Financial Markets This Week

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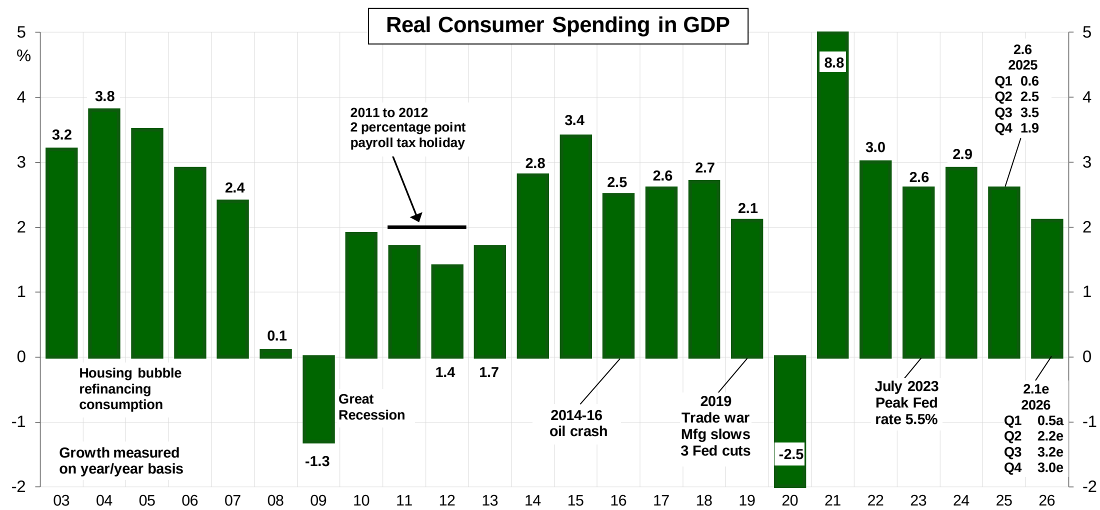
CONSUMER SPENDING SLOW

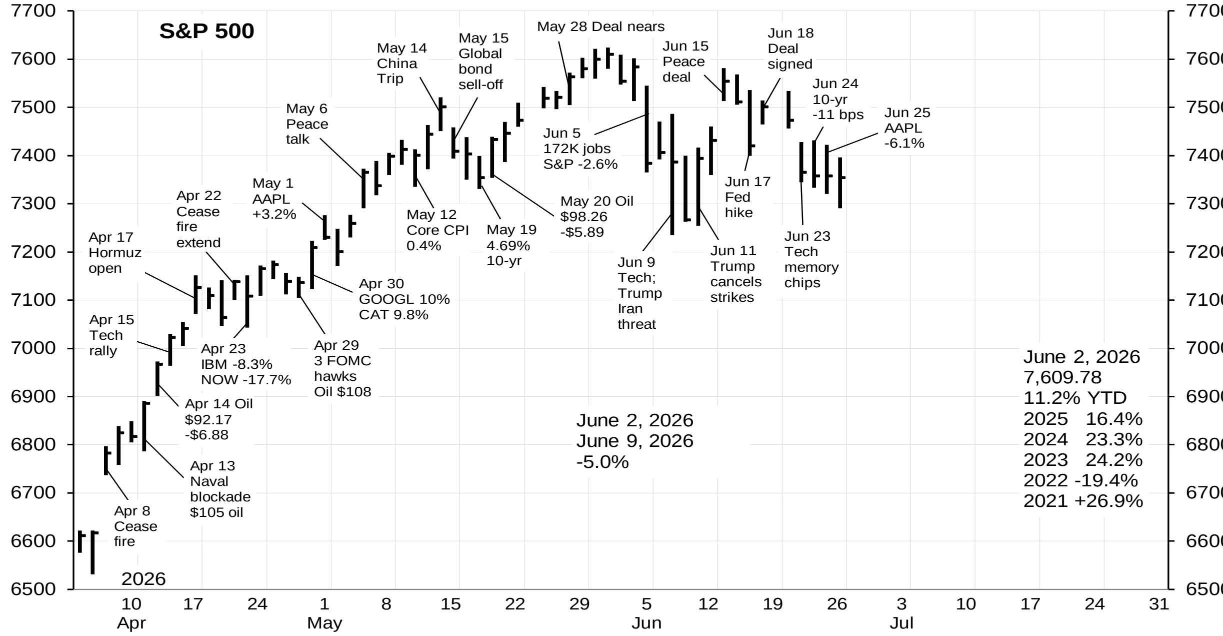


May 2026 consumer data were not what we were hoping for. Real consumption was revised to a 0.2% drop in January, which makes sense finally, with the colder than seasonal winter weather, but Q1 2026 is only 0.5% now after revision (was 1.4%), not leaving the second quarter with a lot of momentum, with its monthly changes of a nothing 0.0% April and a solid 0.3% in May. Another 0.3% for June would put Q2 2026 real consumption at 2.2% which is an okay speed we guess, given the various uncertainties of Trump 2.0 like tariffs, the Federal government shutdown last October, and the Iran war with its $4.50 gasoline.

Using May as the second quarter figure, consumption is held down by gasoline falling 11.9% as consumers shied away from the high prices, although it is a small category of $317.5 billion in Q1 2026. Transportation services fell 4.3%, car repairs and intercity buses dropped. On the upside, there is the 11.2% jump in furnishings and durable household equipment despite weak new and existing home sales. Furniture, lamps, carpets mostly with small appliances and tools also increasing. Other nondurables rose 10.2%, linens and sewing items for some reason, drugs, pet products, flowers and potted plants. Computer software was a drag within recreational goods, after strong demand earlier. Healthcare slowed for two quarters now. We still think 3% real growth of consumption is possible later this year and the full year 2026 slows to 2.1%. Stay tuned.

Real Consumer Expenditures & GDP SAAR Percent change: Q2 2026e is May over Q1 avg	Q2 2026e	Q1 2026	Q4 2025	Q3 2025	Level $bln Q1 2026
Gross domestic product (GDP)	--	2.1	0.5	4.4	24,180.4
Personal consumption expenditures (PCE)	2.1	0.5	1.9	3.5	16,687.7
Goods	3.7	0.5	0.3	3.0	5,682.7
Durable goods	4.2	0.5	0.1	1.5	2,143.7
Motor vehicles and parts	6.1	4.2	-8.1	-6.6	593.0
Furnishings and durable household equipment	11.2	2.7	0.4	-4.3	453.2
Recreational goods and vehicles	0.0	-7.3	9.4	15.4	830.8
Other durable goods	-1.5	7.4	0.5	3.3	315.5
Nondurable goods	3.4	0.6	0.4	3.9	3,549.8
Food and beverages for off-premises	2.3	-0.5	-1.2	1.9	1,180.9
Clothing and footwear	1.1	-0.1	4.5	6.6	551.4
Gasoline and other energy goods	-11.9	0.8	-3.0	1.5	317.5
Other nondurable goods	10.2	1.8	1.3	5.3	1,521.3
Services	1.4	0.5	2.7	3.6	11,026.6
Household consumption expenditures (for services)	0.9	-0.1	2.5	3.6	10,599.5
Housing and utilities	0.2	1.2	1.9	0.3	2,724.4
Health care	0.8	0.1	2.9	6.7	2,984.7
Transportation services	-4.3	0.5	2.3	3.6	524.1
Recreation services	2.9	-1.6	4.0	6.6	635.4
Food services and accommodations	0.1	-2.9	-1.2	1.3	1,078.6
Financial services and insurance	2.2	1.2	4.6	2.7	1,198.7
Other services	3.2	-2.1	3.2	6.2	1,480.4
Final consumption nonprofit institutions	12.1	17.2	7.5	4.8	431.4

INTEREST RATES

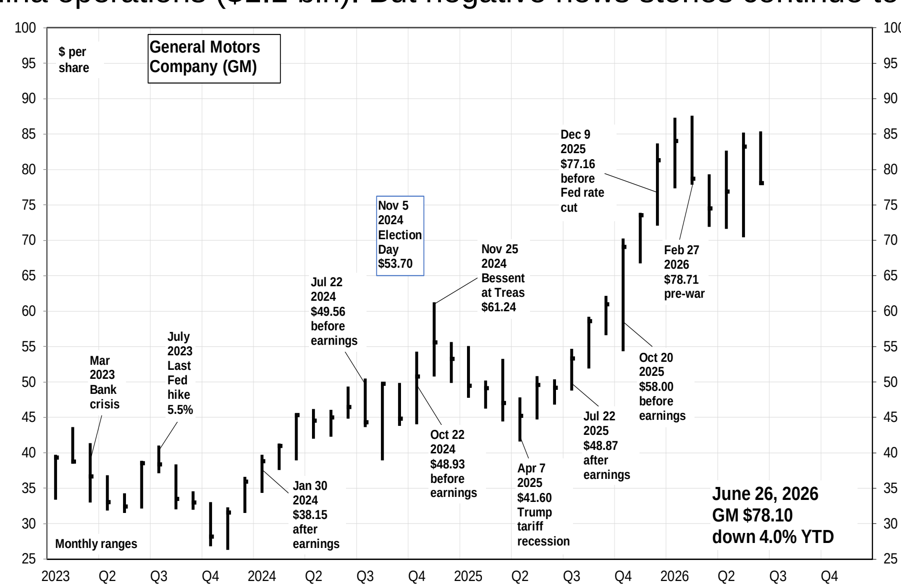


[Bond yields fell sharply]() on Wednesday after noticing crude oil had fallen back to pre-war levels, or close to it, down around $70. The Thursday economic reports did not lead to lasting changes. We would be surprised if a Warsh Fed raised interest rates on 3.4% year-on-year core PCE inflation. He did not answer a press conference question on what he would do if inflation rose and we doubt he wants to deliver a rate hike to the President. Fed funds futures yields fell immediately on the Thursday data, the first minute, not sure why, unless headline PCE inflation slightly less than expected. The October Fed rate call was 3.98% before PCE Thursday at 830am ET and 3.95% a minute later. The stock market battled it out on Thursday with good Micron earnings Wednesday pushing the market higher, and the Apple and Microsoft product price increases taking things South. S&P 500 7.4% YTD.

General Motors Company (GM) down 4.0% YTD

The company reported earnings before the bell on Tuesday, April 28, closing $77.96 the night before. Earnings beat expectations and the company lifted its full year guidance due to an expected $500 million import tariff refund. The company had earlier announced a $7.1 billion charge for downsizing its EV investment ($6 bln), and its China operations ($1.1 bln). But negative news stories continue to run, how 50 robots are replacing 1,000 workers etc. CEO Barra has said technology, AI and automation, will be the future.

Mln $	Sales and Revenue	Net Income	US Vehicle Sales US	Total	Share
Q1 2026	43,624	2,627	626	3792	16.5%
Q4 2025	45,287	(3,310)	703	4097	17.2%
Q3 2025	48,591	1,327	710	4187	17.0%
Q2 2025	47,122	1,895	747	4297	17.4%
Q1 2025	44,020	2,784	693	4032	17.2%
Q4 2024	47,702	(2,961)	755	4329	17.4%
Q3 2024	48,757	3,056	660	4000	16.5%
Q2 2024	47,969	2,933	696	4181	16.6%
Q1 2024	43,014	2,980	594	3852	15.4%

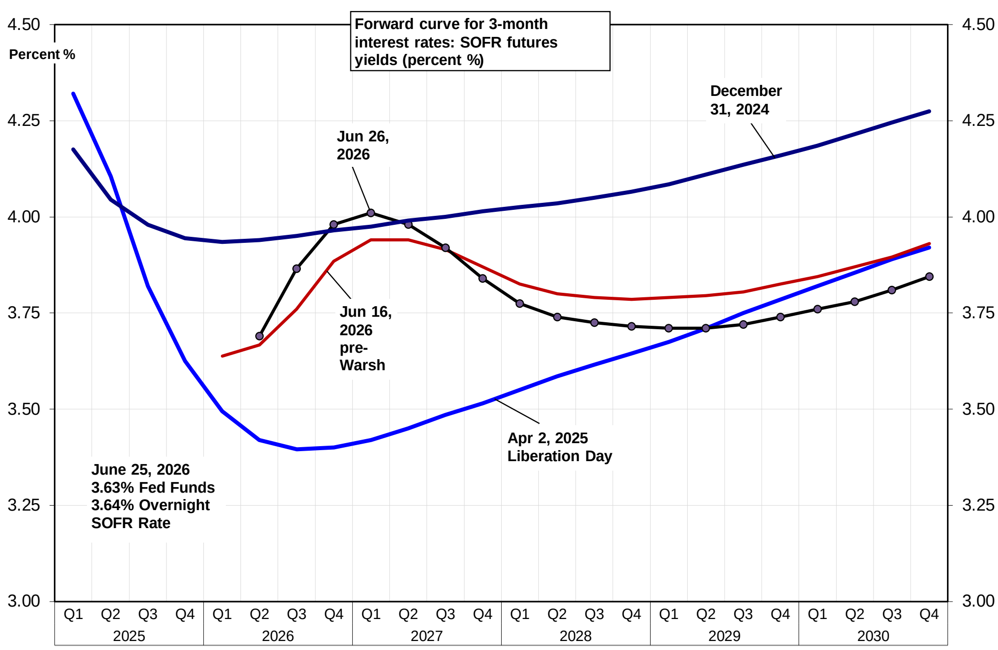


FEDERAL RESERVE POLICY

The Fed meets July 28-29, 2026 to consider its monetary policy. Wonder if there will be a press conference if there is nothing to announce. The Abolish the Fed, anti-money printing task force leaders have not entered the building yet. Warsh said he still had a few calls to make to enlist "some of the very best minds-both inside and outside the economics profession" to help him give the place a fresh new look. We looked back at the odd Warsh "I'm leaving" speech at the November 2-3, 2010 Fed meeting where they voted on QE2, $75 billion Government securities purchased monthly up to $600 billion in total. Warsh did not dissent out of respect for Bernanke, he said, before adding, "If I were in your chair (Bernanke's chair) I would not be leading the Committee in this direction." Warsh is now in Bernanke's Chair and markets are wondering what exactly he intends to do. As markets await FOMC guidance they have largely discounted a 25 bps rate hike to fight inflation by the September 2026 FOMC meeting. 9 of 18 FOMC members voted for one this year. Stay tuned.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	24-Jun	17-Jun	10-Jun	3-Jun	3/11/20*	3/11/20
Factors adding reserves						to Jun 24
U.S. Treasury securities	4488.106	4487.319	4479.919	4469.293	2523.031	1965.075
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1961.590	1964.798	1964.786	1964.786	1371.846	589.744
Repurchase agreements	0.004	0.002	0.005	0.004	242.375	-242.371
Primary credit (Discount Window)	7.894	7.572	6.606	6.072	0.011	7.883
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.019	0.019	0.025	0.026		
Main Street Lending Program	0.626	0.599	0.602	0.600		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.035	0.049	0.028	0.116	0.058	-0.023
Federal Reserve Total Assets	6787.1	6787.5	6776.8	6763.0	4360.0	2427.094
~~3-month Libor %~~ SOFR %	3.62	3.63	3.59	3.61	1.15	2.470
Factors draining reserves						
Currency in circulation	2473.044	2470.831	2467.346	2466.972	1818.957	654.087
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	901.845	956.502	801.084	845.722	372.337	529.508
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	4.534	6.828	0.387	2.062	1.325	3.209
Federal Reserve Liabilities	3832.655	3851.099	3665.361	3717.333	2580.036	1252.619
Reserve Balances (Net Liquidity)	2954.465	2936.355	3111.454	3045.654	1779.990	1174.475
Treasuries within 15 days	105.602	112.513	80.855	78.762	21.427	84.175
Treasuries 16 to 90 days	349.873	338.723	371.295	371.017	221.961	127.912
Treasuries 91 days to 1 year	508.915	513.068	503.555	495.977	378.403	130.512
Treasuries over 1-yr to 5 years	1425.477	1425.130	1426.683	1426.360	915.101	510.376
Treasuries over 5-yrs to 10 years	485.491	485.420	485.348	485.277	327.906	157.585
Treasuries over 10-years	1612.748	1612.465	1612.183	1611.899	658.232	954.516
Note: QT starts June 1, 2022	Change	6/24/2026	6/1/2022			
U.S. Treasury securities	-1282.673	4488.106	5770.779			
Mortgage-backed securities (MBS)	-745.856	1961.590	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2026	2027	2028	Long Term
Fed funds	3.8	3.6	3.4	3.1
PCE inflation	3.6	2.3	2.0	2.0
Core inflation	3.3	2.5	2.1	
Unemployed	4.3	4.3	4.2	4.2
GDP	2.2	2.3	2.2	2.0
June 2026 median Fed forecasts				



18.5 bps of a 25 bps rate hike is discounted by the September 2026 meeting.

Fed funds futures call Fed policy		
Current target: June 26 -- 3.75%		
Rate+0.12	Contract	Fed decision dates
3.935	Oct 2026	July 29, Sep 16*
4.065	Jan 2027	Adds Oct 28, Dec 9*
4.085	Feb 2027	Adds Jan 27
*Oct 2026 could be 3 days at a new rate		
*Jan 2027 could be 4 days at a new rate		

Next up: June CPI inflation Tuesday, July 14 830am ET

Monthly	2026					2025									
% Changes	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation	0.2	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1
Core PCE inflation	0.3	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1
Core PCE YOY	3.4	3.3	3.3	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7
Core CPI YOY	2.9	2.8	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8

OTHER ECONOMIC NEWS

New home sales weak (Tuesday)

Breaking economy news. New home sales crashed down near the lowest level at the start of the year as inclement weather including rain and hot dry conditions led home buyers to step back in the South and out in the West. Mortgage rates were 6.5% as well in the second half of the month which makes affordability even more of an issue given prices remain high. Congress has passed a sweeping bill to help the nation's housing markets, but there was not a lot in there to help traditional single-family home buyers. There are not enough homes on the market and those that are listed are at mostly unaffordable levels. The housing price bubble is still inflating, a slower rate of advance than it had been, but home prices overall are still moving higher except for some regional markets that had seen prices run-up too high.

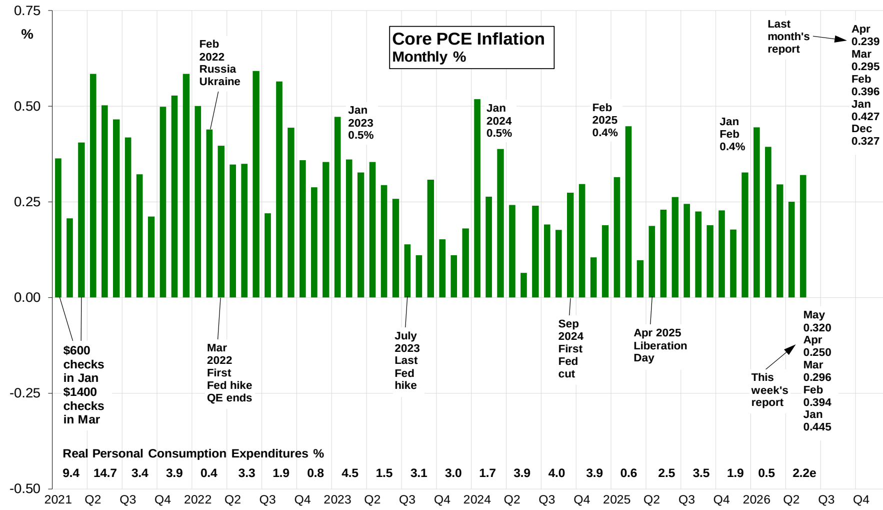
New Home Sales

	Total	Northeast	Midwest	South	West	Median Price $
2023 Year	666	33	68	412	153	428,600
2024 Year	686	34	80	413	158	420,300
2025 Year	678	33	82	412	150	417,400
Jan 2026	576	29	75	339	133	416,200
Feb	630	19	82	388	141	412,000
Mar	664	33	85	412	134	393,100
Apr	626	33	68	365	160	416,500
May	580	34	79	350	117	424,900
	Thousands at Seasonally Adjusted Annual Rate					

GDP, personal income, durable goods, claims (Thursday)

	Q4 24	Q1 25	Q2 25	Q3 25	Q3 25	Q4 25	Q1 26p	Q1 26r	Q1 26f
REAL GDP	1.9	-0.6	3.8	4.4	4.4	0.5	2.0	1.6	2.1
REAL CONSUMPTION	3.9	0.6	2.5	3.5	3.5	1.9	1.6	1.4	0.5
CONSUMPTION	2.6	0.4	1.7	2.3	2.3	1.3	1.1	1.0	0.4
Durables	0.9	-0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Nondurables	0.5	0.3	0.3	0.5	0.5	0.1	0.0	0.1	0.1
Services	1.2	0.4	1.2	1.7	1.7	1.2	1.1	0.9	0.3
INVESTMENT	-1.3	3.8	-2.7	0.0	0.0	0.4	1.5	1.2	1.4
Business Plant	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
& Equipment and	-0.2	1.0	0.4	0.3	0.3	0.2	0.9	0.9	0.8
Intellectual Property	0.0	0.3	0.8	0.3	0.3	0.3	0.7	0.6	0.7
Homes	0.2	0.0	-0.2	-0.3	-0.3	-0.1	-0.3	-0.2	-0.3
Inventories	-0.9	2.6	-3.4	-0.1	-0.1	0.1	0.4	0.1	0.2
EXPORTS	-0.1	0.0	-0.2	1.0	1.0	-0.4	1.3	1.3	1.1
IMPORTS	0.0	-4.7	5.0	0.6	0.6	0.1	-2.6	-2.6	-1.5
GOVERNMENT	0.6	-0.2	0.0	0.4	0.4	-1.0	0.7	0.7	0.7
Federal defense	0.2	-0.3	0.0	0.2	0.2	-0.4	0.1	0.1	0.1
Fed nondefense	0.1	-0.1	-0.4	0.0	0.0	-0.7	0.5	0.5	0.5
State and local	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Below line: Percentage point contributions to Q1 2026 2.1% real GDP									
First estimate for Q2 is Thursday, July 30									

Breaking economy news. Real GDP was revised up to 2.1% in Q1 2026 from 1.6%, almost too long ago to note. First look at Q2 2026 is Thursday, July 30. Big revisions with consumption adding far less while imports were less of a drag. AI equipment purchases, the equipment investment category added 0.8 percentage points to GDP, and it should continue as durable goods orders, nondefense capital goods ex-aircraft, made another record high in May. Weekly jobless claims fell 12K to 215K in the June 20 week; claims were 214K February 28 so no recession clouds. Continuing claims are up somewhat and could tick the unemployment rate up a tenth to 4.4% if the stars align in the Thursday, July 2 employment report. Warsh once said the jobless claims data might not be such a good leading indicator, demonstrating how he views things differently.



Core PCE inflation rose 0.3% and is 3.4% higher than a year ago, helped along with a 4.9% jump in “portfolio management and investment advice” during the May stock market rally that Miran thinks falsely inflates inflation. Core services prices jumped 0.5% if you want to believe inflation pressures are spreading beyond energy, while core goods inflation suddenly fell 0.1% if you want to believe the import tariff effect has moderated. If Warsh were to hike rates he would probably say it was a one-off insurance rate hike and not suggest more rate hikes were coming.

Net, net, core consumer inflation was raging still in May with an increase of 3.4% from a year earlier, and will be an important test of Fed Chair Warsh’s leadership given half of his Committee wanted to hike interest rates this year. It is hard to escape the conclusion that Fed officials are fiddling while inflation burns and ordinary Americans continue to suffer the worst affordability crisis in years. Warsh did not answer what the Fed might do if inflation heats up, and bond market investors are giving the new Fed Chair a pass for now, but for how long will interest rates stay this low if inflation isn’t brought down under control. This is inflation data for May and investors may already believe peak inflation has been reached now that the Middle East war is ostensibly winding down and crude oil prices have fallen back to where they were before the shooting started.

The economy got an upgrade in a few other economic reports this morning. Key core durable capital goods orders rose to record highs in May as the AI equipment spending spree continues. Weekly jobless claims tumbled showing the labor market was not weakening in recent weeks. Real economic growth was revised up to 2.1% in Q1 2026 from the earlier 1.6% estimate and real consumer spending had a solid 0.3% advance in May. Stay tuned.

Trade red ink (Friday)

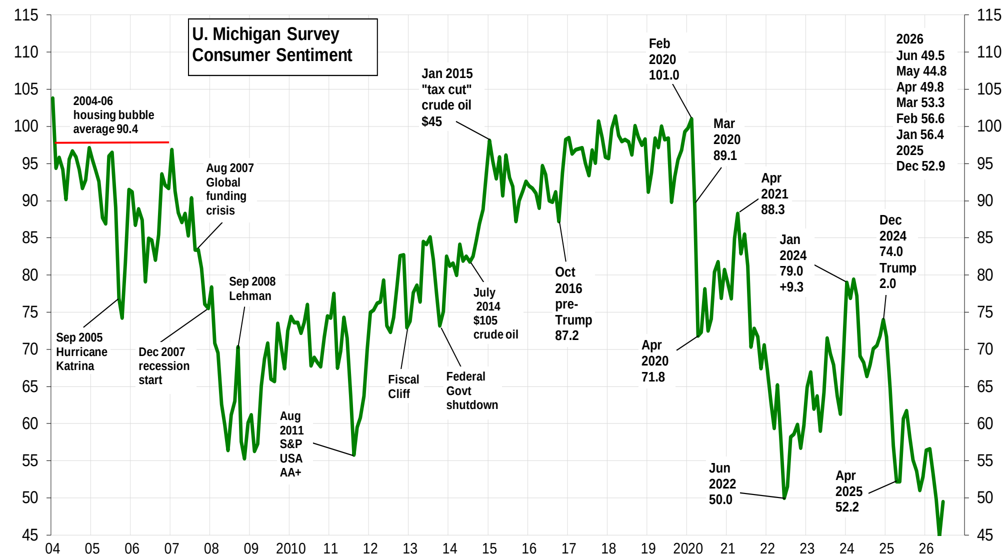
Breaking economy news. An advance look at trade, just for goods, was released for May. The full trade deficit report including services is released Tuesday, July 7 at 830am ET. The early look at the balance of trade shows cracks are emerging in the Administration's hopes to bring America's heavy reliance on imported goods back under control. The goods deficit red ink jumped to $105.8 billion in May from $83.0 billion in April. The White House desire to make goods here is not going away, but import tariffs would likely need to go higher to bring down the volume of goods pouring into the country which totaled an astonishing $313.4 billion in May. It's not just higher energy costs pushing up the imports of petroleum-related Industrial Supplies, it is every category of goods from Foods and feeds, to Capital goods, Autos, Consumer goods, you name it. The standout is AI related imports within Capital goods which have soared 41.9% above prior year levels. Stay tuned. Imports are moving sharply higher and this will subtract from GDP growth this quarter. Bet on it. The import drag on domestic US economic growth is back because factories here cannot not make it here, no matter how Washington economic officials try to spin it.

ADVANCE TRADE STATISTICS FOR MAY

	Monthly				Percent changes		
Seasonally adjusted	May	Apr	Mar	May	May 26	Apr 26	May 26
Trade	2026	2026	2026	2025	Apr 26	Mar 26	May 25
Balance	-105,755	-83,007	-85,118	-91,545			
Exports	207,673	219,520	211,472	181,110	-5.4	3.8	14.7
Foods, Feeds, & Beverages	15,571	14,984	15,035	13,078	3.9	-0.3	19.1
Industrial Supplies (1)	82,730	88,990	86,458	67,152	-7.0	2.9	23.2
Capital Goods	66,834	70,315	66,268	58,234	-5.0	6.1	14.8
Automotive Vehicles, etc.	12,919	12,855	13,201	13,400	0.5	-2.6	-3.6
Consumer Goods	20,692	22,793	21,129	21,778	-9.2	7.9	-5.0
Other Goods	8,927	9,583	9,382	7,468	-6.8	2.1	19.5
Imports	313,427	302,527	296,591	272,656	3.6	2.0	15.0
Foods, Feeds, & Beverages	18,215	17,467	17,407	18,246	4.3	0.3	-0.2
Industrial Supplies (1)	55,924	53,344	54,286	50,045	4.8	-1.7	11.7
Capital Goods	127,465	126,903	119,926	89,851	0.4	5.8	41.9
Automotive Vehicles, etc.	36,879	34,688	35,196	36,360	6.3	-1.4	1.4
Consumer Goods	59,528	56,293	56,552	65,513	5.7	-0.5	-9.1
Other Goods	15,417	13,832	13,223	12,641	11.5	4.6	22.0

(1) Includes petroleum and petroleum products.

Meanwhile, consumers are starting to poke up out of their foxholes as the Middle East war winds down and are saying they are not nearly as pessimistic as they were a month ago in May. June consumer sentiment of 49.5 showed a significant increase from the May nadir point of 44.8 this year. Long term inflation expectations plummeted which will likely convince Federal Reserve Chair Warsh that the current inflation outbreak is temporary, driven solely by higher energy prices, and he will likely shelve any plans for rate hikes this year like half the Committee forecast in June. The lowest consumer sentiment survey figures in history are now history, and we fully expect confidence to return to the pre-war level of 56.6 in February. The rebound in consumer spirits is helping to lift the stock market as investors see the economy is on firmer ground now that the war is all but over. Bond yields ticked down because inflation expectations are down and the odds of the Fed hiking interest rates this year have diminished.



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