



Economic & Financial Markets Monthly Review | June 2026

Economic resilience through an energy shock



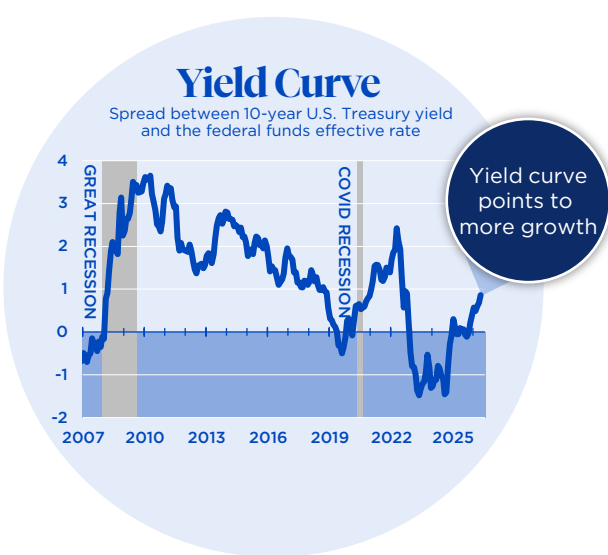
Where is the economy now?

Despite elevated energy prices, consumers maintain a solid spending pace while businesses have accelerated the pace of hiring in the second quarter. Economic activity has remained resilient to higher costs and supply shocks, and the decline in oil and gasoline prices given the interim deal between the U.S. and Iran should provide inflation relief in the second half of the year. The Fed is likely to keep interest rates steady for the remainder of this year due to higher inflation.



Solid growth despite higher prices

Growth trends for the second quarter remain in good shape despite the high energy prices, fed by the increasing AI buildout and a resilient consumer sector. Consumers slowed their savings amid the run up in gasoline prices, but with lower oil and gas prices in the wake of the interim deal with Iran, consumers should get some needed inflation relief.



Treasury yields ease on Iran deal

After climbing into early June, interest rates have pulled back as falling oil prices cool inflation concerns. The spread between the 2- and 10-year yields has tightened further amid shifting Fed expectations, while the 30-year Treasury rate has decreased after surpassing 5.0 percent in late May.



Spending defies high gas prices

Consumer activity has remained resilient even as higher energy costs pressure household budgets. Retail sales excluding autos and gasoline accelerated this spring as consumers slowed their savings to make purchases. This pace of spending should support real GDP growth in the second quarter with around 2.5 percent annualized pace.

What does
this mean for
the economic
outlook?

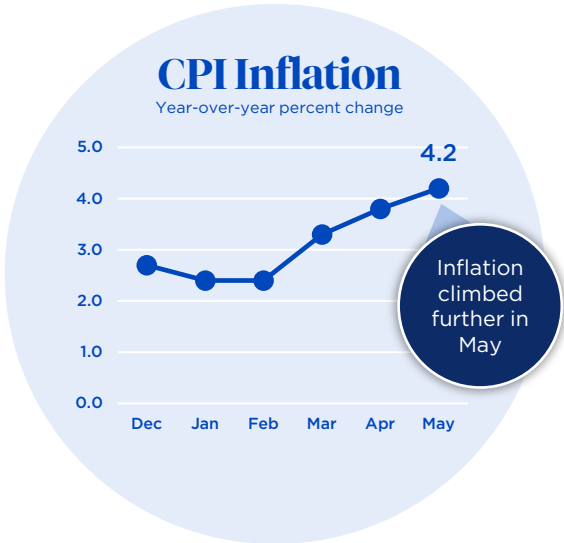
The economy continues to be solid and assuming the Strait of Hormuz reopens completely, lower energy and commodity prices should provide further support. Additionally, if the labor market remains healthy, that could provide continued positive underpinnings to consumer spending.

With inflation running high and the labor market firming, we expect the Fed to remain on hold until 2027. The FOMC removed its easing bias at the June meeting for a more neutral stance, but the bar for a rate hike is likely high despite financial markets pricing in a solid chance of policy tightening in 2026.

The momentum for consumers could carry into the summer given the recent improvement in hiring and the prospect of lower gasoline prices after the interim peace deal. Elevated interest rates remain a constraint for auto and home sales but spending on everyday items continues to see many tailwinds.

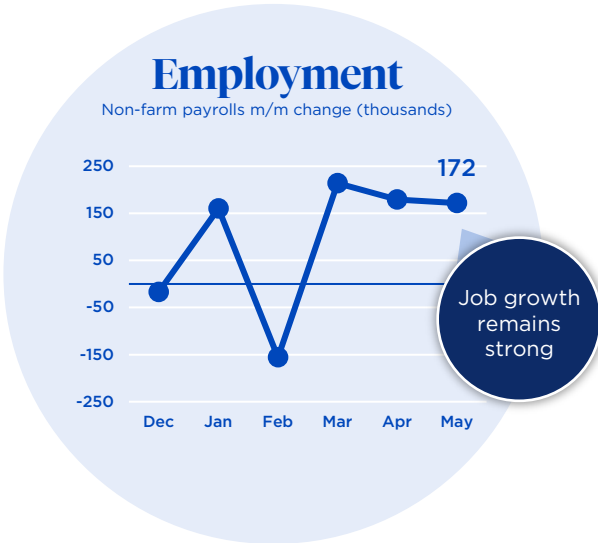
Inflation rises again, but labor market supports growth

Consumer inflation accelerated in May as higher gasoline prices pushed headline CPI to a three-year high, though softer core inflation and subsequently lower energy prices suggest inflation has peaked. Employment has strengthened over the past three months and vehicle sales recovered further in May, underscoring a resilient consumer even as higher fuel costs and other inflationary pressures weighed on households.



Inflation up again due to energy prices

Headline CPI accelerated to 4.2 percent in May, a three-year high, as another jump in gasoline prices accounted for most of the monthly increase. Core inflation rose a softer-than-expected 0.2 percent, with weakness in motor vehicle prices and insurance helping offset firmer rent and airfare increases.



Labor market momentum builds

Hiring has strengthened over the past three months, with job gains topping expectations in May despite higher energy prices and concerns that AI adoption would reduce demand for workers. Growth was led by leisure and hospitality, local government, and health care, while construction also posted firm gains.



Auto sales point to resilient consumers

Vehicle sales continued to recover in May, edging up to an annual rate of 16.1 million units from 16.0 million in April to mark the second highest pace of 2026. The solid reading suggests consumers kept buying despite elevated fuel costs, supported in part by larger tax refunds, a pick-up in hiring, and gains in equity markets.

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outlook?

With gasoline prices down in recent weeks, inflation has likely peaked and should cool in the second half of the year if the Strait of Hormuz reopens completely. That outlook should keep the Fed on hold this year.

Stronger hiring is helping to offset consumer headwinds by supporting household income. Low unemployment also suggests employers remain largely in a no-fire stance, which should limit pullback in consumer spending. Improved hiring supports an outlook of the Fed standing pat through the end of the year.

The improvement adds to evidence that consumers remain resilient even as higher gasoline prices and other cost-of-living pressures weigh on sentiment. Even so, affordability and elevated loan rates remain as constraints, with total vehicle sales this year likely to run slower than the pace from 2025.

Equity rally takes an early summer break while rates steady

The equity market rally is taking a breather, with investors taking stock amid the AI and semiconductor chip stock selloff and higher interest rates. The Treasury curve is flatter as short-term yields rise as the bond market prices in the possibility of a rate hike. Positive momentum for economic activity and corporate earnings – even outside of AI – along with fiscal stimulus should keep stock prices and interest rates well supported.



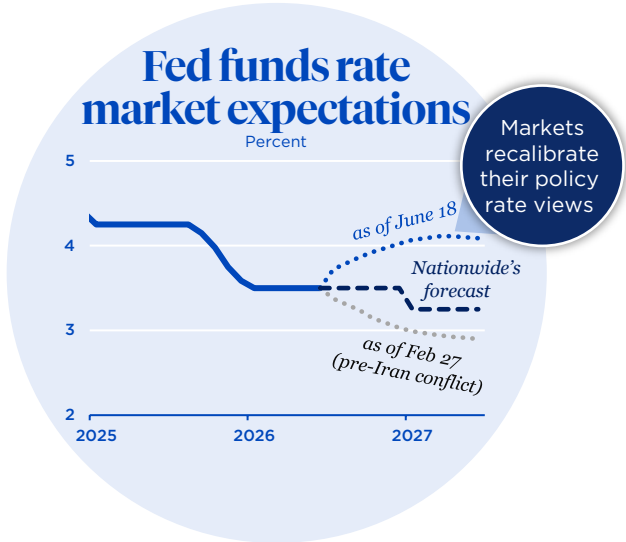
Equity rally hits pause

Equities are down from their all-time highs despite lower oil prices and buoyant corporate earnings. The recent tech selloff and elevated interest rates are making investors slightly more cautious. High-profile IPOs may also explain the decline as investors make cash available to invest in these companies.



Interest rates stay elevated

News of the interim peace deal with Iran has stabilized long-end Treasury yields, though buoyant economic growth and elevated inflation are keeping them elevated. Meanwhile, short-end yields have continued climbing as investors see higher chances of Fed rate hikes. The spread between the 2- and 10-year has narrowed but remains modestly positive.



Too early to anticipate Fed rate hikes

The FOMC kept the federal funds rate unchanged in June as we expected, but inflation risks made policymakers more hawkish. Investors now anticipate roughly 40 basis point rate hikes before year end – a sharp recalibration from before the conflict. New Fed Chair Kevin Warsh has begun implementing regime changes he signaled during his confirmation process.

What does this mean for the economic outlook?

The selloff is modest by historic standards, with the S&P 500 index down about 2.5 percent from its all-time high. Buoyant corporate and economic fundamentals should keep the equity market on a healthy track. AI will likely continue to lead the charge and other sectors should contribute positively as well.

We see long-end yields trending lower in the second half of 2026 as the recently announced Iran deal and lower oil prices ease inflation concerns. However, solid economic growth, lingering inflation pressures, and market expectations of Fed rate hikes will keep a firm floor below interest rates.

Our latest forecast anticipates the Fed will keep rates steady for the rest of 2026. We have passed the peak in inflation, so expect Fed officials to refrain from tightening. We see the Fed resuming its easing in 2027 after inflation risks recede more meaningfully.

Outlook

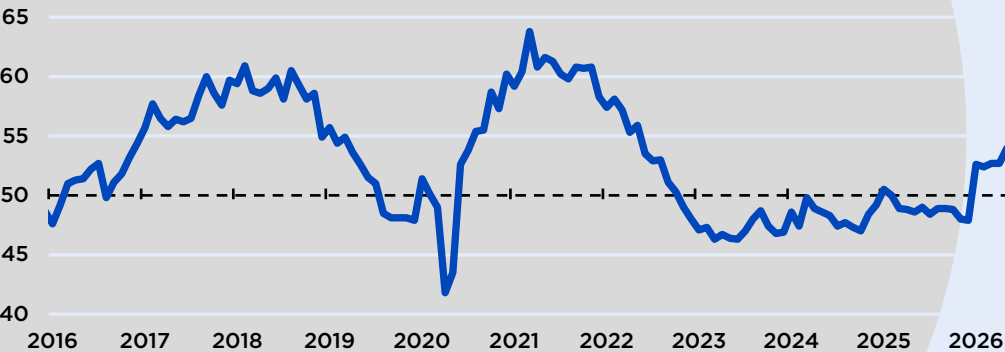
Will the manufacturing rebound be sustained?

Survey readings for manufacturing activity climbed to its highest level in four years in April. After slumping in modest contraction for much of the past three years, new orders and total production have picked up sharply in recent months. Demand for equipment and materials for AI-related capital expenditures has provided a growing boost to the sector. There have also been positive returns from the OBBBA tax bill as businesses utilize tax incentives to expand operations.

Challenges remain for manufacturers, led by the rise in energy costs and supply chain disruptions caused by the Iran conflict, but those now look poised to fade. The recent rebound in manufacturing has not resulted in much hiring as many firms turn to automation and technology to expand production. The sector had shed nearly 100,000 workers since the beginning of 2025 as manufacturers look to control labor costs, though hiring has turned modestly positive in 2026. If energy prices continue to ease and supply chains improve over the second half of the year, manufacturing should be set up for continued solid expansion over 2026 and into 2027.

ISM Manufacturing Index

50+ = Expansion



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Data as of June 2026

	2025 ACTUAL	2026 ESTIMATE	2027 FORECAST	2028 FORECAST	2029 FORECAST
REAL GDP ¹	2.2%	2.0%	2.3%	2.3%	2.3%
UNEMPLOYMENT RATE ³	4.5%	4.2%	4.2%	4.2%	4.2%
INFLATION ¹ (CPI)	2.8%	3.2%	2.0%	2.0%	2.0%
TOTAL HOME SALES	4.74	4.78	5.23	5.72	5.86
S&P/COTALITY HOME PRICE INDEX	1.3%	1.9%	2.7%	3.0%	3.0%
LIGHT VEHICLE SALES	16.2	15.7	16.4	16.5	16.5
FEDERAL FUNDS RATE ²	3.50%	3.50%	3.00%	3.00%	3.00%
5-YEAR TREASURY NOTE ²	3.73%	4.00%	3.65%	3.55%	3.55%
10-YEAR TREASURY NOTE ²	4.18%	4.30%	4.20%	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE ²	6.18%	6.25%	5.80%	5.50%	5.50%
MONEY MARKET FUNDS	4.03%	3.53%	3.15%	3.03%	3.03%

Solid growth

Economic activity has remained solid even amid higher energy prices. We expect inflation relief in the second half of the year and continued buoyant AI capex to support ongoing activity.

Fed likely to delay rate cuts until 2027

After shifting to a more neutral stance at the June meeting, FOMC officials are likely to keep rates steady over the second half of 2026 to monitor inflationary trends. While the bond market is pricing in odds of a rate hike next year, we still see the likelihood of rate cuts in 2027.

¹ Percent change Q4-to-Q4

² Year end

³ Q4 average

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Sources

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Business Cycle
Yield Curve
Retail sales ex autos and gasoline

Nationwide Economics
Bloomberg; National Bureau of Economic Research
Census Bureau

2 | Economic Review

Consumer Price Index
Nonfarm payroll gains
ISM prices paid index

Bureau of Labor Statistics
Bureau of Labor Statistics
Institute for Supply Management

3 | Financial Markets Review

S&P 500
10-year Treasury yield
Fed funds rate market expectations

Standard & Poor's
Federal Reserve Board
Federal Reserve, Haver Analytics, Nationwide Economics

4 | Outlook

ISM Manufacturing Index
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