

U.S. Economic Comment

- Recent views from Fed officials: suggestive of more hawkish assessments on the path of monetary policy
- PMI update: economic growth solid, but supply-chain disruptions likely contributing to already troubling price pressure

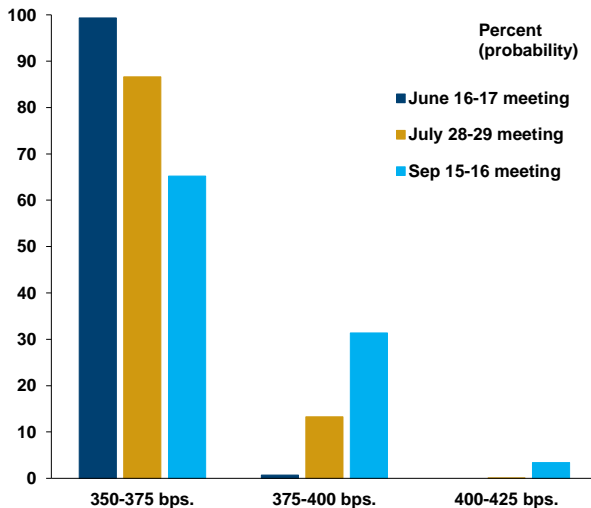
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Hawkish Drift on the FOMC

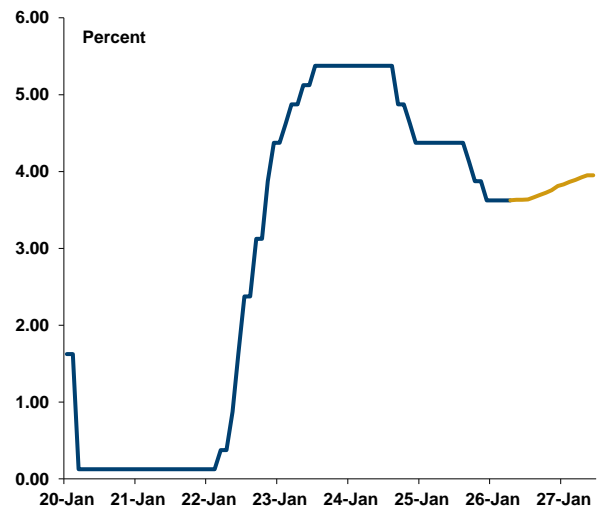
Upon being sworn in earlier today, Kevin Warsh assumed the helm of the Federal Reserve as its 17th Chair. In the medium term, he will likely focus his efforts on reengineering Fed communication strategies and inflation measurement while also reassessing the size of the balance sheet and scale of securities holdings. Immediately, however, he will have to turn his attention to guiding the FOMC's current thinking on the path of monetary policy and to developing a consensus view with colleagues – which could prove especially difficult in an environment of competing risks to dual-mandate objectives. Moreover, reconciling the current data -- which suggests solid growth, stable labor market conditions, and brisk headline inflation -- with his assumed (and President Trump's overt) bias toward lower interest rates could meet resistance from other members of the Committee who appear increasingly aware of the ongoing inflation overshoot after recent shocks (first tariffs, and now conflict in the Middle East). Indeed, that building divergence was on display this week, both in the April FOMC minutes (published Wednesday) and in public comments of voting members of the Committee. Further, three dissents at the aforementioned April meeting in favor of dropping an easing bias from the Committee statement, along with the latest insights which in part helped provide context for those dissents, has left market participants expecting essentially no chance of rate cuts at upcoming policy meetings (chart, below left). Rather, the information has directed them toward contemplating the potential for hikes late this year or in early 2027 should price pressure not show at least hints of moderating from its current troubling trajectory (chart on futures-implied rate, below right).

Federal Funds Target Rate Probabilities*



* The implied target range for the federal funds rate at the conclusion of each FOMC meeting based on futures pricing data as of May 22, 2026.
 Source: CME Group, FedWatch tool

Federal Funds Target Rate*



* The gold line shows the projected path for the federal funds rate through June 2027 based on futures pricing data as of May 22, 2026.
 Sources: Federal Reserve Board via Haver Analytics; Bloomberg

Turning first to the FOMC minutes, which provided context for three dissents in favor of striking an easing bias from the April FOMC statement, we noted hints that policymakers were transitioning away from a wait-and-see approach with respect to the impact of the Middle East crisis and its impact on inflation to a slightly more aggressive (hawkish) posture. Broadly speaking, meeting participants still judged economic growth as “solid,” with “most” also assessing recent data on the labor market as indicative of “stabilization” in conditions and “several” suggesting

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that “recent low rates of job growth were not necessarily indicative of labor market fragility, as they could be roughly commensurate with the recent slow growth in the labor force.” Furthermore, participants restated in line with recent minutes “that both upside risks to inflation and downside risks to employment remained elevated.” However, discussion of inflation, in our view, became more pressing. Various policymakers noted that elevated fuel prices were contributing to increases in costs elsewhere (e.g., shipping costs and airfares), and that supply-chain disruptions associated with the Iran conflict were putting pressure on prices of fertilizer and non-energy commodities.

More important than the granular discussion of emerging pressure points within the broad spectrum of prices was the apparent shift in the broad conclusions of the body. Before the minutes transitioned to the analysis of Committee policy actions, text regarding the outlook for monetary policy changed. As of March, the minutes indicated: “in light of the heightened degree of economic uncertainty, participants emphasized the importance of being nimble in adjusting the stance of policy in response to incoming data, the evolving outlook, and the balance of risks.” Currently, the text notes, “With regard to the outlook for monetary policy, participants generally judged that the continued elevated inflation readings together with uncertainty related to the duration and economic implications of the Middle East conflict could necessitate maintaining the current policy stance for longer than previously anticipated.” Notably, flexibility (i.e., “being nimble”) has given way to a likely pause in rate adjustments. Thus, turning to the Committee policy action, “almost all members” supported leaving the target range for the federal funds rate unchanged at 3-1/2 to 3-3/4 percent (recall that Governor Stephen Miran, a fourth dissenter, supported a reduction of 25 basis points). Furthermore, “A majority of participants highlighted, however, that some policy firming would likely become appropriate if inflation were to continue to run persistently above 2 percent.” And, “To address this possibility, many participants indicated that they would have preferred removing the language from the postmeeting statement that suggested an easing bias regarding the likely direction of the Committee’s future interest rate decisions.” (Recall, the referenced sentence in the current FOMC statement: “In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.”) Therefore, in context, the new verbiage seemingly implies that flexibility for at least some policymakers involves a more serious consideration of addressing possibly more persistent inflation with rate hikes – although we still read the minutes as implying that this is a tail risk rather than a transition in baseline expectations of the Committee, which was also emphasized by now Governor Powell in his last press conference as Fed Chair.

(For additional information, please see: “Minutes of the Federal Open Market Committee, April 28-29, 2026,” Board of Governors of the Federal Reserve System, May 20, 2026.

<https://www.federalreserve.gov/monetarypolicy/fomcminutes20260429.htm>).

Reaffirming the above (somewhat dated) view, were remarks by Anna Paulson, President of the Federal Reserve Bank of Philadelphia, on May 19, who suggested that inflation is “too high,” although economic growth remains “solid” and the unemployment rate consistent with “full employment.” However, she described the labor market more broadly as a “historical anomaly” given that “Going all the way back to 1948, when the official unemployment rate data began, this is the only time the unemployment rate has risen by one percentage point or more outside of a recession.” Thus, in light of those conditions, and given that longer-term inflation expectations are stable (inferred from surveys of households, businesses, and market participants), she described the current “mildly restrictive” policy setting as “appropriate” and “currently well-positioned” to respond to current risks to dual mandate objectives. Perhaps most salient in the current context, she viewed favorably recent repricing in fixed income markets to reflect the possibility of future rate hikes: “You can see this in the way market expectations for the path of the funds rate have moved with economic news. In January, markets were pricing in about three rate cuts this year. The conflict in the Middle East and its impact on energy prices changed those expectations. Right before the April FOMC meeting, markets were anticipating perhaps one rate cut this year. More recently, expectations have shifted to incorporate the possibility of steady rates or even a modest tightening.” In essence, she believes that monetary is “in a good place now,” but aligned with notions conveyed in the FOMC minutes, stating that considering alternative outcomes (e.g., policy tightening) is appropriate in the current context. We would add that we are sympathetic to this emerging view, although we are keenly aware of downside risks to the labor market and maintain the possibility that those risks are being too easily discounted by policymakers and market participants. Therefore, we still maintain the view that further policy easing could be appropriate in late 2026 and early 2027 (our current forecast calls for reductions of 25 basis points at each of the December 2026 and March 2027 FOMC meetings).

(For the entirety of the prepared remarks, please see: Paulson, Anna, “Navigating Uncertainty: Inflation, Labor Markets, and the Stance of Monetary Policy,” Federal Reserve Bank of Philadelphia, May 19, 2026. <https://www.philadelphiafed.org/the-economy/monetary-policy/260519-2026-financial-markets-conference>).

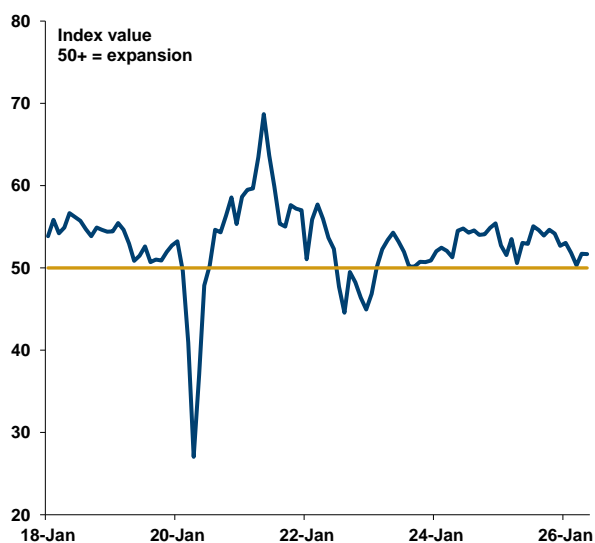
S&P PMIs Indicate Ongoing Expansion – and Heightened Inflation Risks

Earlier this week saw the release of May “flash” estimates for S&P Global’s manufacturing and services PMIs, with the metrics indicating that the US economy remained on an expansion track for the 40th consecutive month – although shifts for both were modest and suggestive of moderate rather than brisk growth. Turning first to the factory sector, the manufacturing index posted a subdued 0.8-point increase to 55.3 – its 10th straight expansionary read and the highest level observed since May 2022. Concurrently, the services index eased a marginal 0.1 point to 50.9 in May, remaining above the critical threshold for the 39th time in the past 40 months. Taking these results together, the composite measure stood pat at 51.7 (chart, below left). That being said, despite the solid performance, there were some pockets of weakness evident in the latest report. As noted by Chris Williamson, Chief Business Economist at S&P Global Market Intelligence: “The damaging economic impact from the war in the Middle East is becoming increasingly evident in the business surveys. The ‘flash’ PMI data for May recorded only modest growth of business activity as demand was again squeezed by a further spike in prices and jobs were cut as firms worried over rising costs and the economic outlook.”

Looking at the internals of the composite, new orders advanced 1.5 points to 51.9 – its first month-to-month increase since January and the 25th straight 50+ reading. This area, however, seemingly faces some downside risk in coming months as a temporary boost to order books from precautionary stock building is likely to unwind. Employment, meanwhile, softened further with a 1.4-point decline to a 21-month low of 48.8, reflecting firms hedging against rising operating costs and worsening demand. Nonetheless, we still view the latest data as indicative of an overall solid performance in the U.S., matching the above-noted assessments of various policymakers.

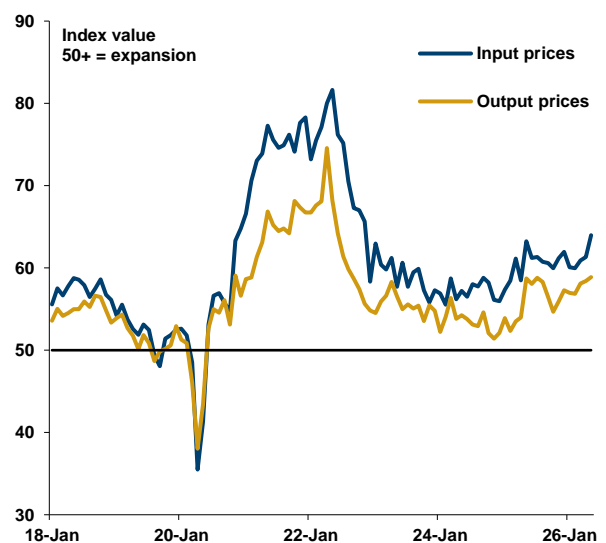
Turning to price measures included with the S&P data, we see ongoing evidence of price pressures both in acquisition costs and in output prices – with developments in the Middle East among key causative factors (i.e., the spike in energy prices and increase in prices of non-energy commodities and components on account of supply-chain disruptions). On the point, the input price index, which measures what businesses pay, jumped 2.6 points to 64.0 – its highest observation since November 2022. The output price index, which measures what businesses charge, was a bit less worrisome, although it still increased 0.5 point to 58.9 – the highest observed since August 2022 (chart, below right). Moreover, the latter index is especially salient because higher output costs will ultimately filter through to consumer prices and could portend inflation pressures becoming more persistent.

US PMI: Composite



Source: S&P Global via Haver Analytics

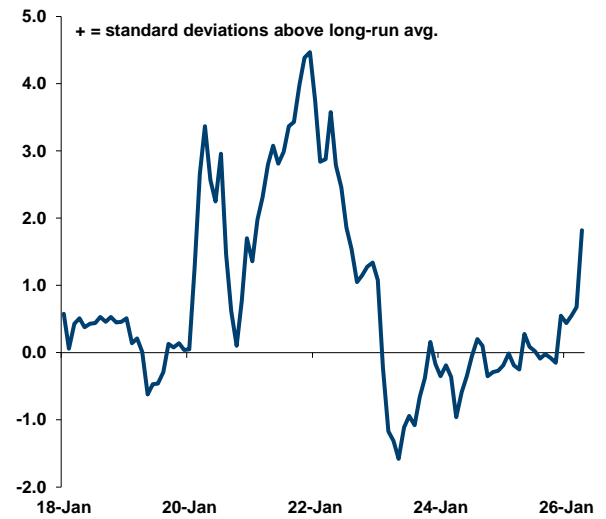
US PMI: Composite Prices



Source: S&P Global via Haver Analytics

Pivoting briefly from the PMI data, we find helpful in assessing supply-chain function (and disruption) the Global Supply Chain Pressure index constructed by the Federal Reserve Bank of New York, a metric that incorporates 27 variables into an aggregate measure. A reading of zero is the long-run average, whereas readings above or below zero show standard deviations from that mean (with readings above suggesting tighter conditions). The latest observation surged from 0.68 to 1.82 in April (versus readings around the turn of the year that were within striking distance of 0, indicative of disruptions emanating from the Iran conflict; chart). Although still well below the COVID-related peak, when a previous supply shock contributed to an inflation spike, the metric still signals that policymakers are rightly concerned that price pressures beyond the energy complex may be amplified in the current context. The U.S. economy is likely to expand in the months ahead, and the FOMC will await incoming data to formulate its ongoing monetary policy response, but recent developments ratify the shift in tone by policymakers and at least cursory consideration of an eventual pivot to higher rates.

Global Supply Chain Pressure Index*



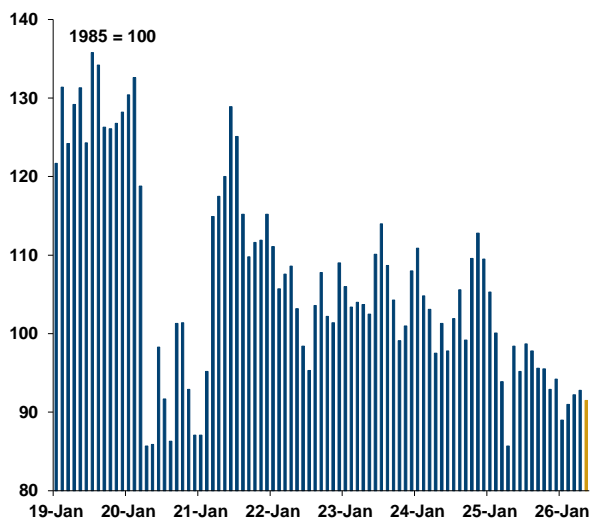
* The measure is constructed using 27 variables, including: global shipping rates, costs of airfreight, and country-specific supply-chain variables from the Euro Area, China, Japan, South Korea, Taiwan, the U.K. and the U.S.
 Source: Liberty Street Economics, Federal Reserve Bank of New York via Haver Analytics

The Week Ahead

Consumer Confidence (May) (Tuesday) Forecast: 91.5 (-1.4% or -1.3 points)

Given elevated energy prices and associated strains on household budgets, we expect consumer attitudes to remain depressed in May. Thus, the Conference Board's consumer confidence metric is likely to hold near the bottom of the range of the past decade. On top of elevated gasoline prices, we suspect that lingering concerns over employment conditions are likely to weigh on household attitudes as well. In that regard, the labor market differential -- which provides insight into underlying views on job market strength by subtracting the share of survey respondents who say that positions are "plentiful" by those who say they are "hard-to-get" -- has displayed a pronounced downward trend since early 2022, with the latest observation of 7.5 percent only 1.8 points above the 60-month low recorded last February.

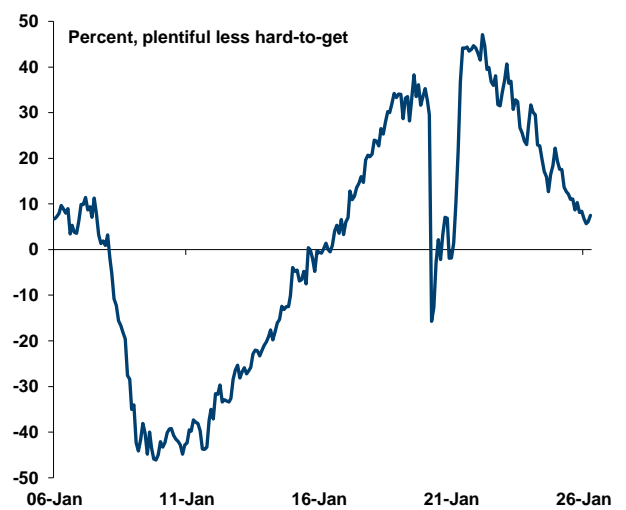
Consumer Confidence*



* The gold bar is a forecast for May 2026.

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

Labor Market Differential*



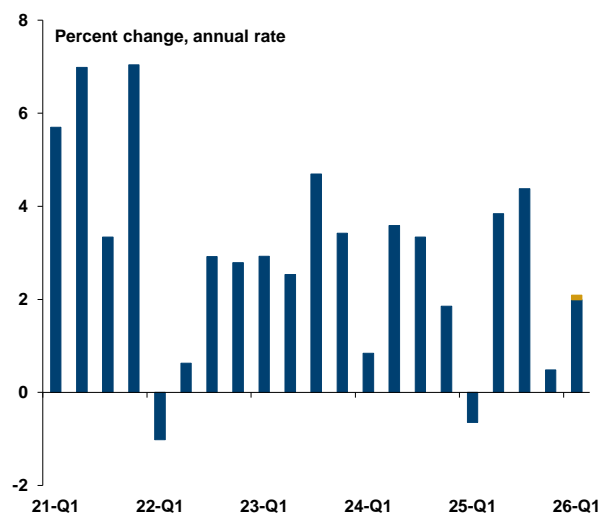
* The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."

Source: The Conference Board via Haver Analytics

Revised GDP (2026-Q1) (Thursday) Forecast: +2.1% (+0.1 percentage point)

The second (preliminary) estimate of quarterly GDP is usually close to the first (advance) tally, though data released since April 30 point to a modest upward adjustment. Recall, consumer spending and business fixed investment were again key contributors to growth in the first quarter of 2026 (adding 1.08 and 1.39 percentage points, respectively). Additionally, government expenditures rebounded in Q1 after a shutdown last fall contributed to a sharp contraction (+0.73 percentage point). Elsewhere, residential construction remained soft (-0.31 percentage point) and net exports were a drag on activity (-1.30 percentage points).

GDP Growth*



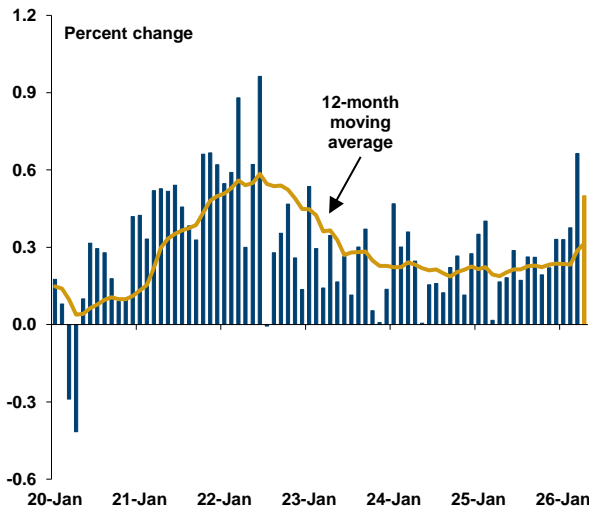
* The gold bar shows the projected size of the upward revision for 2026-Q1.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Personal Income, Consumption, Price Indexes (April) (Thursday)
Forecast: +0.2% income, +0.4% consumption, +0.5% headline, +0.3% core

Recent results from average hourly earnings point to overall income growth coming in a touch slower the Q1 average of +0.3 percent. With respect to spending, solid results for retail sales point to firm outlays for nondurable items while dip in vehicle sales is suggestive of subdued expenditures for durables. Spending on services has remained on a favorable trend in 2026 thus far. Data from the latest CPI and PPI reports suggest month-to-month increases of 0.5 and 0.3 percent for the headline and core price indexes for personal consumption expenditures, respectively. The projected readings would translate to year-over-year advances of 3.8 percent for the headline (versus 3.5 percent in March) and 3.3 percent for the core (versus 3.2 percent previously).

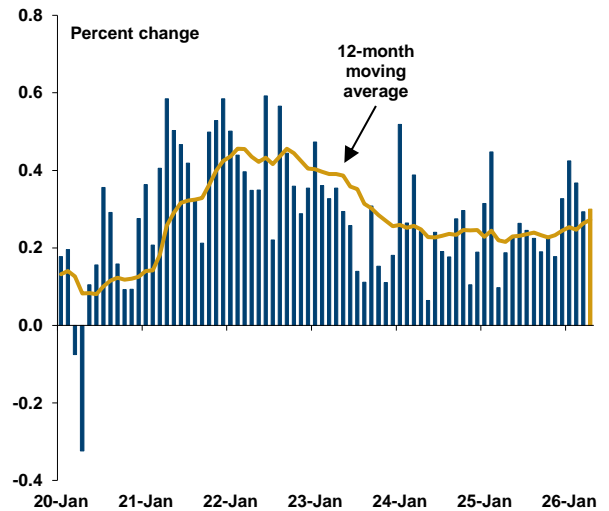
Headline PCE Price Index*



* The gold bar is a forecast for April 2026.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Core PCE Price Index*



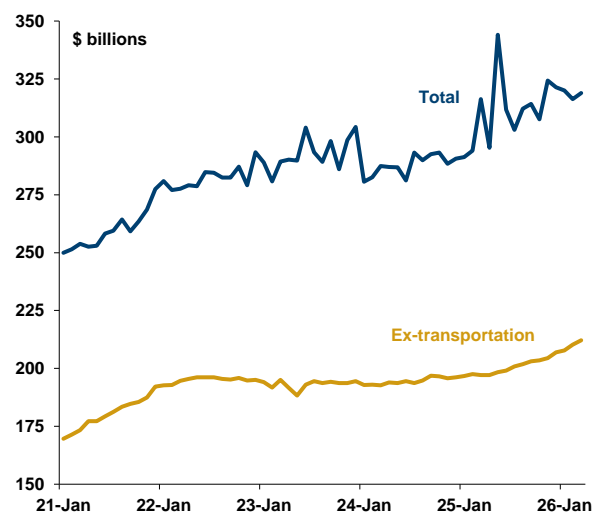
* The gold bar is a forecast for April 2026.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Durable Goods Orders (April) (Thursday)
Forecast: +2.7%

The transportation component of durable goods has introduced pronounced volatility to total orders for much of the past few years, typically reflecting wide swings in the civilian aircraft subcategory (range of -33.3 to +98.2 percent in the past six months). That trend is expected to continue in April, with robust order intake from Boeing likely to boost the headline (136 versus 33 in March). Averaging through the noise, total bookings have tilted upward – a performance we anticipate to be maintained in the first month of Q2. Orders excluding transportation have also stirred since the spring of 2025 after moving sideways for much of the past few years.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

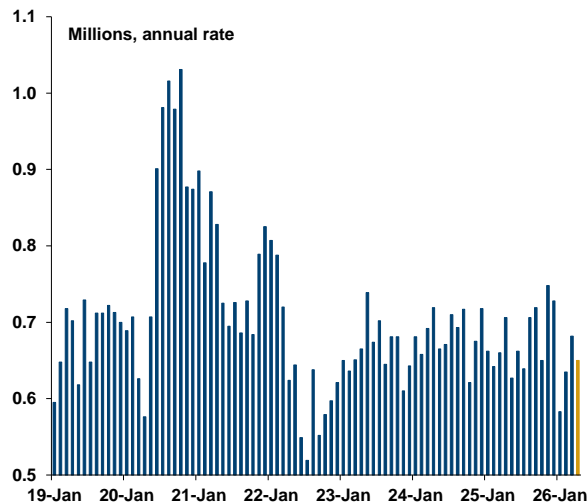
New Home Sales (April) (Thursday)
Forecast: 0.650 million (-4.7%)

Following a net increase of 17.0 percent over the prior two months to an annualized pace of 0.682 million units (reflecting, at least in part, some payback after adverse winter weather constrained activity earlier in the year), we suspect that new home sales slowed somewhat in April. Factoring into that expectation, the traffic of prospective buyers for new homes decreased in the first month of Q2 while mortgage rates tilted higher. If the projection is realized, the level of activity would still be within the range in place since the spring of 2023 and comparable to the pre-pandemic performance.

International Trade in Goods (April) (Friday)
Forecast: -\$90.0 billion (\$2.6 billion wider deficit)

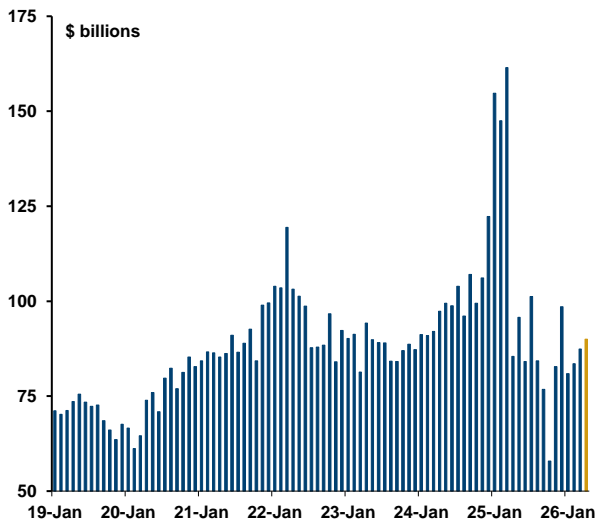
Monthly trade flows have swung widely since late 2025, reflecting heightened uncertainty tied to the Trump administration’s tariff agenda, although both sides of the trade ledger have firmed more recently. On the point, U.S exports of goods have increase for three consecutive months to a record high, while imports have increased in four of the past five months on account of ongoing firm domestic demand. Nonetheless, we anticipate further widening in the nominal goods deficit in April as the dollar volume of imports appears poised to eclipse that of exports (keep an eye on the industrial supplies and materials category for a continued boost to both areas, as elevated energy prices may inflate the value of items in these areas).

New Home Sales*



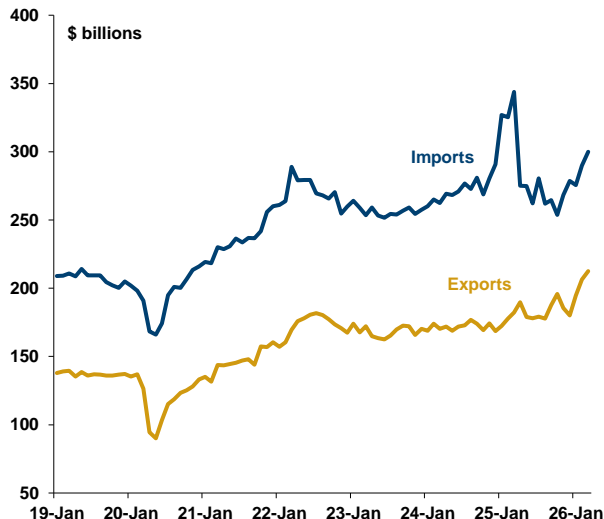
* The gold bar is a forecast for April 2026.
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Nominal Trade Deficit in Goods*



* The gold bar is a forecast for April 2026.
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Economic Indicators

May/June 2026																																																								
Monday	Tuesday	Wednesday	Thursday	Friday																																																				
18	19	20	21	22																																																				
NAHB HOUSING INDEX Mar 38 Apr 34 May 37 TIC FLOWS <table border="1"> <thead> <tr> <th></th> <th>Long-Term</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Jan</td> <td>\$12.8B</td> <td>-\$28.8B</td> </tr> <tr> <td>Feb</td> <td>\$57.0B</td> <td>\$182.7B</td> </tr> <tr> <td>Mar</td> <td>\$81.3B</td> <td>\$150.7B</td> </tr> </tbody> </table>		Long-Term	Total	Jan	\$12.8B	-\$28.8B	Feb	\$57.0B	\$182.7B	Mar	\$81.3B	\$150.7B	PENDING HOME SALES Feb 2.5% Mar 1.7% Apr 1.4%	FOMC MINUTES	UNEMPLOYMENT CLAIMS <table border="1"> <thead> <tr> <th></th> <th>Initial</th> <th>Continuing</th> </tr> <tr> <th></th> <th colspan="2">(millions)</th> </tr> </thead> <tbody> <tr> <td>Apr 25</td> <td>0.190</td> <td>1.758</td> </tr> <tr> <td>May 2</td> <td>0.199</td> <td>1.776</td> </tr> <tr> <td>May 9</td> <td>0.212</td> <td>1.782</td> </tr> <tr> <td>May 16</td> <td>0.209</td> <td>N/A</td> </tr> </tbody> </table> HOUSING STARTS Feb 1.346 million Mar 1.507 million Apr 1.465 million PHILADELPHIA FED MFG BUSINESS OUTLOOK Mar 18.1 Apr 26.7 May -0.4		Initial	Continuing		(millions)		Apr 25	0.190	1.758	May 2	0.199	1.776	May 9	0.212	1.782	May 16	0.209	N/A	REVISED CONSUMER SENTIMENT Apr 49.8 May(p) 48.2 May(r) 44.8 LEADING INDICATORS Feb 0.3% Mar -0.6% Apr 0.1%																						
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MEMORIAL DAY	CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) <table border="1"> <thead> <tr> <th></th> <th>Monthly</th> <th>3-Mo. Avg.</th> </tr> </thead> <tbody> <tr> <td>Feb</td> <td>0.03</td> <td>0.03</td> </tr> <tr> <td>Mar</td> <td>-0.20</td> <td>-0.03</td> </tr> <tr> <td>Apr</td> <td>--</td> <td>--</td> </tr> </tbody> </table> FHFA HOUSE PRICE INDEX (9:00) Jan 0.2% Feb 0.0% Mar -- S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00) Jan 0.2% Feb 0.0% Mar -- CONFERENCE BOARD CONSUMER CONFIDENCE (10:00) Mar 92.2 Apr 92.8 May 91.5		Monthly	3-Mo. Avg.	Feb	0.03	0.03	Mar	-0.20	-0.03	Apr	--	--		UNEMP. CLAIMS (8:30) GDP (8:30) <table border="1"> <thead> <tr> <th></th> <th>GDP</th> <th>Chained Price</th> </tr> </thead> <tbody> <tr> <td>25-Q4</td> <td>0.5%</td> <td>3.7%</td> </tr> <tr> <td>26-Q1(a)</td> <td>2.0%</td> <td>3.6%</td> </tr> <tr> <td>26-Q1(p)</td> <td>2.1%</td> <td>3.6%</td> </tr> </tbody> </table> PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) <table border="1"> <thead> <tr> <th></th> <th>Inc.</th> <th>Cons.</th> <th>Core</th> </tr> </thead> <tbody> <tr> <td>Feb</td> <td>0.0%</td> <td>0.6%</td> <td>0.4%</td> </tr> <tr> <td>Mar</td> <td>0.6%</td> <td>0.9%</td> <td>0.3%</td> </tr> <tr> <td>Apr</td> <td>0.2%</td> <td>0.4%</td> <td>0.3%</td> </tr> </tbody> </table> DURABLE GOODS ORDERS (8:30) Feb -1.2% Mar 0.8% Apr 2.7% NEW HOME SALES (10:00) Feb 0.635 million Mar 0.682 million Apr 0.650 million		GDP	Chained Price	25-Q4	0.5%	3.7%	26-Q1(a)	2.0%	3.6%	26-Q1(p)	2.1%	3.6%		Inc.	Cons.	Core	Feb	0.0%	0.6%	0.4%	Mar	0.6%	0.9%	0.3%	Apr	0.2%	0.4%	0.3%	INTERNATIONAL TRADE IN GOODS (8:30) Feb -\$83.5 billion Mar -\$87.4 billion Apr -\$90.0 billion ADVANCE INVENTORIES (8:30) <table border="1"> <thead> <tr> <th></th> <th>Wholesale</th> <th>Retail</th> </tr> </thead> <tbody> <tr> <td>Feb</td> <td>0.9%</td> <td>0.0%</td> </tr> <tr> <td>Mar</td> <td>1.3%</td> <td>0.6%</td> </tr> <tr> <td>Apr</td> <td>--</td> <td>--</td> </tr> </tbody> </table> MNI CHICAGO BUSINESS BAROMETER (9:45) Mar 52.8 Apr 49.2 May --		Wholesale	Retail	Feb	0.9%	0.0%	Mar	1.3%	0.6%	Apr	--	--
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	NFIB SMALL BUSINESS OPTIMISM INDEX TRADE BALANCE EXISTING HOME SALES WHOLESALE TRADE	CPI FEDERAL BUDGET	UNEMP. CLAIMS PPI	CONSUMER SENTIMENT																																																				

(a) = advance (1st estimate of GDP), (p) = preliminary (2nd estimate of GDP), (r) = revised

Forecasts in bold.

Treasury Financing

May/June 2026																																											
Monday	Tuesday	Wednesday	Thursday	Friday																																							
18	19	20	21	22																																							
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*Estimate