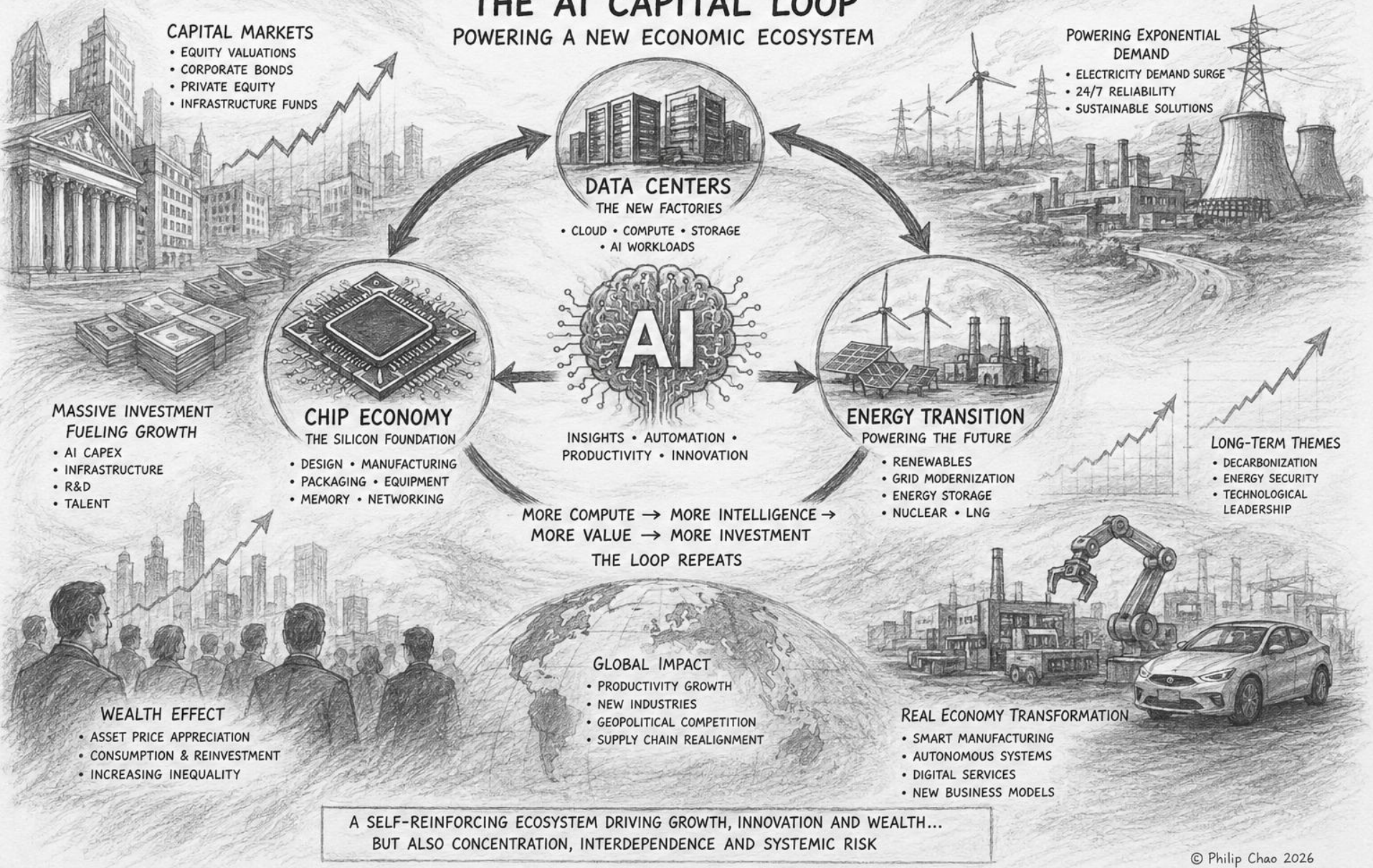
CBO: 33¢ of private investment lost per dollar of deficit.

Bottom line: The U.S. can keep borrowing — but not at a price of its choosing, and not without cost to growth, equities, and the private economy.

Sources: IMF, Fiscal Monitor (April 2026); OECD, Global Debt Report 2026; Congressional Budget Office; U.S. Treasury / TIC.

THE AI CAPITAL LOOP

POWERING A NEW ECONOMIC ECOSYSTEM



© Philip Chao 2026

Looking backward and looking forward: Dot-Com (2000) vs. AI (2026)

Nearly every gauge that flashed red in 2000 is flashing again — and several are brighter.

Metric	Dot-Com Peak 2000 (est)	AI Boom 2026 (est)
Forward P/E — market leaders	~30x	~ 38x
VC investment as % of U.S. GDP	~1.09%	~ 1.05% (rising)
Capital spending as % of sales	~32%	~ 34% → 39% by '27
Tech share of the S&P 500	~34%	~ 34% (at/above peak)
The hot sector's grip on VC	Internet ~39%	AI ~75% of U.S. VC
Demand-flattering finance	Telecom vendor financing	~ \$800B circular deals

Both times — what holds it up: **confidence and momentum**, reinforced by incentives to participate. What brings it down: **the same, in reverse.**

THE PARALLEL

Valuations, capital intensity, and sector concentration have **matched or exceeded** the dot-com peak. This time led by **profitable giants**, not startups.

~\$800B

of circular financing

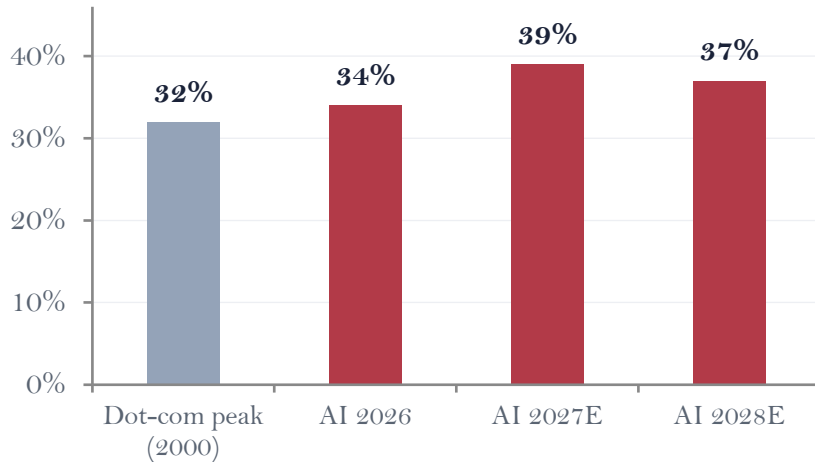
Chipmakers fund AI labs that buy their chips — the same dollars circling a handful of firms, making demand look organic.

Sources: OECD (VC); KPMG/PitchBook (VC totals); Morgan Stanley — T. Castagno (capex/sales); Apollo; BCA Research. P/E is forward; figures rounded. For informational purposes only — not investment advice. Figures are estimates/projections and not guarantees of future results. Past performance is not indicative of future results.

Priced on the Future, Not the Present

The financial commitment is running well ahead of demonstrated, measurable returns.

Capital intensity has already passed the 2000 peak



Including finance leases, the ratio rises to 38% / 44% / 45% across 2026–28 (Morgan Stanley).

WHAT IS “CAPITAL INTENSITY”?

How much a company must sink into long-lived physical assets — chips, data centers, power — to produce its revenue

Measured here as **capital spending ÷ sales**: the cents of capex committed for every dollar of sales.

A rising ratio means more of the business **bet on physical build-out that only pays off if demand and returns actually materialize**. Today's hyperscalers commit a larger share of revenue to build-out than tech did at the 2000 peak.

THEN: valued on eyeballs & user growth, not earnings.

NOW: valued on tokens & projected adoption, not profit.

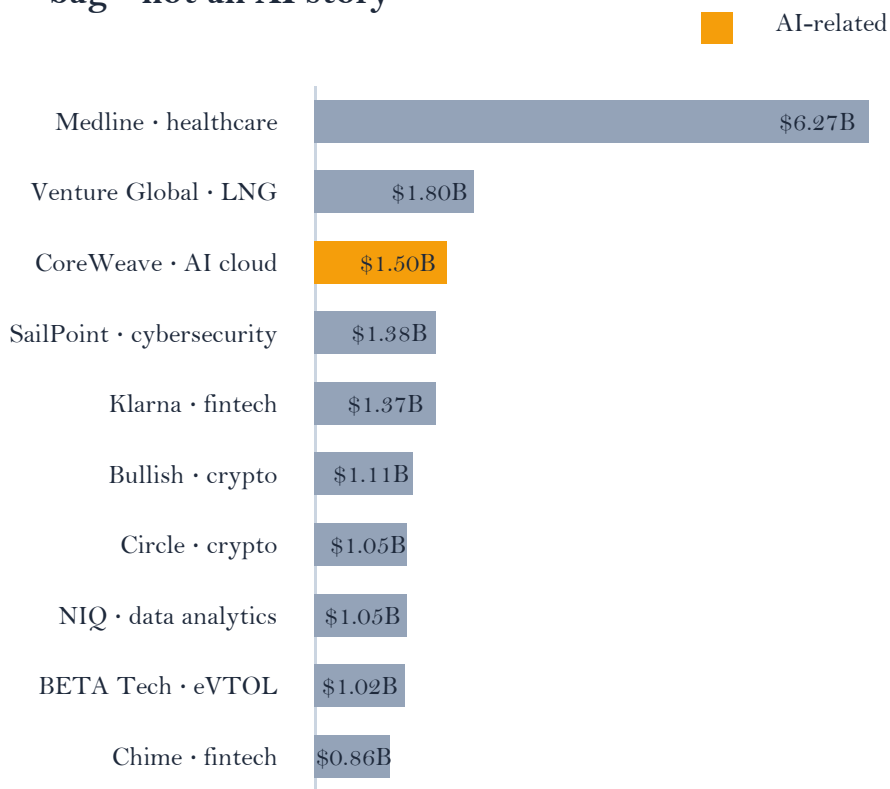
Sources: Morgan Stanley — T. Castagno (2026), capex-to-sales vs. the dot-com peak. Figures rounded; 2027–28 are estimates.

For informational purposes only — not investment advice. Figures are estimates/projections and not guarantees of future results. Past performance is not indicative of future results.

2025 – 2026 U.S. IPO

PUBLIC EQUITY · THE 2025 IPO CLASS

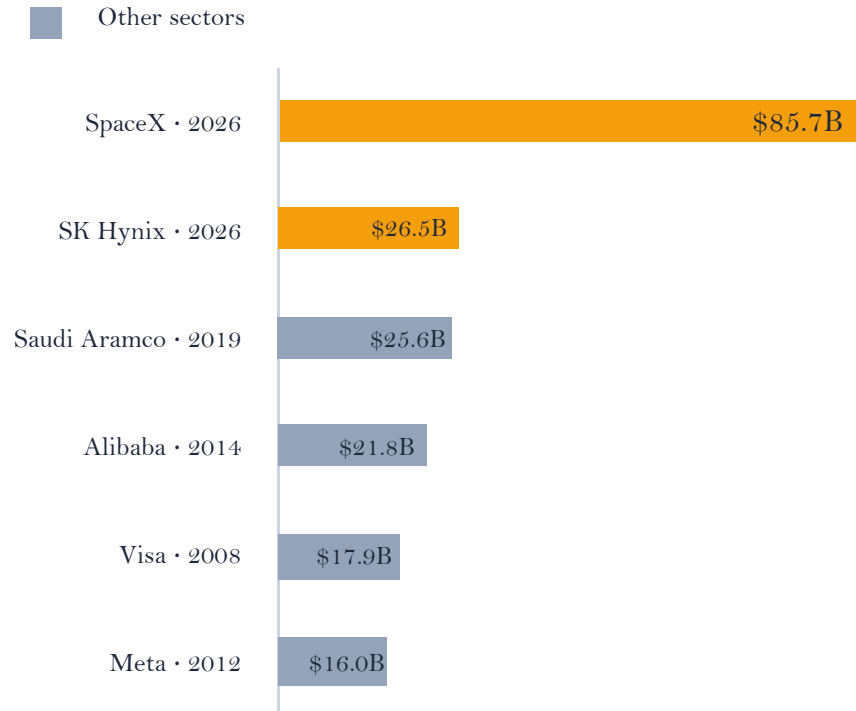
Before the mega-listings, 2025 IPOs were a mixed bag – not an AI story



Sources: Wolf Street, Renaissance Capital, Inc., AlphaSense (2025 IPO proceeds).
Figures = capital raised; ranks 7–10 approximate.

PUBLIC EQUITY · 2026'S MEGA-LISTINGS

Then 2026 arrived: the two biggest share sales ever

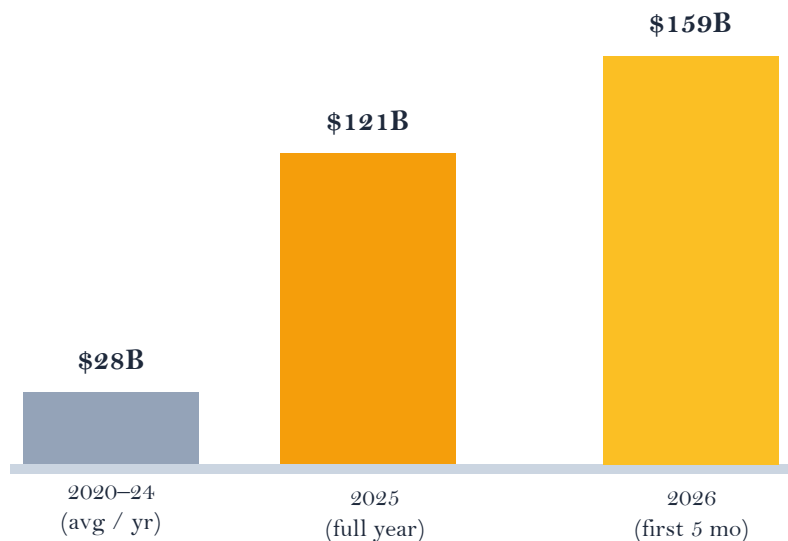


Sources: Bloomberg, Forbes, TechCrunch, Statista, Motley Fool (gross proceeds, incl. greenshoe). SpaceX Jun 12 2026; SK Hynix Jul 10 2026.

In 2026 the demand really does look bottomless — and now it's showing up in **record equity AND record debt**, concentrated in a handful of interlinked AI names.

The U.S. New Debt Issuance

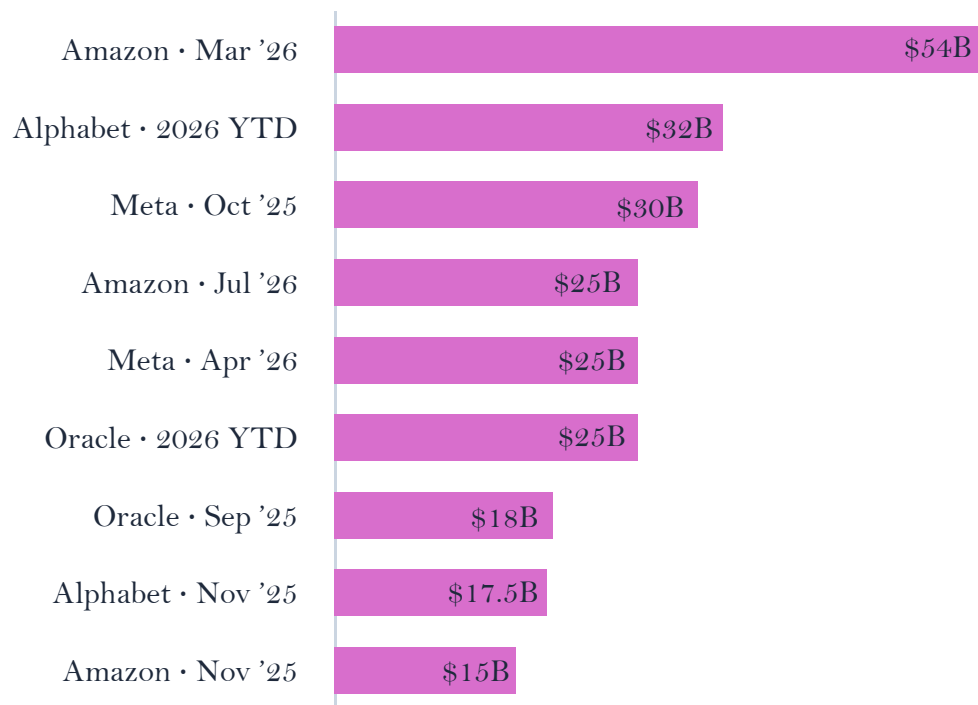
AI borrowing went from a trickle to a flood



The five hyperscalers (Amazon, Alphabet, Meta, Microsoft, Oracle) issued \$121B of bonds in 2025 — 4× their 2020–24 average of \$28B. In just the first five months of 2026 they sold \$159B — already more than all of last year. Counting all AI / data-center issuers, full-year 2026 supply is estimated near \$300B — about 30% of all U.S. investment-grade net issuance.

Source: BofA Securities & Cryptobriefing — bonds issued by the five hyperscalers (2020–24 avg · 2025 full year · 2026 first five months). All three bars are the same measure. Broader AI-IG estimate: Vontobel.

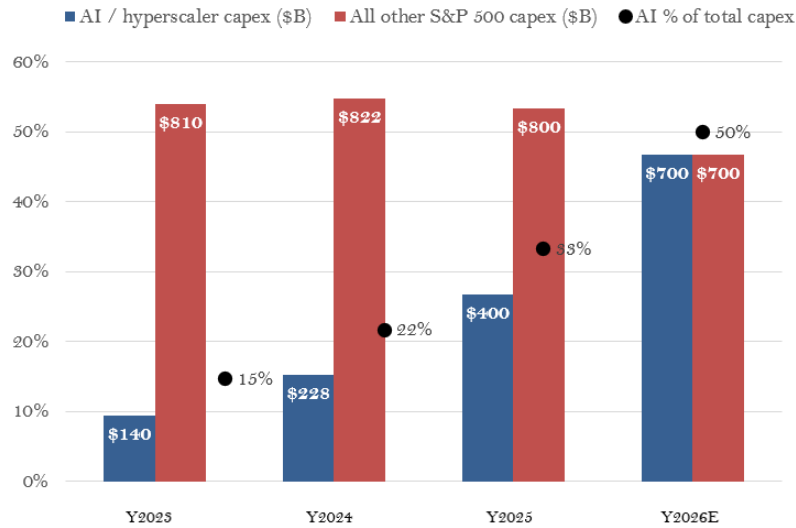
The bond market is almost pure AI



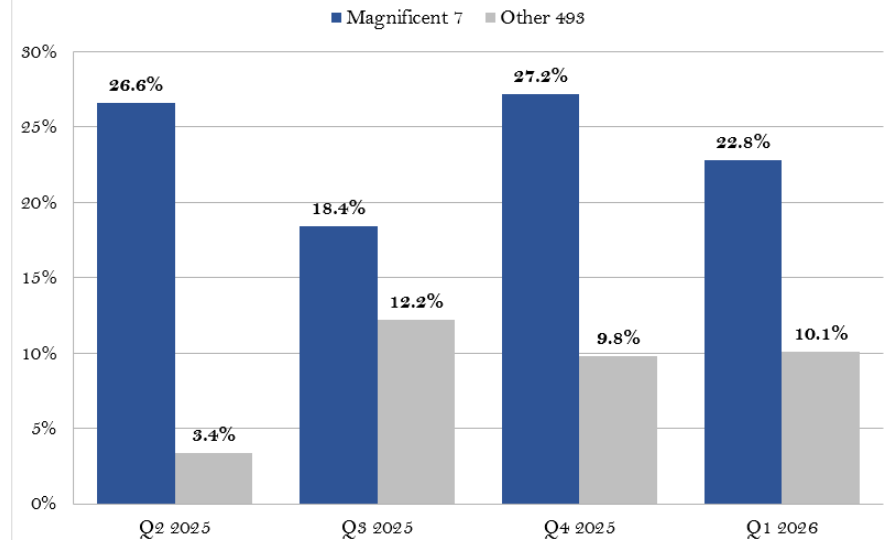
Hyperscalers were 4 of the 5 biggest U.S. high-grade bond deals of 2025. (Microsoft is the exception — it still funds its build mostly from cash.) Even SpaceX joined in, raising a \$25B bond days after its IPO.

AI Dominance in Capex, Earnings Growth, Market Cap, and Investment Return

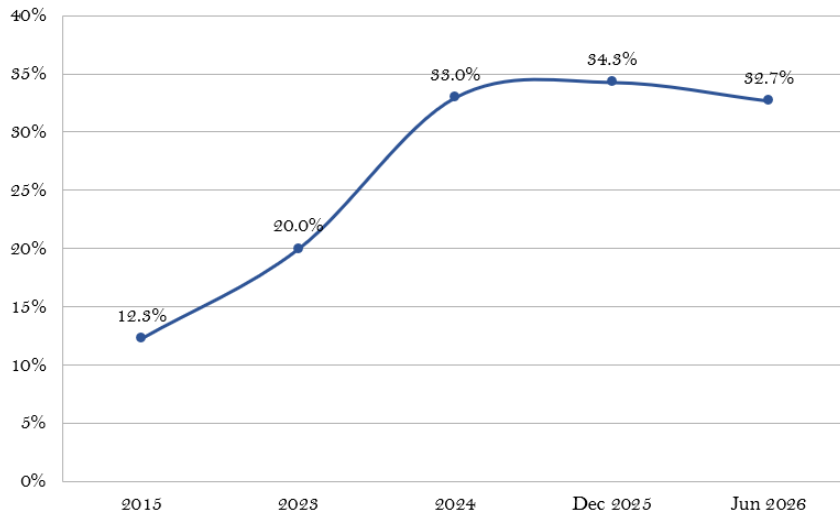
AI/Hyperscaler Capex vs. All Other S&P 500 Capex (\$B)



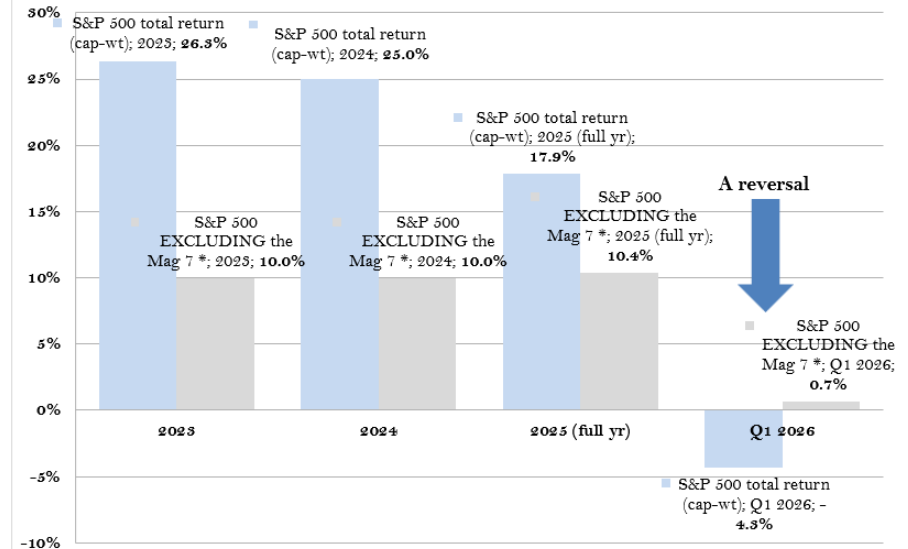
Earnings Growth: Mag 7 vs Other 493 (YoY)



Mag 7 Share of S&P 500 Market Cap



S&P 500 vs. the Same Index Excluding the Mag 7 (total return)



The Economy is Riding on AI

AI props up the economy through two channels at once — the investment boom and the wealth effect on the consumer.

THE INVESTMENT CHANNEL

~40%	of all S&P 500 capital spending is the six hyperscalers (2026)
90%	of S&P 500 capex growth is AI, since ChatGPT
~75%	of S&P 500 returns since ChatGPT are AI names
>30%	Mag 7 share of the S&P 500 — above the dot-com peak

THE CONSUMER CHANNEL (the wealth effect)

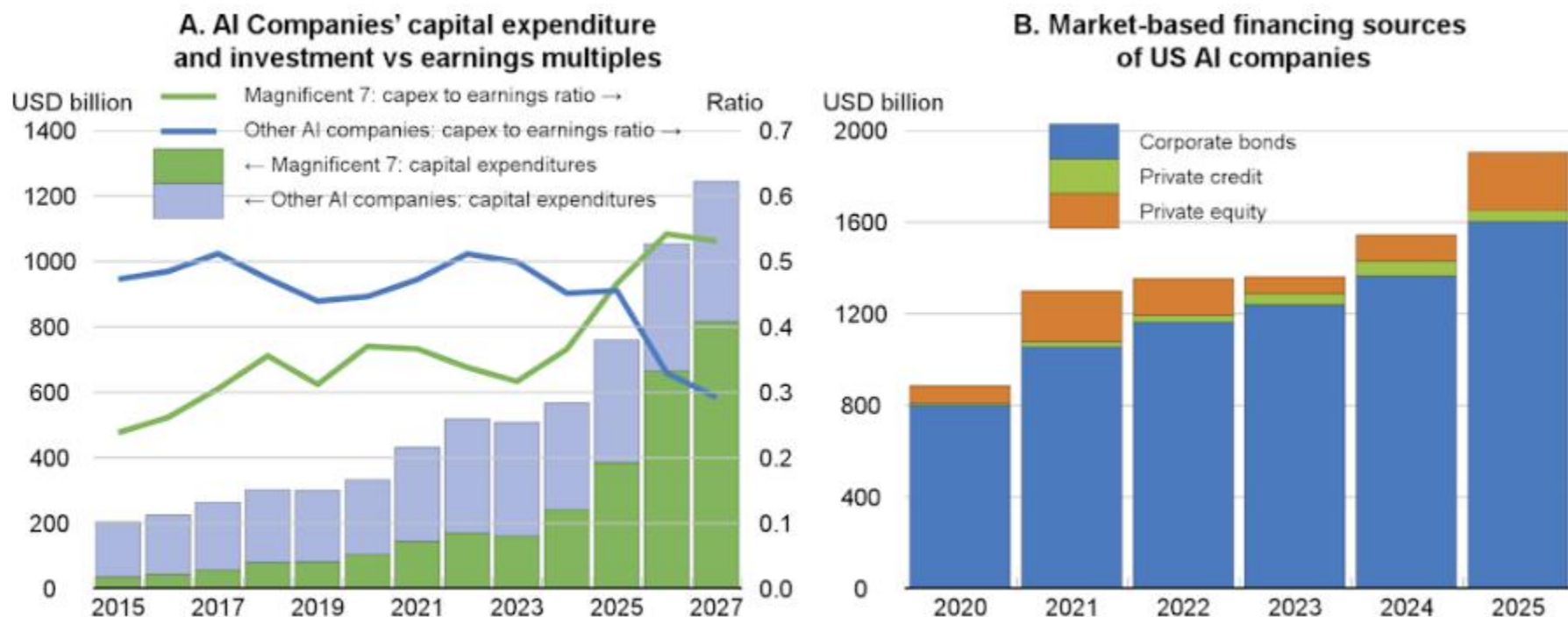
\$624k→\$1.1M Stock Portfolio	top-10% equity holdings since 2022 — the wealth effect
~49%	of all consumer spending is the top 10% — a record (was ~35% in the 1990s)
~70%	of U.S. GDP is consumer spending
The link	AI-driven market & bond gains bankroll the top-earner consumer

Two channels, one dependency:

the same AI-driven asset gains that fund the build-out also underwrite the spending of the consumers who carry ~70% of GDP. A repricing would hit both at once.

Sources: S&P Global/FactSet & J.P. Morgan (capex & market concentration); Moody's Analytics — M. Zandi (consumer spending); Univ. of Michigan (equity holdings). The top-10% ≈ 50%-of-spending figure is debated — some economists estimate ~35%.

AI investment is increasingly reliant on market-based financing



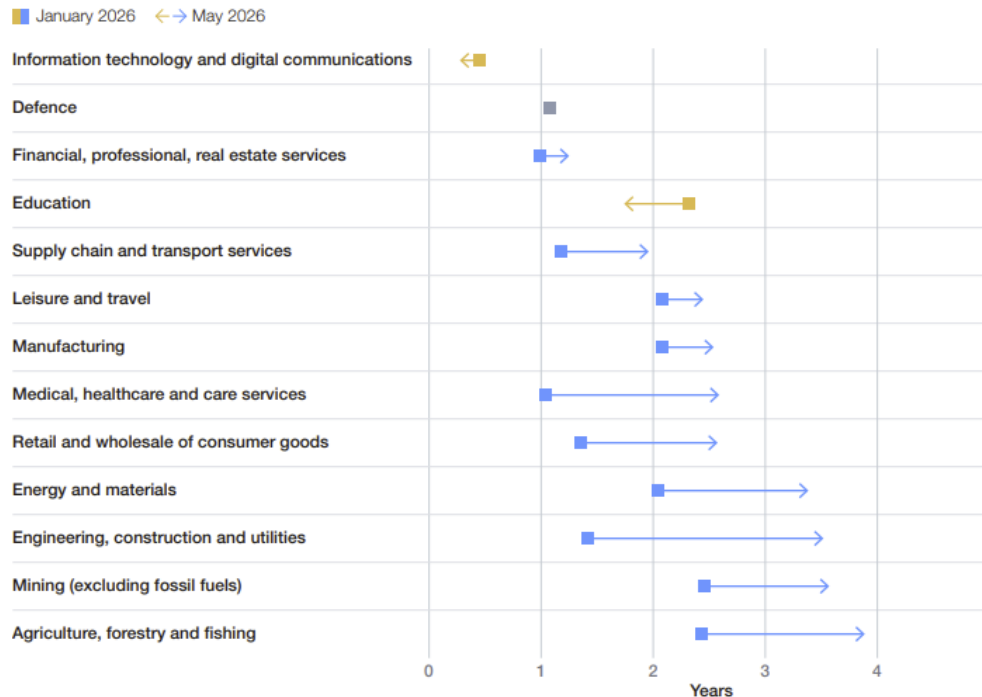
Note: In Panel A, the “Magnificent 7” comprises Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Other AI companies are identified based on the constituents of the iShares and X-trackers exchange traded funds invested in AI firms as of December 2025. Projections for 2026 and 2027 as of May 20, 2026. Earnings are measured by EBITDA – earnings before interest, tax, and amortization. Panel B displays U.S. corporate bonds outstanding for the “Magnificent 7” and other U.S. AI companies, alongside private credit exposures by U.S. business development companies to software and technology services firms and U.S. private equity investments in software companies.

Source: Bloomberg; LSEG; White & Case; and OECD calculations, from OECD June 2026 Economic Outlook

https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2026-issue-1_2d1956f0-en/full-report/general-assessment-of-the-macroeconomic-situation_fe9bdcd6.html#chapter-d1e152-4030131ba0

WEF - Chief Economists Survey 2026 May - AI Adoption

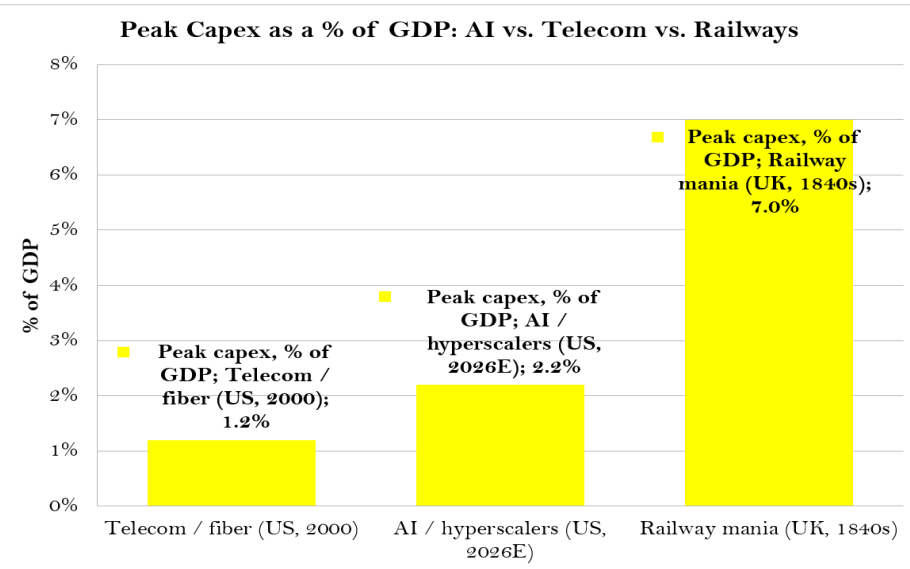
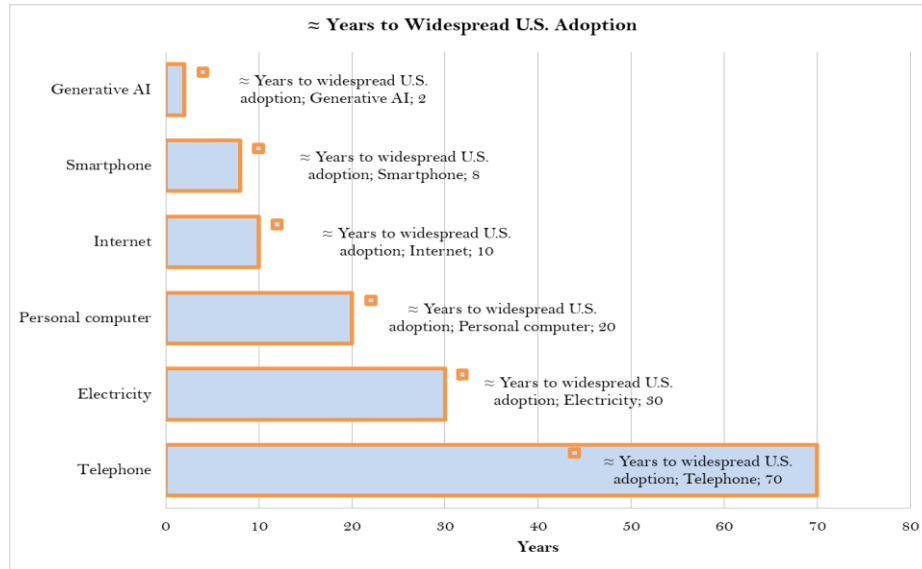
How long do you think it will take for the adoption and deployment of AI tools to generate meaningful productivity gains across the following industries?



Source: WEF
https://reports.weforum.org/docs/WEF_Chief_Economists_Outlook_May_2026.pdf

Meaningful gains in financial, professional, and real estate services are expected within about one year in the latest survey. Recent experimentation in payments points to AI-mediated payment initiation, real-time fraud screening, and automated compliance at transaction speed. In real estate, firms are beginning to redesign complaint handling, renewals, and reporting around agentic workflows rather than one-off drafting tools. This timing suggests that the sector is moving beyond the first round of copilots and into the harder work of redesigning workflows, accountability, and client processes. Compared to the previous edition, however, respondents' views on the technology's short-term impact on productivity have cooled across most industries, with IT and education as the exceptions. Respondents now anticipate meaningful productivity gains in education to materialize slightly earlier. The adoption of AI in education holds immense potential to revolutionize teaching methodologies, personalize learning experiences and streamline administrative processes. In all other industries, the median expected arrival of meaningful productivity gains has increased, suggesting that broad-based productivity improvements from AI adoption may take longer to observe than previously thought. The payoff from general-purpose technologies has often required years of complementary investment, and the current AI wave still appears concentrated in larger firms and knowledge-intensive services, with legal, data, skills and infrastructure constraints slowing adoption beyond the frontier. The result may be a more staggered cycle than the early anticipation implied, with visible wins arriving unevenly and a wider macroeconomic payoff emerging only once management practices, power infrastructure, and workforce adaptation catch up.

Years to Technology Adoption



WHAT HISTORY SUGGESTS ABOUT THE 'WANE/FADE'

- CAUTION, CapEx peaks when ROI disappoints, not when demand ends. Telecom capex peaked in 2000 and collapsed within ~1–2 years once revenue badly lagged the build. Watch the same tells for AI: hyperscaler free cash flow turning negative (Amazon guided negative for 2026), a rising share funded by DEBT (>\$400B issuance expected; \$100B of AI bonds in 2026 with record default-insurance demand), and any softening in GPU utilization or cloud pricing.
- Dominance fades through COMMODITIZATION, not collapse. Cisco survived the bust but never regained its throne; the fiber it and others overbuilt became cheap plumbing that let asset-light newcomers (Google, Netflix) capture the value a decade later. The lesson: the builders often earn poor returns while USERS of the cheap infrastructure win. AI's edge likely narrows as compute gets abundant and models commoditize.

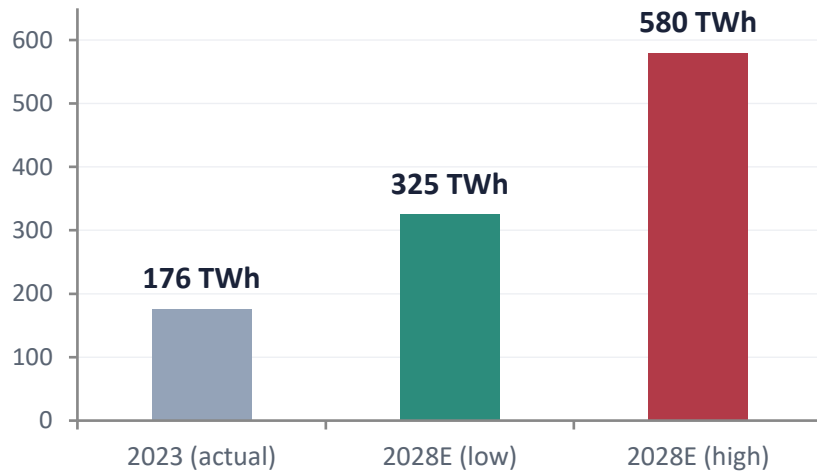
Bottom line: history says the infrastructure almost always outlasts the financing that built it — the tech becomes ubiquitous, but the dominance and the fat margins usually don't survive the build-out. Timing the turn is famously hard; the leading indicators are ROI, utilization, and how much of the spend is debt-funded.

- The productivity payoff runs on a SLOW clock. Electricity took ~30–40 years to show up in productivity statistics (David's 'dynamo' / the Solow paradox). Revolutions are 'over-financed in the short run and underappreciated in the long run.' Infrastructure usually gets used eventually — just later, and often by different owners.
- AI's speed cuts BOTH ways. Adoption that took the internet ~5 years and electricity ~30 took AI ~2 which could pull the payoff forward but also means faster saturation and a faster potential air-pocket if revenue doesn't keep pace. Faster build ≠ safer build.
- Why THIS time may be sturdier (the bull case): unlike the debt-laden 1990s telcos, the core hyperscalers self-fund ~half their capex from real cash flow; Nvidia is genuinely profitable (unlike speculative Cisco); and AI is instantly usable on existing devices. Data centers, however, DEPRECIATE fast and need constant power — arguably riskier than fiber that simply sits.

The Physical Bet: Powering the Build-Out

The financial commitment has a physical twin — an electricity and grid build-out that only pays off if AI demand shows up.

U.S. data-center electricity use is set to double or triple



Bars show terawatt-hours; each bar's share of total U.S. electricity (4.4% / 6.7% / 12%) is shown at right.

~45%

of U.S. electricity-demand growth through 2030 comes from data centers

IEA, Energy & AI (2025)

4.4% → up to 12%

data centers' share of ALL U.S. electricity, 2023 → 2028

U.S. DOE / Lawrence Berkeley National Lab

4–8 years

to build new transmission; ~20% of planned projects risk delay — power, not chips, may be the ceiling

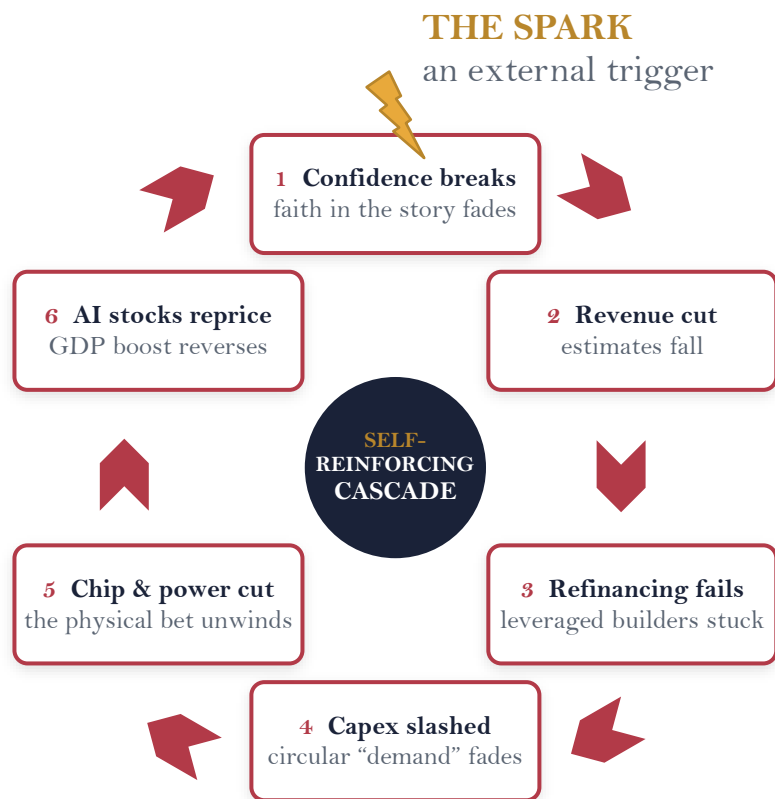
IEA

Sources: U.S. DOE / Lawrence Berkeley National Laboratory (2024); IEA, “Energy and AI” (2025). TWh = terawatt-hours; 2028 figures are a projected range.

For scale: a terawatt-hour (TWh) = 1 billion kilowatt-hours, about a year's electricity for ~90,000–100,000 U.S. homes. Thus, 580 TWh could power well over 50 million homes — roughly 40% of all U.S. households.

The Cascade: One Spark Turns the Wheel

The build-out is a chain of dependencies — a trigger at any joint can spin a self-reinforcing downturn.



WHAT CAN LIGHT THE SPARK

- A stalled mega-deal (e.g., Nvidia–OpenAI)
- A weak or failed bond auction
- An enterprise ROI miss or guidance cut
- An efficiency shock (à la DeepSeek)
- A power-grid or chip-supply disruption

WHAT TO WATCH FOR:

Watch the credit markets, not the stock prices. Equities cheer capex on the way up; the first real crack shows in the **financing costs of the most leveraged builders** – spreads widen before equities blink.

Sources: Illustrative risk framework synthesizing Bain, Morgan Stanley, IEA and market commentary (2025–26). Depicts a potential cascade, not a forecast.

The Global Economy

OECD Economic Outlook, Interim Report, 2026-06

The conflict in the Middle East has become the dominant force shaping the global economic outlook. The world economy entered 2026 stronger than many had anticipated. Activity demonstrated considerable resilience sustained by strong investment in artificial intelligence, supportive financial conditions, and easing trade tensions. Global growth prospects appeared poised for a significant upward revision. Yet, the global economy is now again under pressure. Disruptions to shipments through the Strait of Hormuz, together with damage to energy infrastructure, have triggered a sharp rise in energy prices and increased the cost of fertilizers and other critical industrial inputs. Higher costs are feeding into inflation pressures, weakening confidence, and weighing on household demand and business activity. The evolution of the Middle East conflict remains uncertain, but its economic consequences are likely to be felt for some time even after its resolution. The range of possible outcomes is wide. Recognizing this uncertainty, we framed our global projections through a scenario-based approach. Rather than relying on a single forecast path, the analysis considers two possible trajectories: a time-limited disruption scenario in which disruptions remain relatively short-lived and a prolonged disruption scenario, with broader, much more long-lasting negative consequences. At the time of finalizing this Economic Outlook, the prospects of a peace deal seemed to gain some momentum. A durable settlement to the current conflict would not only bring relief to the people of the region but also lay the groundwork for a resolution to the disruptions it has caused to the global economy. Assuming that energy prices gradually ease from mid-2026 onward, broadly in line with current futures market expectations, we project global economic growth to slow from 3.4% in 2025 to 2.8% in 2026 before recovering to 3.1% in 2027. Annual consumer price inflation in the G20 countries is expected to rise to 4.0% in 2026 from 3.4% in 2025, before easing to 3.1% in 2027 as energy and food price pressures gradually fade. However, the longer the disruptions last, the larger the economic and social costs become. Should the disruptions persist well into 2027, global growth is expected to slow significantly, to just 2.1% in 2026 and 1.8% in 2027, potentially pushing some economies into or close to recession. Unemployment would rise and investment – including in energy-intensive AI – would weaken significantly, with increasing risks of financial market repricing. Global inflation would rise by 0.4 percentage points in 2026 and 1.3 percentage points in 2027, with upside pressures from elevated commodity prices partially offset by weaker final demand. The consequences would be global but could prove especially severe for developing economies with limited energy reserves, higher shares of energy and food in household consumption, constrained fiscal capacity, weak social safety nets, low private savings buffers, and more fragile currencies.

https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/06/oecd-economic-outlook-volume-2026-issue-1_8be0dba6/2d1956f0-en.pdf

Global GDP growth projected to moderate (time-limited disruption scenario)

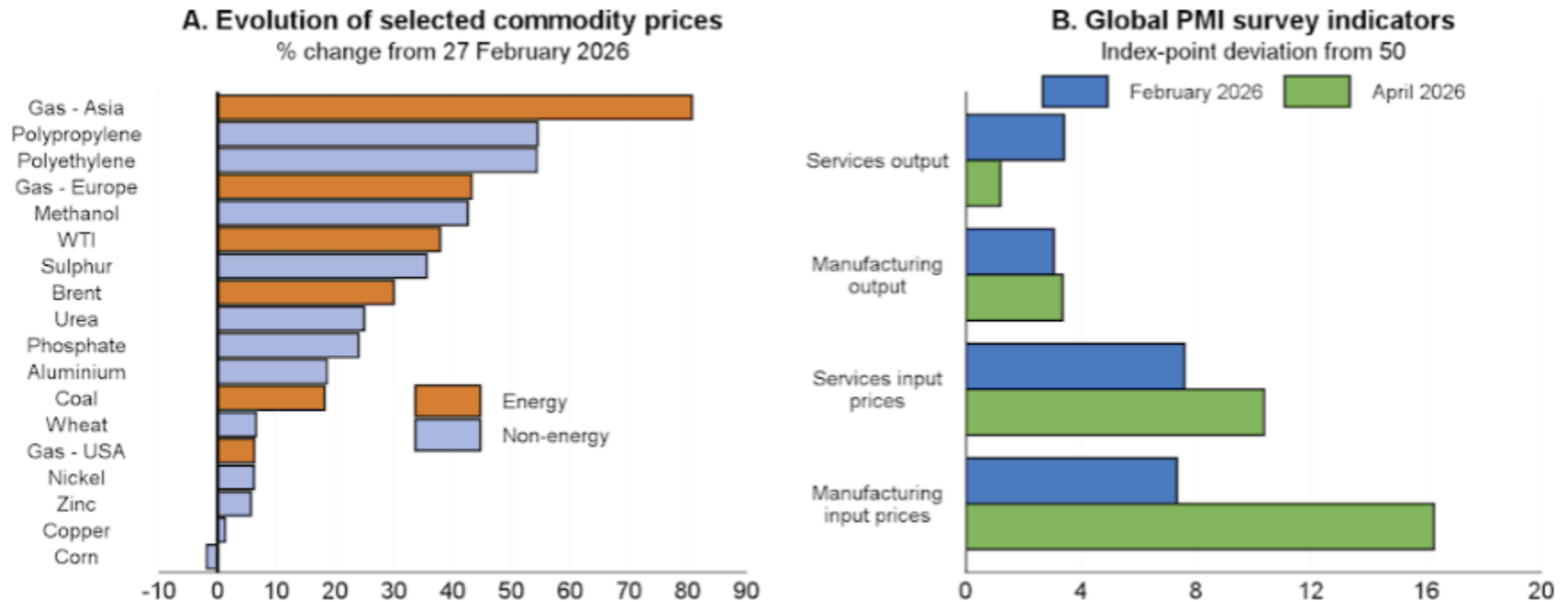
	Average 2013-2019	2024	2025	2026	2027	2025 Q4	2026 Q4	2027 Q4
		Per cent						
Real GDP growth¹								
World ²	3.4	3.4	3.4	2.8	3.1	3.3	2.7	3.2
G20 ²	3.5	3.4	3.3	3.0	3.0	3.2	2.8	3.1
OECD ²	2.3	1.8	1.8	1.5	1.7	1.7	1.5	1.8
United States	2.5	2.8	2.1	2.0	1.8	2.0	1.7	2.0
Euro area	1.9	0.9	1.4	0.8	1.2	1.2	0.9	1.3
Japan	0.9	-0.2	1.1	0.6	0.8	0.4	0.9	0.8
Non-OECD ²	4.4	4.6	4.7	3.8	4.2	4.6	3.5	4.2
China	6.8	5.0	5.0	4.5	4.3	4.7	4.3	4.4
India ³	6.8	7.1	7.6	6.3	6.4			
Brazil	-0.4	3.4	2.3	1.6	2.1			
OECD unemployment rate⁴	6.5	4.9	5.0	5.1	5.0	5.0	5.1	5.0
Inflation¹								
G20 ^{2,5}	3.0	6.2	3.4	4.0	3.1	3.0	4.1	2.6
OECD	1.7	5.0	4.0	4.3	3.0	3.8	4.4	2.4
United States ⁶	1.3	2.6	2.6	3.7	2.1	2.8	3.8	1.7
Euro area ⁷	0.9	2.4	2.1	2.8	2.4	2.1	3.3	2.0
Japan ⁸	0.9	2.7	3.2	1.8	2.2	2.7	2.1	1.8
OECD fiscal balance⁹	-3.1	-4.7	-4.4	-4.8	-4.6			
World real trade growth¹	3.4	4.1	5.0	3.1	2.9	4.7	2.6	3.2

Source; OECD Economic Outlook 119 database

1. Percent, last three columns show the change over a year earlier; 2 moving nominal GDP weights, using purchasing power parities,
3. Fiscal year, 4. percent of labor force, 5. headline inflation, 6. Personal consumption expenditure deflator, 7. Harmonized consumer price index,
8. National consumer price index, 9. Percent of GDP.

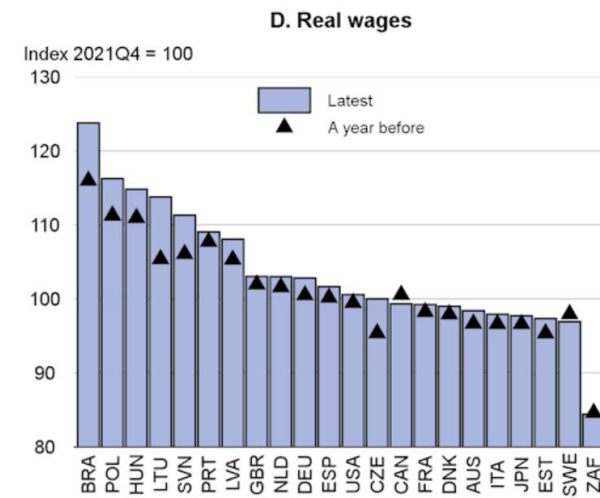
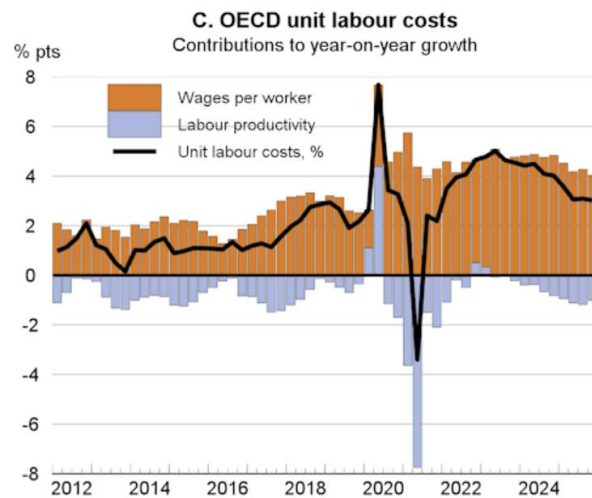
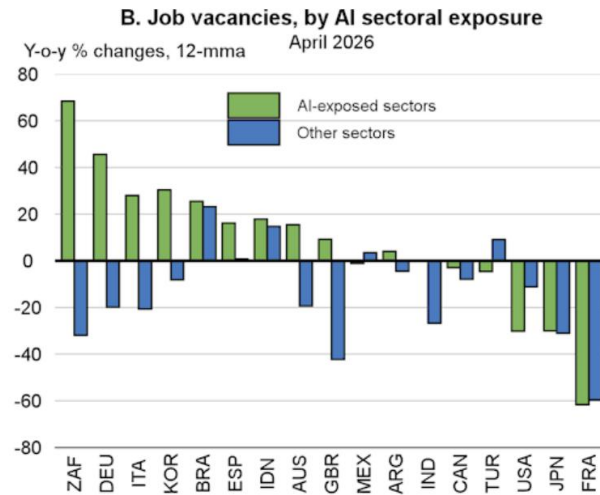
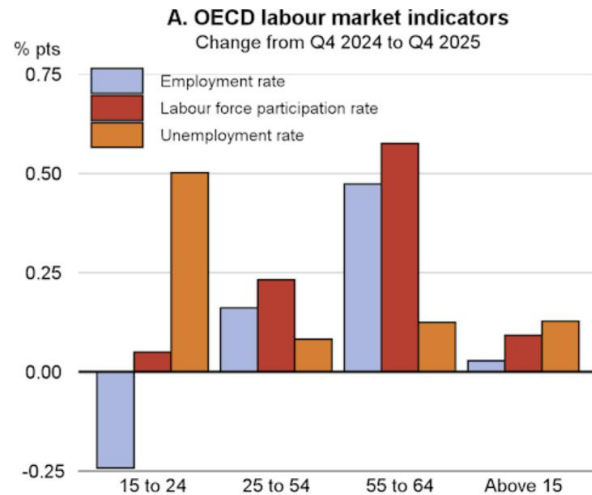
https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2026-issue-1_2d1956f0-en/full-report/general-assessment-of-the-macroeconomic-situation_fe9bdcd6.html#chapter-d1e152-4030131ba0

Energy prices are beginning to weigh on economic activity.



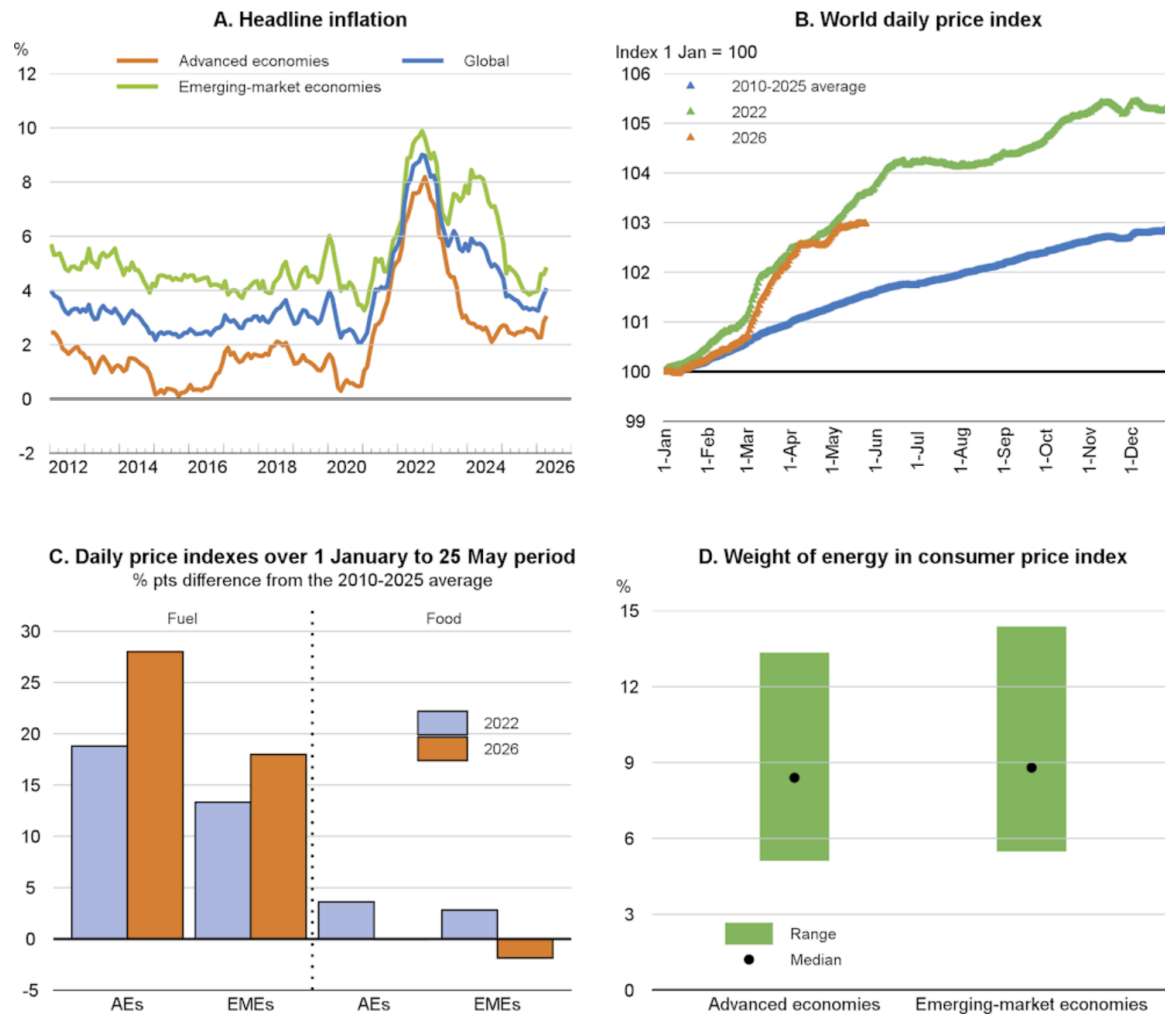
- Panel A is based on data up to May 27, 2026. The series for urea is the New Orleans granular cost, including freight, in USD per metric ton.
- In Panel B, the indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.
- Source: LSEG; S&P Global; and OECD calculations.

Labor market conditions remain broadly stable.



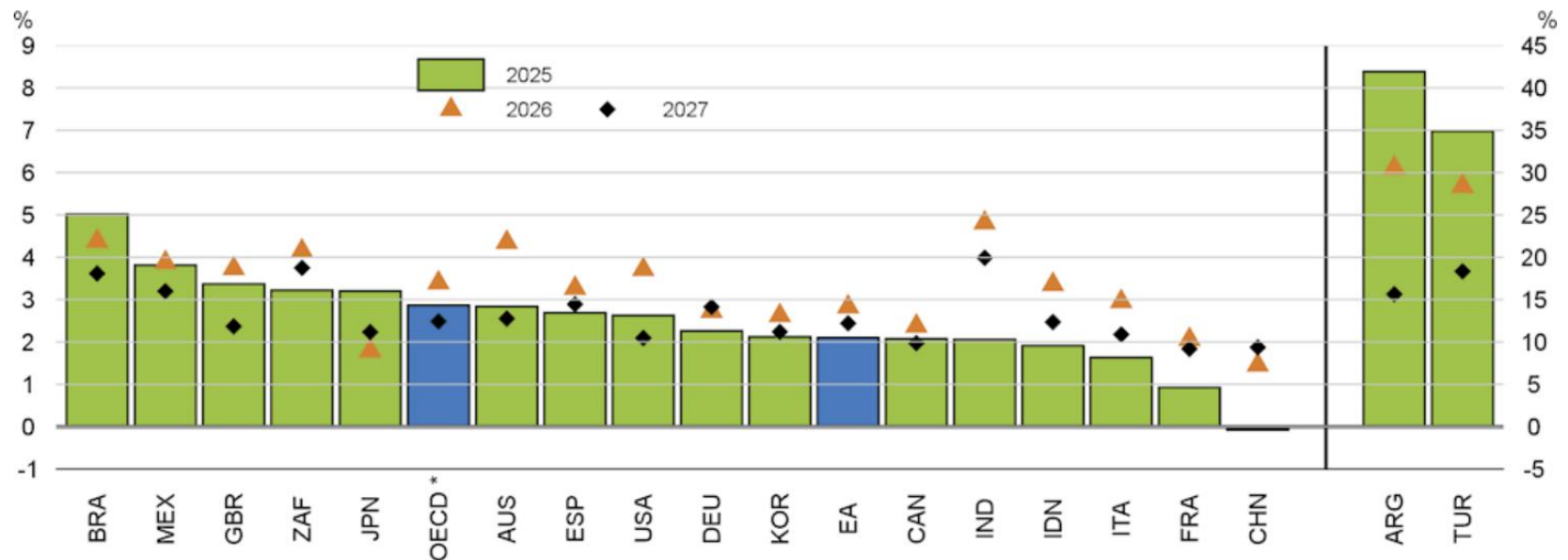
- Source: OECD Economic Outlook 119 database; OECD Infra-Annual Labour Statistics database; CEIC; and OECD calculations.

The energy price shock is beginning to feed through to consumer prices.



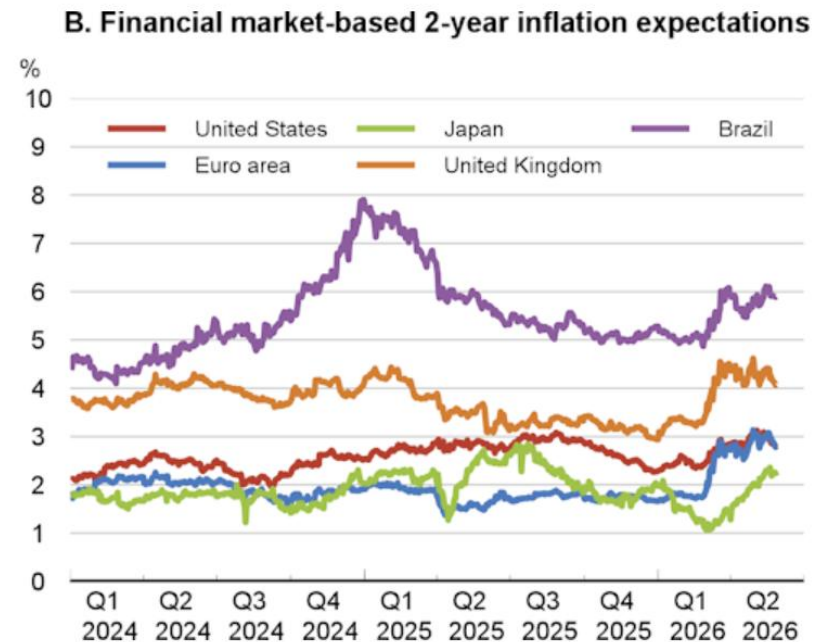
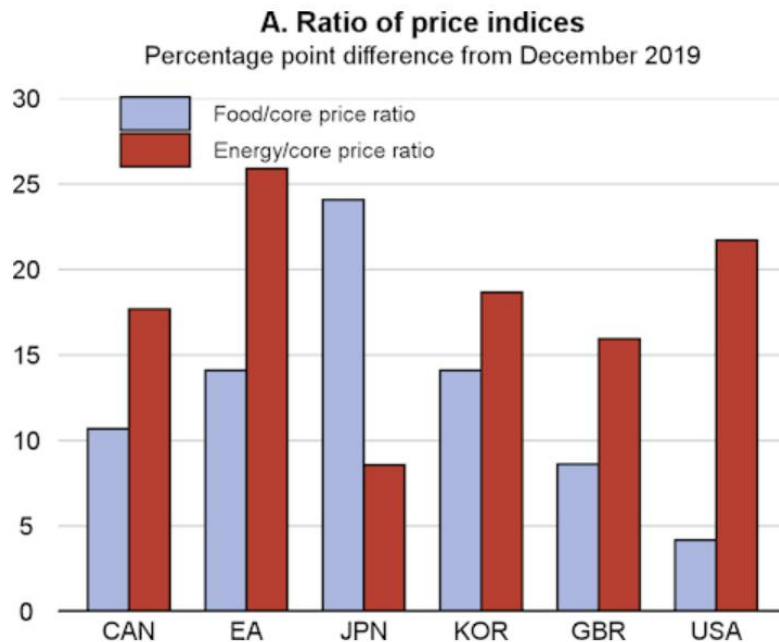
Source: OECD Consumer Price database; State Street PriceStats; Eurostat; U.S. Bureau of Economic Analysis; national sources; and OECD calculations.

Headline inflation is projected to rise in many economies this year.



- Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Data refer to the personal consumption expenditure price index for the United States, harmonized index of consumer prices for the euro area aggregate, euro area member states and the United Kingdom, and national consumer price indices for all other countries. India projections are based on fiscal years, starting in April. OECD is computed as the median of member countries.
- Source: OECD Economic Outlook 119 database; and OECD calculations.

Inflation expectations have moved higher.

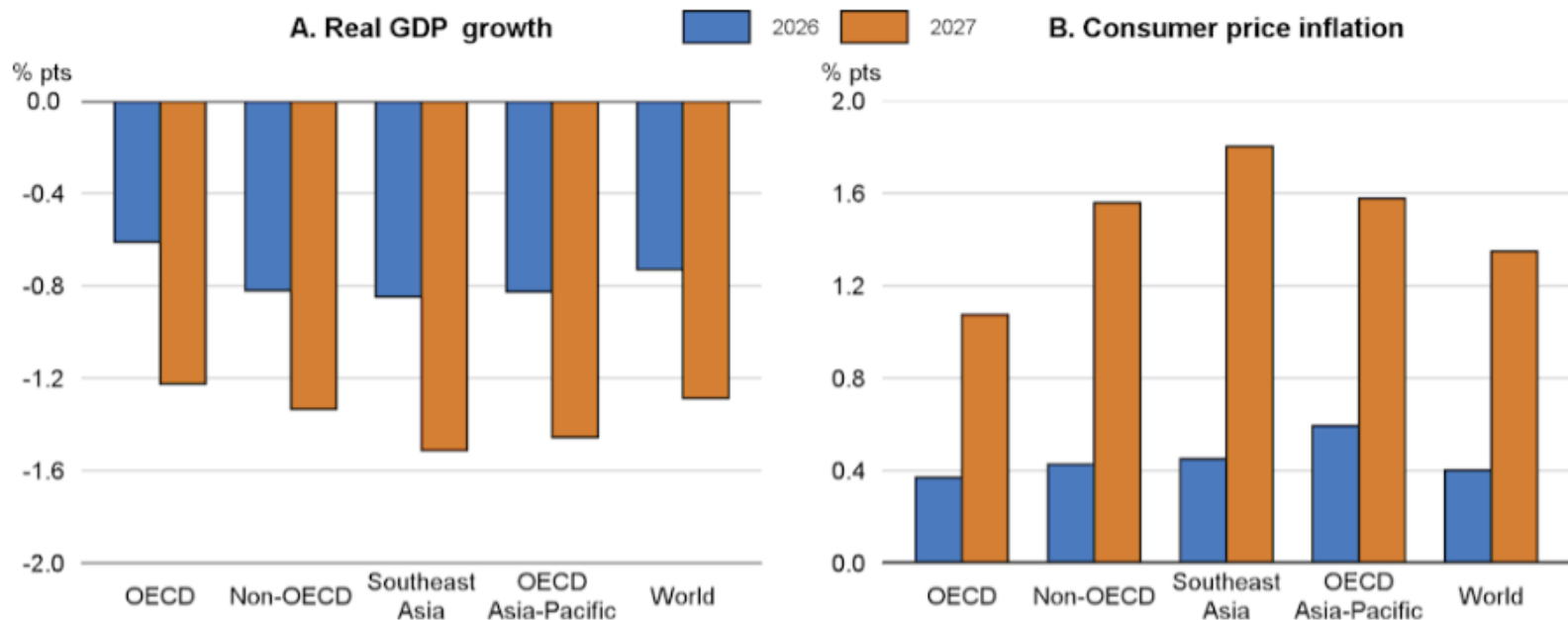


Note: In Panel A, the data refer to April 2026. Panel B is based on data up to May 20, 2026. Financial market-based inflation expectations are derived from two-year inflation swap zero coupon rates, except for Brazil, where the two-year breakeven inflation rate is used.

Source: OECD Consumer Price Indices database; Bloomberg; and OECD calculations.

A prolonged disruption scenario raises inflation and hits growth.

Percentage points change from the time-limited disruption scenario



- Note: The prolonged disruption scenario assumes oil, gas, and fertilizer prices rise by 50% relative to the time-limited disruption scenario from 2026Q3 to 2027Q3, followed by a gradual decline as supplies recover. The scenario also assumes lower technical efficiency due to energy rationing and supply-chain disruptions, higher household saving and tighter financial conditions.

Source: OECD calculations using the NiGEM macroeconomic model.

IMF World Economic Outlook, July 2026 Update

July 2026 IMF World Economic Outlook Projections

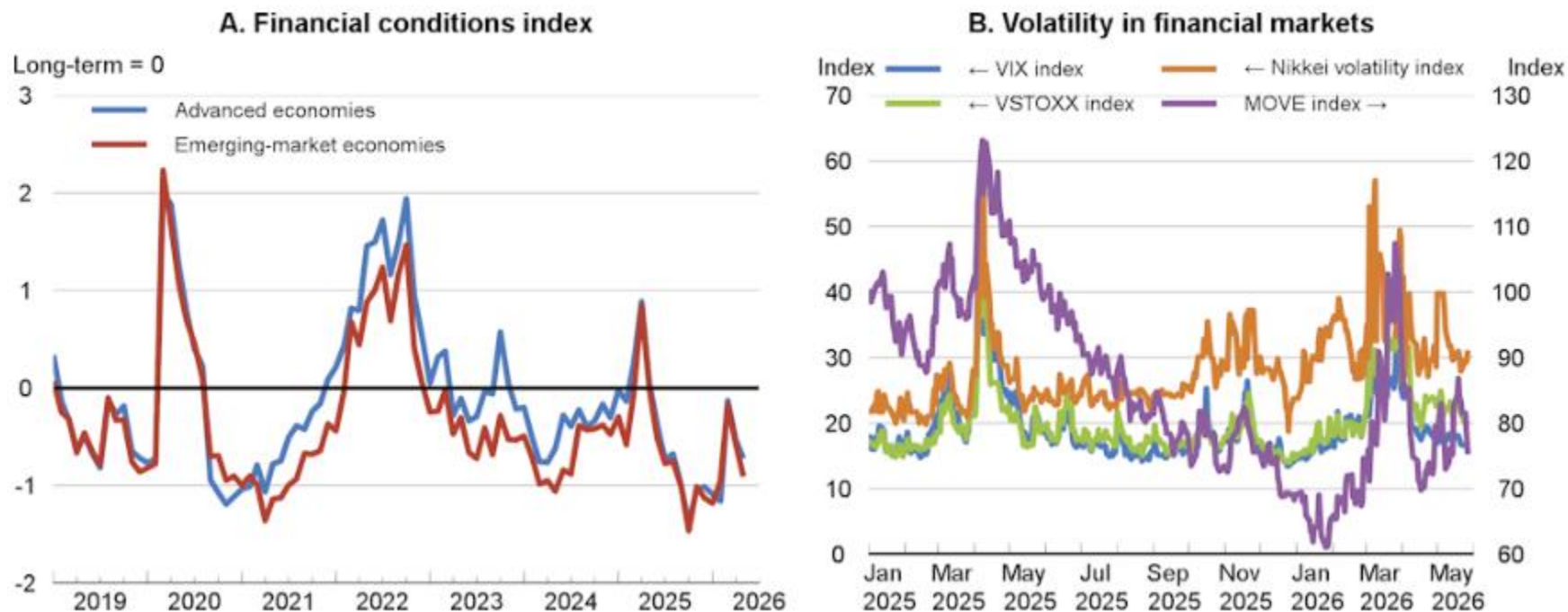
(Percent change, unless noted otherwise)

Category	Year over Year				Difference from April	
			Projections			
	2024	2025	2026	2027	2026	2027
World Output	3.5	3.5	3.0	3.4	-0.1	0.2
Advanced Economies	1.9	1.9	1.7	1.8	-0.1	0.1
United States	2.8	2.1	2.3	2.2	0.0	0.1
Euro Area	1.0	1.4	0.9	1.2	-0.2	0.0
Germany	-0.5	0.2	0.7	1.0	-0.1	-0.2
France	1.4	0.9	0.6	0.9	-0.3	0.0
Italy	0.8	0.5	0.5	0.5	0.0	0.0
Spain	3.5	2.8	2.1	1.8	0.0	0.0
Japan	-0.2	1.1	0.6	0.7	-0.1	0.1
United Kingdom	1.0	1.4	1.0	1.3	0.2	0.1
Canada	2.0	1.9	1.1	1.7	-0.4	-0.2
Other Advanced Economies	2.5	3.0	2.8	2.3	0.2	0.1
Emerging Market and Developing Economies	4.5	4.5	3.8	4.5	-0.1	0.3
Emerging and Developing Asia	5.5	5.6	5.0	4.8	0.1	0.0
China	5.0	5.0	4.6	4.1	0.2	0.0
India	7.1	7.7	6.4	6.7	-0.1	0.2
Emerging and Developing Europe	3.8	2.0	1.9	2.1	-0.1	0.0
Russia	4.9	1.0	1.1	1.1	0.0	0.0
Latin America and the Caribbean	2.4	2.4	2.4	2.7	0.1	0.0
Brazil	3.4	2.3	2.4	2.2	0.5	0.2
Mexico	1.5	0.5	1.2	1.9	-0.4	-0.3
Middle East and Central Asia	3.1	3.7	0.7	6.5	-1.2	1.9
Saudi Arabia	2.6	4.6	1.7	5.5	-1.4	1.0
Sub-Saharan Africa	4.2	4.5	4.3	4.5	0.0	0.1
Nigeria	4.1	4.0	4.1	4.3	0.0	0.0
South Africa	0.5	1.1	1.1	1.3	0.1	0.0

<https://www.imf.org/-/media/files/publications/weo/2026/update/july/english/text.pdf>

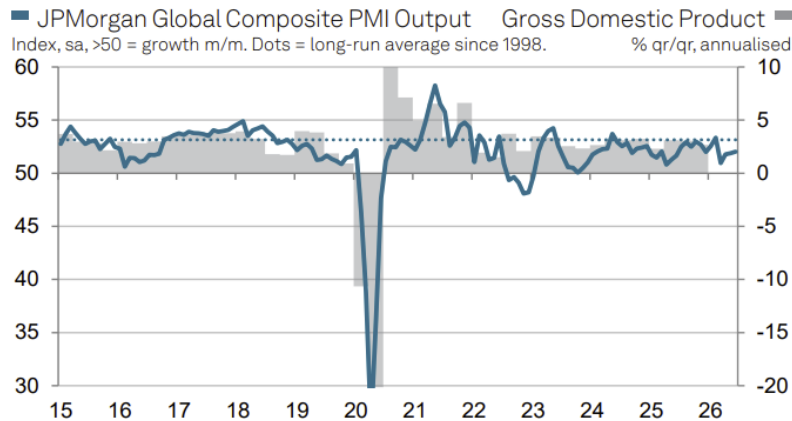
Global growth is projected to be 3.0% in 2026 and 3.4 percent in 2027, down from the average of 3.5% observed in 2024–25 and broadly unchanged on a cumulative basis compared with the forecasts in the April 2026 World Economic Outlook. The modest slowdown reflects the effects of the war in the Middle East being partly offset by accelerated demand-driven momentum in the global technology cycle thanks to advances in artificial intelligence and its adoption. The impact varies widely based on countries' exposure to the war and position in the technology value chain. Energy exporters outside the conflict zone benefit from favorable terms of trade, whereas economies plugged into the technology-led upturn experience stronger activity even if they are energy importers. In contrast, activity weakens for energy importers with limited participation in the technology value chain, a group that includes many low-income countries. Global headline inflation is expected to increase from 4.1% in 2025 to 4.7% in 2026 before declining to 3.9 % in 2027. Slightly revised upward from April, these projections indicate that the disinflation trend in place since the beginning of 2024 has stalled. Risks to the outlook are more balanced than in April but still tilted to the downside. The possibility of renewed Middle East conflict looms large and could extend commodity price volatility, further threaten supply chains, raise prices, and weigh on financial conditions. Trade fragmentation could accelerate, possibly hurting output and increasing prices. A possible correction in technology-driven expectations adds to the downside risks, whereas eroded policy buffers can amplify those risks.

Financial conditions have tightened amidst higher market volatility.

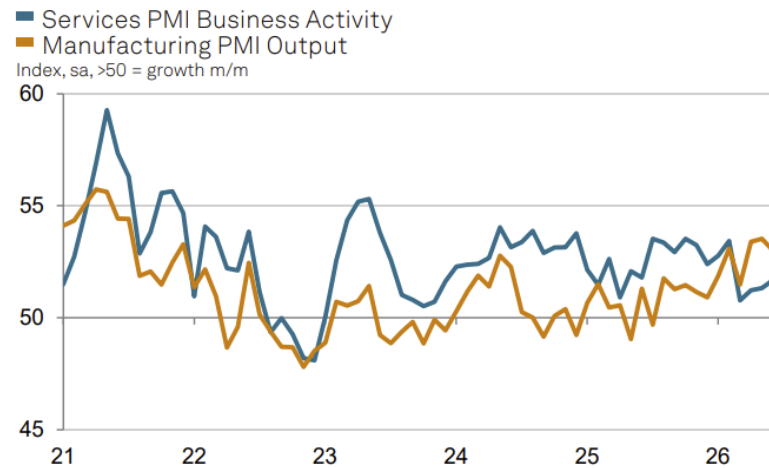


- In Panel A, the monthly Financial Conditions Indices (FCI) for advanced and emerging economies are computed as the medians of individual country standardized FCIs. National FCIs are standardized around a long-term average and obtained as the first principal component of a wide range of country-specific and global financial data series (15 country-specific indicators and 12 global indicators) including equities, interest rates, measures of volatility, sovereign spreads and exchange rates. Higher (lower) values of the FCI point to tighter (easier) financial conditions. Latest data points are as of April 2026. In Panel B, equity markets' implied volatility as measured by the VIX, the VSTOXX and the Nikkei volatility indices can be interpreted as the market expectation of risk (30-day expected volatility) in U.S., European and Japanese markets respectively. The MOVE index is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2-, 5-, 10- and 30-year contracts. Latest data points are as of May 27, 2026.
- Source: FRED Bank of Saint Louis; LSEG; and OECD calculations

Global PMI



Sources: J.P.Morgan, S&P Global PMI. ©2026 S&P Global.



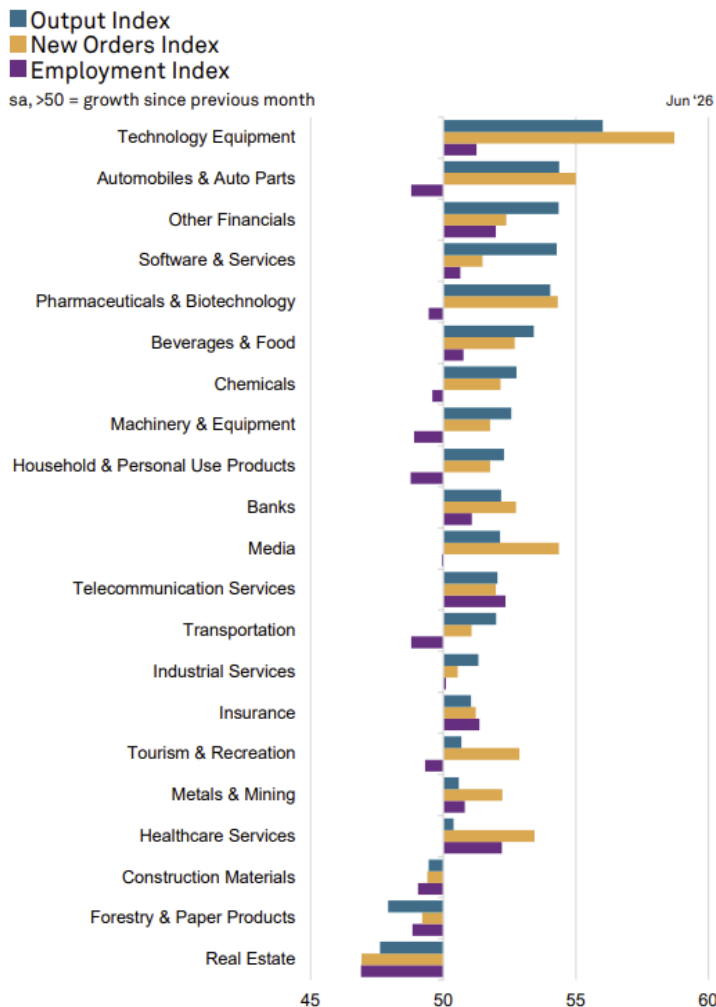
Sources: J.P.Morgan, S&P Global PMI. ©2026 S&P Global.

June saw the rate of global economic output expansion gather further pace, with growth of overall business activity rising to a four-month high. Intakes of new work also increased, and business optimism rose from May's 13-month low. The J.P.Morgan Global Composite PMI Output Index – produced by J.P.Morgan and S&P Global in association with ISM and IFPSM – posted 52.0, up from 51.9 in May, to remain above its no-change mark of 50.0 for the forty-first month in a row. Although the change in the Composite PMI Output Index was only marginal in June, there were emerging signs of a potential rotation between the performances of the sectors underlying the headline figure.

Manufacturing, which has outperformed services since the onset of war in the Middle East, saw its rate of growth ease slightly to a three-month low. Conversely, while the rate of growth of service sector business activity remained below that for manufacturing, it nonetheless improved to its best since February. The Global Manufacturing Output Index posted 53.0 in June, and the Global Services PMI Business Activity Index rose to 51.7.

Data broken down by sector signaled expansions of output for five of the sub-industries covered by the survey (business and financial service providers and also consumer, intermediate, and investment goods producers). Consumer services remained the exception, despite seeing only a very slight rate of contraction that was the lowest during the current four month downturn.

Global Composite and Global Sector PMI 07-2026



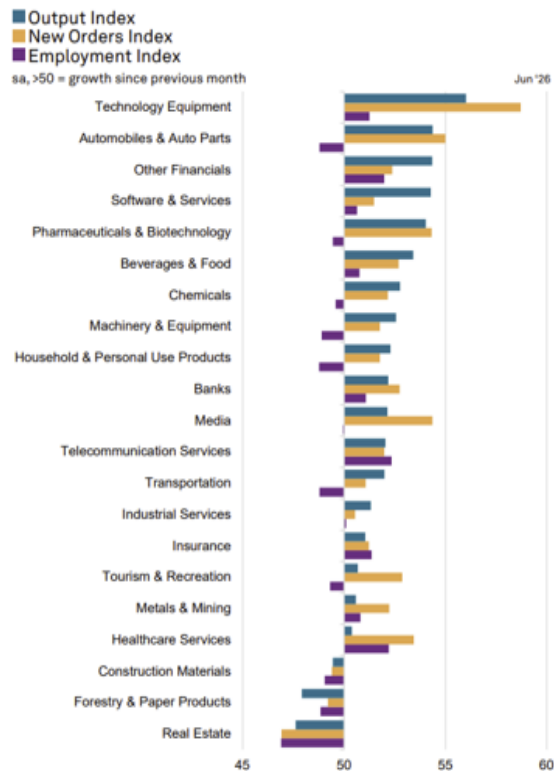
The 21 monitored sectors signaled growth in output in June, according to S&P Global Sector PMI data. Forestry & Paper Products joined Construction Materials and Real Estate in contraction. Meanwhile, after three consecutive months of decline, Tourism & Recreation saw an increase in activity. Technology Equipment topped the rankings for output and new orders in June, where a sharp rise in the former was supported by rapid growth in the latter. As was the case across each month of the second quarter, Real Estate retained its spot at the bottom of the rankings for activity. The sector also placed last of the 21 sectors in terms of new business for the second time in three months and signaled the strongest job losses. Healthcare Services recorded a marked loss of growth momentum in June, dropping from third in the activity rankings to eighteenth. This came amid a noticeable softening in order growth over the month after the sector had signaled the fastest expansions of the 21 sectors between March and May. Healthcare Services did, however, post one of the strongest rates of job creation in June.

There was almost an even split of sectors reporting jobs growth and those signaling reductions (ten to 11). Hiring activity was strongest across the Telecommunication Services sector, where the expansion was the most marked in just over a year and moderate in nature. All but three sectors signaled a cooldown in the rate of cost inflation since May. Cost pressures were strongest in the Household & Personal Products sector, just outpacing Chemicals. Meanwhile, the Financials sectors continued to indicate some of the weakest price pressure.

Source: S&P Global PMI.

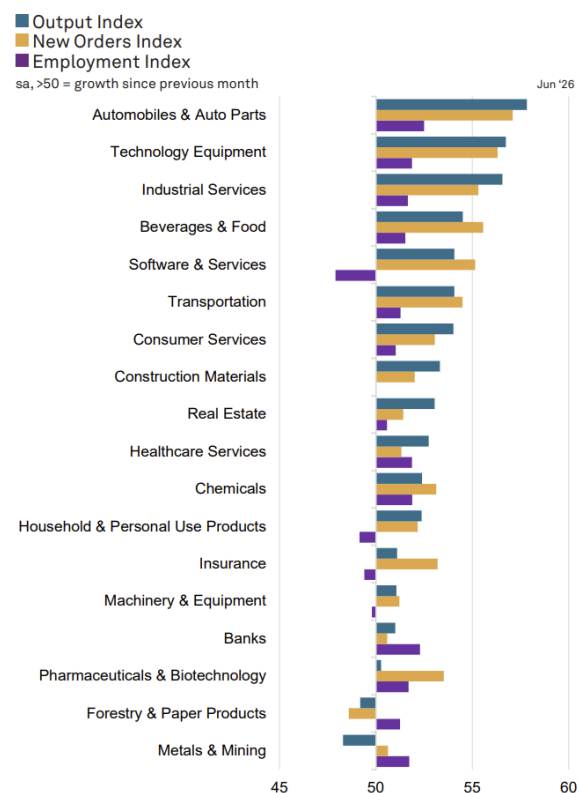
Global PMI by Sector

S&P Global Sector PMI



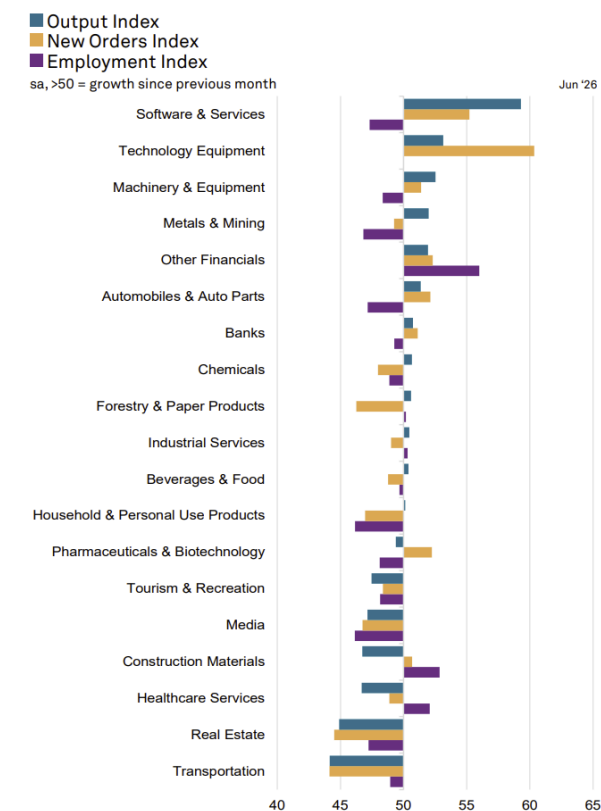
Source: S&P Global PMI.

S&P Global Asia Sector PMI



Source: S&P Global PMI.

S&P Global Europe Sector PMI



Source: S&P Global PMI.

As was the case in the first two months of the second quarter, the latest **Asia Sector PMI** data indicated growth in 16 of the 18 tracked Asian sectors in June. The overall upturn in activity was led by a sharp rise in Automobiles & Auto Parts production. Notably, the pace of increase was the strongest in over two years. Strong expansions in activity were also seen across Technology Equipment and Industrial Services, where rates of growth reached multi-year highs. June data signaled the greatest number of sectors in expansion territory since February, according to the latest S&P Global **Europe Sector PMI**, with 12 of the 19 tracked segments recording growth in activity. This was in contrast to May's 12-month low, when only seven sectors indicated an upturn in output.

The U.S. Iran Negotiation

Islamabad 14-point Memorandum of Understanding (the “MOU”) 1 of 2

- 1.** Iran and the U.S. and their allies in the current war, by signing this MOU, declare the immediate and permanent termination of military operations on all fronts, including in Lebanon, and undertake, from now on, not to initiate any war or any military operation against each other, refrain from the threat or use of force against each other, and ensure the territorial integrity and sovereignty of Lebanon. The final deal will confirm the permanent termination of the war on all fronts, including in Lebanon, and other provisions of this paragraph.
- 2.** Iran and the U.S. undertake to respect each other's sovereignty and territorial integrity and to refrain from interfering in each other's internal affairs.
- 3.** The Iran and the U.S. commit to negotiating and achieving the final deal in maximum 60 days, extendable with mutual consent.
- 4.** Immediately upon the signing of this MOU, U.S. will begin the removal of its naval blockade and any disturbances or impediments against Iran and will fully end the naval blockade within 30 days. During this period, the traffic of vessels will be in proportion to the numbers of pre-war traffic being restored by Iran. The U.S. further undertakes to remove its forces from the proximity of Iran within 30 days after the final deal.
- 5.** Upon the signing of this MOU, Iran will make arrangements using its best efforts for the safe passage of commercial vessels with no charge, for 60 days only, from the Persian Gulf to the Sea of Oman and vice versa. The traffic of commercial vessels will immediately start and, considering the need for removing the technical and military obstacles and demining by Iran, will be instated within 30 days. Iran will conduct dialogue with the Sultanate of Oman to define the future administration and maritime services in the Strait of Hormuz in discussions with other Persian Gulf littoral states in line with applicable international law and the sovereign rights of coastal states of the Strait of Hormuz.
- 6.** The U.S. undertakes with regional partners to develop a definitive, mutually agreed plan with at least USD 300 billion for the reconstruction and economic development of Iran. The U.S. undertakes to issue all necessary approvals, licenses, and waivers required to support all financial transactions related to this plan. The mechanism for this plan will be part of the final deal.

Islamabad 14-point Memorandum of Understanding (the “MOU) 2 of 2

- 7.** The U.S. undertakes to end, on a schedule to be agreed upon as part of the final deal, all types of sanctions currently facing Iran, including resolutions of the UN Security Council and the Board of Governors of the International Atomic Energy Agency, and all unilateral U.S. sanctions, both primary and secondary.
- 8.** Iran reaffirms that it will never procure or develop nuclear weapons. Iran and the U.S. have agreed that the disposition of enriched material and all other mutually agreed nuclear related issues, including Iran's nuclear needs, will be adequately addressed in the final deal. The final deal will confirm the provisions of this article.
- 9.** Iran and the U.S. agree that, pending a final deal, they will maintain the status quo: Iran will maintain the status quo on its nuclear program, and the U.S. will not impose new sanctions on Iran or strengthen its forces in the region.
- 10.** U.S. undertakes that, immediately upon the signing of this MOU and until the termination of sanctions, U.S. Department of Treasury will issue waivers for the export of Iranian crude oil, petroleum products and derivatives, and all associated services including banking transactions, insurances, transportation, etc.
- 11.** U.S. undertakes to make fully available for use the frozen or restricted funds and assets of Iran upon the implementation of this MOU. U.S. and Iran will mutually agree on the procedures related to the release of these funds during negotiations. Such funds, whether retained in the original account or transferred, shall be made fully usable for payment to any ultimate beneficiary designated by the Central Bank of the Islamic Republic of Iran.
- 12.** Iran and U.S. agree that an executive mechanism will be established to monitor the successful implementation of this MOU and the future compliance of the final deal.
- 13.** After signing this MOU and subject to the beginning of the implementation of paragraphs 1, 4, 5, 10, and 11 of this MOU and the continuing implementation of these measures, Iran and U.S. will start negotiations regarding the final deal exclusively on the other paragraphs.
- 14.** The final deal will be endorsed by a binding UNSC resolution.

MOU Negotiation as of June 30

Date	Event	Comment
June 17	MOU signing	Trump signed remotely during dinner with Macron at Versailles following the G7. Iranian President Pezeshkian signed in Tehran.
	Not confirmed by Iram	Trump stated frozen assets would be used exclusively to purchase U.S. agricultural products — corn, soybeans, wheat. Iran's central bank governor denied any such obligation.
	Not confirmed by Iram	Vance stated Iran agreed to invite IAEA inspectors back as "a major milestone toward permanently denuclearizing Iran." Iran's Foreign Ministry said no meeting with IAEA Director General Grossi had been scheduled.
	Not confirmed by Iram	Trump called the \$300 billion reconstruction commitment "fake news" after it appeared in the MOU text both sides signed.
June 20	Lebanon	Israel-Lebanon framework signed in Washington on June 20 by ambassadors with Rubio present. Hezbollah was not a party. Israel continued operations in southern Lebanon. Netanyahu said Israeli forces would remain "as long as necessary".
June 22	Switzerland Technical Talks	Iran walked out Sunday, June 21 after Trump threatened on Fox News that Iranian negotiators "won't even make it back to their country." Talks resumed after back-channel efforts.
June 22-23		Three working groups established covering nuclear, sanctions, and dispute resolution. Iran's Deputy Foreign Minister Gharibabadi led Iran's technical team. Vance, Witkoff, and Kushner led the U.S. side. Talks described as positive by Qatar and Pakistan. Iran said technical talks concluded successfully. Both sides agreed on a roadmap toward a final deal within 60 days.
June 25		Iran established the Persian Gulf Strait Authority requiring all vessels to coordinate with Iranian authorities regardless of route. The IRGC issued explicit warnings that unauthorized transits would face consequences.
June 25-26	Strait of Hormuz — Ongoing Dispute	Confirmed crossings rose to 70 vessels on June 22 according to Kpler — still well below the pre-war normal of 120-140 per day.
		The Ever Lovely, a Singapore-flagged Evergreen container ship, was struck by an Iranian drone on June 25 while using the Omani-IMO route without Iranian permission. The IMO suspended its evacuation operation as a result. The U.S. struck Iranian missile and drone storage sites in response.
June 26		Three foreign tankers changed course after the Ever Lovely attack.
June 30		Iran's Assembly of Experts issued a statement calling for the assassination of Trump and Netanyahu, describing it as a religious duty, and criticized the Strait reopening as a strategic mistake.

Iran & U.S. Post-MOU Negotiation Update

- **What has been implemented:** oil export waivers issued, naval blockade lifted, some frozen assets procedures begun, Strait partially reopened with traffic at roughly half pre-war levels.
- **What has not been implemented** — nuclear talks not begun, Lebanon unresolved, Strait routing authority disputed, frozen asset release procedures still being negotiated, \$300 billion reconstruction mechanism undefined, Israel outside any agreement and continuing Lebanon operations.
- The current negotiating venue has moved to Doha where Qatar is acting as primary intermediary. Pakistan remains involved but Qatar has become the more active day-to-day mediator.
- Witkoff and Kushner are the senior U.S. representatives. Iran's Deputy Foreign Minister Gharibabadi has been leading Iran's technical team.
- Both sides are not meeting directly. U.S. and Iranian delegations are in Doha simultaneously but talking through Qatari mediators separately rather than face to face. Iran has denied that formal negotiations have begun, saying it is focused on implementing existing MOU provisions before starting final agreement talks per clause 13. The U.S. says technical talks are ongoing.
- The Wall Street Journal reported Trump, when presented with options to restart the war, told advisers he preferred giving diplomacy a chance and was willing to extend the 60-day truce if needed. That is the most significant indication that the 60-day deadline will likely be extended rather than producing either a final deal or resumed bombing.
- **The bottom line from the professional consensus** is that the MOU bought time and provided economic relief to both sides, but the harder negotiations have barely begun. With 43 days remaining and the core disputes on nuclear enrichment, Strait governance and toll, Lebanon and the non signatory, Israel, and sanctions architecture untouched, the professional assessment is cautious to skeptical about a comprehensive final agreement being reached within the 60-day window.
- The challenge is not confined to geopolitics. Domestic politics is often the force that shapes the final outcome.
- As of 07-08-2026, President Trump declared the end of negotiation, and by extension, end of the MOU, for now.

An opinion about the Iran conflict going forward

21 days after signing the Islamabad MOU, Trump declared the ceasefire "over" while simultaneously allowing negotiations to continue. The U.S. struck over 80 Iranian targets. Iran attacked U.S. bases in Kuwait and Bahrain. Strait traffic collapsed again to 13 vessels daily. This contradiction where the war is declared over while fighting intensifies is deliberate. By insisting the ceasefire rather than the war has ended, the Trump administration avoids triggering the War Powers Act's requirement for congressional authorization of resumed hostilities. The legal architecture of the original conflict remains conveniently undefined, giving the executive branch maximum flexibility to bomb and negotiate simultaneously without congressional accountability.

The documented facts are unambiguous. The U.S. struck Iran during the original ceasefire period repeatedly. The MOU was signed June 17. Military exchanges resumed within days. The oil waiver (a central Iranian concession) was revoked within three weeks. Iran's chief negotiator Ghalibaf stated directly "we have no trust in you" to Vance during negotiations. These are not the conditions of a peace process. They are the conditions of a managed conflict. The projection that follows from these facts is straightforward. November's midterms represent the last meaningful domestic political constraint on Trump's freedom of action. With Republican incumbents already vulnerable on gas prices and war costs, Trump has genuine incentive to maintain the appearance of diplomacy through November. But if Democrats fail to capture sufficient seats to meaningfully constrain executive power, Trump enters 2027 with no electoral accountability remaining and an unresolved conflict in which his own stated objectives of eliminating Iran's nuclear program, regime change, and unconditional surrender have not been achieved. The history of this conflict since February 28 shows a consistent pattern. Every deadline extended. Every announced agreement contradicted by Iran within hours. Every ceasefire violated by both sides.

The core disputes on nuclear enrichment, Strait governance, and Lebanon remain exactly where they were before the first bomb fell. The most likely outcome is not resolution. It is continuation. This is a managed, low-intensity conflict that neither fully resumes nor fully ends, sustained by Trump's domestic political needs, Israel's independent military agenda, Iran's leverage over the Strait, and a diplomatic process whose participants openly distrust each other. The world's attention has moved on. The markets have priced resolution. The Strait remains functionally disrupted. And the only parties who have gained with any certainty from this conflict are those who never wanted it to end in the first place. However, I do expect more international pressure will come as most or almost all Strategic Petroleum Reserves are drawn down.

**Tariffs remain
very much present**

Tariffs Update – Primarily Aimed @ China

- **IEEPA Global Tariffs — DEAD, Refunds Underway**

Struck down by the Supreme Court 6-3 on February 20. Approximately \$166 billion owed to 330,000+ importers. CBP's CAPE refund portal launched April 20 and is processing claims, with refunds expected within 60-90 days of accepted declarations. Government appeal possible before June 7 deadline could complicate or delay refunds.

- **Section 122 Global 10% Tariff Struck Down, Under Appeal, Still Being Collected**

On May 7, 2026, the Court of International Trade ruled that the Trump administration's use of Section 122 authority to impose broad across-the-board tariffs exceeded the statute's limits. That decision remains under appeal, and tariffs continue to be collected. The Section 122 tariff expires after 150 days on July 24, 2026. A second refund wave, potentially as large as the first, may follow if the appeal fails.

- **Section 301 (Trade Act of 1974) - The New Backbone, Racing the July 24 Clock**

The administration has launched an unprecedented simultaneous Section 301 campaign designed to replace both IEEPA and Section 122 before July 24. Two tracks are now active:

(A) Forced Labor Track: On June 2, 2026, USTR issued affirmative determinations in all 60 of its Section 301 forced labor investigations, concluding that every major U.S. trading partner has failed to adequately prohibit or enforce bans on imports of goods produced with forced labor, covering 99.4% of all goods imported into the U.S. USTR proposes 10% tariffs for economies that impose or commit to a forced labor import prohibition, and 12.5% for all others. Public comments due July 6, hearing July 7 — timed to replace Section 122 upon its July 24 expiry.

(B) Industrial Capacity Track: On March 11, 2026, USTR initiated Section 301 investigations involving Bangladesh, Cambodia, China, the EU, India, Indonesia, Japan, Malaysia, Mexico, Norway, Singapore, South Korea, Switzerland, Taiwan, Thailand, and Vietnam. Final proposed tariff rates and findings expected in coming weeks.

- **Brazil**

On June 1, 2026, USTR proposed a 25% tariff under a separate Section 301 investigation targeting Brazil's acts, policies, and practices that affect U.S. trade.

- **Vietnam**

On March 29, USTR announced a Section 301 investigation into Vietnam, specifically focusing on the country's unfair trade practices and lack of intellectual property protection, the first time in 13 years a country has been designated a Priority Foreign Country.

Tariffs Update, continues

- **Section 232 (Trade Expansion Act of 1962) permits tariffs or quotas for national security reasons**

On June 1, 2026, President Trump issued a proclamation adjusting Section 232 duties on aluminum, copper, and steel and their derivative items, which are subject to a 50% tariff. Reduced Section 232 duties will apply to certain agricultural equipment, certain industrial equipment from countries that reached trade deals, and goods qualifying under USMCA.

Automobiles remain at 25%. Semiconductors at 25%. Pharmaceuticals under active Section 232 investigation.

- **China — Separate Bilateral Framework**

In November 2025, the U.S. and China reached an agreement to extend tariff reductions for one year through November 10, 2026, with the U.S. agreeing to reduce fentanyl-related tariffs on China from 20% to 10% and China agreeing to remove some retaliatory tariffs. Following the Trump-Xi May 2026 meeting, USTR solicited public comments on a new Board of Trade intended to manage U.S.-China bilateral trade relations, seeking comments on non-sensitive goods that could be subject to tariff modifications on each side, with the comment window closing July 10. Core Section 301 China tariffs of 25%-145% remain fully intact and untouched by any court ruling.

- **USMCA — Not Renewed, Annual Review Triggered, Talks Continue**

On July 1, 2026, the United States did not agree to renew the USMCA in its current form. The Agreement remains in force pending resolution of issues or until the Agreement's termination. This decision triggers annual joint reviews each year until the parties either agree to an extension or the Agreement expires July 1, 2036. The next bilateral negotiating round between the U.S. and Mexico is scheduled for the week of July 20 in Mexico City. Canada participated in the July 1 meeting but has not yet begun substantive text-based negotiations with the U.S.. The agreement's preferential tariffs, rules of origin, and investment protections remain fully operative in the interim.

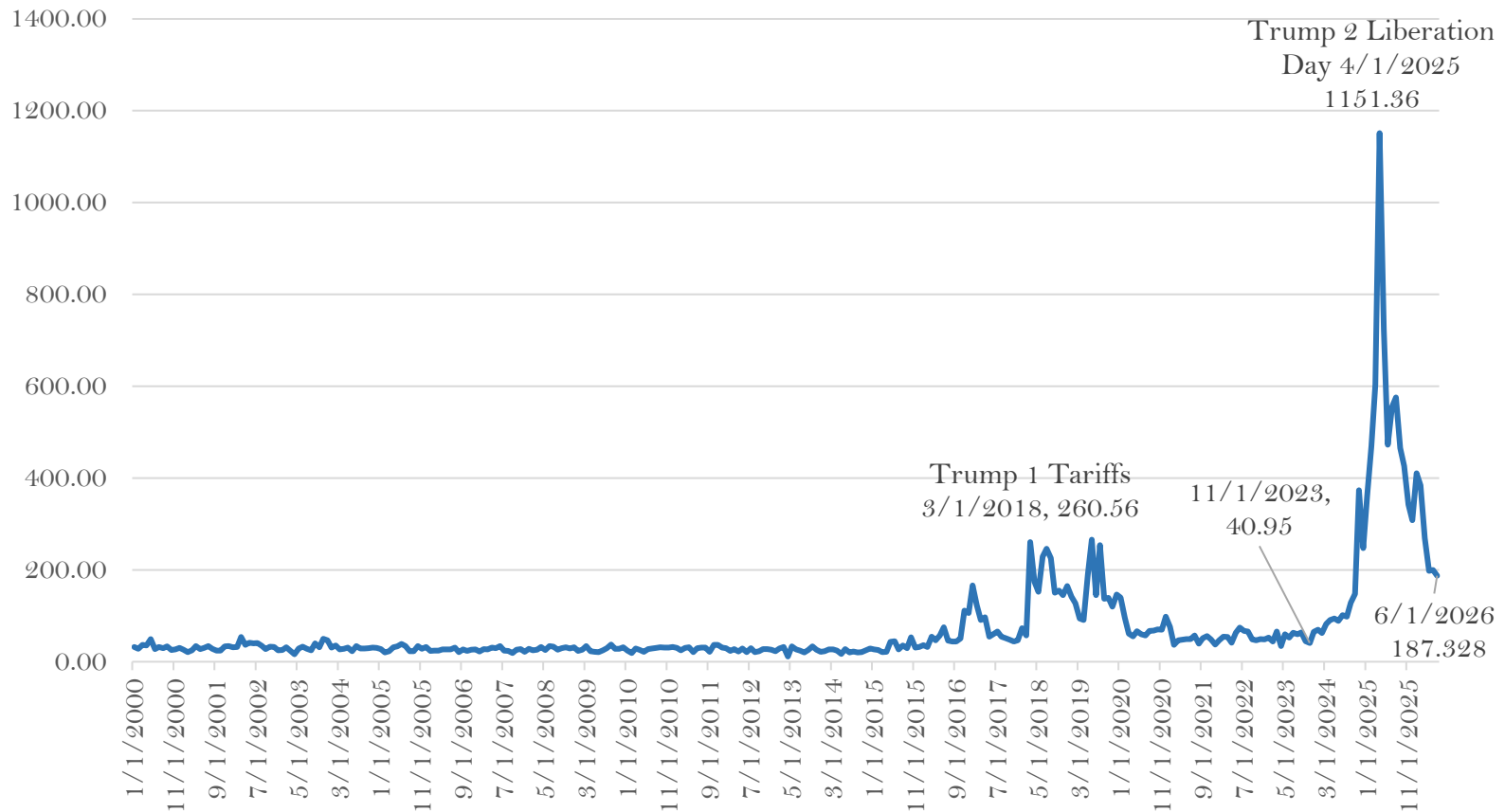
- **European Union — 15% Deal Plus New Threats**

The EU finalized a trade deal with the U.S. in May 2026 capping most EU export tariffs at 15% — the so-called Turnberry framework. Trump set a July 4 deadline for the EU and U.S. to begin implementing the deal. Digital services taxes were not part of the agreement and have remained a primary sticking point. On June 26, Trump threatened an immediate 100% tariff on imports from any country that imposes a digital services tax on U.S. companies, stating the tariff would supersede any previously negotiated trade deals. The legal mechanism for a 100% tariff given the post-IEEPA landscape remains entirely unspecified and legally unclear. EU auto tariffs of 25% announced May 1 are also pending formal legal proclamation.

- **De Minimis — Ending in 2027**

The One Big Beautiful Bill Act signed July 4, 2025, included a provision to eliminate the de minimis exemption for all countries beginning July 1, 2027, ending the \$800 duty-free threshold that has been the primary entry point for Chinese e-commerce platforms including Shein and Temu.

Trade Policy Uncertainty Index – Continues to Improve for now

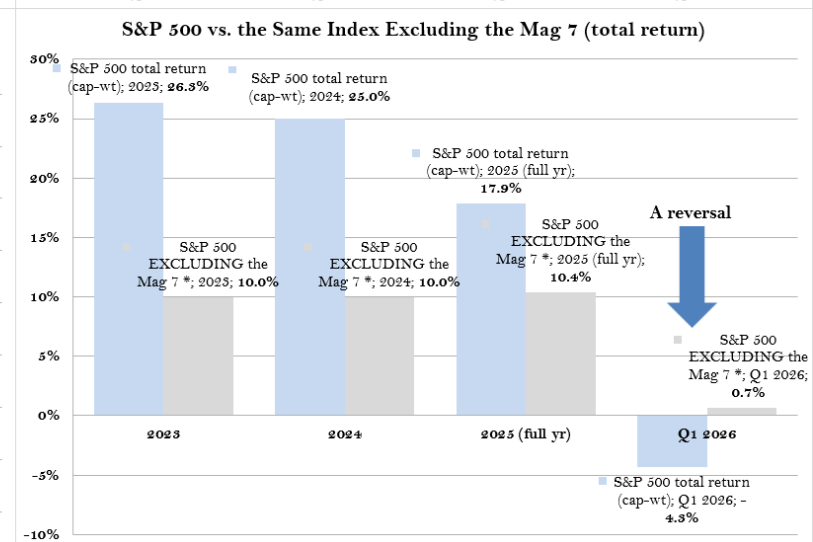
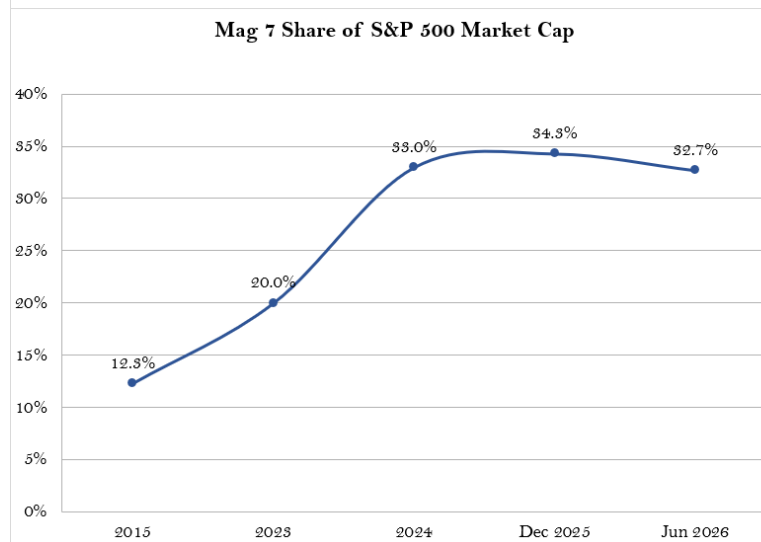
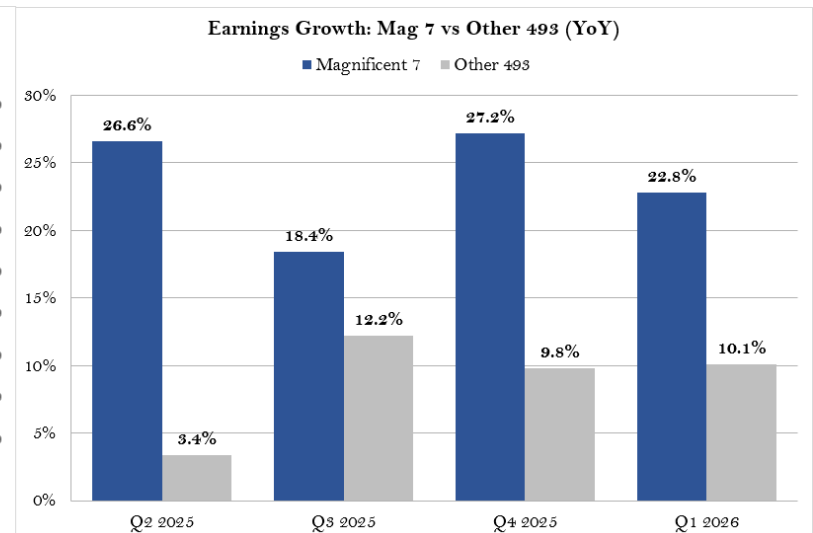
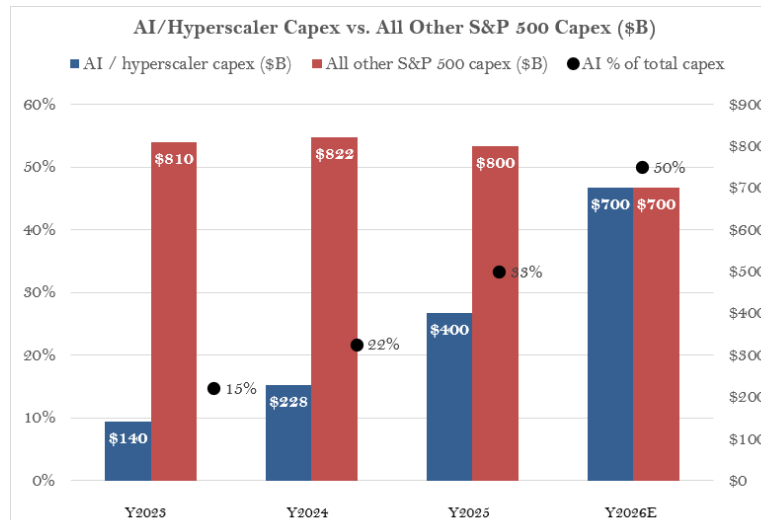


Dario Caldara, Matteo Iacoviello, Patrick Molliogo, Andrea Prestipino, and Andrea Raffo construct a monthly index of Trade Policy Uncertainty (TPU Index) by counting the frequency of joint occurrences of trade policy and uncertainty terms across major newspapers.

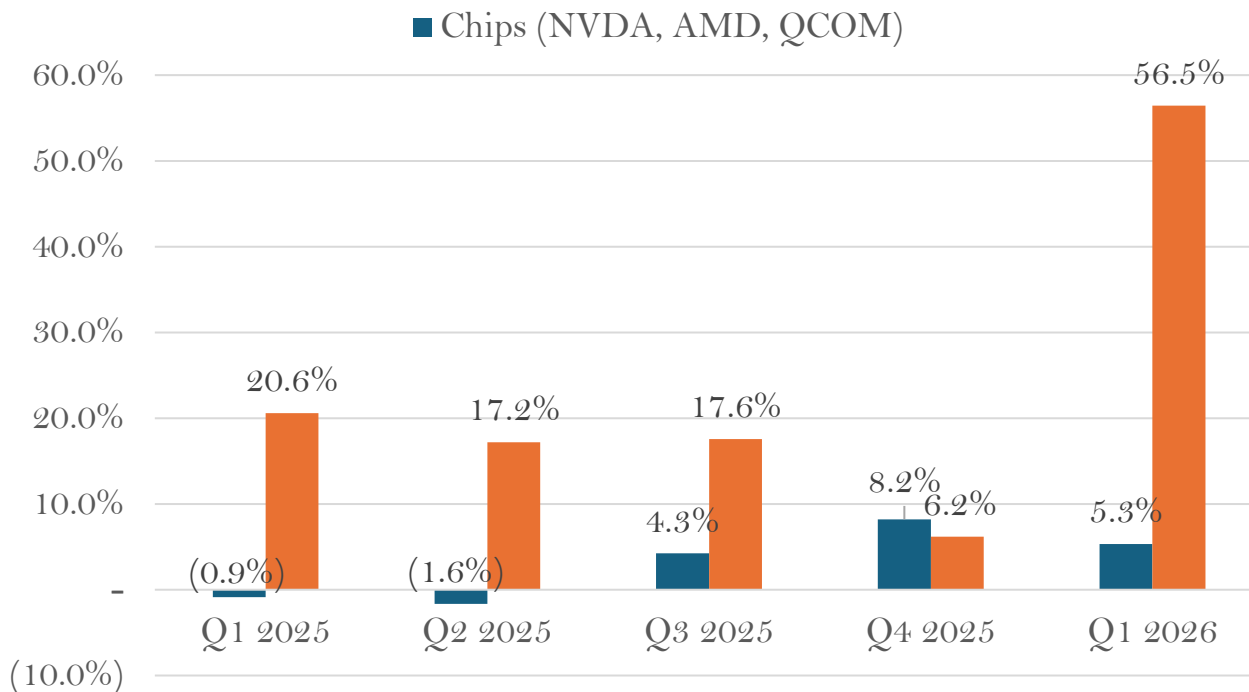
Source: <https://www.matteoiacoviello.com/tpu.htm> & Philip Chao

Stock Market Resilience

The Dominance of AI – Capex, Earnings, Market Cap & Market Return



Average EPS Surprise v. Consensus: Chips and Hyperscalers



- Chips beat by low-to-mid single digits, and the beats have been steady-to-tightening. (They started slightly negative in early-mid 2025 because of one-time charges — NVIDIA's H20 write-down in the Apr-2025 qtr and AMD's MI308/China charge in the Jul-2025 qtr — then settled into a consistent ~+5% beat.)
- Hyperscalers beat by far more (double digits), and the trend is NOT narrowing — the Q1 2026 spike to ~+56% is almost entirely based on one-time items (Alphabet +\$37.7B equity gain, Amazon +\$16.8B Anthropic gain, Meta +\$8.03B tax benefit). Strip those out and the Q1 2026 hyperscaler “beat” largely disappears (roughly in-line to modestly ahead).
- Bottom line: both groups surprise on the upside, but chips do it in a small, stable, operational way; hyperscalers do it in a larger, lumpier, accounting-influenced way. Neither edge is clearly shrinking over these 5 quarters.

Vulnerabilities in private capital funds

- Risks for private credit and equity funds have increased, reflecting growing concerns about fund liquidity and asset quality and valuations, compounded by opacity in parts of the non-bank financing ecosystem. These concerns have been reflected in declining stock market performance. Globally, the assets managed by private equity and credit funds are estimated to have risen from USD 3 trillion in 2012 to USD 15 trillion in 2025. U.S. private equity and private credit funds account for around 57% and 62% of the global assets of those funds.
- Private equity and credit funds are particularly exposed to the performance of technology-related companies, with the software sector accounting for 20% of U.S. business development companies' portfolios and 42% of new investments of U.S. private equity funds in 2025. Divestments remain challenging in the software sector, as private equity firms struggle to realize the high valuations paid for acquisitions in 2020–21. Valuations of tech-linked loans have also been slow to adjust. Following the failure in 2025 of two large borrowers funded by private credit (Tricolor and First Brands Group), write-downs at large U.S. private credit funds have gathered pace in 2026, triggering redemption requests by investors (Congressional Research Service, 2026). In a number of funds, actions were taken to limit redemptions, reflecting risks around liquidity mismatches. Stress in one segment of the private capital market can spill over to another, as large private capital funds often manage both private equity and private credit portfolios, and private credit funds frequently lend to companies owned by private equity funds.
- There are increasing concerns about the opacity of valuations in the private capital sector, with losses from certain exposures sometimes becoming apparent only with a delay. Growing concerns about overestimated outdated valuations—given the significant discretion fund managers retain over valuing illiquid positions—and deteriorating fundamentals are compounded by the rising use of payment-in-kind loans by private credit companies since 2023, with interest and principal both paid at maturity (Karoui and Cazaubieilh, 2026). The increasing exposure of private capital funds to AI-linked collateral—such as data centers and chip-collateralized loans—may also raise investor concerns about the long-term value of these assets, given rapid technological obsolescence, limited price history and valuations potentially inflated by short-term chip shortages (Kim and Armstrong, 2025). This is particularly important as some specific loans to AI borrowers, as well as AI issuers, have started to be rated for loan securitizations (Gimple, 2026), potentially leading to sharp downgrades in event of a downturn. These developments underscore the sensitivity of private credit funds—particularly those offering liquidity to retail investors—to shifts in sentiment and could possibly result in the sector facing constraints at a time when corporate financing needs continue to rise.

https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2026-issue-1_2d1956f0-en/full-report/general-assessment-of-the-macroeconomic-situation_fe9bdcd6.html#chapter-d1e152-4030131ba0

Index Performance

2026Q2 Stocks & Bonds Performance 60/40

Benchmark Index TR in USD	TR 2026 Q2	TR YTD	TR Annlzd 3 Yr
DJ Industrial Average	13.23	9.49	16.47
S&P 500	15.20	10.21	20.61
S&P 500 Growth	21.89	12.01	25.93
S&P 500 Value	8.00	8.03	14.38
Russell Mid Cap	13.83	15.30	16.51
Russell Mid Cap Growth	14.55	7.27	15.61
Russell Mid Cap Value	13.40	17.58	16.51
Russell 2000	21.49	22.57	18.60
Russell 2000 Growth	25.71	22.18	18.44
Russell 2000 Value	17.19	22.99	18.73
NASDAQ 100	27.74	20.31	26.83

Benchmark Index TR in USD	TR 2026 Q2	TR YTD	TR Annlzd 3 Yr
Bloomberg US Agg Bond	0.67	0.62	4.16
Bloomberg US Corp IG + HY	1.57	1.03	5.87
Bloomberg Municipal	2.50	2.32	3.76
Bloomberg High Yield Corporate	2.47	1.96	8.86
Bloomberg Gbl Agg Ex USD Hdg USD	1.77	1.57	4.64
Bloomberg EM Local Currency Broad	3.10	-0.14	5.30
Bloomberg EM Hard Currency Agg	3.30	1.64	8.49

US 60/40 Portfolio 2026 Q2	TR 2026 Q2	TR YTD	TR Annlzd 3 Yr
S&P 500	15.20	10.21	20.61
Bloomberg US Agg Bond	0.67	0.62	4.16
60/40 Portfolio 2026 Q2	9.39	6.37	14.03
International 60/40 Portfolio			
Bloomberg Gbl Agg Ex Hdg USD	1.77	1.57	4.64
MSCI ACWI ex USA All Cap	13.91	13.25	19.03
60/40 Portfolio 2026 Q2	9.05	8.58	13.27

Benchmark Index TR in USD	TR 2026 Q2	TR YTD	TR Annlzd 3 Yr
S&P 1500 Cons Discretionary	9.47	-0.12	12.94
S&P 1500 Cons Staples	0.55	8.20	8.48
S&P 1500 Energy	-12.93	20.47	13.01
S&P 1500 Financials	9.36	-0.36	18.76
S&P 1500 Health Care	9.56	4.28	7.93
S&P 1500 Industrials	15.35	20.78	21.59
S&P 1500 Information Technology	32.28	20.89	30.89
S&P 1500 Materials	2.19	11.65	8.88
S&P 1500 Media	-10.78	-18.28	-10.97
S&P 1500 Commun Services	8.35	0.90	28.84
S&P 1500 Utilities	-0.40	7.58	14.93
S&P Composite 1500	15.28	10.89	20.22

Benchmark Index TR in USD	TR 2026 Q2	TR YTD	TR Annlzd 3 Yr
MSCI ACWI ex USA All Cap	13.91	13.25	19.03
MSCI EAFE	11.08	9.84	17.02
MSCI Europe	11.32	8.33	16.90
MSCI AC ASEAN	3.02	1.73	11.10
MSCI EM	24.15	24.02	23.62
MSCI Frontier Emerging Market	10.15	13.17	23.08
MSCI Australia	5.10	8.57	12.08
MSCI Brazil	-8.07	9.55	9.81
MSCI Canada	6.18	7.70	21.37
MSCI China	-6.57	-14.91	7.96
MSCI France	9.28	3.43	9.49
MSCI Germany	8.66	-0.46	16.48
MSCI Hong Kong	-6.16	-0.96	7.12
MSCI India	10.20	-9.74	6.82
MSCI Italy	15.21	11.47	29.99
MSCI Japan	14.24	15.97	18.90
MSCI Korea	87.62	118.92	53.90
MSCI Mexico	3.10	11.07	12.34
MSCI UK All Cap	4.86	5.67	16.96
MSCI ACWI All Cap	15.03	11.99	19.96

Source: Morningstar Direct, Experiential Wealth 06-30-2026

Equity Investment Style Summary

	2026 Q2 TR		
	Value	Blend	Growth
Large	8.0	15.2	21.89
Mid	13.4	13.83	14.55
Small	17.19	21.69	25.71

	2026 Q2 Trailing 1 Yr		
	Value	Blend	Growth
Large	18.4	22.32	25.71
Mid	26.62	21.63	6.17
Small	43.01	43.01	38.74

Source: Morningstar Direct, Experiential Wealth 06-30-2026

Federal Reserves' SEP

GDP

Employment

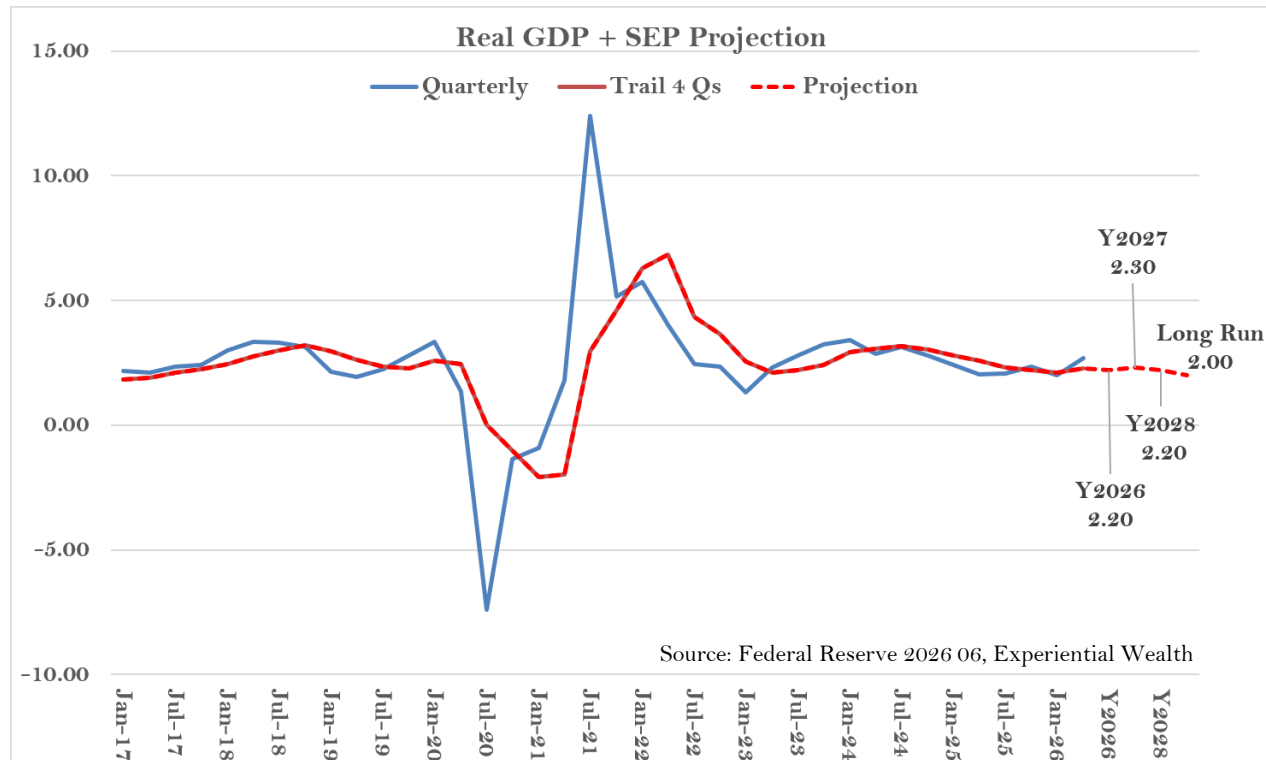
Inflation/Core Inflation

Interest Rate

FOMC Members' Median Economic Projections (06-2026)

Central Tendency	Y2026		Y2027		Y2028		Longer Term	
Real GDP	Low	High	Low	High	Low	High	Low	High
Mar-26	2.2%	2.5%	2.0%	2.4%	2.0%	2.3%	1.8%	2.0%
Jun-26	2.0%	2.3%	2.0%	2.4%	2.0%	2.3%	1.8%	2.0%
U3 Unemployment	Low	High	Low	High	Low	High	Low	High
Mar-26	4.3%	4.5%	4.2%	4.4%	4.0%	4.3%	4.0%	4.3%
Jun-26	4.3%	4.4%	4.2%	4.5%	4.1%	4.3%	4.0%	4.3%
PCE Inflation	Low	High	Low	High	Low	High	Low	High
Mar-26	2.6%	3.1%	2.0%	2.3%	2.0%	2.0%	2.0%	2.0%
Jun-26	3.5%	3.7%	2.2%	2.5%	2.0%	2.0%	2.0%	2.0%
Core PCE	Low	High	Low	High	Low	High	Low	High
Mar-26	2.5%	2.8%	2.0%	2.3%	2.0%	2.0%	N.A.	N.A.
Jun-26	3.2%	3.5%	2.2%	2.5%	2.0%	2.1%	N.A.	N.A.
Fed Funds	Low	High	Low	High	Low	High	Low	High
Mar-26	3.1%	3.6%	2.9%	3.6%	2.9%	3.6%	2.9%	3.5%
Jun-26	3.6%	4.1%	3.1%	3.9%	3.1%	3.6%	3.0%	3.5%
	Higher							
	No Change							
	Lower							

Summary of Economic Projections (SEP) – GDP 2026 Q2 forward

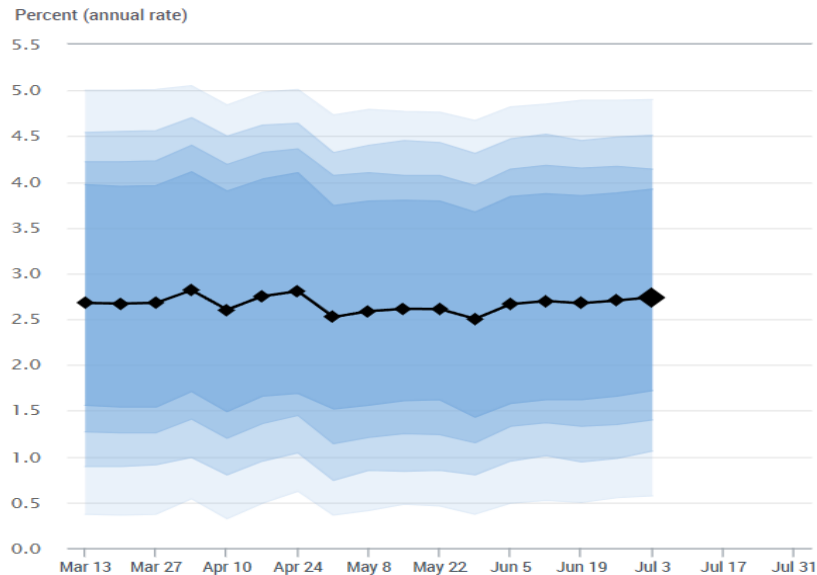


The FOMC projected above-potential growth (2.2–2.3%) for 2026–28 driven explicitly by the AI/datacenter demand boom and strong productivity/capex, then converging to an unchanged 2.0% potential. The members held potential at 2.0% rather than raising it because the AI supply-side productivity payoff is real in prospect but uncertain in timing. They are counting the AI spending that's visible in GDP today but not yet banking on the AI productivity miracle that would raise the economy's long-run speed limit.

Potential growth = labor force growth + productivity growth. In the foreseeable future, labor force growth is likely to be subdued due to the current immigration policy. As such, to have above trend growth in the intermediate term would require productivity to do most of the work.

U.S. Economy – 2026Q2 GDP Projections – A Divergence

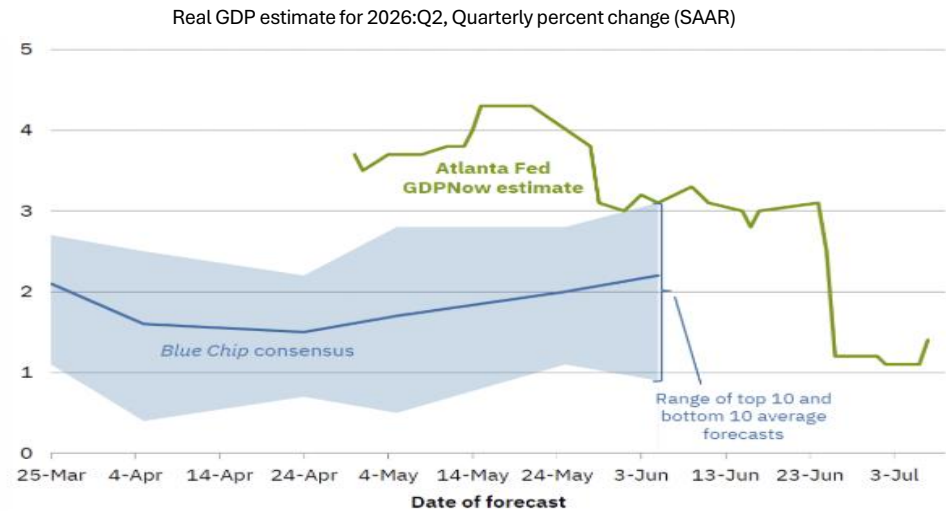
New York Fed Nowcast



The New York Fed Staff Nowcast for **2026:Q2** is **2.7%**, with the 50% probability interval at [1.7, 3.9]% and the 80% interval at [0.6, 4.9]%. The Staff Nowcast for **2026:Q3** is **2.4%**, as of 07-3-2026.

<https://www.newyorkfed.org/research/policy/nowcast#/nowcast>

Atlanta Fed GDPNow



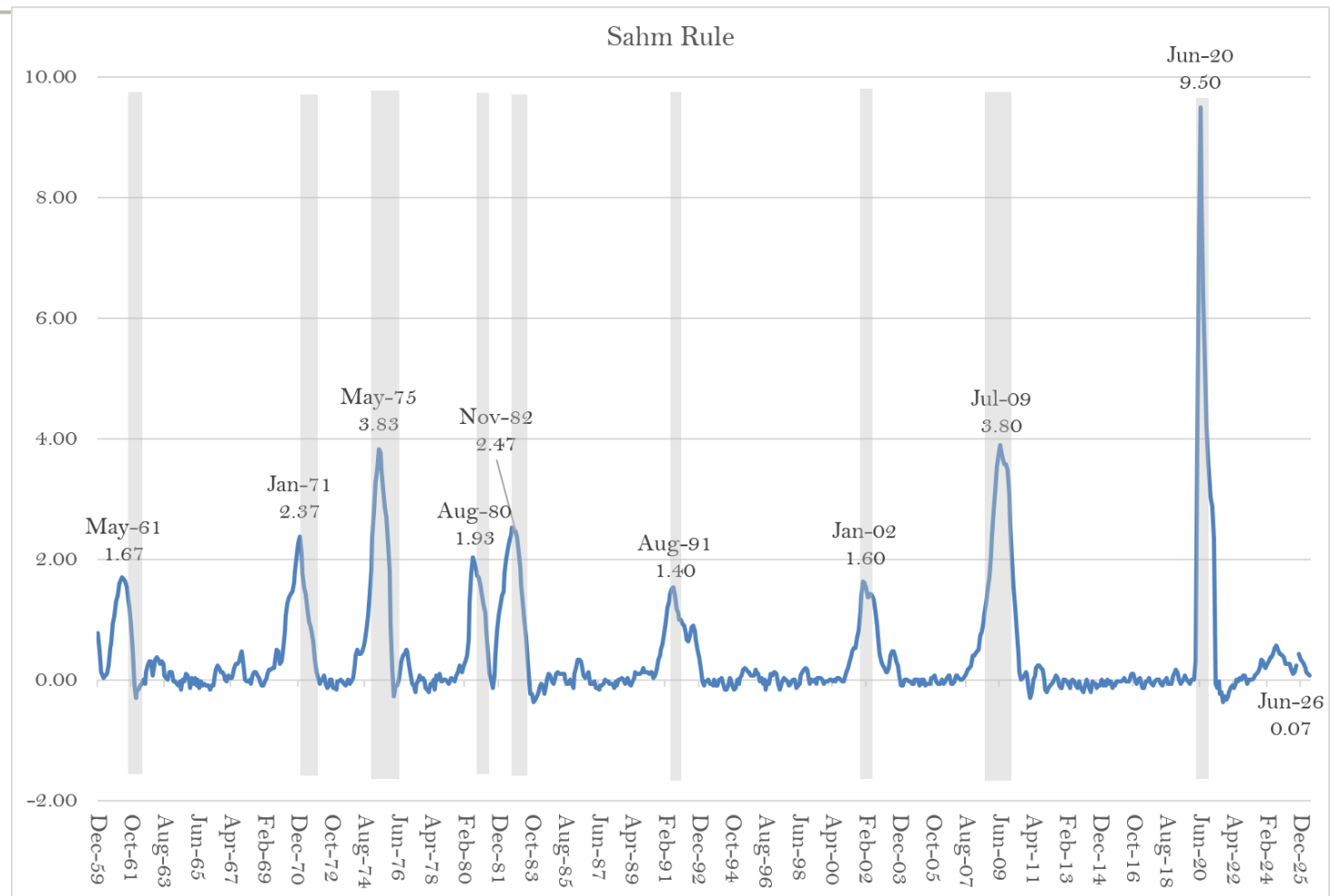
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in **2026Q2** is **1.4%** on 7-7-2026.

<https://www.atlantafed.org/-/media/Project/Atlanta/FRBA/Documents/cqer/researchcq/gdpnow/RealGDPTrackingSlides.pdf>

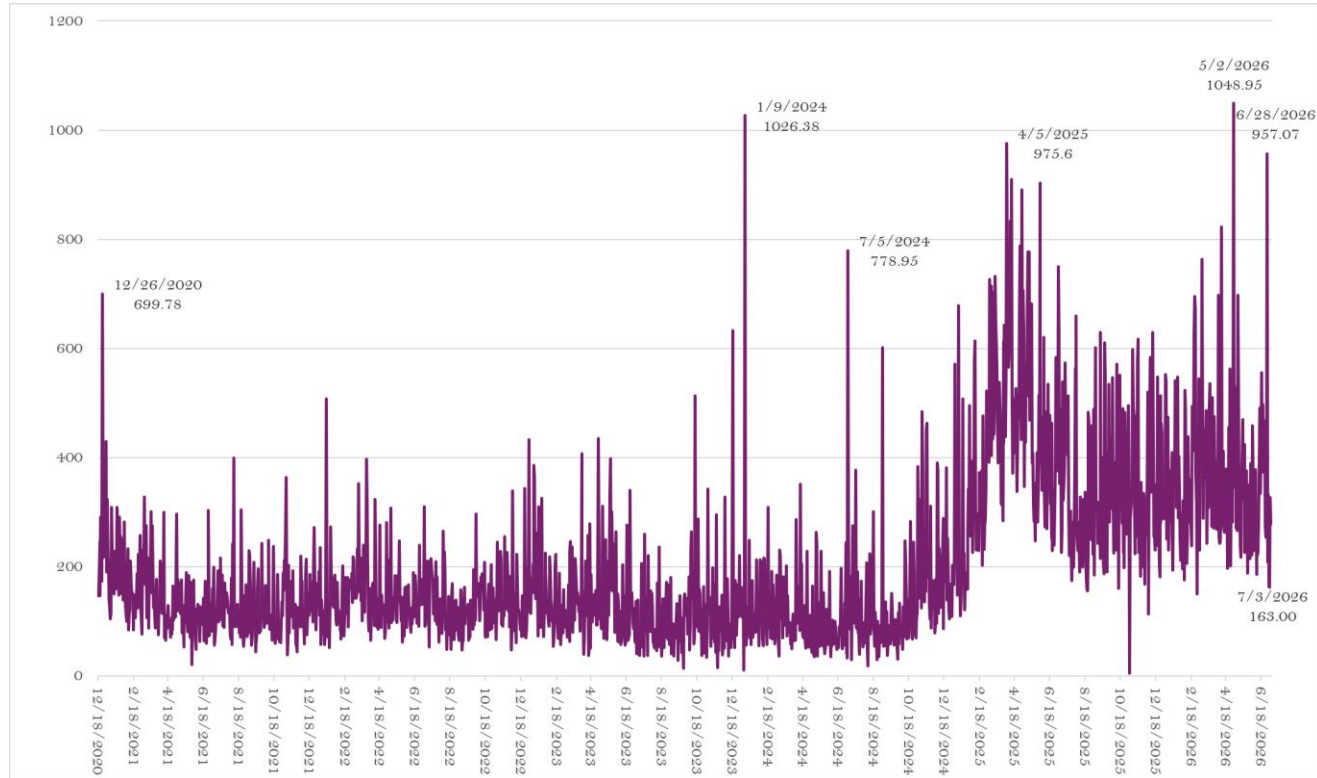
Sahn Rule Recession Indicator (06-2026) – No Recession



Sahm Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to the minimum of the three-month averages from the previous 12 months. As of the end of Q2, Sahn Rule suggests negligible chance of a recession.

Source: <https://fred.stlouisfed.org/series/SAHMREALTIME> and Philip Chao

Economic Policy Uncertainty Index – Volatile but Improving –2026 Q2



To measure the U.S. policy-related economic uncertainty, this index consists of three types of underlying components.

- (1) The newspaper-based component is an index of search results from 10-large newspapers. From these papers, a normalized index is constructed of the volume of news articles discussing economic policy uncertainty. It also utilizes data from two other sources: the number of federal tax code provisions set to expire and disagreement among economic forecasters.
- (2) Reports by the Congressional Budget Office (CBO) that compile lists of temporary federal tax code provisions create annual dollar-weighted numbers of tax code provisions scheduled to expire over the next 10 years, giving a measure of the level of uncertainty regarding the path that the federal tax code will take in the future.
- (3) The Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters utilizes dispersion between individual forecasters' predictions about future levels of the Consumer Price Index, Federal Expenditures, and State and Local Expenditures to construct indices of uncertainty about policy-related macroeconomic variables.

Source: Atlanta Fed – FRED, Philip Chao, <https://fred.stlouisfed.org/series/USEPUINDXD/>

Q1 GDP – A Story about AI Buildout

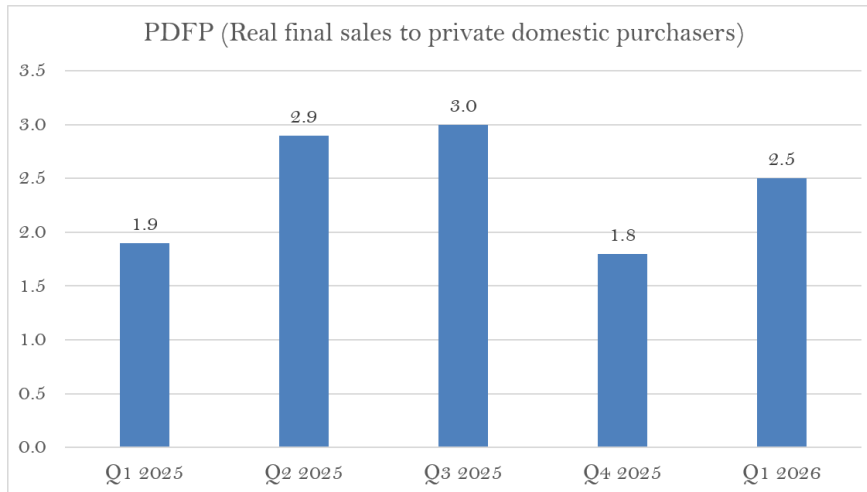
GDP	2024				2025				2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
REAL Gross domestic product	0.8	3.6	3.3	1.9	-0.6	3.8	4.4	0.5	2.1
Personal consumption expenditures	1.7	3.9	4	3.9	0.6	2.5	3.5	1.9	0.5
Goods	-1.3	5.5	6.1	6.9	0.2	2.2	3	0.3	0.5
Durable goods	-0.9	7.8	8.6	13	-3.4	2.3	1.6	0.1	0.5
Nondurable goods	-1.6	4.3	4.8	3.8	2.2	2.2	3.9	0.4	0.6
Services	3.2	3.2	3	2.5	0.8	2.6	3.6	2.7	0.5
Gross private domestic investment	-1.6	8.2	0.9	-6.8	23.3	-13.8	0	2.3	7.9
Fixed investment	3	1.4	1.5	-1.9	7.1	4.4	0.8	1.5	6.5
Nonresidential	1.5	2.5	3.5	-3.7	9.5	7.3	3.2	2.4	10.6
Structures	-5	-3.9	-2.2	-8.1	-3.1	-7.5	-5	-6.5	-4.7
Equipment	0.5	8.9	8.2	-4.3	21.4	8.5	5.2	4.3	15.8
Intellectual property products	6.7	0.7	2.6	-0.6	6.5	15	5.6	5.4	13.8
Residential	8.2	-2	-4.8	4.3	-1	-5.1	-7.1	-1.7	-7.8
Government consumption expenditures and gross investment	2.3	3.3	5.4	3.3	-1	-0.1	2.2	-5.6	4.4
Federal	0.8	4.3	8.6	4.4	-5.6	-5.3	2.7	-16.6	9.4
National defense	-2.6	6.9	13.5	4.6	-6.9	0.9	5.7	-10.7	2.1
Nondefense	5.5	0.9	2.4	4.1	-3.8	-13	-1.4	-24.3	20.7
State and local	3.2	2.8	3.6	2.7	1.9	3.1	2	1.5	1.6
NOMINAL Gross domestic product, current dollars	4	6.3	5.1	4.3	2.9	6	8.3	4.2	5.8

Observations:

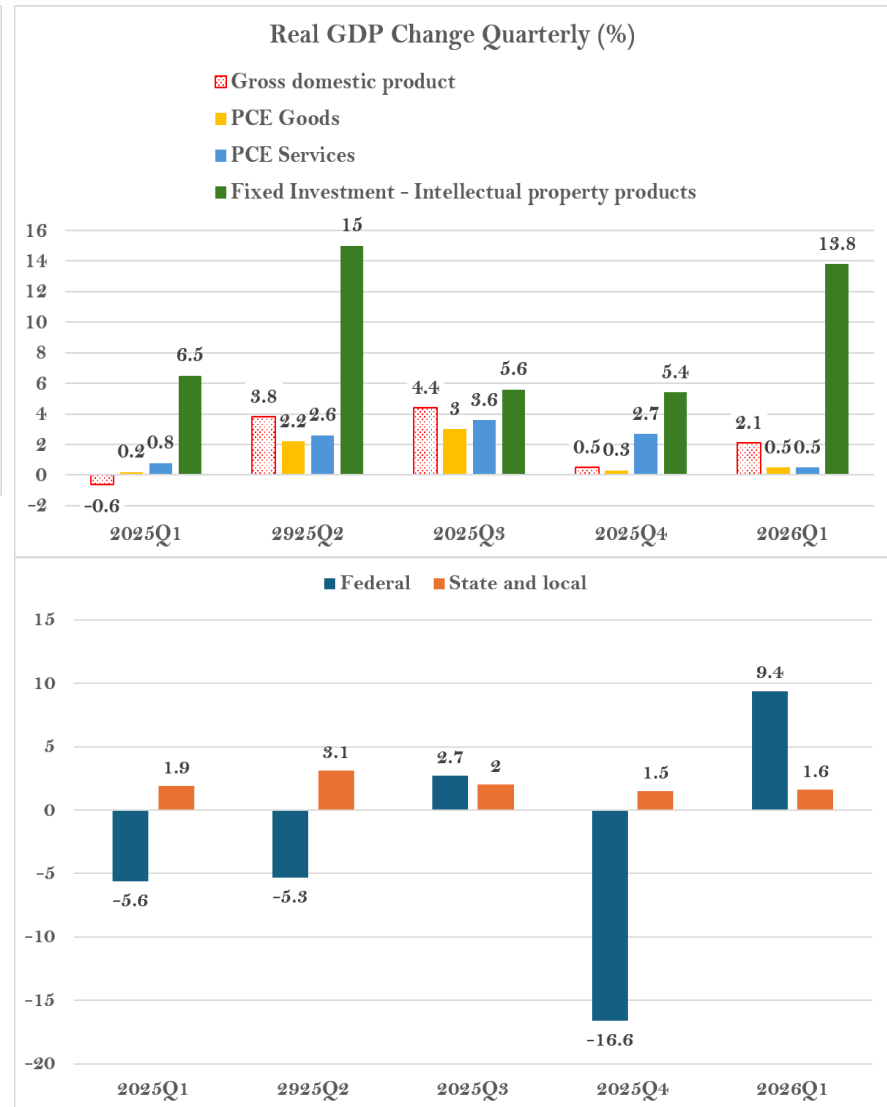
2025Q4 included the Federal government 43-day shutdown and contributed to the sudden drop in GDP.

2026Q1 surge in Fixed Investment (Equipment and Intellectual property products) spending and investments – this is primarily AI buildout cost.

GDP 2026Q1 (final estimate) + PDFP

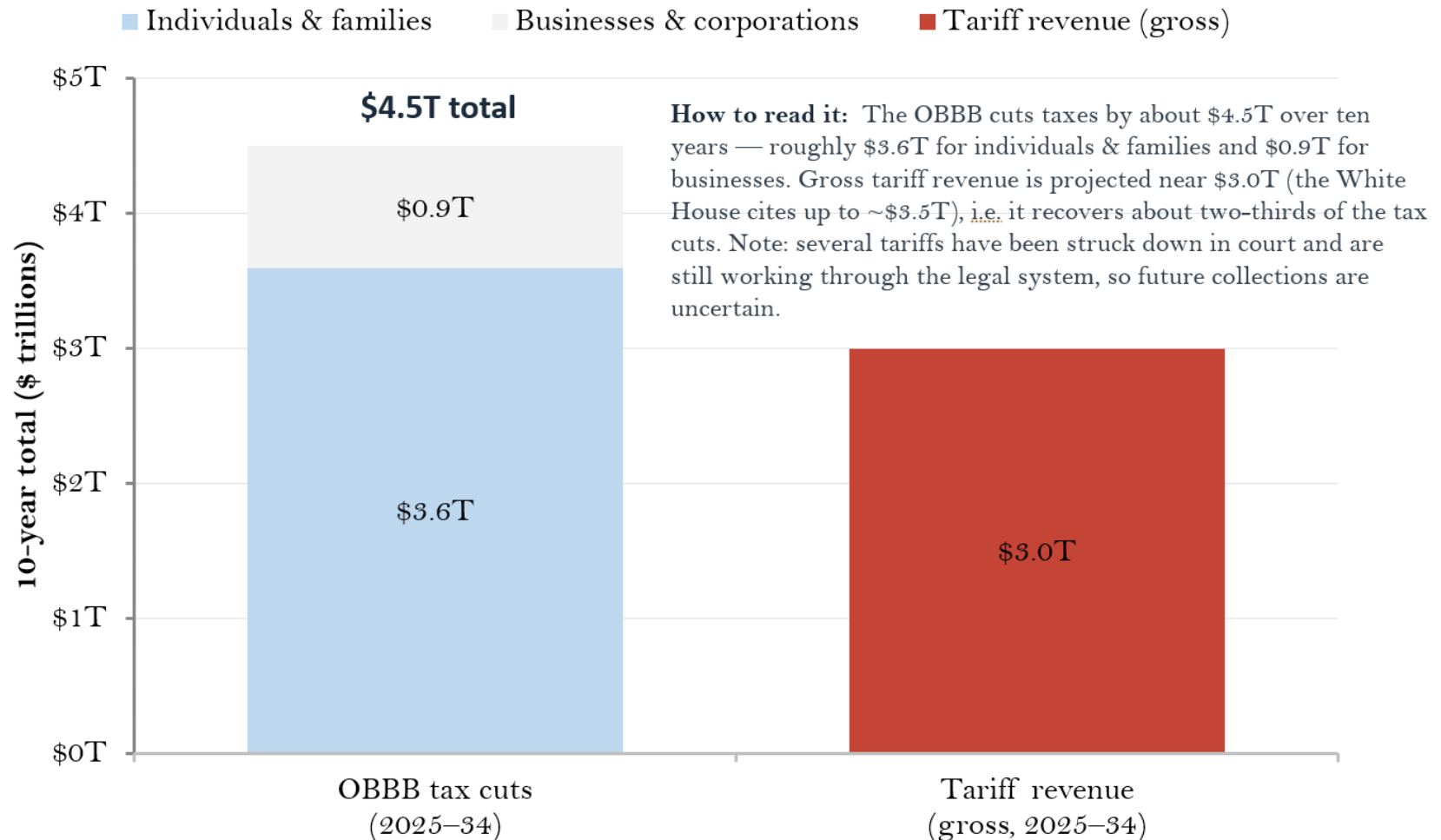


PDFP strips out the 3 volatile components: net exports, inventory swings, and government spending. PDFP series show what headline GDP does not: PDFP is smoother than headline GDP. Underlying private demand didn't collapse in Q4 the way headline GDP did. PDFP was at 1.8% in Q4, versus the headline's 0.5%. That confirms the Q4 GDP weakness was largely the government shutdown artifact, not a genuine collapse in private demand. Strip out government and the private economy was still growing near 2% in Q4. And Q1 2026's 2.5% PDFP is solid but not a dramatic bounce. This shows the 2025Q4 headline was artificially low and 2026Q1 was not a boom.



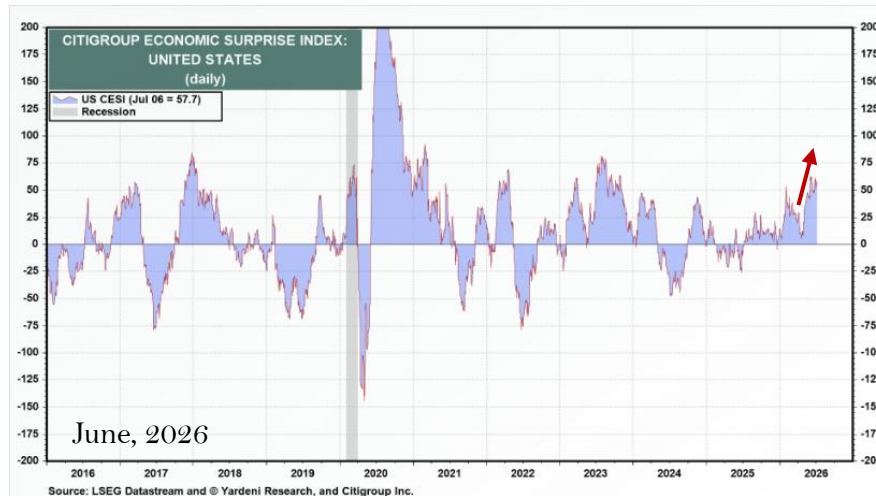
OBBB Tax Cuts (Individuals & Companies) vs. Tariff Revenue

The tax cuts go mostly to individuals; gross tariff revenue offsets roughly two-thirds of them.



Sources: OBBB tax cuts — Joint Committee on Taxation (JCX-35-25) / CBO; individual vs. business split approximate (business = bonus depreciation, R&D & structures expensing, interest; pass-through QBI ~\$0.7T is a boundary item). Tariff revenue — Committee for a Responsible Federal Budget / CBO / U.S. Treasury; gross, before any refunds. 10-year projections (2025-34); subject to revision and pending litigation.

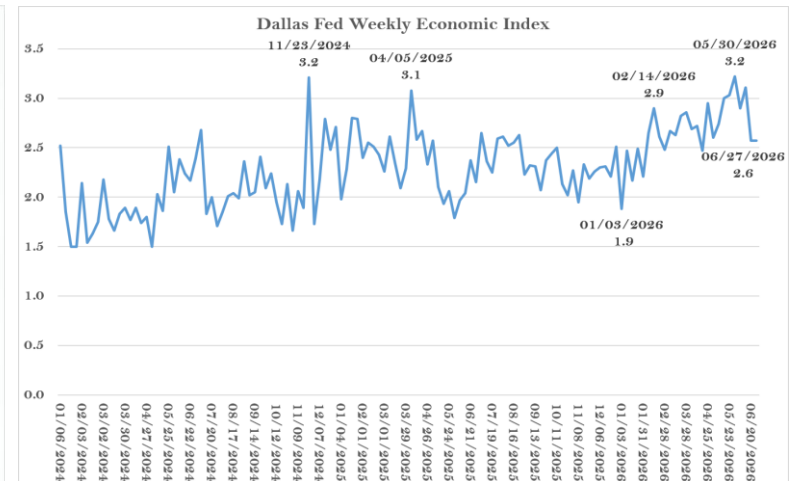
Citi Economic Surprise & Dulles Fed Weekly Economic Index



<https://yardeni.com/charts/citigroup-economic-surprise/>

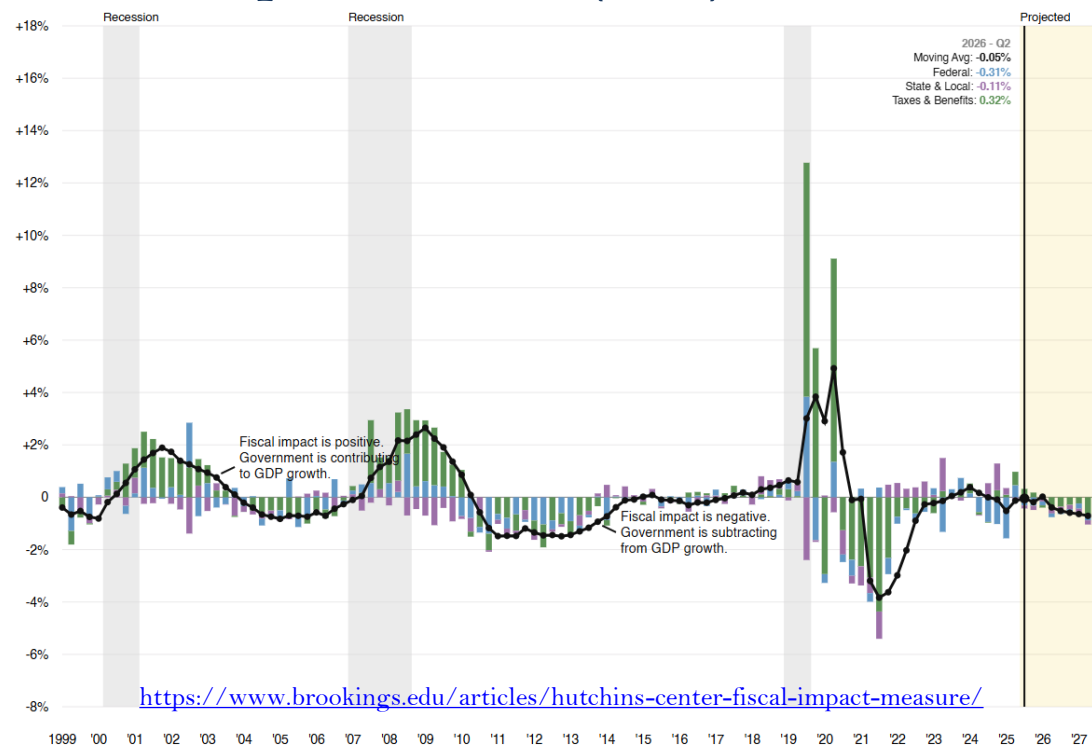
Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, is now back to neutral. (We prefer "exceeding" expectations.) Since the first quarter, the chart shows exceeding expectations, and it shows in the financial markets.

Dallas Fed's Weekly Economic Index (WEI) provides a signal of the state of the U.S. economy based on data available on a daily or weekly frequency. It represents the common component of 10 different daily and weekly series covering consumer behavior, the labor market, and production. As of July 2, The WEI is currently 2.57 percent, scaled to four-quarter GDP growth, for the week ended June 27 and 2.57 percent for June 20. The 13-week moving average is 2.82 percent. This is compared with 2.68 percent four-quarter GDP growth through the first quarter of 2026.



Source: Federal Reserve Bank of Dallas, Philip Chao as of 04-18-2026
<https://www.dallasfed.org/research/wei>

Brookings Financial Impact Measure (FIM)



Source: Hutchins Center calculations and projections using data from
Bureau of Economic Analysis (historical) and the Congressional Budget Office (projections)

H Hutchins Center
on Fiscal & Monetary Policy

Fiscal policy added 0.9 percentage points to U.S. GDP growth in the first quarter of 2026, according to the Hutchins Center Fiscal Impact Measure (FIM). The FIM translates changes in taxes and spending at the federal, state, and local levels into changes in aggregate demand, showing the effect of fiscal policy on real GDP growth. Real GDP rose at an annual rate of 2.1% in the first quarter, according to the latest government estimate. Real federal spending contributed 0.4 percentage points to GDP growth in the first quarter, reflecting a bounce back from the fourth quarter's six-week government shutdown amid generally weak underlying federal spending growth. (Real federal spending in 2026 Q1 was about 2% below its level in 2025 Q3, reflecting continuing declines in federal employment.) State and local spending subtracted 0.1 percentage points from GDP in the first quarter, while the combined effect of all other factors—including underlying taxes and tax cuts in the One Big Beautiful Bill Act (OBBBA), transfers, effects of tariffs, and supply side factors—boosted GDP by about 0.5 percentage points.

National Federation of Independent Business (NFIB) – 05-2026

- The Employment Index remained essentially flat in May, registering 100.3 in May after measuring 100.4 in April. This is the third consecutive month in which the Index has declined. The current reading is below the 2025 average of 101.2 but slightly above the historical average of 100.0.
- In May, job openings and hiring plans fell notably to the lowest levels in six years. Twenty-nine percent (seasonally adjusted) of all owners reported job openings they could not fill in the current period, down 5 points from April and marking the lowest level since May 2020.
- A seasonally adjusted net 9% of owners plan to create new jobs in the next three months, down 4 points from April, also marking the lowest level since May 2020.
- In May, 13% of small business owners cited labor quality as their single most important problem, down 5 points from April and marking the lowest level since December 2016.
- Fourteen percent of business owners reported labor costs as their single most important problem, up 5 points from April and the highest reading in the survey's history.
- Sixteen percent (seasonally adjusted) of small business owners plan to make capital outlays in the next six months, down 1 point from April and the lowest level since March 2009.
- Reports of supply chain disruptions picked up in May, with a shift from those reporting no disruptions to those reporting mild or moderate disruptions. Seventy percent of small business owners reported that supply chain disruptions affected their business to some extent, up 6 points from April.
- In May, reports of both actual and planned price increases rose significantly. The net percent of owners raising average selling prices rose 6 points from April to a net 36% (seasonally adjusted), marking the highest reading since March 2023. A net 34% (seasonally adjusted) plan to increase prices, up 7 points from April and marking the highest reading since July 2022.
- Eighteen percent of business owners cited inflation as their single most important business problem, up 2 points from April and marking the highest reading since December 2024. Inflation ranks as the second top problem.

https://www.nfib.com/news/monthly_report/sbet/

National Federation of Independent Business (NFIB) – 05-2026

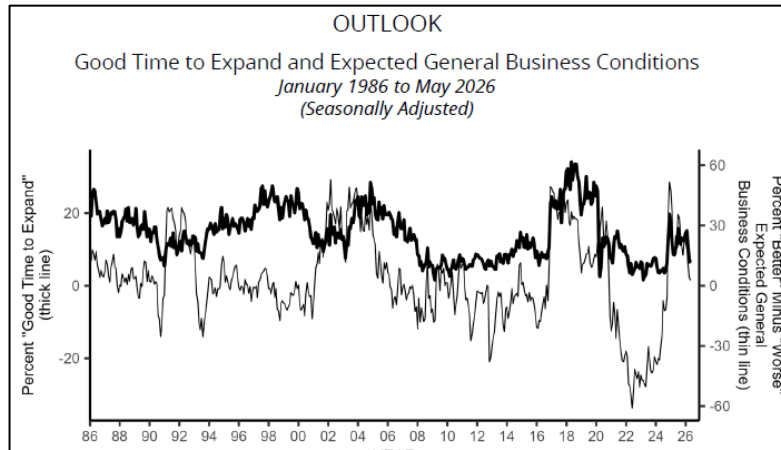


The Small Business Optimism Index for May was 95.3, down 0.6 points from April and remaining below its 52-year average of 98.0. Of the 10 Optimism Index components, three increased, six decreased, and one was unchanged. The labor-related components (unfilled job openings and hiring plans) declined notably but were offset by improvements in earnings trends and inventory plans.



The Uncertainty Index rose 3 points from April to 91, remaining well above its historical average of 68.

NFIB Survey – Small Business Outlook 05-2026



OUTLOOK FOR EXPANSION
Percent Next Three Months "Good Time to Expand"
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	8	6	11	14	13	15	13	11	11	10	10	11
2022	9	8	6	4	6	3	4	5	6	5	6	5
2023	7	6	2	3	3	6	6	6	5	6	8	8
2024	8	5	4	4	4	4	5	4	4	6	14	20
2025	17	12	9	9	10	11	16	14	11	13	13	13
2026	15	15	11	7	7							

MOST IMPORTANT REASON FOR EXPANSION OUTLOOK
Reason Percent by Expansion Outlook
May 2026

Reason	Good Time	Not Good Time	Uncertain
Economic Conditions	4	29	16
Sales Prospects	3	1	2
Fin. & Interest Rates	1	2	2
Cost of Expansion	0	8	5
Political Climate	1	7	8
Other / Not Available	0	1	1

OUTLOOK FOR GENERAL BUSINESS CONDITIONS
Net Percent ("Better" Minus "Worse") Six Months From Now
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-23	-19	-8	-15	-26	-12	-20	-28	-33	-37	-38	-35
2022	-33	-35	-49	-50	-54	-61	-52	-42	-44	-46	-43	-51
2023	-45	-47	-47	-49	-50	-40	-30	-37	-43	-43	-42	-36
2024	-38	-39	-36	-37	-30	-25	-7	-13	-12	-5	36	52
2025	47	37	21	15	25	22	36	34	23	20	15	24
2026	21	18	11	4	3							

NFIB Survey – Small Business Earnings & Sales, May 2026

ACTUAL EARNINGS CHANGES													ACTUAL EARNINGS CHANGES												
Net Percent ("Higher" Minus "Lower") Last Three Months Compared to Prior Three Months (Seasonally Adjusted)													Net Percent ("Higher" Minus "Lower") Last Three Months Compared to Prior Three Months (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-16	-11	-15	-7	-11	-5	-13	-15	-14	-17	-17	-14	2021	-16	-11	-15	-7	-11	-5	-13	-15	-14	-17	-17	-14
2022	-17	-17	-17	-17	-24	-25	-26	-33	-31	-30	-22	-30	2022	-17	-17	-17	-17	-24	-25	-26	-33	-31	-30	-22	-30
2023	-26	-23	-18	-23	-26	-24	-30	-25	-24	-32	-32	-25	2023	-26	-23	-18	-23	-26	-24	-30	-25	-24	-32	-32	-25
2024	-30	-31	-29	-27	-30	-29	-30	-37	-34	-33	-26	-26	2024	-30	-31	-29	-27	-30	-29	-30	-37	-34	-33	-26	-26
2025	-25	-24	-28	-21	-26	-22	-22	-19	-16	-25	-23	-20	2025	-25	-24	-28	-21	-26	-22	-22	-19	-16	-25	-23	-20
2026	-21	-14	-25	-19	-15								2026	-21	-14	-25	-19	-15							

ACTUAL SALES CHANGES													SALES EXPECTATIONS												
Net Percent ("Higher" Minus "Lower") Last Three Months Compared to Prior Three Months (Seasonally Adjusted)													Net Percent ("Higher" Minus "Lower") During Next Three Months (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-7	2	-6	3	7	9	5	0	3	-4	-2	1	2021	-6	-8	0	1	3	7	-4	-2	2	0	2	3
2022	2	0	4	3	1	-2	-5	-8	-5	-8	-7	-8	2022	-3	-6	-18	-12	-15	-28	-29	-19	-10	-13	-8	-10
2023	-4	-6	-6	-9	-8	-10	-13	-14	-8	-17	-17	-11	2023	-14	-9	-15	-19	-21	-14	-12	-14	-13	-10	-8	-4
2024	-11	-13	-10	-13	-14	-12	-16	-16	-17	-20	-13	-13	2024	-16	-10	-18	-12	-13	-13	-9	-18	-9	-4	14	22
2025	-14	-12	-11	-8	-13	-5	-9	-9	-7	-13	-9	-8	2025	20	14	3	-1	10	7	6	12	8	6	15	10
2026	-6	1	-5	-8	-5								2026	16	8	7	3	1							

NFIB Survey – Prices & Employment

ACTUAL PRICE CHANGES												
Net Percent ("Higher" Minus "Lower") Compared to Three Months Ago (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	17	25	26	36	40	47	46	49	46	53	59	57
2022	58	64	66	63	65	63	56	53	51	50	51	43
2023	42	38	37	33	32	29	25	27	29	30	25	25
2024	22	21	28	25	25	27	22	20	22	21	24	24
2025	22	32	26	25	25	29	24	21	24	21	34	30
2026	26	24	25	30	36							

PRICE PLANS												
Net Percent ("Higher" Minus "Lower") in the Next Three Months (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	28	34	34	36	43	44	44	44	46	51	54	49
2022	47	47	52	48	51	49	37	32	31	34	34	24
2023	29	25	26	21	29	31	27	30	30	33	34	32
2024	33	30	33	26	28	26	24	25	25	26	28	28
2025	26	29	30	28	31	32	28	26	31	30	30	28
2026	32	28	24	27	34							

ACTUAL EMPLOYMENT CHANGES												
Net Percent ("Increase" Minus "Decrease") in the Last Three Months (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	0	-3	-2	1	-5	-2	-6	-8	-1	-2	-1	1
2022	-1	1	-2	-2	-4	-2	-4	-8	-4	-2	-3	1
2023	2	4	2	-2	-4	-2	-2	-4	-2	-3	-2	-2
2024	0	-1	-2	0	-2	-5	-3	-6	-4	-3	-1	-3
2025	1	-3	-1	1	-2	-8	-2	-5	-3	-4	-3	-1
2026	1	3	-1	-2	-2							

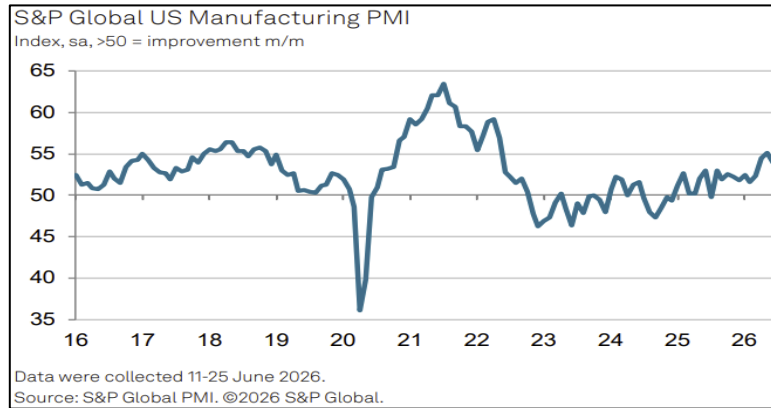
QUALIFIED APPLICANTS FOR JOB OPENINGS												
Percent Few or No Qualified Applicants												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	46	51	51	54	57	56	57	60	62	58	56	57
2022	55	57	55	55	61	60	57	57	57	55	54	51
2023	52	54	53	55	55	54	56	54	57	55	50	49
2024	49	51	48	51	51	51	49	56	52	46	48	49
2025	47	48	47	47	48	50	48	43	50	49	50	48
2026	44	46	45	46	46							

Opening, Hiring and Compensation, May 2026

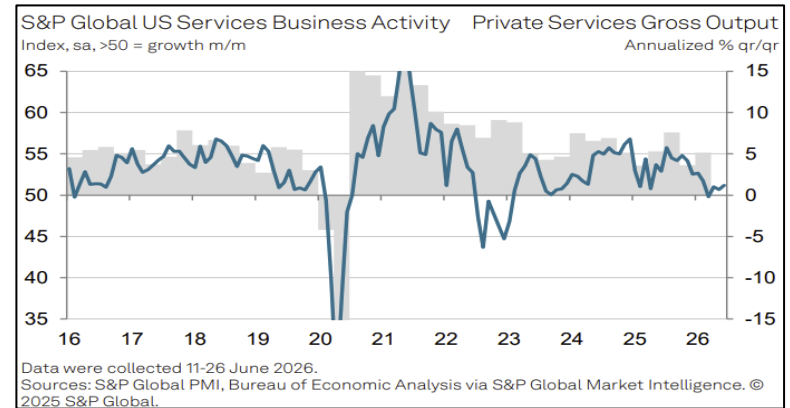
JOB OPENINGS													HIRING PLANS												
Percent With Positions Not Able to Fill Right Now (Seasonally Adjusted)													Net Percent ("Increase" Minus "Decrease") in the Next Three Months (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	33	40	42	44	48	46	49	50	51	49	48	49	2021	17	18	22	21	27	28	27	32	26	26	25	28
2022	47	48	47	47	51	50	49	49	46	46	44	41	2022	26	19	20	20	26	19	20	21	23	20	18	17
2023	45	47	43	45	44	42	42	40	43	43	40	40	2023	19	17	15	17	19	15	17	17	18	17	18	16
2024	39	37	37	40	42	37	38	40	34	35	36	35	2024	14	12	11	12	15	15	15	13	15	15	18	19
2025	35	38	40	34	34	36	33	32	32	32	33	33	2025	18	15	12	13	12	13	14	15	16	15	19	17
2026	31	33	32	34	29								2026	16	12	12	13	9							

ACTUAL COMPENSATION CHANGES													COMPENSATION PLANS												
Net Percent ("Increase" Minus "Decrease") During Last Three Months (Seasonally Adjusted)													Net Percent ("Increase" Minus "Decrease") in the Next Three Months (Seasonally Adjusted)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	25	25	28	31	34	39	38	41	42	44	44	48	2021	17	19	17	20	22	26	27	26	30	32	32	32
2022	50	45	49	46	49	48	48	46	45	44	40	44	2022	27	26	28	27	25	28	25	26	23	32	28	27
2023	46	46	42	40	41	36	38	36	36	36	36	36	2023	22	23	22	21	22	22	21	26	23	24	30	29
2024	39	35	38	38	37	38	33	33	32	31	32	29	2024	26	19	21	21	18	22	18	20	23	23	28	24
2025	33	33	38	33	26	33	27	29	31	26	26	31	2025	20	18	19	17	20	19	17	20	19	19	24	24
2026	32	34	33	30	31								2026	22	22	18	18	18							

S&P U.S. Business Survey, June 2026



The performance of the U.S. manufacturing economy improved again in June, though the pace of growth eased to a three-month low. Both output and new orders rose at slower, but still historically elevated, rates. Growth was commonly linked to new product launches, alongside some reports of pre-orders placed to protect against rising prices. Higher raw material costs drove another steep rise in input costs, albeit one that was softer than May's recent high. Selling price inflation also eased, falling to a three-month low. Employment remained a weak point at the end of the second quarter. Job shedding was the fastest since May 2020 and, excluding the pandemic, was the quickest since October 2009. At the same time, business optimism regarding the year ahead weakened for the second month running, reaching its lowest level since October 2025. The headline seasonally adjusted PMI registered 53.9 in June, down from 55.1 in May. The PMI was supported by further marked and above trend gains in both output and new orders. That said, growth moderated slightly across both variables, with new orders rising at the softest pace since March. New product launches and pre-orders placed in anticipation of further price rises supported demand.

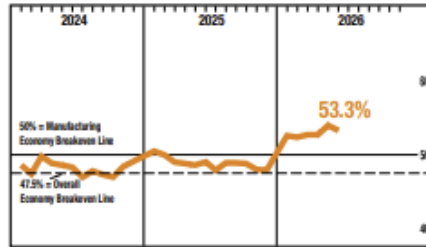


Latest PMI survey data from S&P Global showed that the U.S. service sector recorded a modest, but improved, rise in activity during June. The upturn was supported by a faster increase in new business, as firms responded to gradually stabilizing economic conditions. That said, growth remained historically muted and continued to weigh on employment levels at the end of the second quarter. Inflationary pressures also stayed elevated, despite easing since May, as tariffs and higher fuel prices added again to cost burdens. Confidence in the outlook improved in June to the highest since February. The headline S&P Global U.S. Services PMI Business Activity Index rose to 51.2 in June from 50.7 in May. Although the latest reading signaled growth for the third month running, it was consistent with only a modest increase in activity and remained below the average seen since the pandemic. New orders growth accelerated from the previous month. Domestic demand remained the main driver of growth as overall new export business declined for a seventh successive month, the latter largely blamed on uncertainty around government policy and tariffs.

ISM Report on Business 06-2026 – Manufacturing PMI (50% + is expansion)

MANUFACTURING PMI® at 53.3%

The U.S. manufacturing sector expanded in June for the sixth straight month following a 10-month period of contraction, registering 53.3 percent, a decrease of 0.7 percentage point compared to May. Of the five subindexes that directly factor into the Manufacturing PMI®, four (New Orders, Production, Supplier Deliveries and Inventories) were in expansion territory, one more than in May. The Employment Index stayed in contraction but improved compared to May.



The Employment Index stayed in contraction but improved compared to May.

Manufacturing at a Glance

INDEX	Jun Index	May Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	53.3	54.0	-0.7	Growing	Slower	6
New Orders	56.0	56.8	-0.8	Growing	Slower	6
Production	52.2	54.3	-2.1	Growing	Slower	8
Employment	49.7	48.6	+1.1	Contracting	Slower	33
Supplier Deliveries	57.4	60.6	-3.2	Slowing	Slower	7
Inventories	51.4	49.9	+1.5	Growing	From Contracting	1
Customers' Inventories	42.3	42.7	-0.4	Too Low	Faster	21
Prices	73.0	82.1	-9.1	Increasing	Slower	21
Backlog of Orders	50.5	52.2	-1.7	Growing	Slower	6
New Export Orders	48.5	50.6	-2.1	Contracting	From Growing	1
Imports	52.9	53.0	-0.1	Growing	Slower	5
Overall Economy				Growing	Slower	20
Manufacturing Sector				Growing	Slower	6

*Number of months moving in current direction. ISM® Manufacturing PMI® Report data have been seasonally adjusted for the New Orders, Production, Export and Import subindexes.

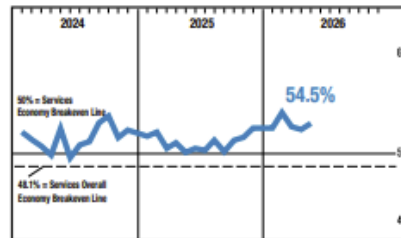
Economic activity in the manufacturing sector expanded in June for the sixth consecutive month, say the nation's supply executives in the latest ISM® Manufacturing PMI® Report. The Manufacturing PMI® registered 53.3 percent. The overall economy continued in expansion for the 20th month in a row. (A Manufacturing PMI® above 47.5 percent, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index expanded for the sixth consecutive month after four straight readings in contraction, registering 56 percent, down 0.8 percentage point compared to May's figure of 56.8 percent. The June reading of the Production Index (52.2 percent) is 2.1 percentage points lower than May's reading of 54.3 percent. The Prices Index remained in expansion (or 'increasing' territory), registering 73 percent, a 9.1-percentage point decrease from May's reading of 82.1 percent. The Backlog of Orders Index registered 50.5 percent, down 1.7 percentage points compared to the 52.2 percent recorded in May..

The 14 manufacturing industries reporting growth in June — listed in order — are: Printing & Related Support Activities; Electrical Equipment, Appliances & Components; Textile Mills; Primary Metals; Apparel, Leather & Allied Products; Fabricated Metal Products; Computer & Electronic Products; Machinery; Plastics & Rubber Products; Transportation Equipment; Nonmetallic Mineral Products; Chemical Products; Miscellaneous Manufacturing; and Food, Beverage & Tobacco Products.

ISM Report on Business 06-2026 – Services PMI (50% + is expansion)

SERVICES PMI® at 54.5%

In May, the Services PMI® registered 54.5 percent, 1.7 percentage points above its 12-month moving average of 52.8 percent. A reading above 50 percent indicates the services sector economy is generally expanding; below 50 percent indicates it is generally contracting. The past relationship between the Services PMI® and the overall economy indicates that the Services PMI® for May corresponds to a 2-percentage point increase in real gross domestic product (GDP) on an annualized basis.



Services at a Glance

INDEX	May Index	Apr Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	54.5	53.6	+0.9	Growing	Faster	23
Business Activity	57.7	55.9	+1.8	Growing	Faster	23
New Orders	57.3	53.5	+3.8	Growing	Faster	12
Employment	47.9	48.0	-0.1	Contracting	Faster	3
Supplier Deliveries	55.2	56.8	-1.6	Slowing	Slower	18
Inventories	62.5	53.1	+9.4	Growing	Faster	4
Prices	71.3	70.7	+0.6	Increasing	Faster	108
Backlog of Orders	51.3	53.0	-1.7	Growing	Slower	4
New Export Orders	50.0	52.1	-2.1	Unchanged	From Growing	1
Imports	51.1	54.7	-3.6	Growing	Slower	4
Inventory Sentiment	55.2	55.1	+0.1	Too High	Faster	37
Overall Economy				Growing	Faster	72
Services Sector				Growing	Faster	23

*Number of months moving in current direction. ISM® Services PMI® Report data have been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

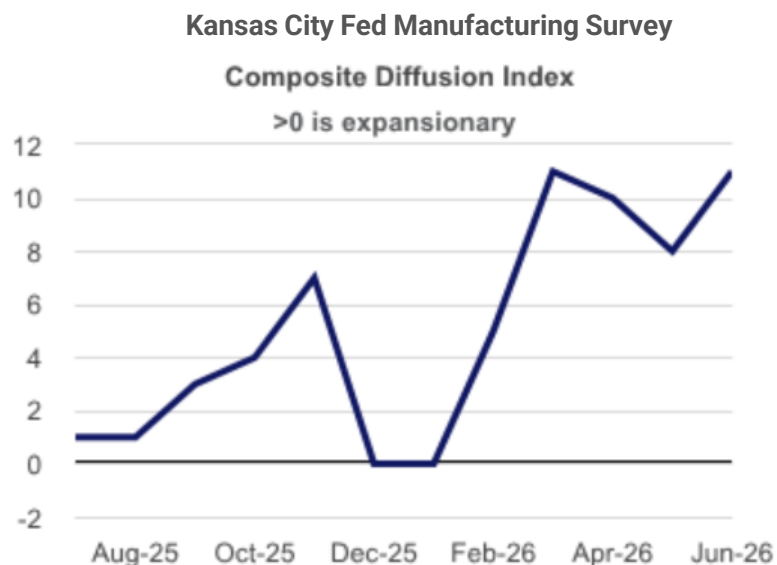
Economic activity in the services sector continued to expand in May, say the nation's purchasing and supply executives in the latest ISM® Services PMI® Report. The Services PMI® registered 54.5 percent, the 23rd consecutive month in expansion territory. The Business Activity Index remained in expansion territory in May, increasing 1.8 percentage points to 57.7 percent from April's reading of 55.9 percent. The New Orders Index registered 57.3 percent, 3.8 percentage points above April's figure of 53.5 percent and 2.6 percentage points higher than its 12-month average reading of 54.7 percent. The Employment Index contracted for the third month in a row with a reading of 47.9 percent, a 0.1-percentage point decrease from the 48 percent recorded in April; of the four subindexes that make up the composite PMI®, it is the only one that remains below its 12-month moving average.

The 17 services industries reporting growth in May — listed in order — are: Wholesale Trade; Other Services†; Arts, Entertainment & Recreation; Construction; Information; Agriculture, Forestry, Fishing & Hunting; Mining; Professional, Scientific & Technical Services; Public Administration; Accommodation & Food Services; Utilities; Retail Trade; Transportation & Warehousing; Finance & Insurance; Management of Companies & Support Services; Educational Services; and Health Care & Social Assistance.

Manufacturing Activities Continue to be Mixed – 06-2026

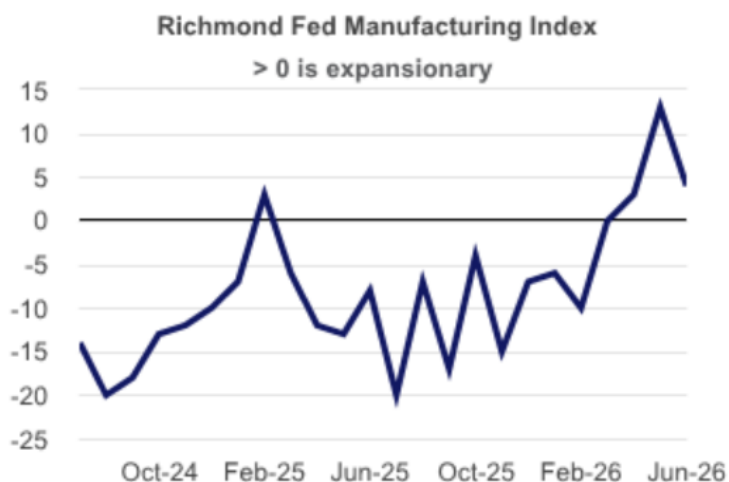
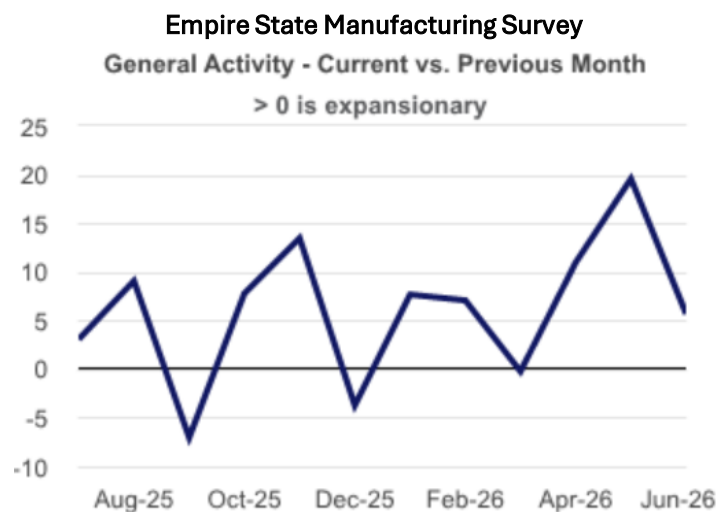


Manufacturing conditions are little changed in the Golden State. While the composite index edged higher, the gain was slight and the details mixed. Employment was the only component to increase at a higher rate over the quarter. It is unclear how employment would rally given the already long-standing labor shortages that have been compounded by recent immigration policy shifts, but this does lend upside risk to wages. Production and new orders are expected to rise, but not as much as previously. Supplier deliveries are expected to be slower, likely as a result of ongoing trade policy shifts and the conflict in the Middle East. The comments from purchasing managers were peppered with references to the conflict with Iran, labor shortages, and rising prices. Defense manufacturing indicates increased orders from the Department of Defense. Given the value of such products, this is likely offsetting the hit to other industries such as fertilizer, aluminum, and resin.



Manufacturing in the Tenth District strengthened moderately in June, according to the Federal Reserve Bank of Kansas City's Manufacturing Survey. The headline composite index rose to 11 in June from 8 in May. The production index surged to 19 from last month's 9 reading, while the volume of new orders index was steady at 13. Employment conditions improved. The number of employees index moved back into positive territory at 10, compared with last month's -4 print. The average employee workweek index ticked down from 6 to 2, on net. The prices paid for raw materials index edged higher to 68 from May's 63 reading.

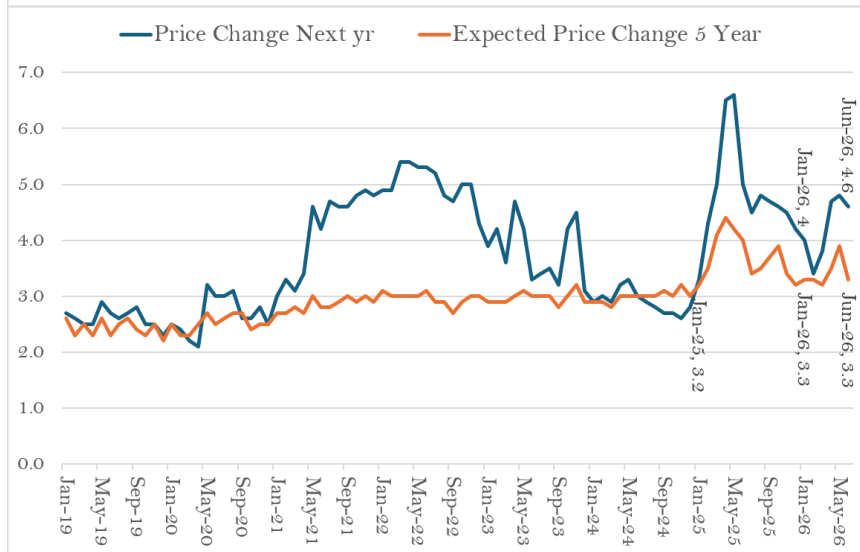
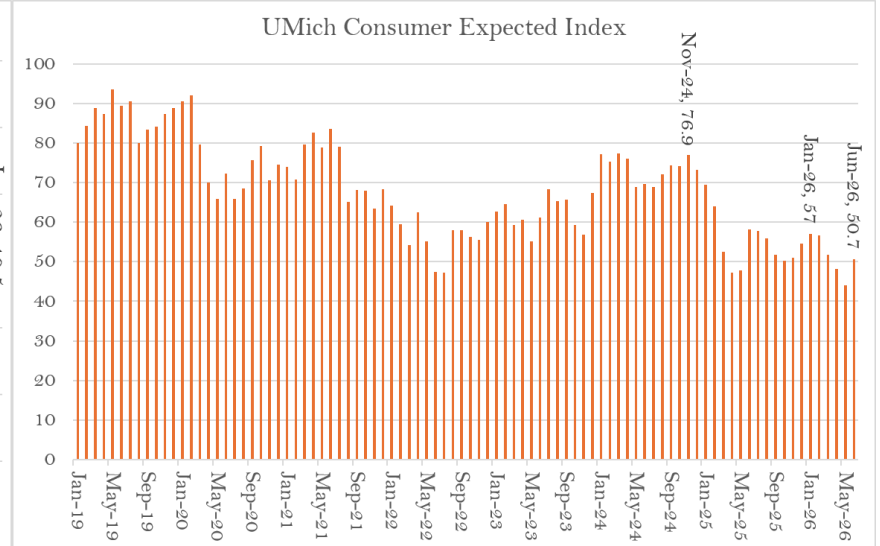
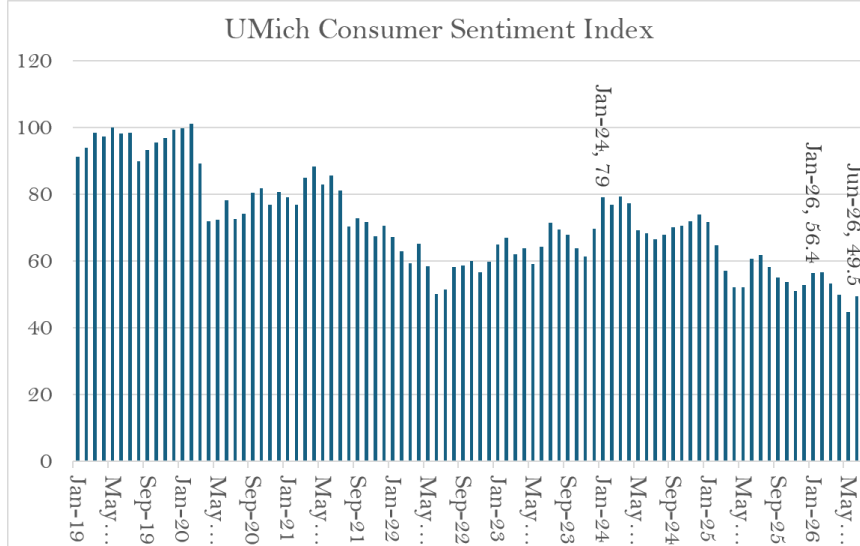
Manufacturing Activities Continue to be Mixed – 06-2026



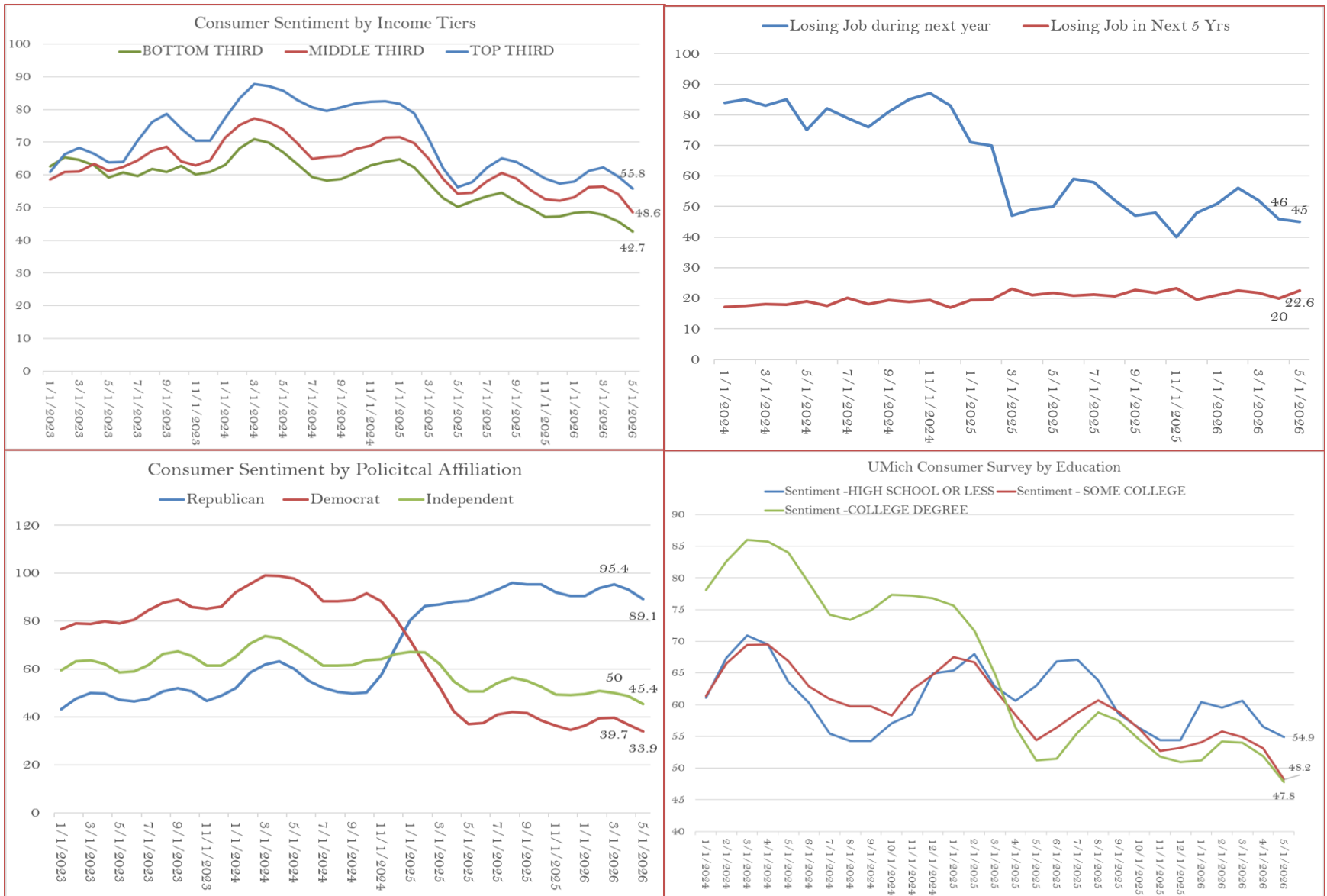
Manufacturers in New York are still expanding, but the pace has clearly cooled, based on the June Empire State Manufacturing Survey. A majority of the gains achieved in April and May were reversed, as new orders leveled off and shipments slowed noticeably. This illustrates that the pace of activity is no longer expanding, but the third straight monthly gain also means that recent increases are proving sustainable. Taken together, these results suggest that firms are settling into a more sustainable trajectory for now. June's slower growth was driven by a sharp decline in the share of respondents indicating improvement from the prior month. The worsening top line reflects a dramatic decline in positive responses and a corresponding small drop in negative responses, leaving nearly half of firms suggesting neutral conditions, easily the largest share of the past year. These dynamics hold for demand metrics and, to a lesser extent, forward-looking indicators, suggesting that broader geopolitical uncertainty may be keeping some buyers in a holding pattern.

According to the Richmond Fed Manufacturing Survey, Fifth District factory activity expanded again in June. The top-line index declined from 13 in May to 4 in June but held in expansionary territory. After improving in May, all three component indexes weakened in June. Demand remained solid, with the new orders index holding in expansionary territory, and shipments continued to increase. Expectations for the next six months remained strong. Labor market indicators were more downbeat. The employment index fell back into contractionary territory in June, slipping to -1 from 3 in May. Additionally, on net, firms reported poor availability of skills needed in June. After declining in May, prices paid surged again in June, rising more than 1 percentage point to 6.99 in June. Prices received also inched higher on the month, increasing from 4.21 to 4.57, indicating that firms are passing along some costs to consumers.

UMich Consumer Survey

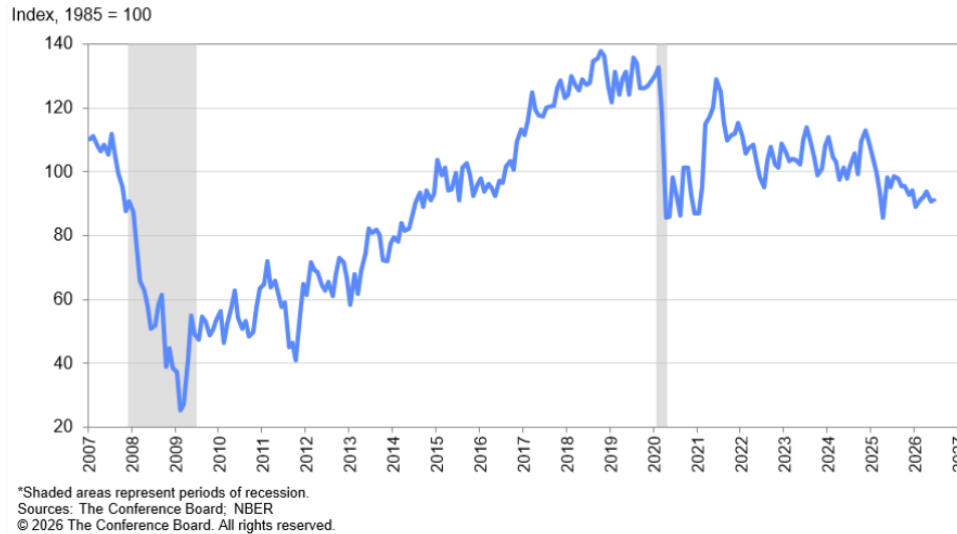


UMich Consumer Surveys – 05-2026



Source: <https://data.sca.isr.umich.edu/charts.php>

Conference Board – Consumer Confidence (06-30-2026)



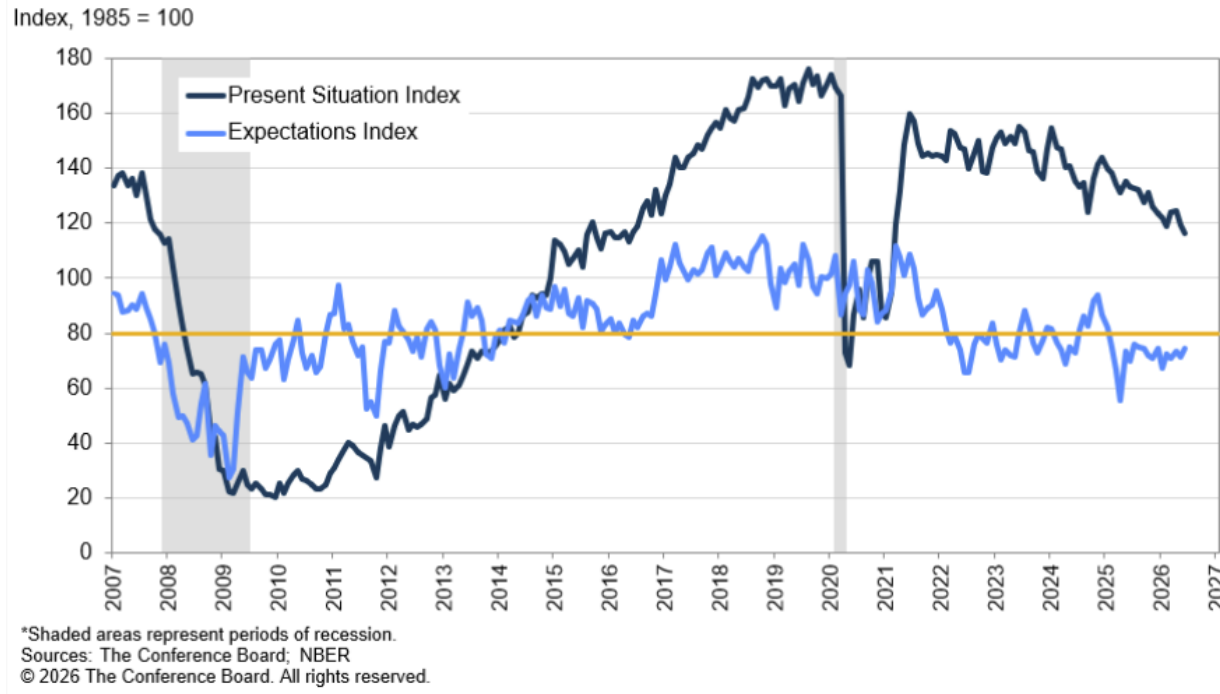
The Consumer Confidence Survey reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates. Data are available by age, income, 9 regions, and top 8 states.

The Conference Board Consumer Confidence Index **inched up by 0.6 points to 91.2** (1985=100) in June, up from a downwardly revised 90.6 in May. The Present Situation Index—based on consumers’ assessment of current business and labor market conditions—fell by 3.0 points to 116.4. The Expectations Index—based on consumers’ short-term outlook for income, business, and labor market conditions—**rose by 3.0 points to 74.4.**

The survey period for this month’s preliminary results was June 1–23, encompassing an extension of the US-Iran ceasefire agreement.

“Consumer confidence inched up in June as falling oil prices in recent weeks provided some relief to consumer inflation fears,” said Dana M Peterson, Chief Economist, The Conference Board. “Consumer appraisals of current business conditions were slightly more positive compared to last month. However, perceptions of the current labor market softened measurably as the percentage of consumers saying jobs were ‘hard to get’ rose to 22.5%, the highest level since January 2021 (22.8%). Moreover, consumers anticipate little change in the labor market six months from now. This was offset by improving expectations for business conditions and incomes.”

Conference Board – Present & Expected (06-30-2026)



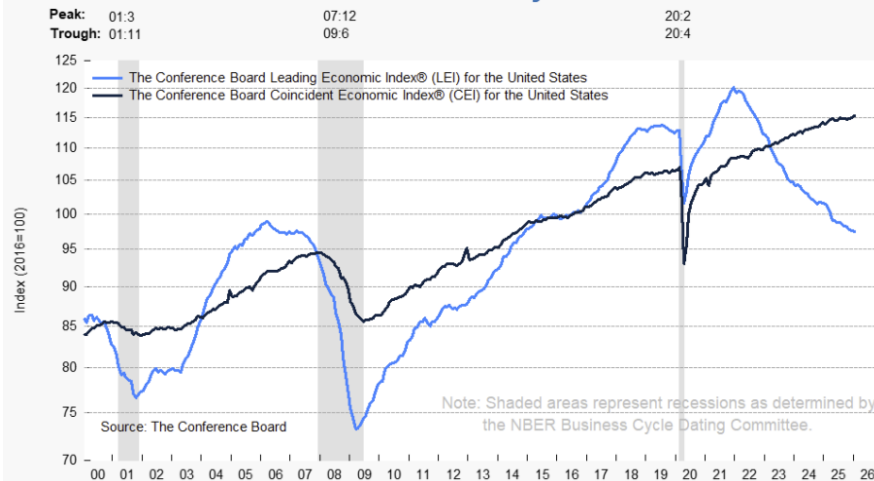
The Present Situation Index **declined in June**. Net views of current business conditions—the share saying conditions are “good” versus “bad”—improved by 1 ppt to +3.5%. However, perceptions of current employment conditions declined, with the labor market differential—the share of consumers saying jobs are “plentiful” minus the share saying jobs are “hard to get”—declining by 2.6 ppts to just +2.4%. Notably, the percentage of consumers saying jobs are “hard to get” rose to 22.5%, a five-and-a-half-year high (January 2021, 22.8%). The Expectations Index improved in June, with two of its three components—net expectations for business and expected household income six months from now both improving. Net expectations for labor market conditions were unchanged.

Among age groups, confidence for consumers under age 35 remained the highest, but confidence for all age groups trended downward on a six-month moving average basis. By income, on a six-month moving average basis, confidence was mixed or little changed across all categories. By generation, confidence fell the most for the Silent Generation but was stable or lower for others on a six-month moving average basis. By political affiliation, confidence among Independents and Democrats rose while Republicans were somewhat less positive on a month-over-month basis.

<https://www.conference-board.org/topics/consumer-confidence>

Conference Board Leading Indicators – June 2026

The LEI continued to decline in January



The CEI's four component indicators—payroll employment, personal income less transfer payments, manufacturing and trade sales, and industrial production—are included among the data used to determine recessions in the U.S. All components of the CEI made positive contributions in May.

The Conference Board Leading Economic Index® and Component Contributions (Percent)



Source: The Conference Board
 * Inverted series; a negative change in this component makes a positive contribution.
 ** Statistical Imputation
 LEI change might not equal sum of its contributions due to application of trend adjustment factor

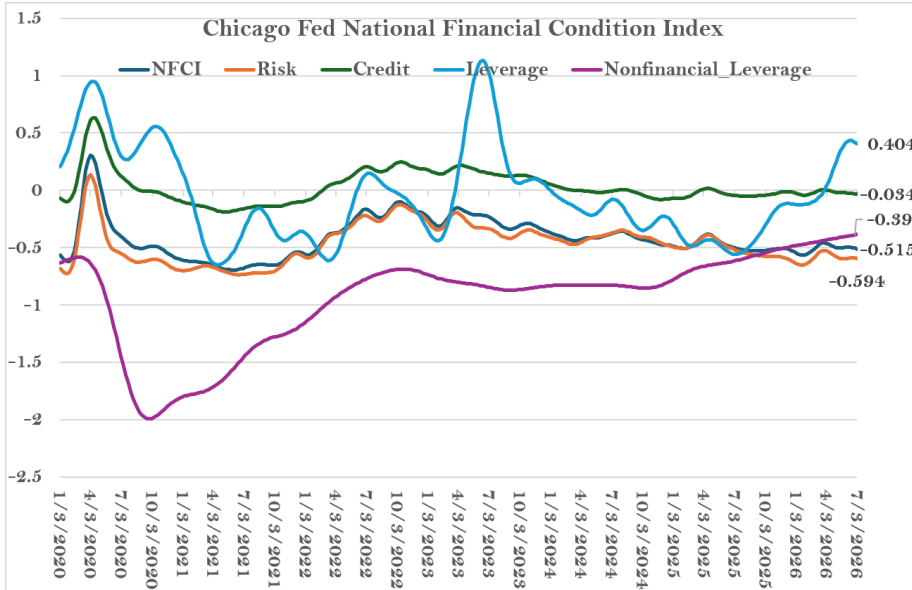
The LEI's six-month growth rate



The Conference Board Leading Economic Index® (LEI) for the U.S. inched down by 0.1% in January 2026 to 97.5 (2016=100), following a 0.2% decline in December. Overall, the LEI fell by 1.3% over the six-month period from July 2025 to January 2026, half the rate of decline compared to its -2.6% contraction over the previous six months (January to July 2025).

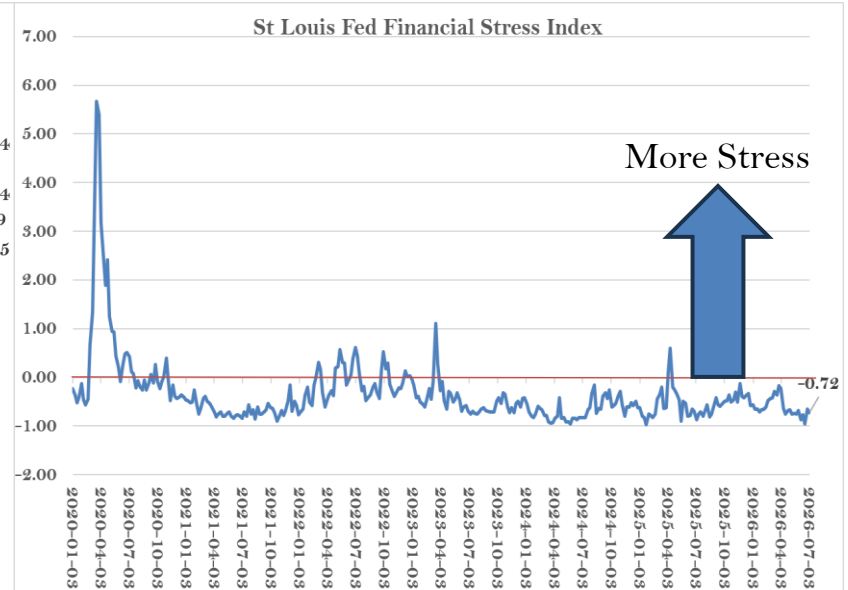
The 6-month chart illustrates the so-called 3Ds—duration, depth, and diffusion—for interpreting a downward movement in the LEI. The 3Ds rule signals an impending recession when: 1) the six-month diffusion index lies at or below 50, shown by the black warning signal lines in the chart; and 2) the LEI's six-month growth rate (annualized) falls below the threshold of -4.3%. The red recession signal lines indicate months when both criteria are met simultaneously—and thus that a recession is likely imminent or underway.

Financial Condition & Stress (less stress below 0) – 2026 07



Source: <https://www.chicagofed.org/publications/nfci/index>, Philip Chao

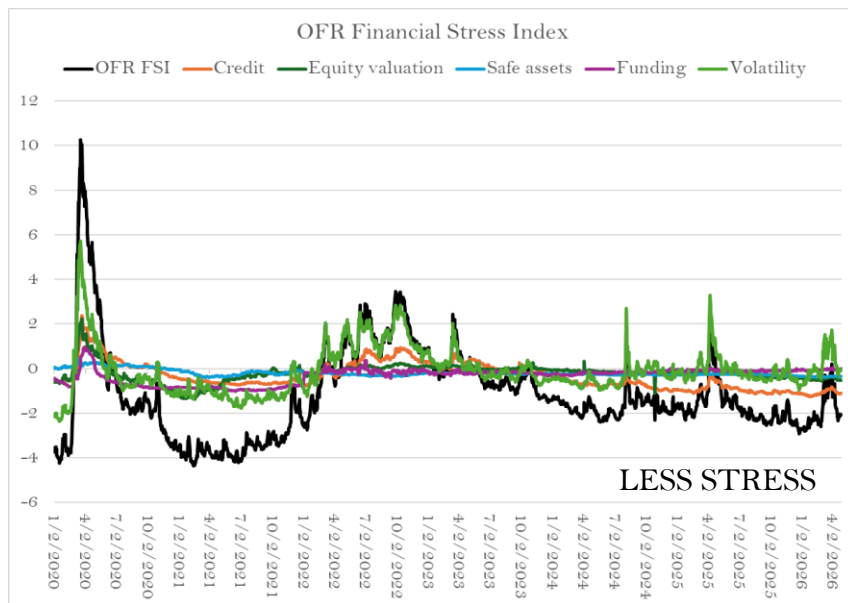
The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. Because U.S. economic and financial conditions tend to be highly correlated, we also present an alternative index, the adjusted NFCI (ANFCI). This index isolates a component of financial conditions uncorrelated with economic conditions to provide an update on financial conditions relative to current economic conditions. The NFCI decreased to -0.51 in the week ending July 3. Risk indicators contributed -0.27 , credit indicators contributed -0.15 , and leverage indicators contributed -0.09 to the index as of July 3, 2026.



Source: <https://fred.stlouisfed.org/series/STLFSI4>, Philip Chao

The St. Louis Federal Reserve Bank's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads, and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together. A zero value is viewed as representing normal financial market conditions. Values below zero suggest below-average financial market stress, while values above zero suggest above-average financial market stress. The Index continues to show below-average financial market stress.

Financial Stress – Below Average 04-2026

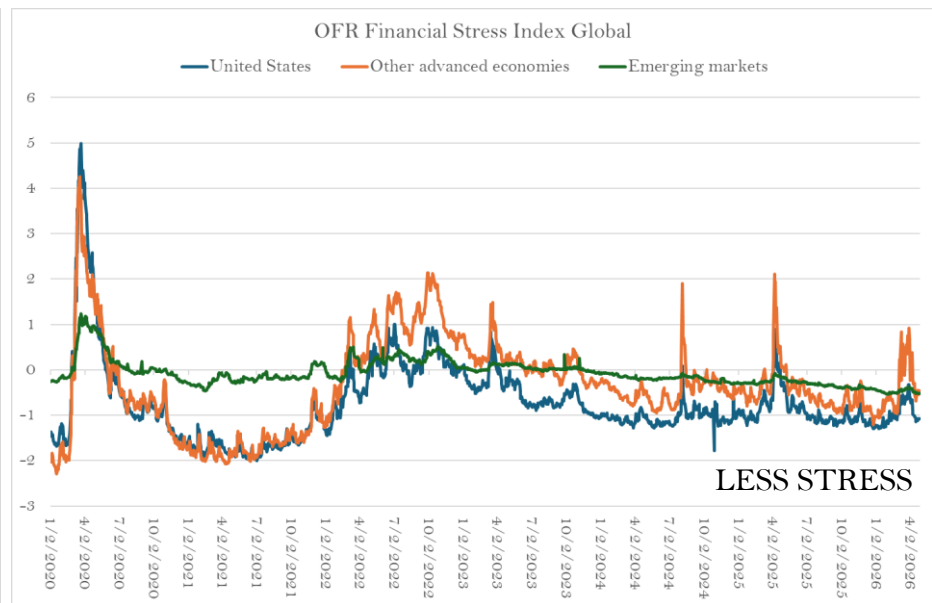


Source: FSI, Philip Chao

The OFR Financial Stress Index (OFR FSI) is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: **credit**, **equity valuation**, **funding**, **safe assets**, and **volatility**.

Overall financial stress in the U.S. continues to remain below the neutral “0” value. All categories except volatility have spiked up since the end of March 2025.

<https://www.financialresearch.gov/financial-stress-index/#ae>



Source: FSI, Philip Chao

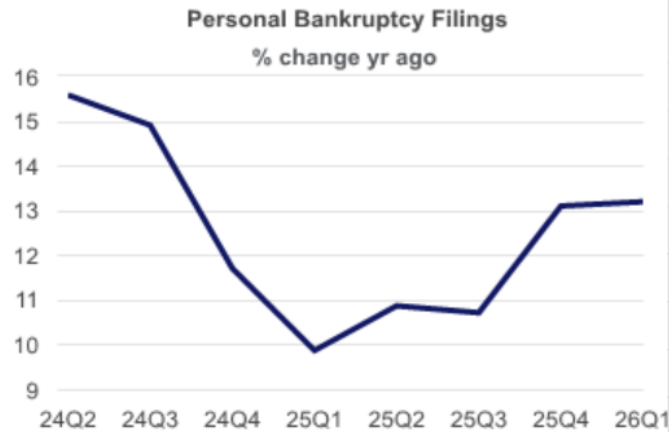
The FSI also shows stress contributions by three regions: United States, other advanced economies, and emerging markets.

Other advanced economies: Variables measuring stress from advanced economies other than the United States, including primarily the eurozone and Japan

Emerging markets: Variables measuring stress from emerging markets

Overall, global financial stress continues to remain below the neutral “0” value.

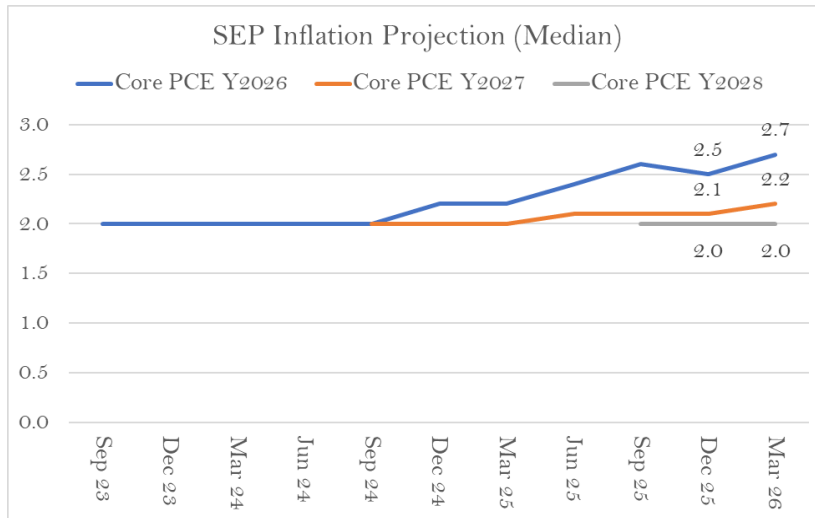
Bankruptcy Filings



Bankruptcy filings, % change yr ago, 3-mo ending, NSA									
		26Q1	25Q4	25Q3	25Q2	25Q1	24Q4	24Q3	24Q2
Total personal		13.2	13.1	10.7	10.9	9.9	11.7	14.9	15.6
	Chapter 7	16.4	15.3	14.1	16.0	13.8	18.2	20.6	19.1
	Chapter 11	11.6	9.4	24.0	23.7	63.3	28.6	30.1	9.6
	Chapter 13	8.1	9.7	5.6	2.9	4.1	2.8	7.2	10.5
Total business		22.2	12.1	18.3	-4.6	3.3	6.5	14.5	37.8
	Chapter 7	14.5	13.4	15.7	10.3	13.1	17.2	17.7	32.6
	Chapter 11	38.2	13.2	26.5	-18.9	-5.5	-7.1	15.0	36.6
	Chapter 13	11.5	-4.6	3.2	-26.9	-19.0	-13.4	-5.7	52.8

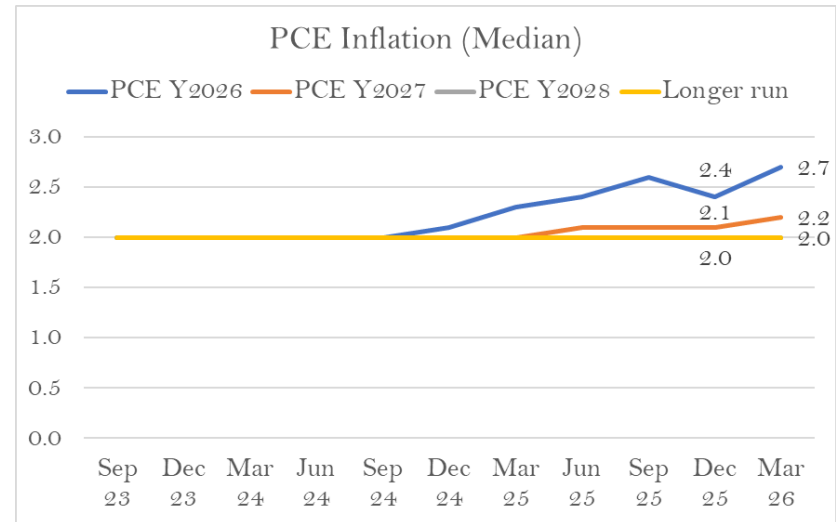
Bankruptcy filings remain low, but the trend is unfavorable. Households face mounting financial pressures from soaring energy prices, high and rising costs for goods and services, dramatically reduced job availability, and slowing wage growth. Low-income households, which historically make up the majority of bankruptcy filers, feel these pressures the most. Most years, the fourth quarter looks poor, as non-business bankruptcy filings increase due to the financial strain of holiday spending. After adjusting for seasonal movements, the upward trend in filings highlights the weakness in the job market. It has become significantly more challenging for struggling workers to pick up extra hours, take on second jobs, or recover from layoffs. Financial pressures mount as inflation drives prices higher. This situation worsens with inflation remaining elevated, or even slightly increasing now, partly due to tariffs. Although the recent spike in energy prices added to the burden, its impact was likely minor in the first quarter. Additionally, past interest rate increases are likely affecting consumer payments since the payments for most types of consumer credit are felt as loans roll over, rather than immediately. More than 80% of consumer debt has fixed rates, and this share was even higher at the start of the rate increases in early 2022. While consumers enjoy some mitigating factors, such as accumulated wealth, financial stresses are intensifying. The key question for the outlook isn't *if* filings will rise further but rather by how much and how quickly.

Summary of Economic Projections – Inflation



Source: Federal Reserve 2026 03, Experiential Wealth

In the latest SEP, the average member expects Personal Consumption Expenditure (PCE) inflation to move UP for 2025 and 2026. This suggests that, although the Fed believes the current policy remains restrictive, inflation projections for 2026, and 2027 moved a bit higher. The lingering global tariff reassessment post IEEPA and the ongoing U.S./Israel-Iran war are both inflationary.



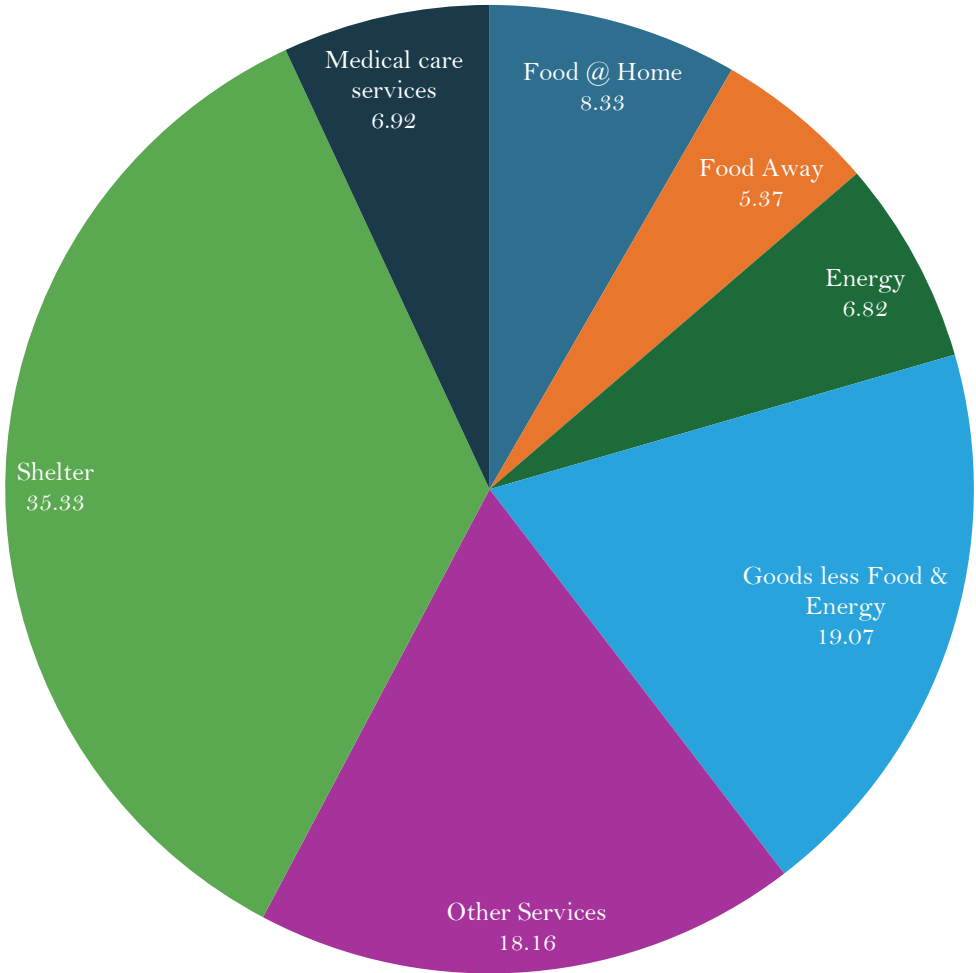
Source: Federal Reserve 2026 03, Experiential Wealth

At the same time, projections for Core PCE (ex-food and energy) inflation also moved higher for 2026, from 2.5% to 2.7%. PCE is projected to return to the 2% target in 2028.

Based on these updated dot plots for inflation, it suggests that the Fed will likely remain cautious and move at a cautious pace, even under tremendous political pressure to cut rates from the White House. Thus far, hard data suggests some slowing in the economy and the labor market may be a bit less robust, but inflation remains stubbornly higher than the 2% target. If the new Fed chair, Kevin Warsh, is true to his prior hawkish stance on inflation and assuming he will not be the “sock puppet” of the President, rates will likely remain at this level for some time.

CPI Basket & Component Contributions (05-2026)

Relative importance of each component in the CPI-U basket — the weight each carries in the headline number.



THE STORY THIS QUARTER

Energy is a small slice ($\approx 6.8\%$) but drove **over 60%** of May's monthly all-items increase — a small weight with outsized force.

Headline CPI (y/y)

4.2%

Core CPI (y/y)

2.9%

Shelter (y/y)

3.4%

Energy (May, m/m)

+3.9%

Source: U.S. Bureau of Labor Statistics, CPI News Release Table 1 (May 2026, released 06-10-2026) — <https://www.bls.gov/news.release/cpi.t01.htm> | Philip Chao

Note: Relative-importance weights are estimated for May 2026 by updating the December 2025 official weights for subsequent price changes; verify against Table 1 of the BLS release before publication. Figures sum to 100.

May 2026 CPI Data

	Over the Year Change from May 2025 to May 2026 (%) Not S.A.	Over the Month Change from Apr 2026 to May 2026 (%) S.A.
All items	4.2	0.5
Food at home	2.7	0.1
Food away from home	3.5	0.3
Energy Commodities	40.6	6.7
Energy Services	5.3	0.4
Commodities less food and energy commodities	1.1	-0.1
Services less energy services	3.4	0.3
All items less food and energy	2.9	0.2

The CPI increased 0.5 percent on a seasonally adjusted basis in May, after rising 0.6 percent in April. Over the last 12 months, the all items index increased 4.2 percent before seasonal adjustment.

The index for energy rose 3.9 percent in May, after rising 3.8 percent in April and 10.9 percent in March. The energy index accounted for over sixty percent of the monthly all items increase. The index for shelter also increased in May, rising 0.3 percent. The food index increased 0.2 percent over the month as the food at home index rose 0.1 percent and the food away from home index increased 0.3 percent.

The index for all items less food and energy (Core CPI) rose 0.2 percent in May. Indexes that increased over the month include communication, airline fares, medical care, personal care, and recreation. Conversely, the indexes for motor vehicle insurance, household furnishings and operations, and new vehicles were among the major indexes that decreased in May.

Monthly CPI (s.a.) Changes by categories as of 05-2026

	Seasonally adjusted changes from preceding month							Unadjusted 12 mo Ending May-26
	Nov. 2025	Dec. 2025	Jan. 2026	Feb. 2026	Mar. 2026	Apr. 2026	May 2026	
All items	-	0.3	0.2	0.3	0.9	0.6	0.5	4.2
Food	-	0.7	0.2	0.4	0	0.5	0.2	3.1
Food at home	-	0.6	0.2	0.4	-0.2	0.7	0.1	2.7
Food away from home(1)	-	0.7	0.1	0.3	0.2	0.2	0.3	3.5
Energy	-	0.3	-1.5	0.6	10.9	3.8	3.9	23.5
Energy commodities	-	-0.3	-3.3	1.1	21.3	5.6	6.7	40.6
Gasoline (all types)	2.7	-0.3	-3.2	0.8	21.2	5.4	7	40.5
Fuel oil	-	-0.8	-5.7	11.1	30.7	5.8	3.8	58.9
Energy services	-	1	0.2	0.2	0.4	1.6	0.4	5.3
Electricity	-	0.2	-0.1	-0.7	0.8	2.1	0.6	5.9
Utility (piped) gas service	-	3.7	1	3.1	-0.9	-0.1	-0.5	3
All items less food and energy	-	0.2	0.3	0.2	0.2	0.4	0.2	2.9
Commodities less food and energy commodities	-	0	0	0.1	0.1	0	-0.1	1.1
New vehicles	0.2	0	0.1	0	0.1	-0.2	-0.3	0.2
Used cars and trucks	0.1	-0.9	-1.8	-0.4	-0.4	0	0.1	-2
Apparel	-	0.3	0.3	1.3	1	0.6	0.3	4.8
Medical care commodities(1)	-	0.3	-0.1	0	-1	-0.4	-0.7	-1.8
Services less energy services	-	0.3	0.4	0.3	0.2	0.5	0.3	3.4
Shelter	-	0.4	0.2	0.2	0.3	0.6	0.3	3.4
Transportation services	-	0.4	1.4	0.2	0.6	0.3	-0.6	4.1
Medical care services	-	0.4	0.3	0.6	0	0	0.5	3.6

Footnotes

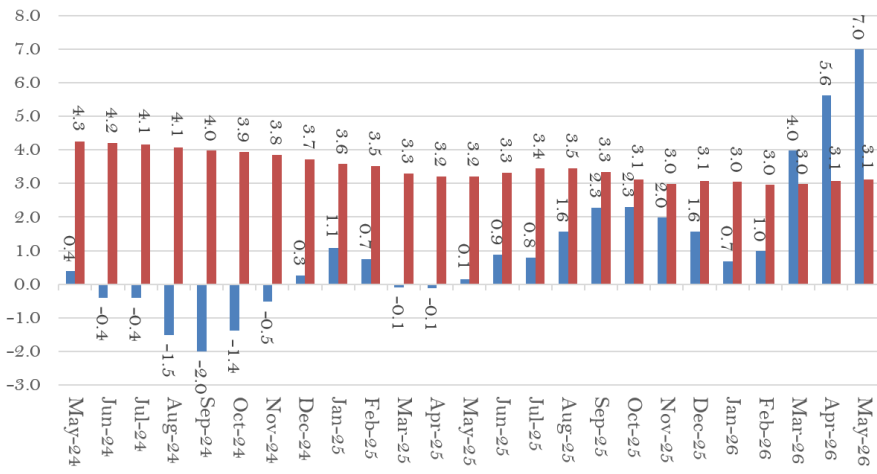
(1) Not seasonally adjusted.

NOTE: The Oct and Nov 2025 data values are not available due to the 2025 lapse in appropriations.

CPI – Flex and Sticky – 05-2026

Atlanta Fed 12-Month Flex & Sticky CPI

■ Flex CPI ■ Sticky CPI



Source: <https://www.atlantafed.org/research/inflationproject/stickyprice>, Philip Chao

The Atlanta Fed divides the published components of the monthly CPI (45 categories derived from the raw price data) into their “sticky-price” and “flexible-price” aggregates¹.

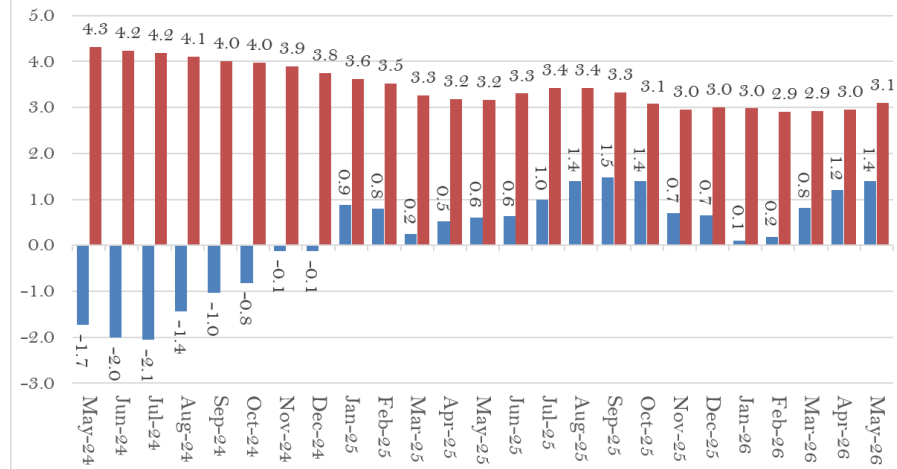
The evidence indicates that the flexible-price measure is much more responsive to changes in the economic environment while the sticky-price variant appears to be more forward looking. Sticky price setters understand that it will be costly to change prices; as such, they will want their price decisions to account for inflation over the periods between their infrequent price changes.

Flex and sticky are further divided into core and non-core. Core excludes energy and food prices. Historically, flexible price and flexible core price CPI have shown much more volatility than the alternative sticky-price and sticky core price measures.

¹ <https://www.atlantafed.org/-/media/documents/research/inflationproject/stickyprice/sticky-price-cpi-supplemental-reading.pdf>

Atlanta Fed 12-Month CORE Flex & Sticky CPI

■ Core Flex CPI ■ Core Sticky CPI

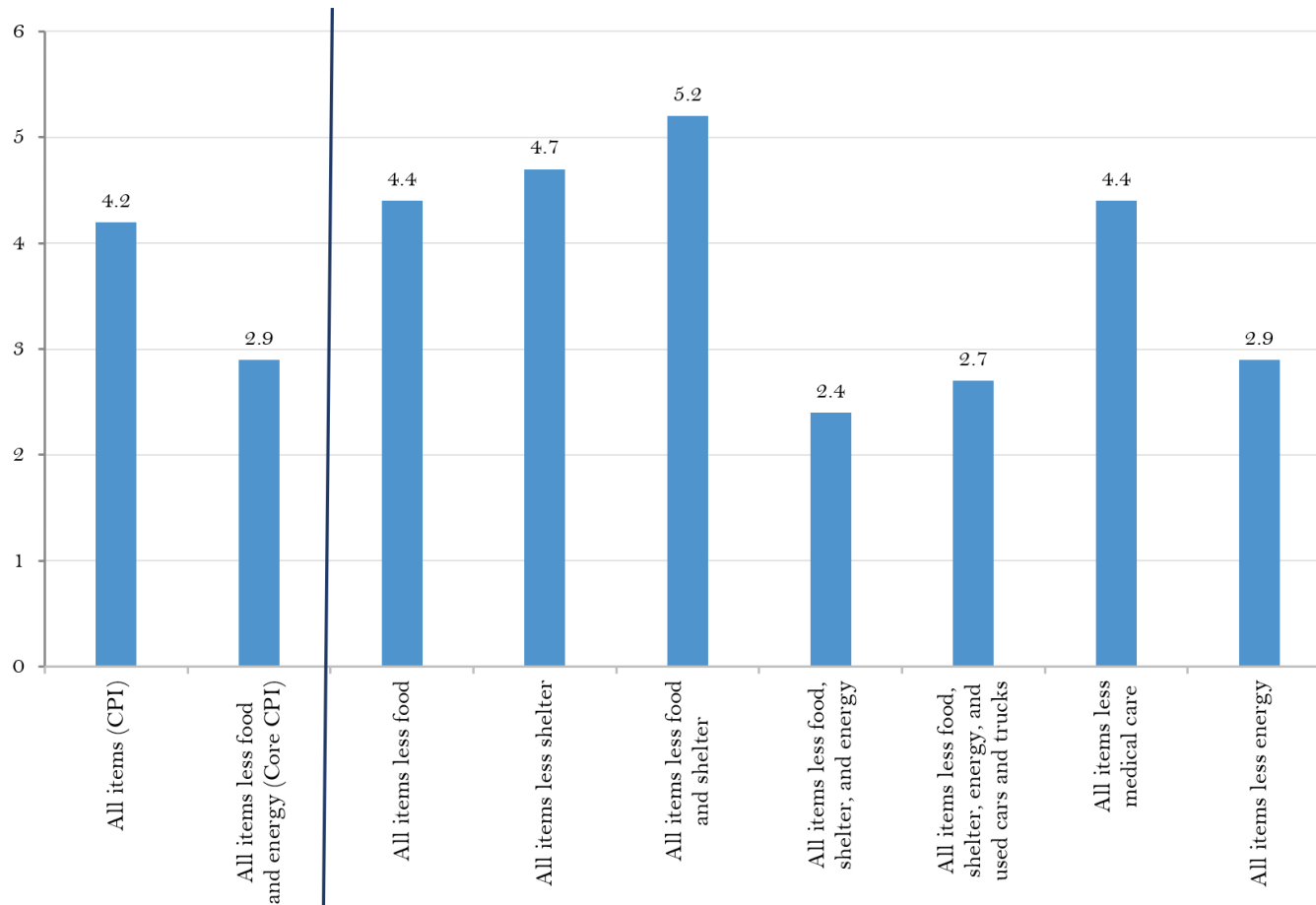


Although imperfect, separating CPI categories into these two measures and further separating core categories from non-core provides a view of future inflation (i.e., removing the more volatile priced categories from the CPI).

The Atlanta Fed's sticky-price CPI — a weighted basket of items that change price relatively slowly — rose 2.9 percent (on an annualized basis) in May, following a 4.6 percent increase in April. On a year-over-year basis, the series is up 3.1 percent. On a core basis (excluding food and energy), the sticky-price index rose 2.9 percent (annualized) in May, and its 12-month percent change was 3.1 percent.

The flexible cut of the CPI—a weighted basket of items that change price relatively frequently—increased 14.1 percent (annualized) in May and on a year-over-year basis, the series is up 7.0 percent.

CPI by Categories – 1 Year % Change (05-2026), not s.a.



Source: BLS CPI Table7, Philip Chao

Trimmed Mean PCE Inflation – 05-2026

The Trimmed Mean PCE inflation rate over the 12 months ending in May was 2.4 percent. According to the BEA, the overall PCE inflation rate was 4.1 percent on a 12-month basis, and the inflation rate for PCE excluding food and energy was 3.4 percent on a 12-month basis.

One-month PCE inflation, annual rate

	25-Dec	26-Jan	26-Feb	26-Mar	26-Apr	26-May
PCE	4.0	4.3	4.9	8.3	5.0	5.5
PCE ex F&E	4.0	5.5	4.8	3.6	3.0	3.9
Trimmed mean	2.2	2.7	2.0	2.9	2.4	2.8

Six-month PCE inflation, annual rate

	25-Dec	26-Jan	26-Feb	26-Mar	26-Apr	26-May
PCE	2.9	3.3	3.6	4.4	4.9	5.3
PCE ex F&E	2.8	3.2	3.6	3.8	3.8	4.1
Trimmed mean	2.1	2.2	2.0	2.2	2.3	2.5

12-month PCE inflation

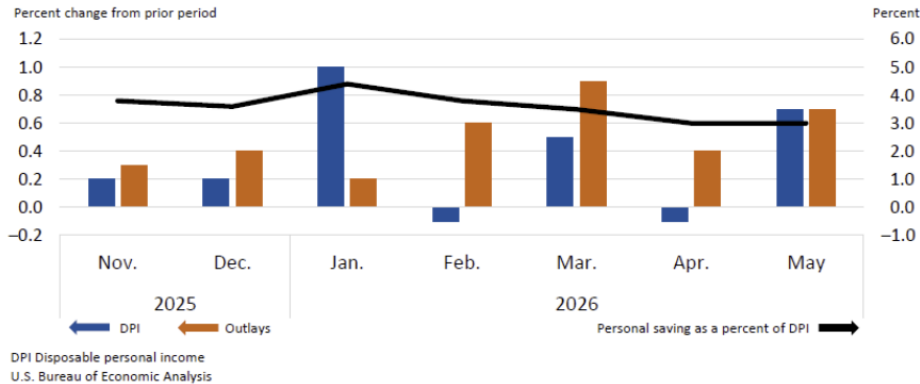
	25-Dec	26-Jan	26-Feb	26-Mar	26-Apr	26-May
PCE	2.9	2.9	2.9	3.5	3.8	4.1
PCE ex F&E	3.0	3.1	3.0	3.3	3.3	3.4
Trimmed mean	2.4	2.4	2.3	2.4	2.3	2.4

Source: <https://www.dallasfed.org/research/pce#current>

¹ <https://www.dallasfed.org/~media/documents/research/papers/2005/wp0506.pdf>

PCE Inflation Remains Elevated – 05-2026

Disposable Personal Income, Outlays, and Saving

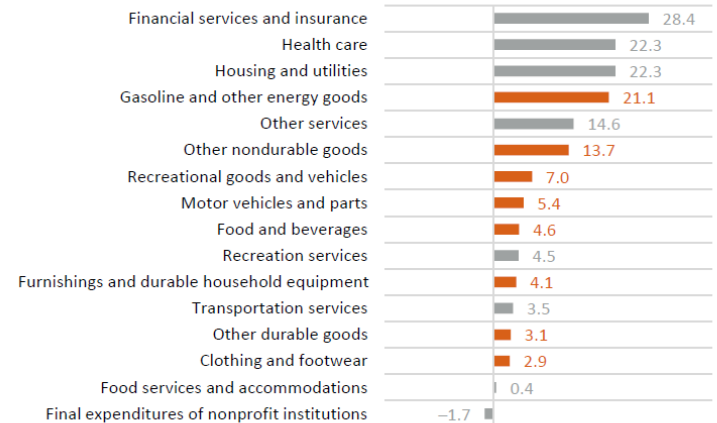


Personal income increased \$181.6 billion (0.7 percent at a monthly rate) in May. Disposable personal income (DPI) - personal income less personal current taxes - increased \$164.9 billion (0.7 percent), and personal consumption expenditures (PCE) increased \$156.1 billion (0.7 percent).

Changes in Monthly Consumer Spending May 2026

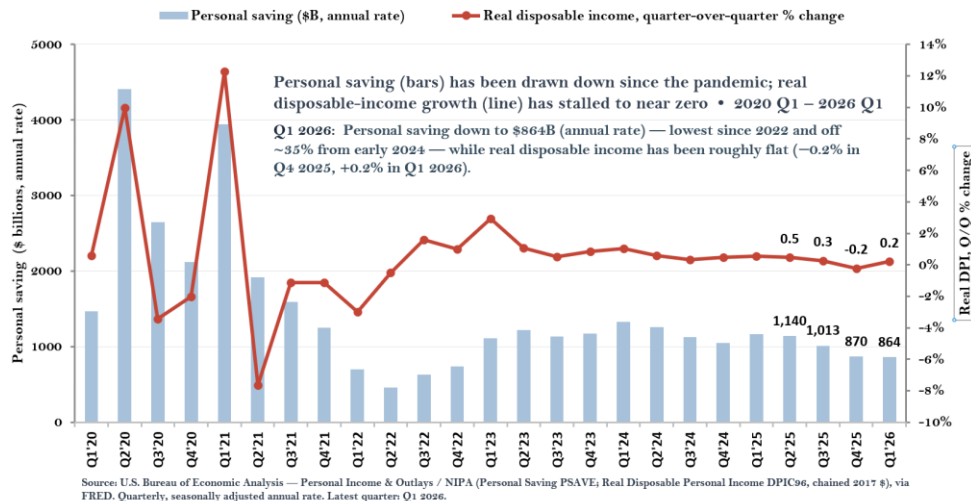
Consumer spending increased \$156.1 billion

Goods Services

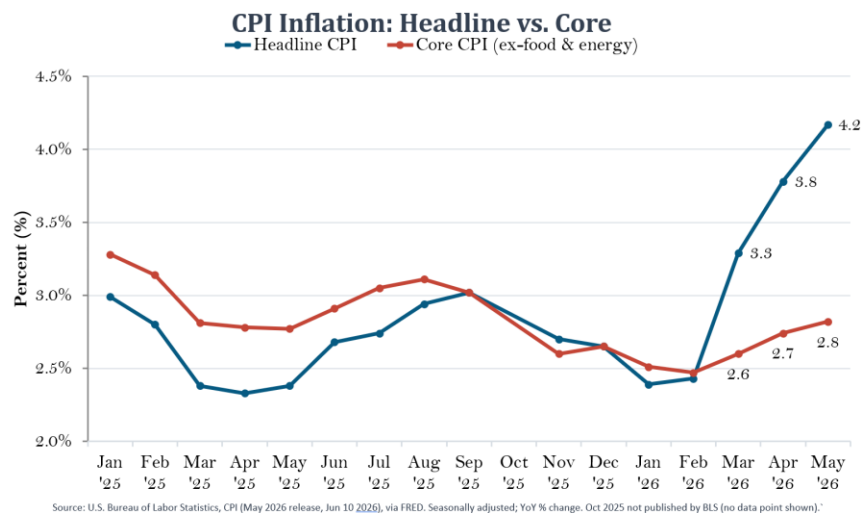
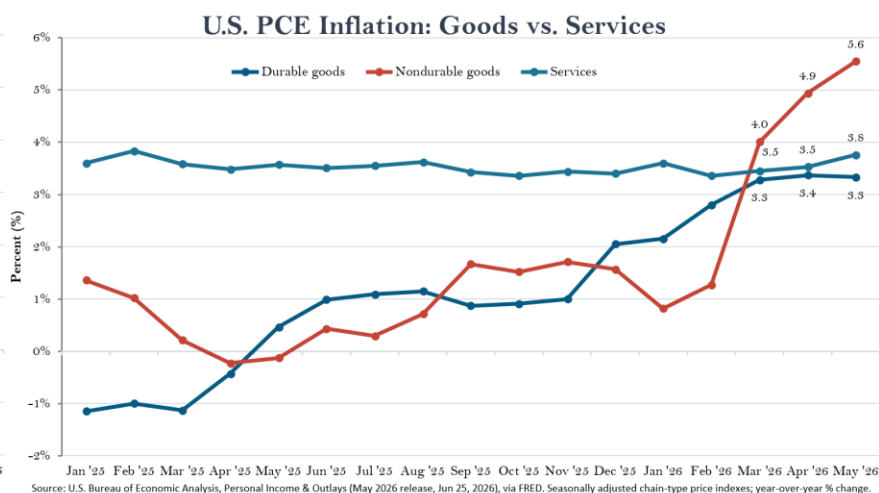
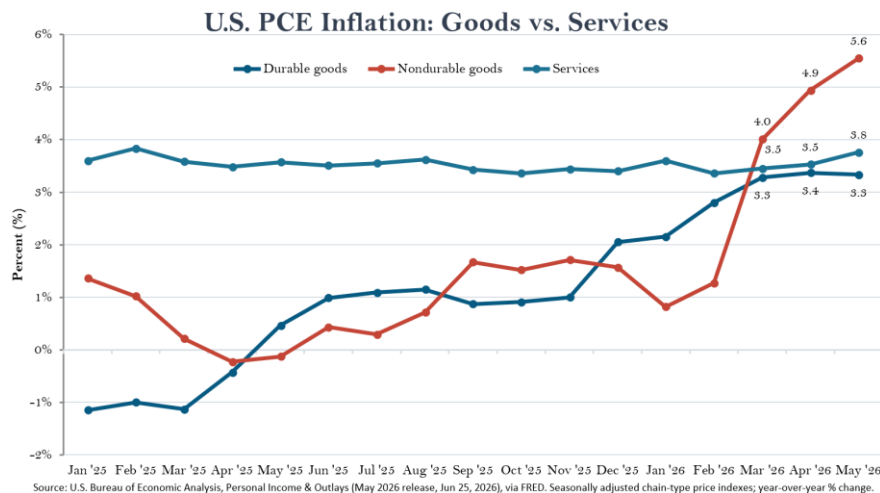


U.S. Bureau of Economic Analysis

Billions of dollars, seasonally adjusted annual rates

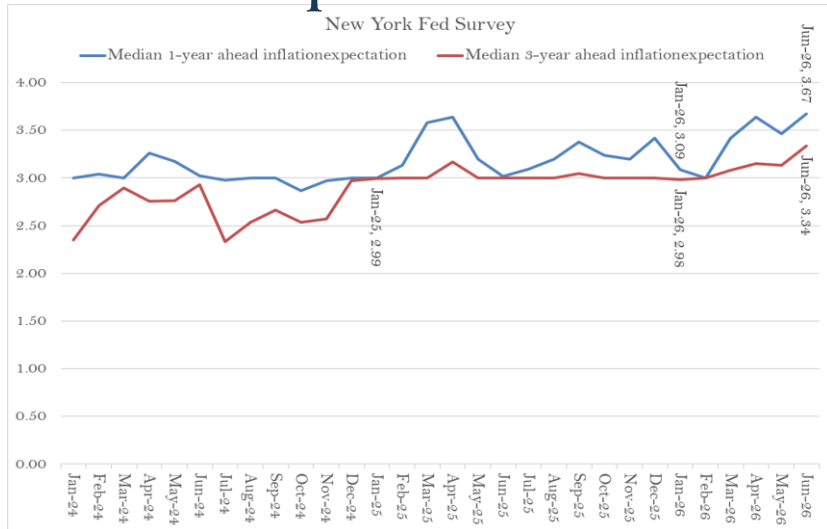


Headline and Core Inflation, 06-2026

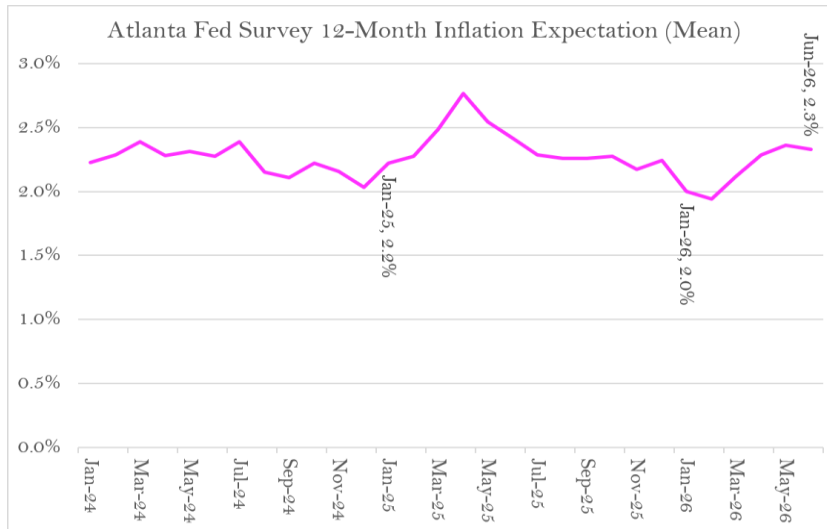


All four measures of inflation eased in the spring of 2025 (headline readings dipped to roughly 2.3–2.5% and cores to about 2.6–2.8%), then turned higher through late 2025 and accelerated sharply in early 2026. Headline PCE and CPI have risen for three straight months into May, with the headline measures climbing fastest, driven largely by energy prices. Headline PCE at 4.1% is its highest since April 2023, and core PCE at 3.4% is the highest since late 2023. Core CPI (2.8%) remains the most contained of the four, so the recent jump is concentrated in headline inflation rather than the underlying core. All four have run above the Federal Reserve's 2% objective continuously since early 2021, and after a period of disinflation in 2023–2024, the trend over the past year has been upward rather than back toward 2%.

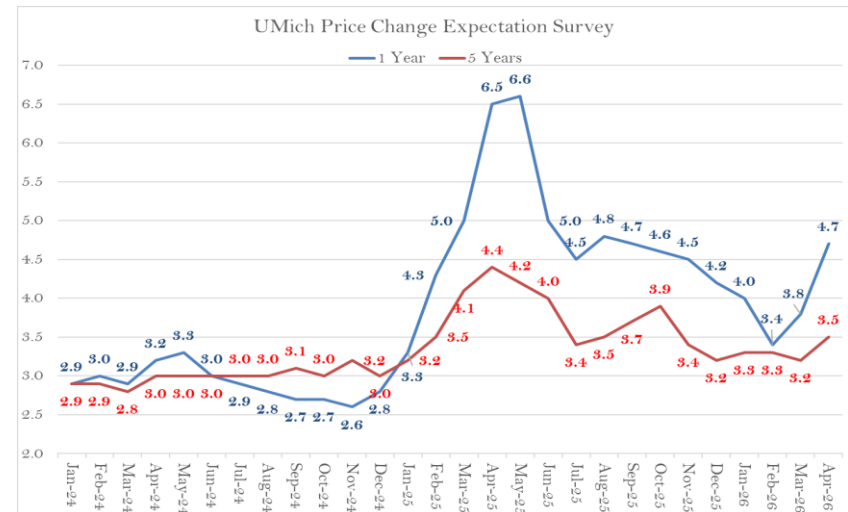
Inflation Expectation



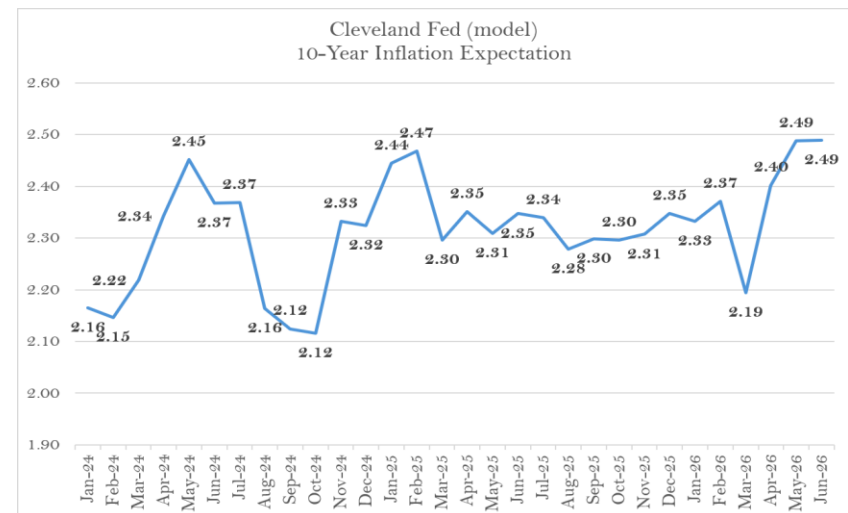
Source: New York Fed, Philip Chao
<https://www.newyorkfed.org/microeconomics/sce#/inflexp-1>



Source: Atlanta Fed, Philip Chao
<https://www.atlantafed.org/research/inflationproject/bic>

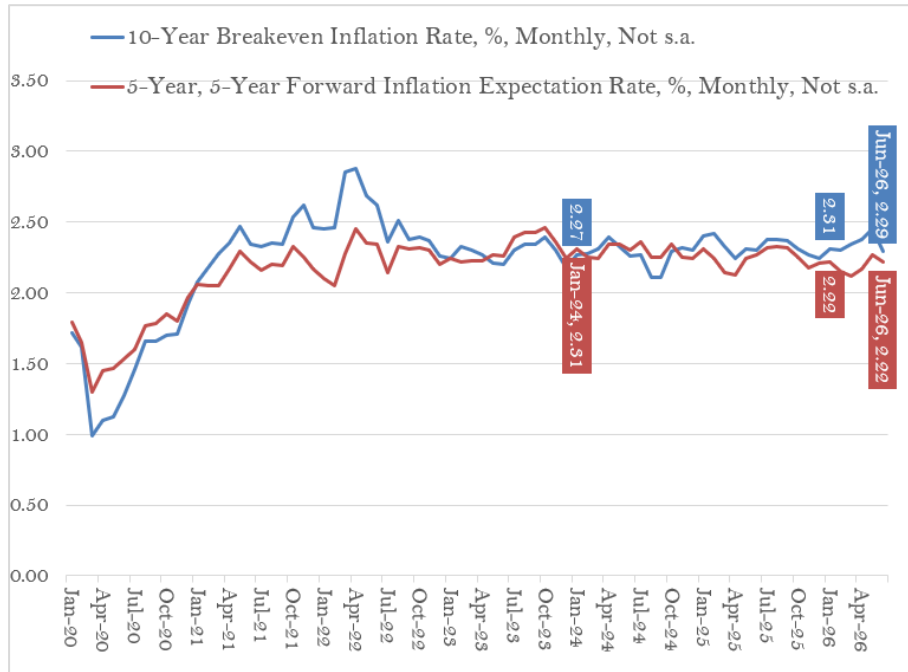


Source: University of Michigan, Philip Chao
<http://www.sca.isr.umich.edu/tables.html>

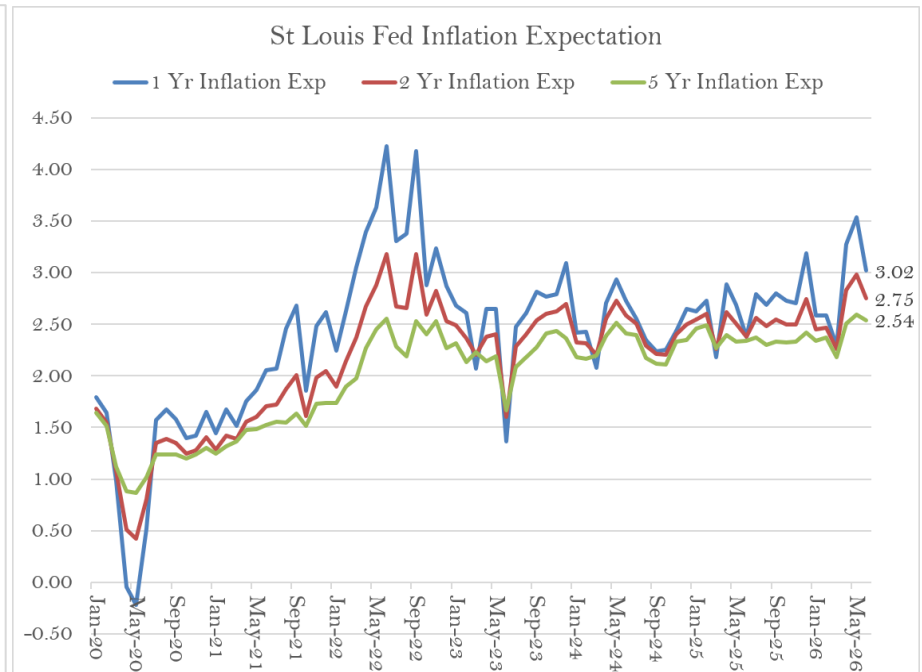


Source: Cleveland Fed, Philip Chao
https://www.clevelandfed.org/-/media/files/webcharts/inflationexpectations/inflation-expectations.xlsx?sc_lang=en

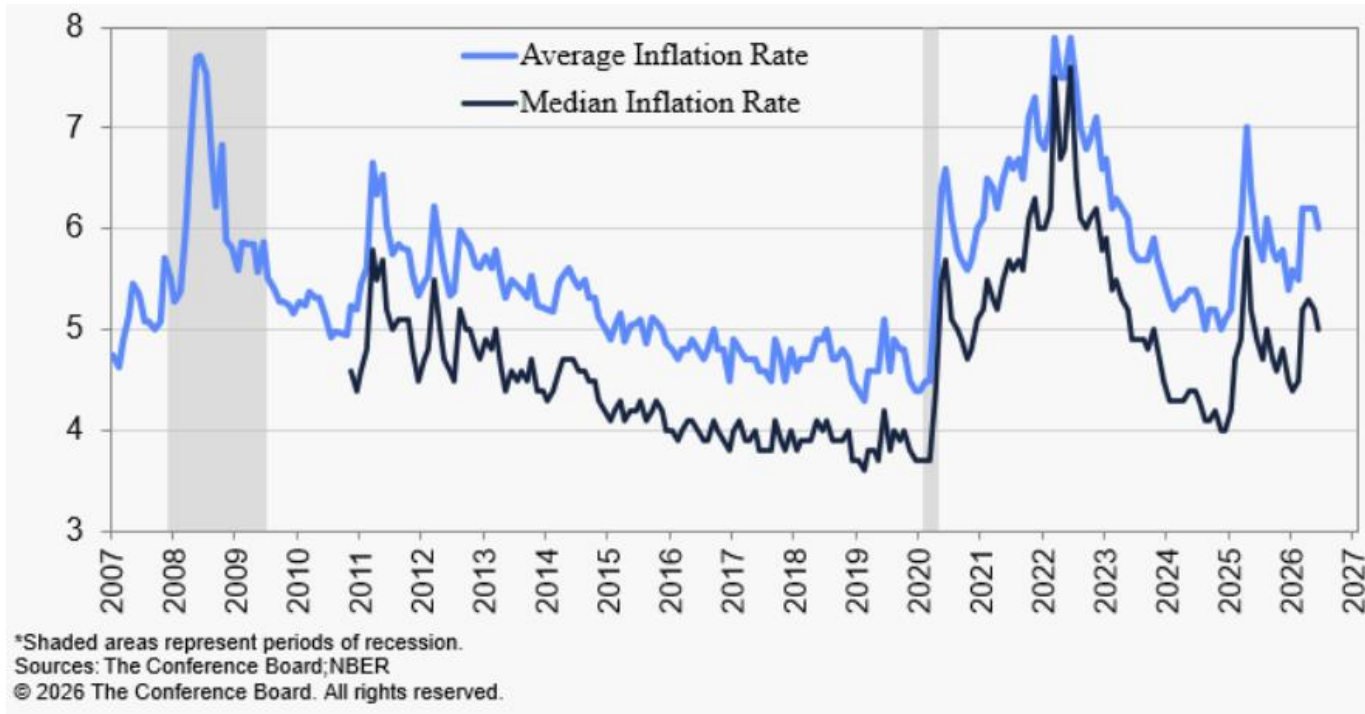
Market and Survey Based Inflation Expectation – May 2026



Source: FRED & Philip Chao



Conference Board – Inflation Expectation next 12 months (06-2026)



Consumers' write-in responses on factors affecting the economy continued to skew towards pessimism in June. References to prices and oil and gas eased in frequency but remain elevated. Mentions of war, geopolitics, and conflict eased, reflecting some easing of consumer concerns about the inflationary impacts of the war in the Middle East.

Consumers' average and median 12-month inflation expectations were less elevated. While down somewhat from May (62.4%), most consumers (61.5%) in June still expected higher interest rates over the next 12 months. Equity market volatility notwithstanding, the second half of the June survey period included an extension of the U.S.-Iran ceasefire and likely influenced consumer expectations of even higher stock prices a year from now.

<https://www.conference-board.org/topics/consumer-confidence/>

Central Bank Rates & Global Inflation – 06-2026

Central Bank Rates				
	Current	Previous	Action	Change
Australian Central Bank	4.35%	4.10%	Hike	5/6/2026
Brazilian Central Bank	14.25%	14.50%	Cut	6/18/2026
Canadian Central Bank	2.25%	2.50%	Cut	10/29/2025
Chilean Central Bank	4.50%	4.75%	Cut	12/17/2025
Chinese Central Bank	3.00%	3.10%	Cut	5/20/2025
Czech Central Bank	3.75%	3.50%	Hike	6/19/2026
Danish Central Bank	2.00%	1.75%	Hike	6/11/2026
European Central Bank	2.40%	2.15%	Hike	6/11/2026
Hungarian Central Bank	6.00%	6.25%	Cut	6/24/2026
Indian Central Bank	5.25%	6.00%	Cut	12/5/2025
Israeli Central Bank	3.50%	3.75%	Cut	7/9/2026
Japanese Central Bank	1.00%	0.75%	Hike	6/16/2026
Mexican Central Bank	6.50%	6.75%	Cut	5/8/2026
New Zealand Central Bank	2.50%	2.25%	Hike	7/8/2026
Norwegian Central Bank	4.25%	4.00%	Hike	5/7/2026
Polish Central Bank	3.75%	4.00%	Cut	3/4/2026
Russian Central Bank	14.25%	14.50%	Cut	6/22/2026
Saudi Arabian Central Bank	4.25%	4.50%	Cut	12/10/2025
South African Central Bank	7.00%	6.75%	Hike	5/28/2026
South Korean Central Bank	2.50%	2.75%	Cut	5/29/2025
Swedish Central Bank	1.75%	2.00%	Cut	9/23/2025
Swiss Central Bank	0.00%	0.25%	Cut	6/19/2025
Turkish Central Bank	37.00%	38.00%	Cut	1/22/2026
United Kingdom Central Bank	3.75%	4.00%	Cut	12/18/2025
United States Central Bank	3.75%	4.00%	Cut	12/11/2025

Inflation Rates				
	Current	Previous	Rate	Change
Argentina	33.6	32.4	Lower	May-26
Australia	4.0	4.2	Higher	May-26
Brazil	4.6	4.7	Lower	Jun-26
Canada	3.2	2.8	Lower	May-26
China	1.0	1.2	Higher	Jun-26
Euro Area	2.8	3.2	Higher	Jun-26
France	1.8	2.4	Higher	Jun-26
Germany	2.3	2.6	Higher	Jun-26
India	3.9	3.5	Lower	May-26
Indonesia	3.3	3.1	Lower	Jun-26
Italy	3.0	3.2	Higher	Jun-26
Japan	1.5	1.4	Lower	May-26
Mexico	3.4	3.9	Higher	Jun-26
Russia	5.3	5.6	Higher	May-26
Saudi Arabia	1.8	1.7	Lower	May-26
Singapore	1.8	1.8	Lower	May-26
South Africa	4.5	4.0	Lower	May-26
South Korea	3.2	3.1	Lower	Jun-26
Spain	3.2	3.2	Lower	Jun-26
Switzerland	0.5	0.6	Higher	Jun-26
Turkey	32.1	32.6	Higher	Jun-26
United Kingdom	2.8	2.8	Lower	May-26
United States	4.2	3.8	Lower	May-26

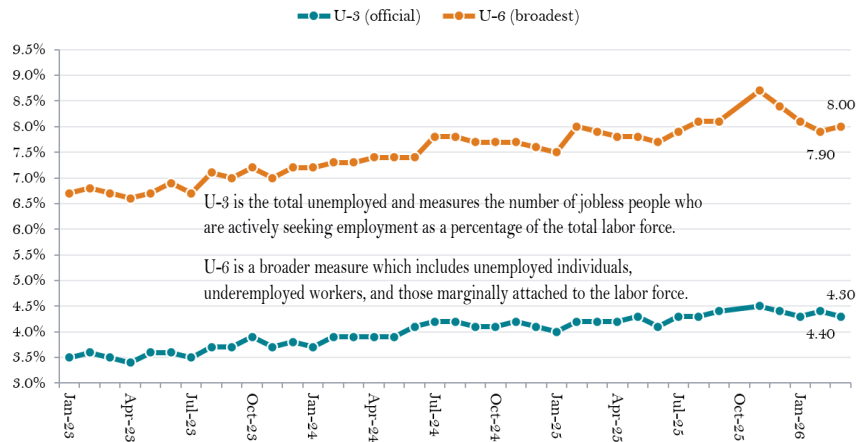
<https://www.global-rates.com/en/interest-rates/central-banks>

<https://tradingeconomics.com/country-list/inflation-rate>

Summary of Economic Projections – Unemployment

SEP Median Unemployment Rate							
	Y2023	Y2024	Y2025	Y2026	Y2027	Y2028	Longer Run
Dec-23	4.5	4.6	4.6				4.0
Mar-23	4.5	4.6	4.6				4.0
Jun-23	4.1	4.5	4.5				4.0
Sep-23	3.8	4.1	4.1	4.0			4.0
Dec-23		4.1	4.1	4.1			4.1
Mar-24		4.0	4.1	4.0			4.1
Jun-24		4.0	4.2	4.1			4.2
Sep-24		4.4	4.4	4.3	4.2		4.2
Dec-24		4.2	4.3	4.3	4.3		4.2
Mar-25			4.4	4.3	4.3		4.2
Jun-25			4.5	4.5	4.4		4.2
Sep-25			4.5	4.4	4.3	4.2	4.2
Dec-25			4.5	4.4	4.2	4.2	4.2
Mar-26				4.4	4.3	4.2	4.2
Jun-26				4.3	4.3	4.2	4.2

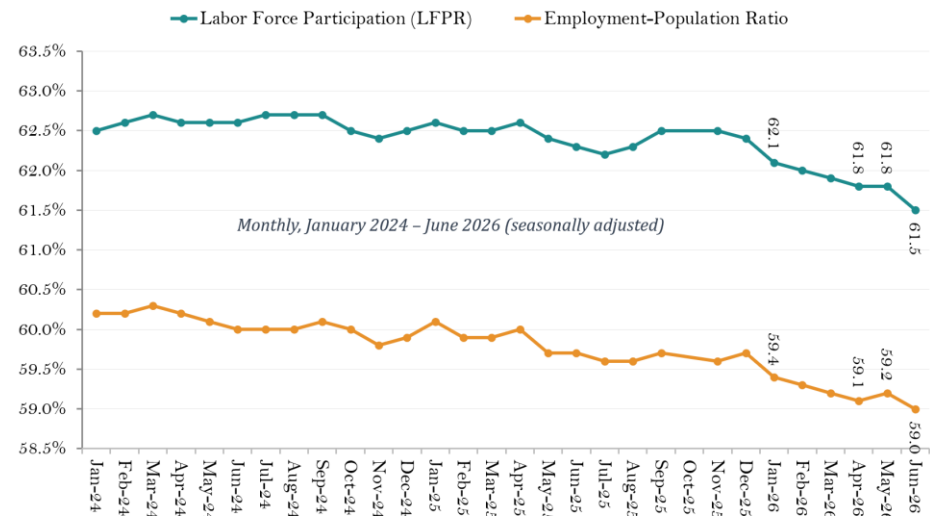
U-3 vs U-6 Unemployment Rates, Monthly January 2023 – March 2026 (seasonally adjusted)



Note: Oct 2025 data missing due to federal government shutdown. Source: U.S. Bureau of Labor Statistics

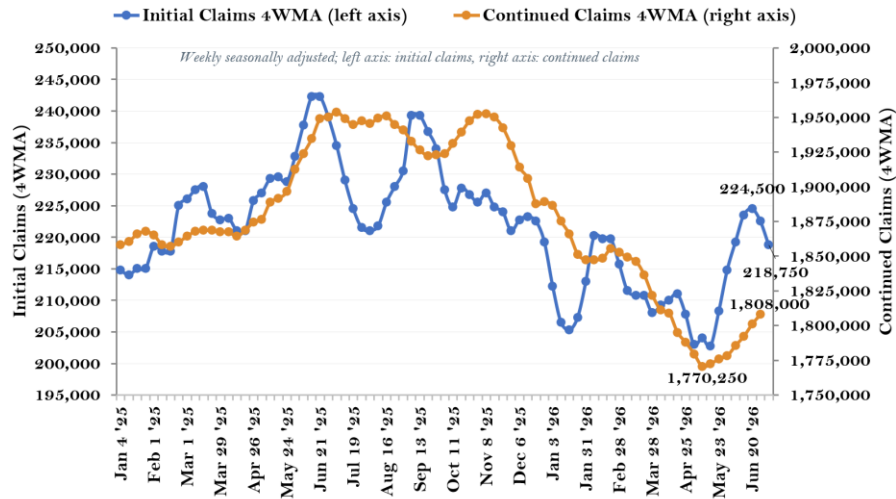
Source: BLS, Philip Chao

<https://www.bls.gov/ces/data/employment-situation-table-download.htm>

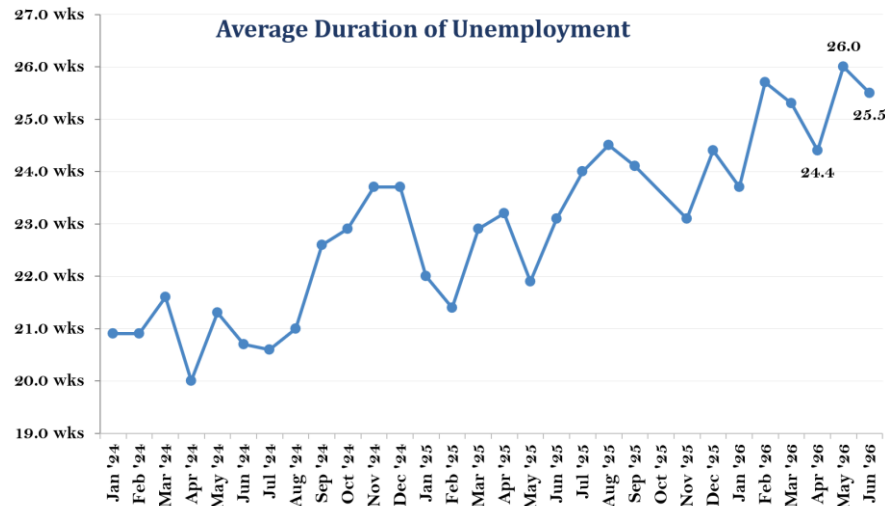
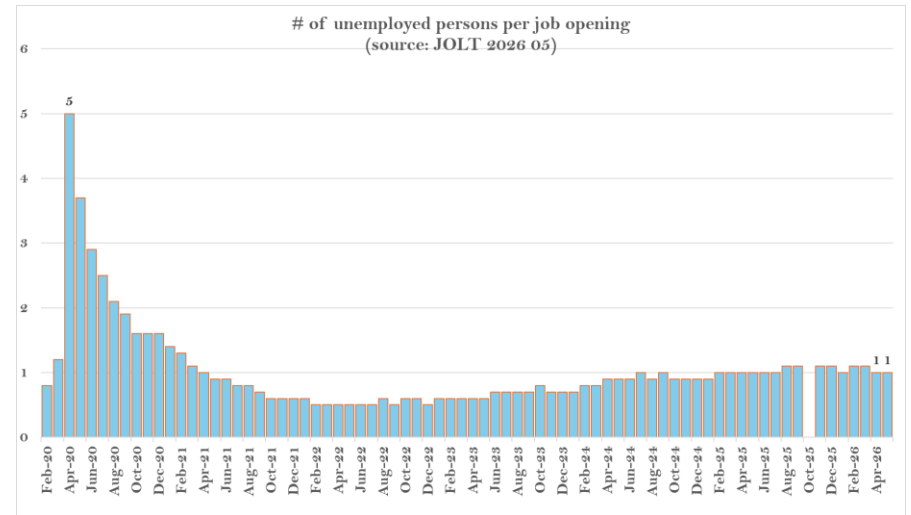


Note: Oct. 2025 data missing (2025 government shutdown); the line spans the gap. Source: U.S. Bureau of Labor Statistics, Employment Situation — LFPR (CIVPART / LNS12300000) and Employment-Population Ratio (EMRATIO / LNS12300000), via FRED. Seasonally adjusted; latest month June 2026.

Labor Market Data

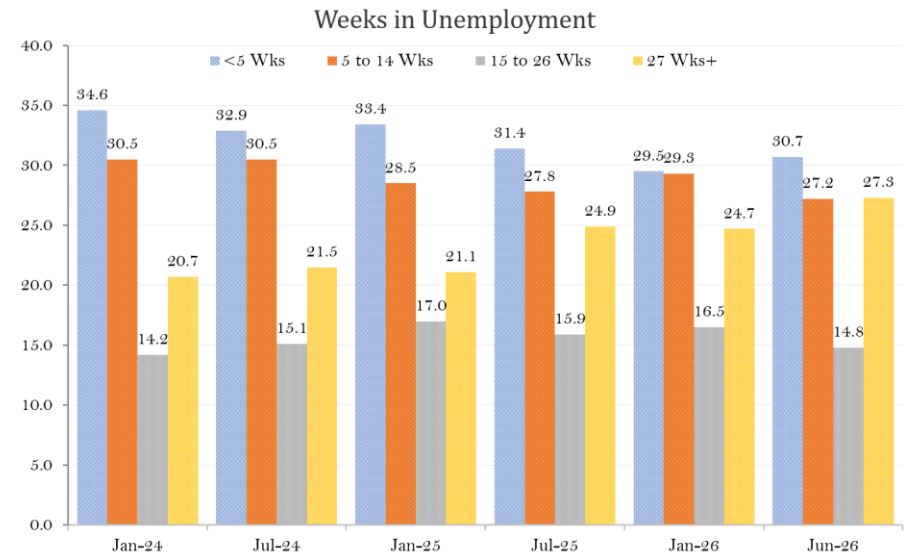


Source: U.S. Employment and Training Administration (DOL), Unemployment Insurance Weekly Claims Report — IC4WSA & CC4WSA, via FRED. Seasonally adjusted 4-week moving averages. Initial claims through Jul 4, 2026; continued claims through Jun 27, 2026.



Note: October 2025 data not collected because of the federal government shutdown; the line connects Sep 2025 directly to Nov 2025 across that gap. Source: BLS Current Population Survey, Table A-12 (UEMPMEAN), seasonally adjusted. Latest reading: June 2026 = 25.5 weeks.

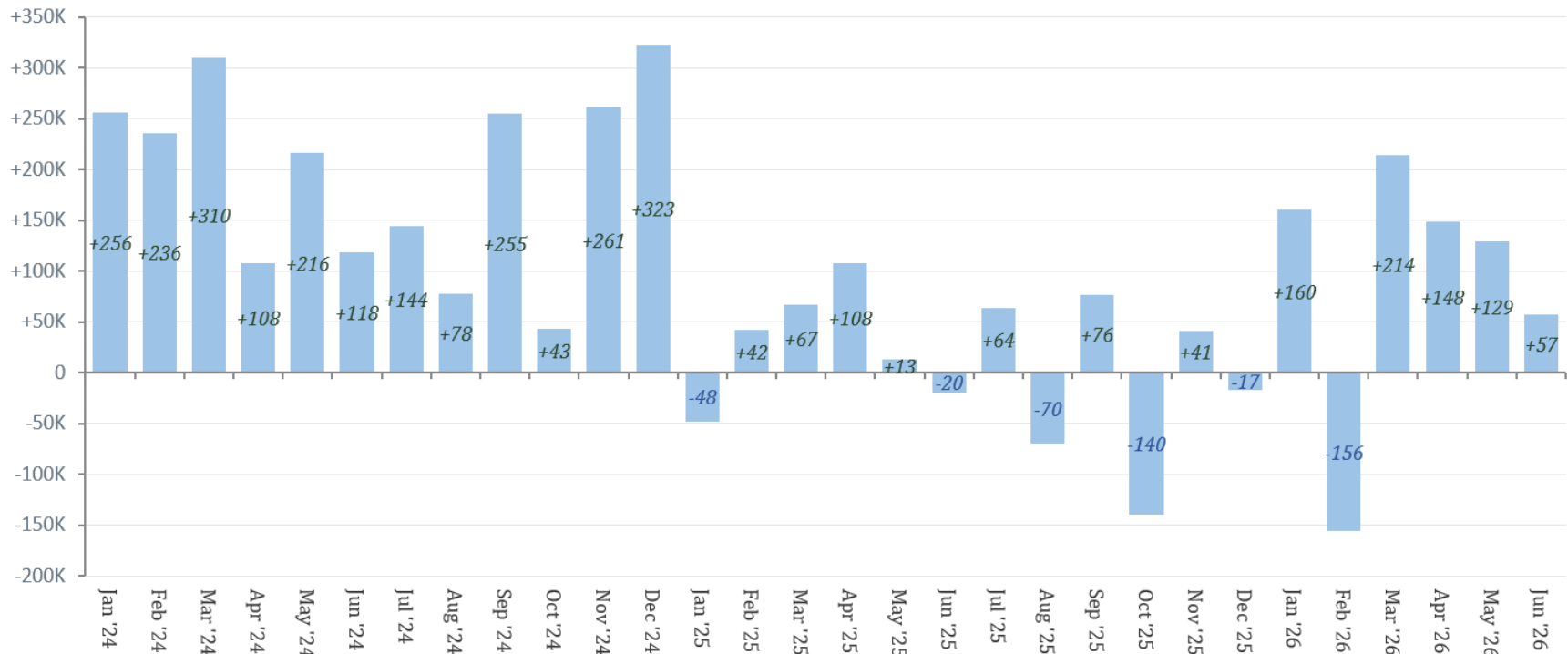
Source: BLS, Philip Chao



Source: U.S. Bureau of Labor Statistics, Current Population Survey, Table A-12 (percent distribution of unemployed by duration), seasonally adjusted, via FRED. Latest: June 2026.

Monthly Change in Nonfarm Payrolls – 2026 06

Over-the-month change in total nonfarm employment, seasonally adjusted (thousands of jobs)



2025 figures reflect the BLS February 2026 annual benchmark revision (which lowered 2025 payroll growth by ~403K); 2024 bars are shown as in the prior chart. February–March 2026 have been revised from preliminary; April–June 2026 are the latest prints and remain subject to revision. Source: BLS Current Employment Statistics (PAYEMS), via FRED. Latest: June 2026 = +57K.

NFIB Small Business Employment 05-2026

ACTUAL EMPLOYMENT CHANGES

Net Percent ("Increase" Minus "Decrease") in the Last Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	0	-3	-2	1	-5	-2	-6	-8	-1	-2	-1	1
2022	-1	1	-2	-2	-4	-2	-4	-8	-4	-2	-3	1
2023	2	4	2	-2	-4	-2	-2	-4	-2	-3	-2	-2
2024	0	-1	-2	0	-2	-5	-3	-6	-4	-3	-1	-3
2025	1	-3	-1	1	-2	-8	-2	-5	-3	-4	-3	-1
2026	1	3	-1									

QUALIFIED APPLICANTS FOR JOB OPENINGS

Percent Few or No Qualified Applicants

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	46	51	51	54	57	56	57	60	62	58	56	57
2022	55	57	55	55	61	60	57	57	57	55	54	51
2023	52	54	53	55	55	54	56	54	57	55	50	49
2024	49	51	48	51	51	51	49	56	52	46	48	49
2025	47	48	47	47	48	50	48	43	50	49	50	48
2026	44	46	45									

JOB OPENINGS

Percent With Positions Not Able to Fill Right Now
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	33	40	42	44	48	46	49	50	51	49	48	49
2022	47	48	47	47	51	50	49	49	46	46	44	41
2023	45	47	43	45	44	42	42	40	43	43	40	40
2024	39	37	37	40	42	37	38	40	34	35	36	35
2025	35	38	40	34	34	36	33	32	32	32	33	33
2026	31	33	32									

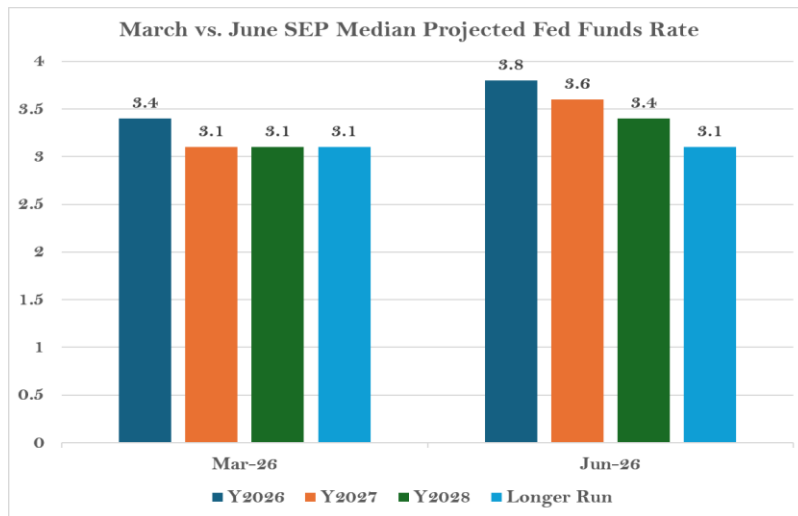
HIRING PLANS

Net Percent ("Increase" Minus "Decrease") in the Next Three Months
(Seasonally Adjusted)

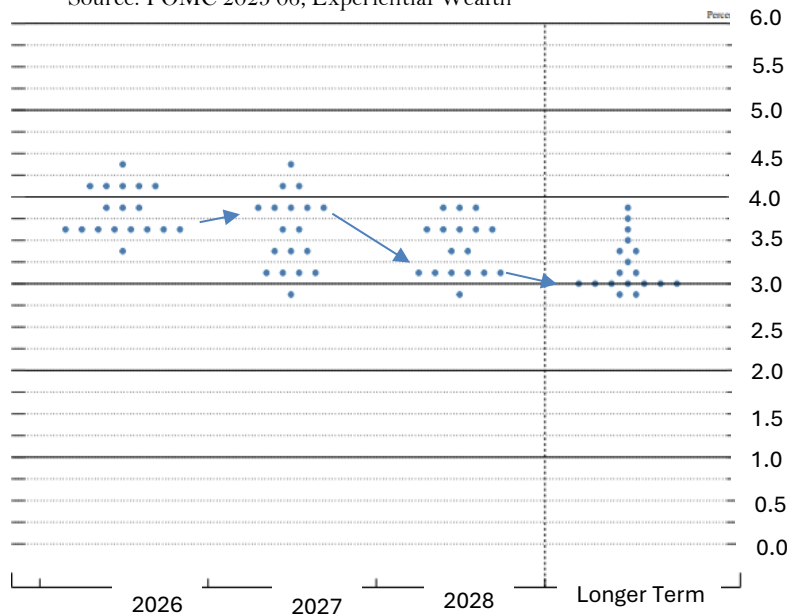
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	17	18	22	21	27	28	27	32	26	26	25	28
2022	26	19	20	20	26	19	20	21	23	20	18	17
2023	19	17	15	17	19	15	17	17	18	17	18	16
2024	14	12	11	12	15	15	15	13	15	15	18	19
2025	18	15	12	13	12	13	14	15	16	15	19	17
2026	16	12	12									

<https://www.nfib.com/wp-content/uploads/2026/06/NFIB-SBET-Report-May-2026.pdf>

Summary of Economic Projections – Fed Fund Rate 06-2026

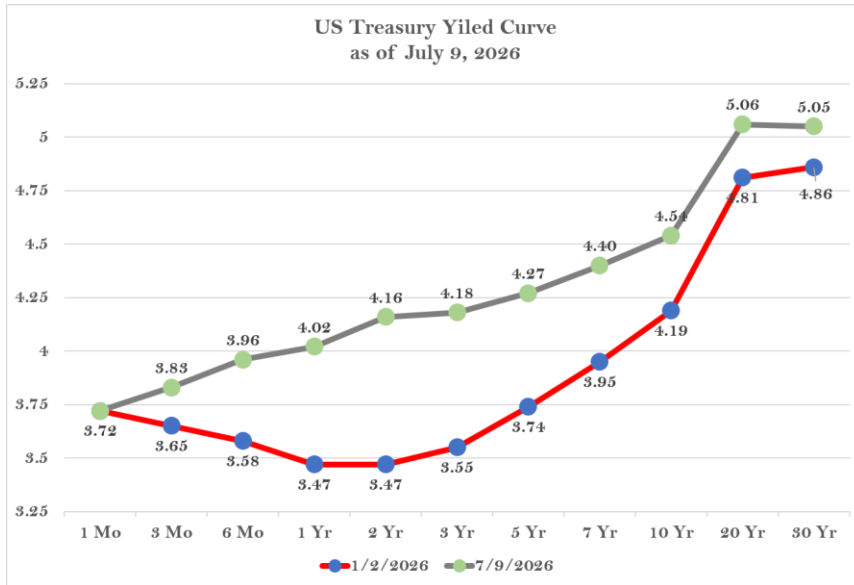


Source: FOMC 2025 06, Experiential Wealth

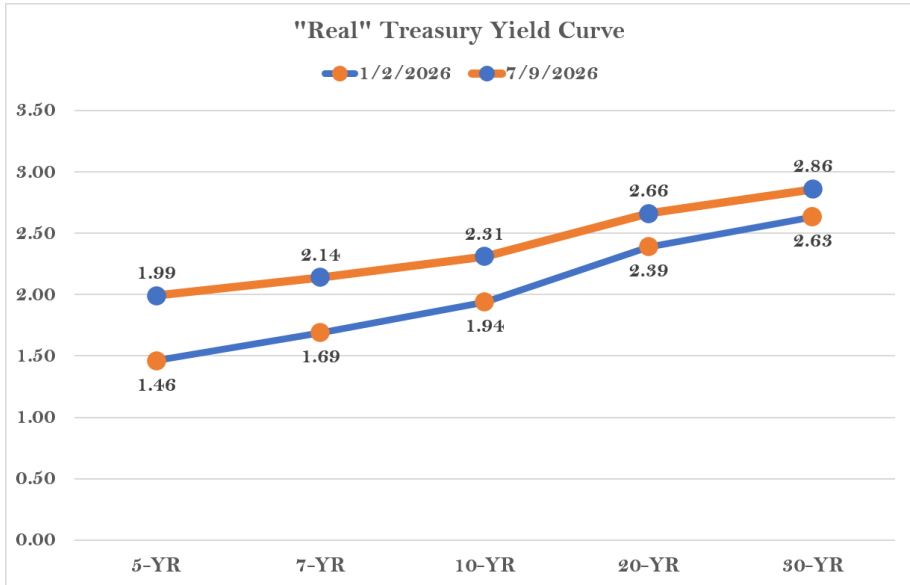


The New Fed Chair Warsh exercised his privilege of not submitting his “dot” to the interest rate dot plot to demonstrate his desire to be less transparent in the Fed’s communication. Warsh made price stability the unmistakable centerpiece of his debut. He opened by acknowledging that inflation has run well above the Fed’s 2 percent goal for more than five years. His core message was a pledge stated as forcefully as Fed language allows: “the Committee is unanimous and unambiguous that it will deliver price stability.” He returned to that phrasing repeatedly treating it less as a forecast and more as a commitment the institution had failed to honor for half a decade and now intended to “fix”. This dovetails with his Fed independence messaging. He stated that monetary policy is independent in its conduct, and that the central bank’s roles and responsibilities are clearly delineated from the fiscal authorities. Warsh did not make an explicit, confrontational declaration of independence from Trump or the White House specifically. What he did was affirm independence in general, institutional terms. Overall, his presentation landed on the hawkish side for interest rates. The market is reacting by pricing in a hike rate than a cut for the next Fed action which is consistent with the dot plot majority.

U.S. Treasury Yield Curve Repricing 07-09-2026



<https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics>



https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2026

Since the beginning of 2026, the U.S. treasury yield has moved up decisively. Since the Fed only controls the Fed Fund rate (short end), the rest of the yield curve rates are priced by market action. Part of this increase is in anticipation of possible Fed rate hike and inflation.

The real (i.e., net of inflation) yield curve has also moved upward. This rise is primarily a real-rate repricing concentrated at the front and belly, driven by the expected policy path (hiking) plus a rising term premium (deficits/supply, Warsh's balance-sheet stance, softer foreign demand). Inflation is the trigger and backdrop (it's why the Fed can't cut and might hike), and it's transmitted through real rates and the policy path.

CME FedWatch Tool (market) – next action is a rate hike in 2026

	03-31-2026 Meeting Rate Probabilities									
Meeting	250- 275bp	275- 300bp	300- 325bp	325- 350bp	350- 375bp	375- 400bp	400bp - 425bp	425bp - 450bp		
Apr-27		0.3%	4.1%	26.5%	68.2%	0.9%				
Mar-27		0.3%	3.7%	25.6%	69.6%	0.9%				
Jan-27		0.2%	3.3%	24.7%	70.9%	0.9%				
Dec-26		0.1%	2.0%	20.9%	76.1%	1.0%				
Oct-26			0.6%	12.8%	85.5%	1.1%				
Sep-26			0.4%	11.1%	87.4%	1.1%				
Jul-26			0.4%	11.2%	87.6%	0.9%				
Jun-26				5.5%	93.5%	1.0%				
Apr-26					99.0%	1.0%				
	06-30-2026 Meeting Rate Probabilities									
Meeting	250- 275bp	275- 300bp	300- 325bp	325- 350bp	350- 375bp	375- 400bp	400bp - 425bp	425bp - 450bp	450bp- 475bp	475bp- 500bp
Jul-27			0.2%	3.4%	17.5%	33.1%	29.1%	13.2%	3.1%	0.4%
Jun-27				1.6%	15.1%	33.4%	31.3%	14.6%	3.5%	0.4%
Apr-27				0.3%	12.9%	33.4%	33.2%	15.9%	3.9%	0.5%
Mar-27					12.4%	33.4%	33.5%	16.3%	4.0%	0.5%
Jan-27					14.8%	37.0%	32.9%	13.0%	2.2%	0.1%
Dec-26					16.3%	39.1%	32.2%	11.0%	1.3%	
Oct-26					25.1%	46.5%	24.6%	3.8%		
Sep-26					32.2%	50.6%	17.2%			
Jul-26					66.9%	33.1%				

<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

An Opinion: Five Uncertainties, One Compounding System

These are not five separate risks; they are connected. War drives inflation; inflation constrains the Fed; a constrained Fed raises the rate at which a third of the debt reprices every year; the compounding interest bill crowds out the private economy; and a debt-burdened, higher-rate world is the one environment the AI trade is not priced for and is cumulatively costly for a high debt nation.

War and Oil — a managed conflict, not a peace process

The Islamabad MOU has not held. A ceasefire declared “over” while strikes continue, waivers revoked, and the Strait at times partially reopened describe a conflict being managed rather than resolved. In our view, the ambiguity is deliberate, and the incentive to preserve the appearance of diplomacy likely holds only through the November midterms. The consequence for the economy is not the diplomacy but the disruption: global energy supply stays impaired, and each escalation is another supply shock.

Inflation — moving away from target, not toward it

The energy shock is compounding tariffs and sticky services inflation. Headline PCE reached 4.1% and core 3.4%; inflation expectations have also moved higher. We think the risk is a longer, higher inflation plateau than official baselines assume — baselines that still embed a return to 2%. Slowing growth alongside rising prices is the classic stagflationary setup, and it is the environment the data now describes.

The Fed — hawkish rhetoric meeting fiscal arithmetic

Chair Warsh has made price stability the centerpiece: rates held, guidance retired, no dot submitted, a hike now the market’s expected next move. We take the commitment at face value but question whether it survives contact with the arithmetic. Tightening into a ~\$40T debt load and ~\$2T deficit raises the government’s own interest bill while simultaneously shrinking the balance sheet. Hawkish talk is cheap; hawkish action, at this debt load, is not. Whether rhetoric becomes policy is, in our opinion, the central question of the second half.

The Deficit — the refinancing wall converts rates into cost

This is where a rate view becomes a fiscal fact. Roughly a third of marketable debt matures within twelve months, so debt issued at near-zero in 2020–21 reprices at ~4%+ today. The average rate carried on the nation’s debt has already climbed from 1.49% to 3.39%, and net interest has passed \$1 trillion, larger than defense. Every year the Treasury must roll a growing maturity pile and fund a ~\$2T deficit at rates set by a market absorbing record global sovereign supply. Interest is no longer a line item; it is compounding becoming new borrowing itself.

AI — the economy’s engine and its single point of failure

AI capex, earnings, and returns now carry the market and a meaningful share of GDP growth. Capital intensity has passed the 2000 peak, financing has shifted from cash flow to debt, and roughly \$800B of circular financing makes demand look more organic than it may be. Timing of a break is unknowable, but the same concentration that powered the advance is what would transmit a reversal.

Disclosures and Limitations

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- This quarterly commentary is prepared for educational and informational purposes only and should not be deemed as this Firm or any member of this Firm offering investment advice to the public.
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