Financial Markets This Week

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

19 JUNE 2026

FED 2.0

Fed funds rate at year-end				Longer
Votes	2026 End	2027 End	2028 End	run
1	3.375	2.875	2.875	2.875
2	3.625	3.125	3.125	2.875
3	3.625	3.125	3.125	3.000
4	3.625	3.125	3.125	3.000
5	3.625	3.125	3.125	3.000
6	3.625	3.375	3.125	3.000
7	3.625	3.375	3.125	3.000
8	3.625	3.375	3.375	3.000
9	3.625	3.625	3.375	3.000
10	3.875	3.625	3.625	3.125
11	3.875	3.875	3.625	3.125
12	3.875	3.875	3.625	3.250
13	4.125	3.875	3.625	3.375
14	4.125	3.875	3.625	3.375
15	4.125	3.875	3.875	3.500
16	4.125	4.125	3.875	3.625
17	4.125	4.125	3.875	3.750
18	4.375	4.375		3.875
19				
Median	3.750	3.625	3.375	3.063
Meeting	Jun 26	Jun 26	Jun 26	Jun 26

This could be worse than we thought. It is one thing to be reform minded, it is another thing to come in and break things, turning the tables upside down. Too bad there will not be a Fed meeting transcript for years if ever. Warsh used the family fight expression frequently. You could see the fear on the reporters' faces during the press conference which might go away forever unless Warsh has something to say, like presumably after they change interest rates. Warsh seemed proud of the stripped down cupboard's bare press statement. We did not see anything worth reading there to bet rates on. Warsh pointed with pride to the last sentence: "The Committee will deliver price stability." Good to know. It still feels like regime-change is coming and all these committees to study things will find a way to cut interest rates. Afterall, Fed 2.0 sees growth and low inflation and plenty of jobs growth all living peacefully together in a new world. The dot plot will go away if it isn't dead already seeing as Warsh declined to put his own forecast in there blessing it. It seems half the Committee got his message and just moved their forecasts up to unchanged at 3.75% for the rest of 2026 because they know which way the wind is blowing. For emphasis, one other Fed official boldly declined to make a forecast for just the year 2028. Inflation is up, the ECB hiked rates last Thursday, but we don't expect the US Federal Reserve to follow suit. Stay tuned. Fed guidance on rates is important information for market participants and taking it away seems a radical step too far. Warsh's intention appears to be to reverse every change the Federal Reserve Chairs have done since he sent in his resignation letter in February 2011. He's back. The way we read it, the March FOMC saw one rate cut this year to 3.5% from the 3.75% target, but the June Warsh FOMC year-end 2026 forecast is 3.88%. Is that even one rate hike this year? Don't be alarmed, the entire FOMC rate voters, all 17 of them, see interest rates back down to 3.5% at the end of 2028. Inflation is transitory. Final word from press conference: "And I'd say the jobs data has been moving in a good direction. If I heard one other thing around that subject over the course of the last couple of days, what I heard was that strong productivity-led growth is not something that we fear, but something we embrace."

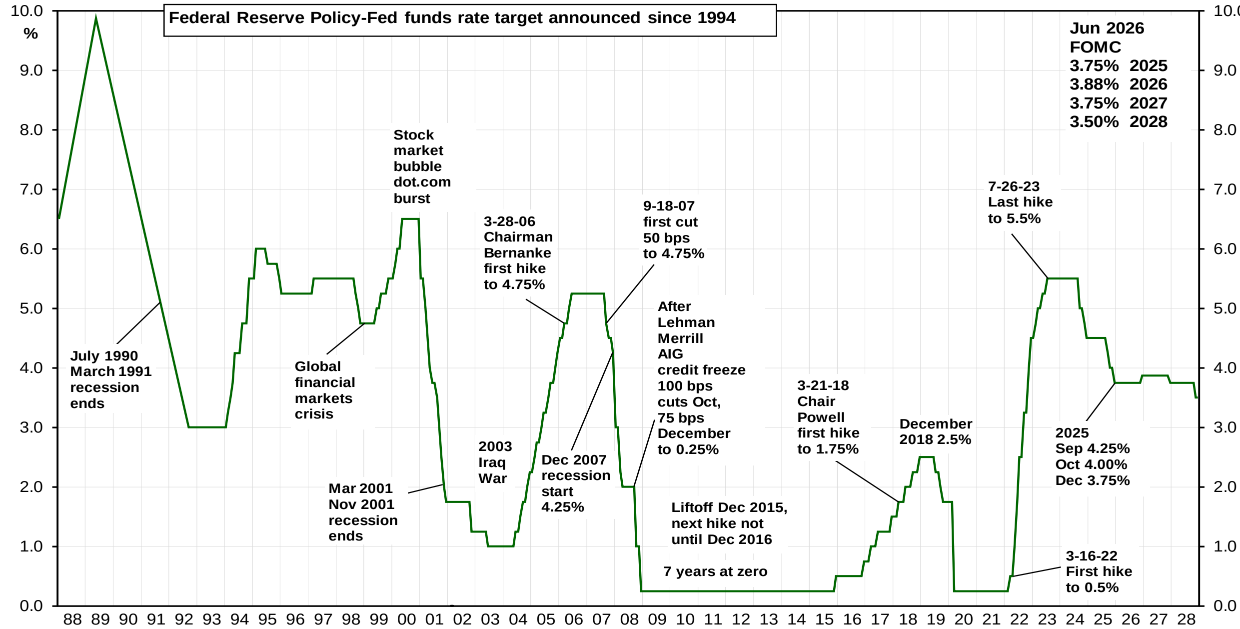
The Federal Open Market Committee approved the following statement for release by a 12 – 0 vote:

The Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent, in support of the Federal Reserve's dual mandate. The Committee reaffirmed its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.

INTEREST RATES



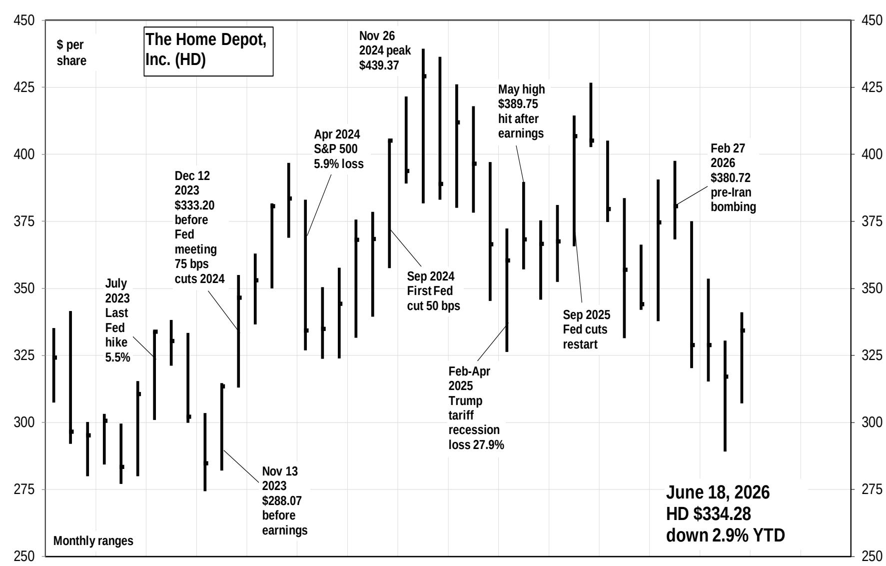
Take a last look at our Fed funds rate target graph with the Fed forecasts before forward guidance ends up in the trash heap of history after study by the various Warsh Fed task force sub-committees that will include civilians. This week it was all Middle East or Fed meeting news. The peace deal announced Sunday brought down 10-year yields to 4.42% from the June 12 4.49% close. Bonds did not like the Fed "rate hike" news (9 of 18 forecast "votes" for one or two hikes by the end of 2026) at Wednesday's meeting and yields went back up to 4.51%. The signing of the Iran peace deal at G7 in France brought yields back down to the week's 4.46% close on Thursday ahead of the Friday Juneteenth holiday market closures. October Fed funds futures discounting 25 bps rate hike to 4.0% (3.98) by the September Fed meeting. S&P 500 rebounds 1.1% Friday, closing up 9.6% YTD.

The Home Depot, Inc. (HD) down 2.9% YTD

The stock dropped to the recent low on Tuesday, May 19 on earnings for the May 3 quarter before the bell. The low in the regular May 19 session was $289.10. Comp sales keep falling (company says FY2026 will be flat to 2.0%), and home construction is not recovering, but the stock rallied the last month. Dividend ($2.33) is 2.8% off Friday close.

$mln		Operating	Average	Retail
Quarter	Net sales	Income	Ticket	Sales NSA
5.3.26	41,765	4,981	$92.76	40,458
2.1.26	38,198	3,849	$91.28	36,580
11.2.25	41,352	5,353	$90.39	40,948
8.3.25	45,277	6,555	$90.01	44,602
5.4.25	39,856	5,133	$90.71	38,793
2.2.25	39,704	4,495	$89.11	36,545
10.27.24	40,217	5,418	$88.65	42,435
7.28.24	43,175	6,534	$89.90	45,080
4.28.24	36,418	5,079	$90.68	38,862
1.28.24	34,786	4,143	$88.87	36,170

Retail sales building material/garden qtr avg NSA

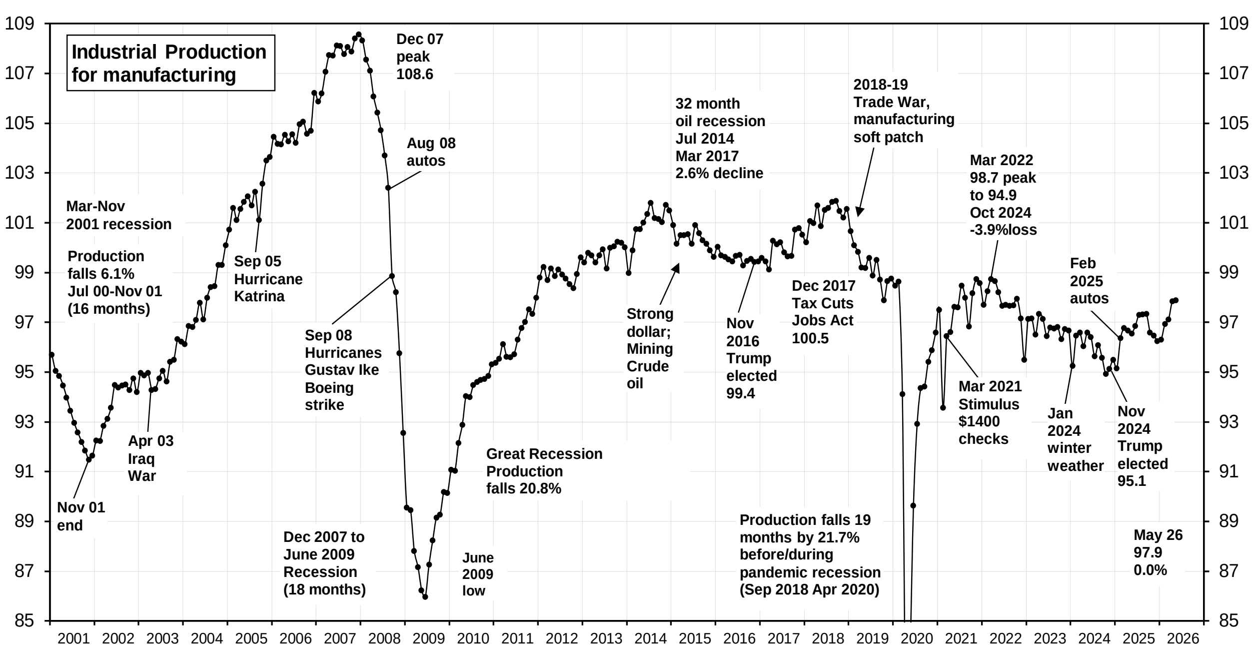


OTHER ECONOMIC NEWS

Manufacturing production stalls (Monday)

Percent changes			Industrial Production May 2026		
Mar	Apr	May	YOY		Weight
-0.3	0.9	0.1	1.7	Total Index	100.0
0.2	0.7	0.0	1.4	Manufacturing	75.9
-1.9	0.2	1.3	2.0	Mining	11.7
-1.9	2.2	0.4	3.1	Utilities	12.4
			Manufacturing payroll jobs 12.6 million -46K YOY 9.3% of Private Payroll Jobs		

Breaking economy news. The Fed's industrial production index released at 915am ET rose 0.1% in May and is 1.7% higher than a year ago. Manufacturing production stalled out in May after a strong run for factory output at the start of the year which puts America's factory revival story in jeopardy. Manufacturing industrial production saw strong gains in February through April and these months were revised significantly higher in today's report. Home electronics, and Appliances, furniture and carpeting, all part of consumer goods, fell in May. Consumer goods factories left for overseas locations years ago because of the higher costs of production in the USA and it looks like they are not coming back despite Washington jacking up import tariffs. Business equipment is still contributing to total production with an increase of 0.6% in May. Stay tuned. The new industrial policies down in Washington have made some progress in restoring factory output despite this month's setback, but the greater good for the US economy will not be felt by American workers as manufacturing jobs are barely growing, in part because machines and technology are taking away employment opportunities. The American factory jobs are just one robot away from disappearing as the decades long trend in automation continues to take a toll on manufacturing employment.

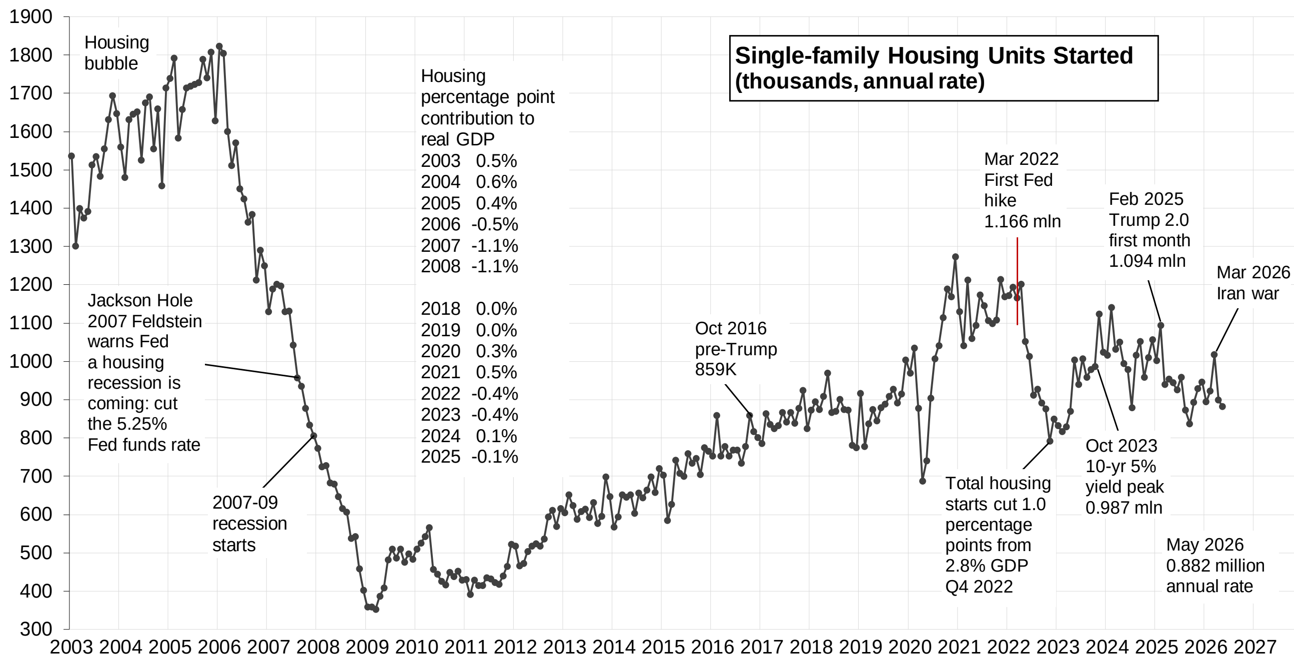


Multifamily starts tumble, import prices rising (Tuesday)

Breaking economy news. Housing starts exhibited weakness in May with bond yields surging on inflation fears generated by the Iran war. Mortgage rates were 6.5% in the second half of May. Builders pulled the plug on multifamily housing starts in May as construction costs continue to climb and the path of inflation and interest rates remains uncertain. Construction of 5 units or more tumbled in the South, the West, and the Northeast. Single-family housing starts remain at relatively low levels and if Washington officials were looking to boost affordable housing, their efforts are not bearing fruit. The residential housing construction industry remains hobbled by the cost of financing and there is no quick fix for this stubborn problem without a huge drop in the key interest rate set by the Federal Reserve. With inflation rising it is unlikely that Fed officials meeting today will keep an interest rate cut on their forecasts for 2026. Maybe the peace deal between the US and Iran will turn the inflation trend around, but that is something that cannot be counted on so builders are shelving multifamily building projects for now. Stay tuned.

Housing Starts Total, Single-Family, Multi-Family

	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
May 2026	1177	882	284	123	64	196	135	594	510	264	173
Apr 2026	1392	899	486	168	54	189	130	716	538	319	177
May 2025	1289	945	324	104	66	185	138	702	530	298	211
% Chgs											
May/Apr	-15.4	-1.9	…	-26.8	18.5	3.7	3.8	-17.0	-5.2	-17.2	-2.3
May/May	-8.7	-6.7	…	18.3	-3.0	5.9	-2.2	-15.4	-3.8	-11.4	-18.0



Nonfuel Imports prices-- Monthly Percent Changes NSA May 2026 3.7% YOY

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.2	0.4	-0.5	-0.1	0.0	-0.3	-0.1	-0.2	-0.2	-0.2	0.1	0.1
2024	0.6	0.1	0.2	0.6	-0.2	0.2	0.2	0.0	0.2	0.2	0.1	0.0
2025	0.0	0.2	-0.1	0.3	-0.1	-0.3	0.2	-0.2	0.0	Govt shutdown		0.2
2026	0.7	0.8	0.2	0.6	0.8							

Nonfuel Imports prices-- Year-Over-Year Percent Changes NSA

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2024	-0.3	-0.6	0.1	0.8	0.5	1.1	1.3	1.5	2.0	2.4	2.4	2.3
2025	1.6	1.7	1.4	1.1	1.2	0.7	0.7	0.5	0.3		0.5	0.8
2026	1.5	2.2	2.5	2.8	3.7							

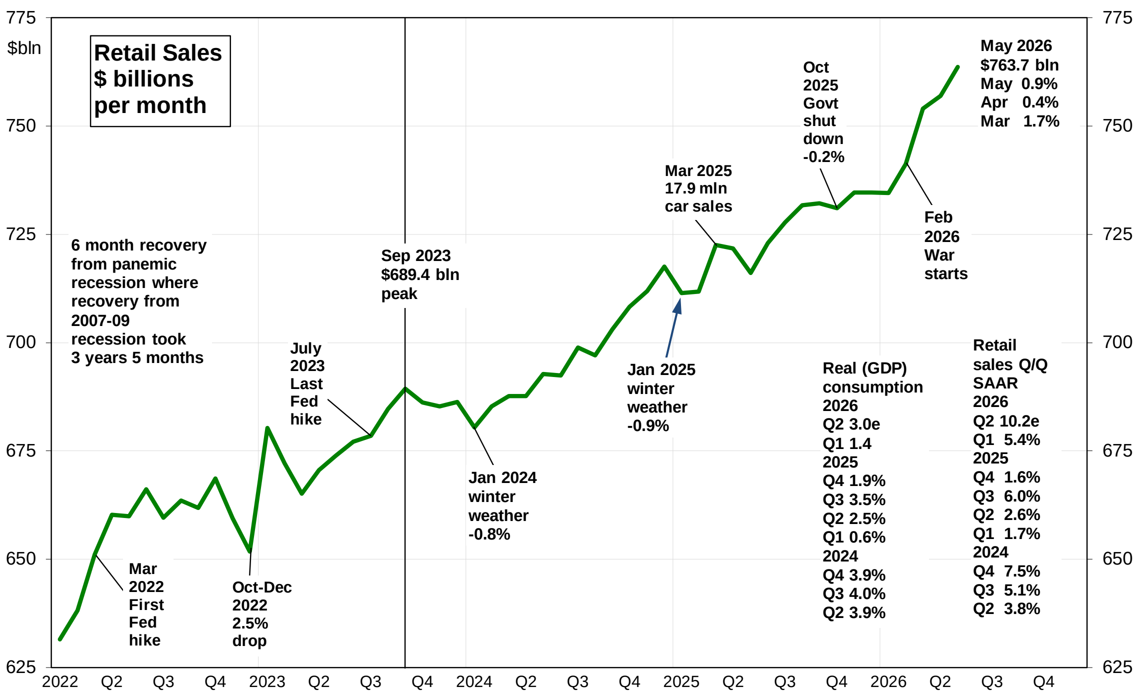
Retail sales picking up (Wednesday)

Breaking economy news. Retail sales rose 0.9% in May in a sign that the lack of consumer confidence is not holding back total purchases. Retail sales are very strong so far in Q2 2026, we estimate 10.2%. Even though half of this gain reflects higher gasoline prices, the numbers are still enough to push real consumption expenditures as measured in GDP at a solid 3.0% pace.

Retail spending, actual dollars, each month

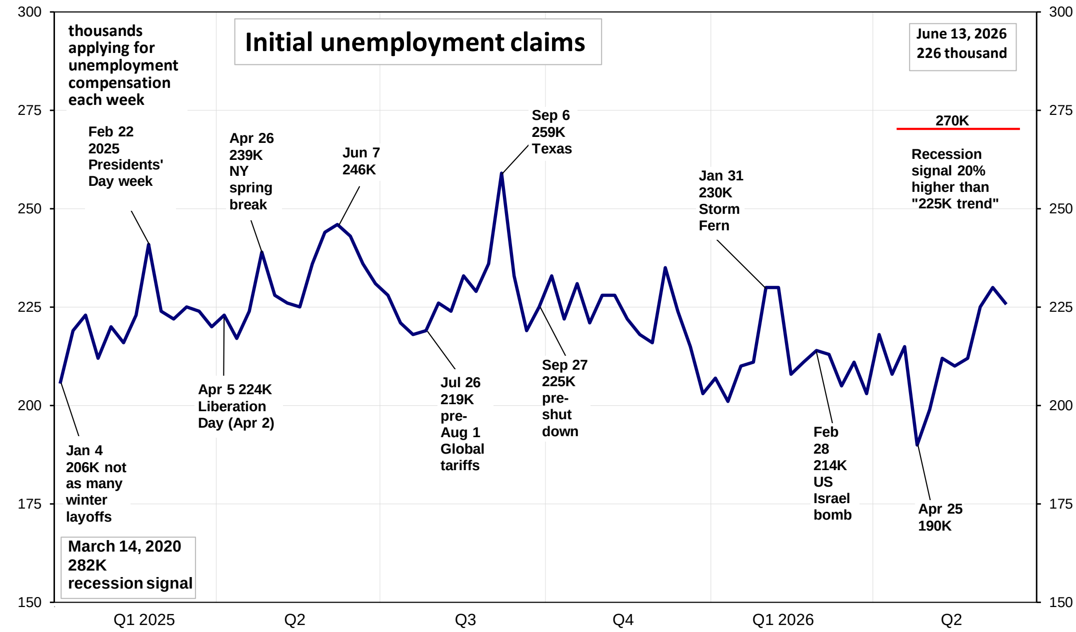
	$million	% to	Percent Changes %		
	May	Total	May	Apr	Year/year
Total Retail Sales	763,705	100.0	0.9	0.4	6.9
Motor vehicles/parts	140,261	18.4	1.2	-0.9	4.4
Furniture/furnishings	11,222	1.5	1.0	-1.5	-1.2
Electronics/appliances	8,146	1.1	-0.5	1.4	6.9
Building materials/garden	41,908	5.5	0.0	0.2	5.6
Food & beverage	85,555	11.2	0.0	0.7	2.0
Health/personal care	40,425	5.3	0.6	0.0	2.9
Gasoline stations	63,662	8.3	3.4	2.4	26.5
Clothing/accessories	27,763	3.6	0.3	-0.6	5.7
Sporting goods, books	8,826	1.2	0.3	1.7	13.3
General merchandise	79,348	10.4	0.4	-0.1	3.8
Department stores	3,292	0.4	-0.3	0.3	1.9
Miscellaneous retailers	16,071	2.1	2.3	-0.7	9.1
Nonstore retailers (internet)	139,565	18.3	1.5	1.1	12.2
Eating & drinking places	100,953	13.2	-0.1	0.9	2.7
[Total ex-autos/gas]	556,344	72.8	0.5	0.5	5.6

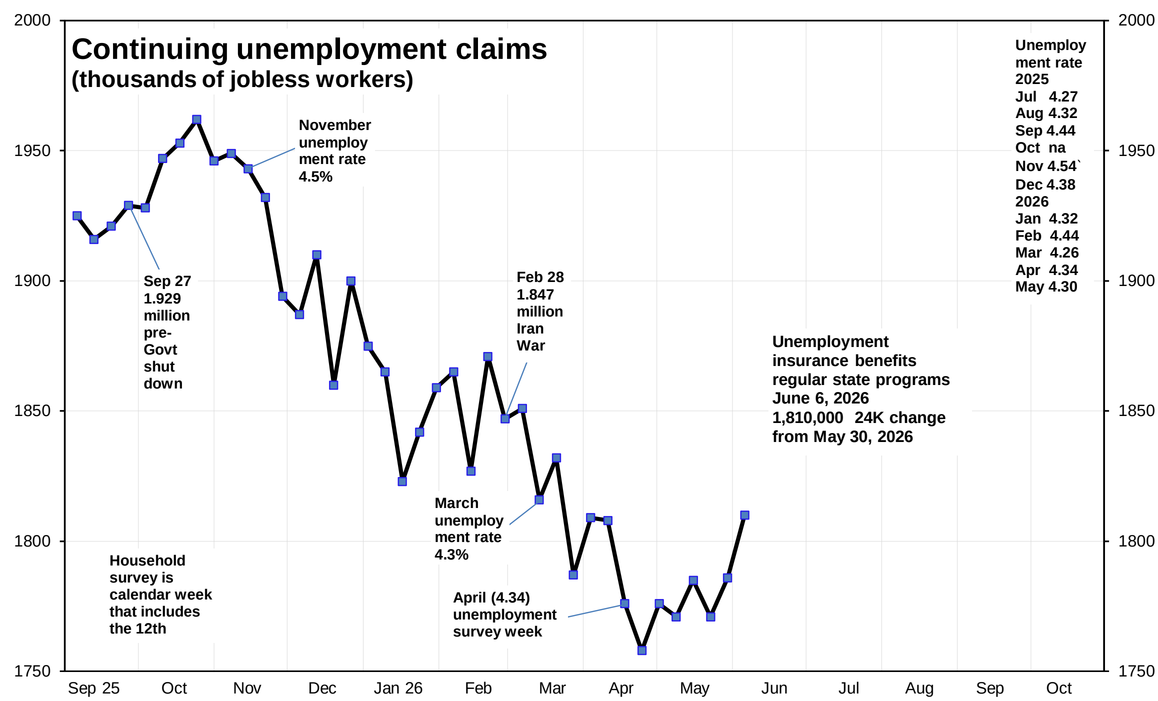
Net, net, the consumer drives the economy ultimately, and right now they are back in the driver's seat making additional purchases in May at the shops and malls and especially online that shows the economy is set for moderate growth ahead despite the uncertainty of trade tariffs and the Middle East war. Maybe the increase in income tax refunds in April are finally getting spent or perhaps the recent surge in payroll jobs has more workers with paychecks to wave at retailers, but whatever the reason, the economy looks in solid shape for now. With Fed rates at neutral, you have to scratch your head and wonder why monetary policy officials would make any change in rates or signal that change is imminent any time soon at today's meeting. The economy isn't overheating with excessive consumer demand for goods and there is no sign of economic weakness either that might require an interest rate cut. Stay tuned. The economy's recovery from the slowdown early in the year is looking more sustainable and lasting, and the future is brightening as well as the war winds down and brings the key cost-of-living component of gasoline prices with it.



Claims slightly elevated (Thursday)

Breaking economy news. First-time applications for jobless benefits remain slightly elevated after falling 4K to 226K in the June 13 week. The prior June 6 week high of 230K was the highest since the Middle East war started. We will see if the new Warsh Fed continues to place importance on the weekly jobless claims statistics that Fed Chair Bernanke once dubbed the timeliest economic indicators. As Fed Chair Warsh gives the central bank the “60 minutes” treatment, it is possible that his task force subcommittees will find valuable new economic indicators that will help policymakers get it right. Stay tuned. The labor market is seeing some slight stress with jobless benefits being applied for at an elevated rate since the start of the Iran bombing on February 28. (Okay, it was 214K on February 28 before the Iran bombing.) Now that the peace deal has been signed we expect the uncertainty factor will diminish and that companies will hold onto the workers they have. The economy is facing no material downside risks at present so Fed policymakers can hold rates steady and do nothing.





Analyst Certification

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.