July 2026

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Greetings!

The U.S. economy has remained remarkably resilient through the first half of 2026 despite elevated interest rates, inflationary pressures, military conflicts, geopolitical uncertainty, persistent federal deficits, and volatile trade policies. Economic growth moderated from last year's stronger pace, but consumer spending, business investment, healthy corporate earnings, and unprecedented investment in artificial intelligence infrastructure continue to support expansion.

War between Iran and the United States rattled global financial markets and pushed energy prices higher. However, markets have responded with surprising calm. Oil prices, which initially surged over $100 per barrel on supply disruptions related to closure of the Strait of Hormuz, now stand at around $73 per barrel, even after recent attacks and counter attacks, suggesting that investors expect the conflict to remain contained. The decline in oil prices reduced one of the more immediate inflationary risks facing the U.S. economy and helped support broader market confidence.

Below is an overview of key economic indicators and trends:

Inflation

Inflation again accelerated during H1'26, reinforcing the Federal Reserve's cautious stance on interest rates. The Core Personal Consumption Expenditures (PCE) Price Index, the Fed's preferred measure of inflation, rose at an annual rate of 3.4% in May, its highest level since October 2023.

Overall PCE inflation increased to an annual rate of 4.1%, the maximum since April 2023, indicating that progress toward the Fed's 2.0% inflation target has stalled. Persistent price pressures in housing, insurance, healthcare, and other labor-intensive services continue to weigh on consumers and businesses.

Although the ongoing military conflict with Iran pushed oil prices higher, crude's subsequent retreat eases concerns that energy prices will trigger a broader inflationary shock. Still, higher tariffs on selected imports, continued wage growth, and resilient consumer demand remain sources of upward price pressure.

Despite the revived inflation, the U.S. economy has continued to demonstrate resilience. Personal consumption expenditures increased 0.7% during the most recent month, reflecting continued strength in household spending, while first-quarter real GDP growth was revised upward to an annualized 2.1%. The combination of persistent inflation and stronger-than-expected economic activity suggests that new leadership at the Fed might consider one or two rate hikes in H2'26.

Unemployment & Labor Markets

The labor market remains healthy but concerns also grew about future employment opportunities in light of announced AI-related workforce reductions. The unemployment rate stands near 4.2%, modestly above historic lows with hiring activity moderate in certain cyclical sectors like transportation, warehousing, manufacturing, and portions of retail.

On the flip side, hiring is increasing for beneficiaries of the AI buildout - semiconductor manufacturing, data centers, utilities, engineering, skilled trades, and construction. The result is a bifurcated labor market in which certain technology-related sectors continue to outperform many traditional industries.

Housing Starts & Construction Activity

The housing market remains one of the economy's weakest sectors. Elevated mortgage rates continue to constrain affordability and suppress both existing-home sales and new residential construction activity. Housing starts remain below levels that would typically be expected given population growth and demographic trends. In contrast, non-residential construction remains exceptionally strong. Data centers, semiconductor fabrication facilities, electric transmission networks, and power-generation projects have become major drivers of construction spending and industrial activity throughout the U.S. These projects continue to support employment and economic growth, partially offsetting the weakness in residential housing.

New Motor Vehicle Sales

Automobile sales have remained relatively stable despite higher financing costs and elevated vehicle prices. Sales in May were at an annual rate of roughly 16.1 million vehicles, up slightly from 15.9 million in April. SUVs and pickup trucks continue to dominate sales. Supply-chain conditions have improved significantly, but affordability is more of a challenge for many consumers. Automakers are investing heavily in electrification, autonomous technologies, software integration, and AI-enabled vehicle systems. While these investments create long-term growth opportunities, they also contribute to higher development and production costs throughout the industry.

Consumer Confidence

Consumer confidence has improved modestly from the depressed levels seen during portions of 2024 and 2025, but it remains below long-term historical averages. Concerns regarding inflation, housing affordability, government spending, and economic uncertainty weigh on sentiment. Nevertheless, rising wages, healthy household balance sheets, and continued employment growth have supported consumer spending. It remains the primary engine of U.S. economic growth.

Manufacturing Activity

Manufacturing activity has stabilized after an extended period of weakness. Purchasing managers' surveys indicate modest expansion in several sectors, supported by reshoring initiatives, infrastructure spending, defense spending, and strong demand for semiconductors and AI-related equipment. However, traditional manufacturing sectors continue to face challenges from slower global growth, elevated borrowing costs, and trade-related uncertainty. As a result, the industrial economy remains divided between rapidly growing technology-oriented industries and more mature manufacturing sectors experiencing slower growth.

AI Spending Effects

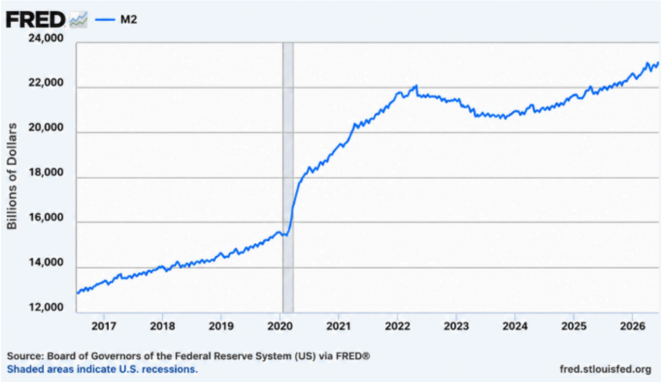
Artificial intelligence remains one of the most important economic factors driving the U.S. economy:

- Major technology companies are expected to spend well over $400 billion during 2026 on data centers, semiconductors, networking equipment, power infrastructure, and related technologies.
- AI-related capital expenditure has become one of the fastest-growing components of private investment.

- Demand for electrical power, transmission infrastructure, cooling systems, and semiconductor manufacturing capacity continues to accelerate.
- Early productivity gains are beginning to emerge across software, healthcare, financial services, customer service, and industrial applications.
- Analysts increasingly view AI as a multi-year investment cycle comparable to the emergence of the internet, mobile computing, and cloud infrastructure.
- AI-related investment has become a meaningful contributor to GDP growth, business investment, and corporate earnings, helping offset weakness in more interest rate-sensitive sectors of the economy.

Money Supply

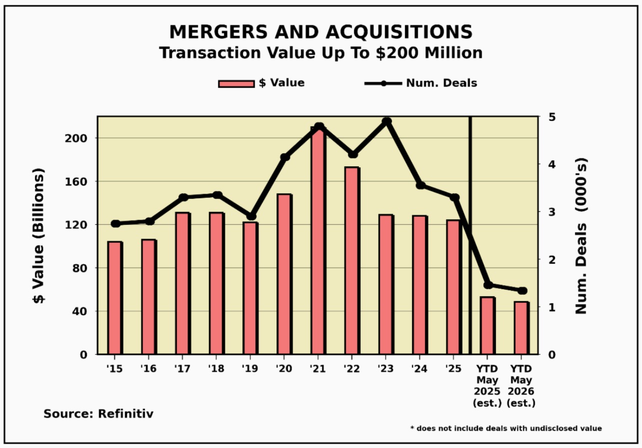
Federal Reserve Bank of St Louis



As shown in the graph above, the U.S. money supply (M2) exceeded $23 trillion in June 2026, matching the record high reached in April of this year. Historically, sustained increases in the money supply have often been associated with higher inflation, although the relationship depends on factors such as consumer demand, the velocity of money, and Federal Reserve policy.

At the same time, liquidity remains abundant throughout the financial system. U.S. money market mutual fund assets have climbed to a record approximately $7.9 trillion, reflecting both attractive short-term interest rates and investors' preference for maintaining liquidity amid economic and geopolitical uncertainty. In addition, households and corporations continue to maintain substantial cash balances. Collectively, this liquidity represents significant "dry powder" that could support future capital investment, merger and acquisition activity, and financial markets as confidence improves and attractive opportunities emerge.

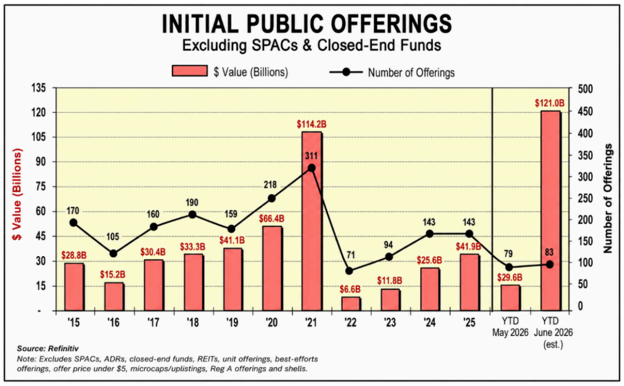
M&A Market Activity



The M&A market has remained active through H1'26, supported by larger strategic transactions and certain mega-deals. However, lower middle market transactions - those valued up to $200 million - are currently tracking modestly below 2025. Transaction value and deal volume suggest a cautious market environment, reflecting tighter financing conditions, greater valuation discipline, and some uncertainty tied to tariffs and broader macroeconomic conditions.

Despite this softer pace, the market remains favorable for sellers. Private equity firms continue to hold significant dry powder and remain active in pursuing new platform investments as well as add-on acquisitions, particularly in resilient sectors with strong cash flow, recurring revenue, and defensible growth profiles.

IPO Activity

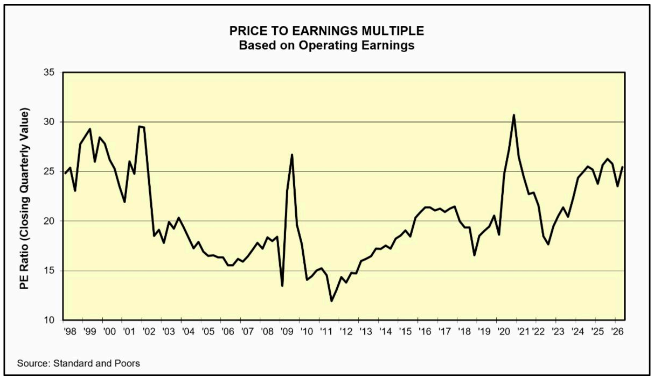


IPO activity in 2026 has accelerated meaningfully. Through June 2026 (est.), traditional U.S. IPOs have raised approximately $121.0 billion across 83 offerings, compared with $41.9 billion across 143 offerings for all of 2025. However, a significant portion of that increase is attributable to the SpaceX IPO, which contributed more than $80 billion of total proceeds. Excluding SpaceX, 2026 year-to-date proceeds would be closer to $35 to $40 billion, roughly in line with the full-year pace of 2025, but far less dramatic than the headline figures imply.

In addition, while capital raised has surged, deal volume remains meaningfully below the 2020/2021 cycle and still below the broader issuance levels seen in 2024 and 2025. This suggests that the IPO recovery remains concentrated rather than broad-based, with investor demand focused disproportionately on larger, higher-quality issuers, particularly in AI, infrastructure, and other secular growth sectors.

The broader implication is that the IPO window has re-opened and institutional risk appetite has improved, but market breadth remains selective. This year is shaping up to be a relatively strong year for IPO issuance even as issuance volume has not yet fully normalized.

Valuation Perspective: P/E Ratios



The chart on the left shows historical P/E ratios through the end of June. Current operating P/E ratios are in the neighborhood of 25x, above the long-term average of approximately 20x. This relatively high valuation reflects exuberance over the impact of billions of dollars in investment being funneled into AI infrastructure, an anticipated increase in corporate profits as AI lowers costs, a reduction in government regulation, and an accommodative monetary policy.

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