U.S. Economic Comment

- FOMC preview: target range for the federal funds rate to remain at 3-1/2 to 3-3/4 percent; June inflation metrics allow for patience, but price risks intensifying amid renewed tension in the Middle East; labor market solid
- Tariff redux: the Trump administration levies new measures on 60 trading partners
- Friday data: S&P composite PMIs suggests solid economic activity in July; prices remain a key concern in wake of renewed hostilities with Iran

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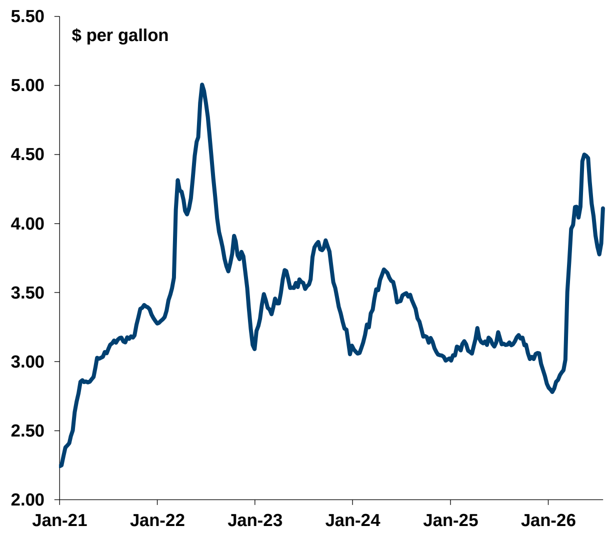
Next Week's FOMC Meeting

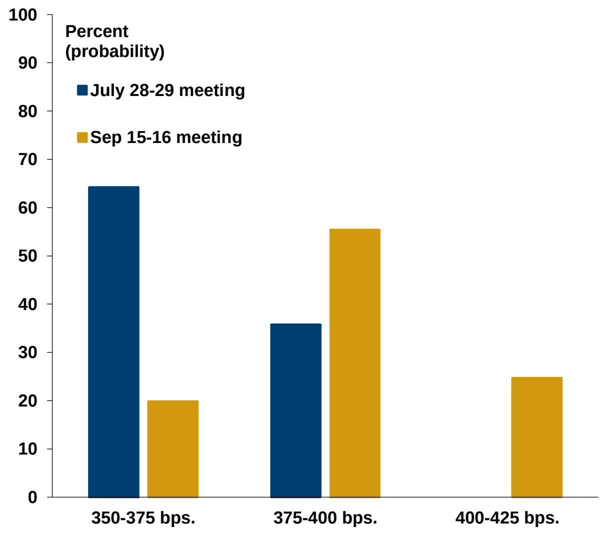
Kevin Warsh will next week preside over his second meeting at the helm of the Federal Open Market Committee. Having recently concluded the semiannual monetary policy testimony to Congress, we suspect that the Chairman is unlikely to offer fresh insights on dual-mandate objectives, or the path of interest rates. Recent data suggest that both inflation and labor market conditions eased somewhat in June, while prevailing assessments of both were mostly aligned with those in recent months (inflation is too high, and employment stable and low) – circumstances that would seemingly prompt a "hold" by the Committee, accompanied by a press conference used to reemphasize policymakers' unwavering commitment to price stability. Even so, more recent developments suggest that risks to prices could intensify. Oil has retraced a significant portion of the recent pullback, with the spot price of West Texas Intermediate crude settling at $92.19 on Thursday (versus $68.58 on July 1) before slipping back to $88.27 mid-day Friday. Correspondingly, the average retail price of a gallon of regular gasoline again breached $4.00 this week ($4.11 as of Thursday; chart, below left) after four consecutive weeks with a $3-handle. In context, futures pricing suggests that prior data (the June jobs report and CPI) provide enough cover for the FOMC to leave policy unchanged for now, although views are still tilting in favor of policy tightening in September (chart, below right).

US Gasoline Price: Regular Grade*



** Weekly data except for the latest observation which is a daily quote from July 23, 2026*
Source: Energy Information Administration via Haver Analytics

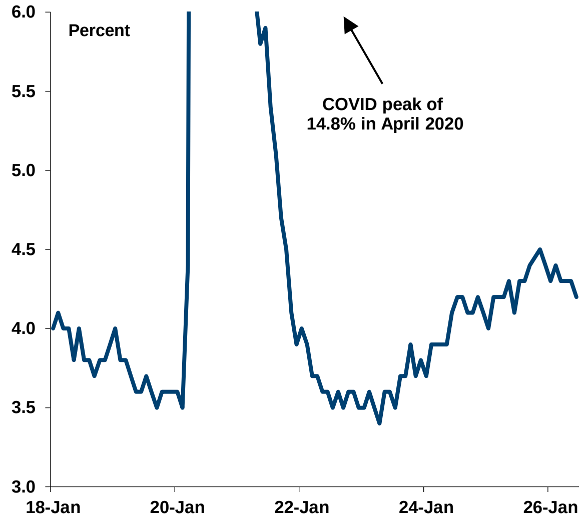
Federal Funds Target Rate Probabilities*



** The implied target range for the federal funds rate based on futures pricing data as of midday July 24, 2026.*
Source: CME Group, FedWatch tool

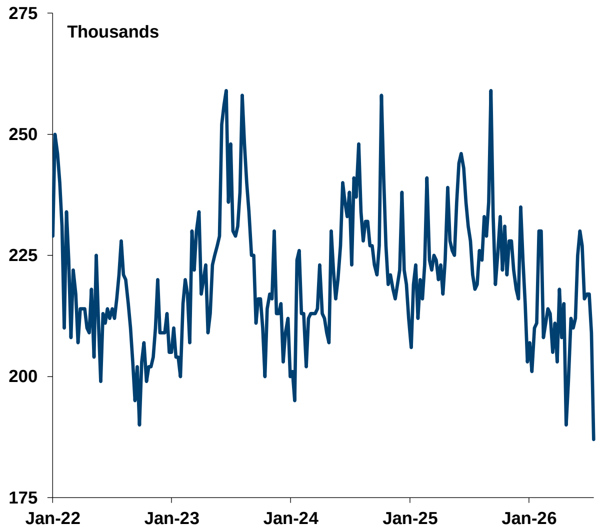
Turning briefly to the recent data, the employment situation has proved notably resilient in the face of ongoing challenges to businesses. Nonfarm payroll growth decelerated sharply in June after hinting at a revival in the prior three months (+57,000 versus a trailing three-month average of +164,000). However, the unemployment rate declined by 0.1 percentage point to 4.2 percent (chart, right) – a reading we view as consistent with a fully employed economy – while layoffs through mid-July have been remarkably low. On the point, initial claims for unemployment insurance for the week ended July 18 fell to 187,000 from 209,000 previously, the lowest observation since September 1969 (chart, below left). Moreover, continuing claims for unemployment insurance at 1.796 million as of the week ended July 11 are in the low end of the range of the current expansion (chart, below right). In context, recent releases suggest that the low-hire, low-fire job market previously described by former Chairman Powell persists, with little evidence that immediate monetary policy support is required.

Unemployment Rate



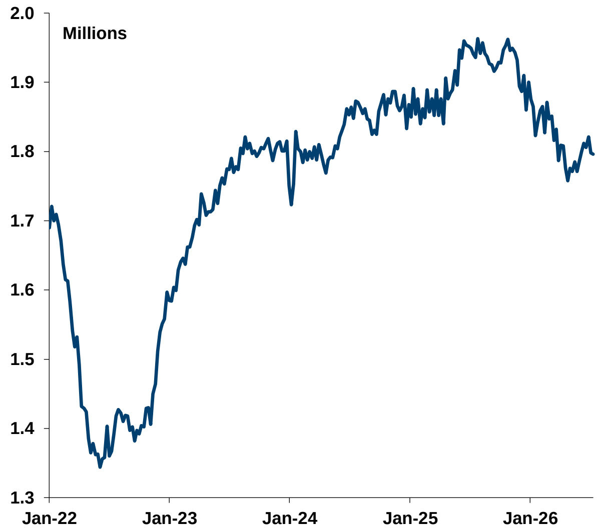
Source: Bureau of Labor Statistics via Haver Analytics

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

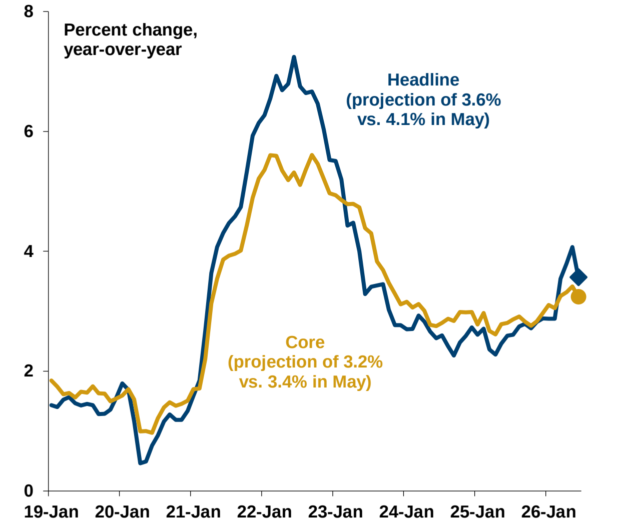
Continuing Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Inflation has proved trickier, and has held well above target on a sustained basis, although the previous retreat in gasoline prices and some favorable developments in prices excluding energy contributed to the CPI easing 0.4 percent in June and the core registering no change after rounding (consistent with year-over-year advances of 3.5 percent and 2.6 percent, respectively, versus 4.2 percent and 2.9 percent in May). Additionally, when those results are combined with inputs from the PPI, the price index for personal consumption expenditures – the Fed's preferred inflation metric – is on track to show similar results when released next Thursday (chart, next page, left). At the same time, the reemergence of energy price pressure in recent days, along with the announcement of new tariffs, has contributed to a jump in longer-term inflation expectations that will no doubt draw increased scrutiny from policymakers (the five-year, five-year forward break-even rate rose by 9 basis points to 2.28 percent on Friday versus July 17; chart, next page, right). Therefore, we expect the maintenance of hawkish rhetoric by Chairman Warsh but also anticipate that the June CPI provides enough cover for the continuation of a watch-and-wait approach.

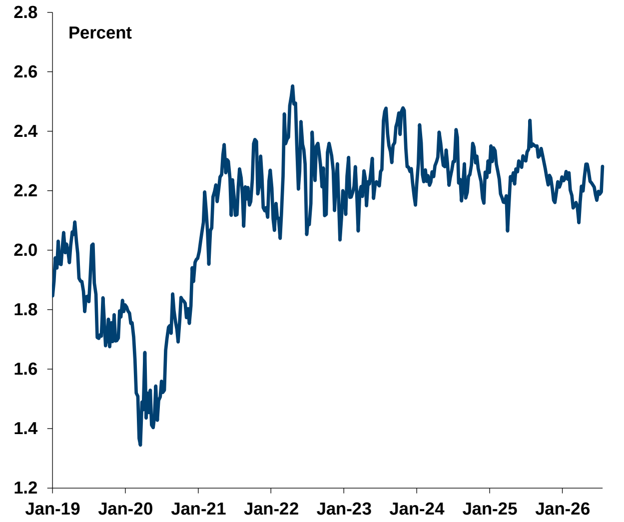
PCE Price Index*



** Projections for June 2026 (dots) assume one-month shifts of -0.2 and +0.1 percent for the headline and core price indexes, respectively.*

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

US TIPS: 5-Yr, 5-Yr Forward Breakeven Rate*



** A measure of expected inflation derived from nominal and inflation-linked bonds. The five-year, five-year forward breakeven rate shows expected inflation per year in the period beginning five years from now. Weekly data except for the latest observation which is a midday quote from July 24, 2026.*

Source: Bloomberg

Translating the latest results, and views of Fed officials, to verbiage in the July statement will likely yield a result strikingly similar (or possibly wholly unchanged) from the stripped-down publication in June (figure, right). Chairman Warsh has made abundantly clear his desire to avoid forward guidance, which was absent in the June iteration, while also relying on more terse descriptions of the economy and inflation. Furthermore, aligned with his testimony before Congress wherein he indicated that any change to balance sheet policy would come after a time of careful deliberation and also be fully signaled to the market, we expect the July statement to reaffirm a commitment to an ample reserves regime. Thus, despite recent developments – and associated volatility in fixed income markets amid shifting views on the path of monetary policy – we foresee little chance of a surprise move by the FOMC next week.

June 17, 2026 FOMC Statement

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.

Source: Federal Open Market Committee

A New Front in the War on Free Trade

Still simmering after a setback in February when the U.S. Supreme Court struck down broad-based “Liberation Day” tariffs implemented under the alleged authority of the International Emergency Economic Powers Act (IEEPA), President Trump ordered his administration to pursue ongoing measures designed to realize his vision of a resurgence in domestic production achieved in part through levies on global partners under the pretense of remediating various imbalances and unfair practices. In the wake of the loss, the administration levied temporary 10 percent across-the-board duties under authorization of Section 122 of the Trade Act of 1974 to redress balance of payment issues. With those tariffs both called into question by the U.S. Court of International Trade and also expiring as of today, new measures were announced yesterday, and effective as of today.

The latest duties announced by the White House and Office of the United States Trade Representative were authorized under Section 301 of the Trade Act of 1974 and imposed on 60 trading partners “for their failure to impose and effectively enforce a prohibition on the importation of goods produced with forced labor” and involve the imposition of rates of either 10 percent or 12.5 percent. While broad in nature, the tariffs exempt various items, including: “(a) raw materials that if subject to these tariffs could lead to the unavailability of domestic supply; (b) products that could cause economy-wide disruptions if subject to these tariffs; (c) products that cannot be grown or produced in sufficient quantities or at reasonable prices in the United States or obtained from other sources; (d) certain products of Argentina, Bangladesh, Cambodia, Ecuador, El Salvador, the European Union, Guatemala, Indonesia, Jordan, Malaysia, Switzerland, Taiwan, or the United Kingdom that would encourage these economies to fulfill commitments regarding forced labor import prohibitions or to enact and effectively enforce a forced labor import prohibition; or (e) articles for which these tariffs may not contribute substantially to the elimination of the acts, policies, and practices of found to be actionable in the investigations.”

While significant carve-outs and exemptions exist within the language of the announced tariffs, not to mention some analysts already questioning the legality and therefore durability of the levies, they still generate further uncertainty both for the global economy, which is still reeling from conflict in the Middle East and associated supply-chain disruptions, as well as for domestic firms having to incorporate ever-evolving trade policy into business plans. Further, new duties will certainly complicate in the months ahead the Federal Reserve’s task of taming still-brisk inflation – an unambiguously unwelcome development after recent data suggested that the impact of previous rounds of tariffs on prices had started to ebb. All told, the latest developments regarding international trade and tariffs only increase uncertainty in an already challenging global economic environment.

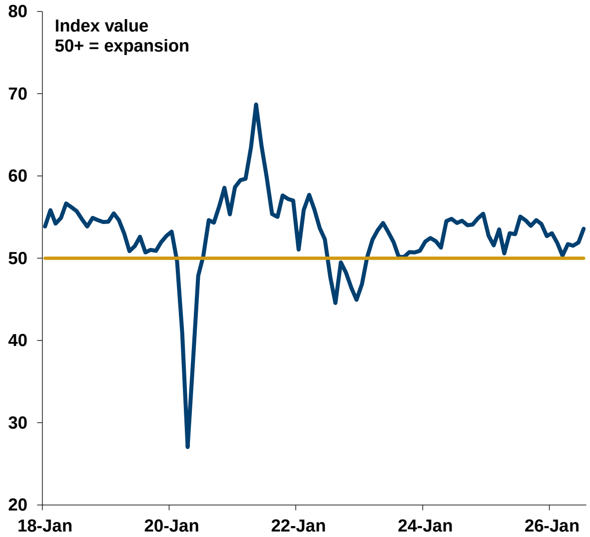
(For further reading, see: “USTR Takes Action in Forced Labor Section 301 Investigations,” Office of the United States Trade Representative, July 23, 2026. https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ustr-takes-action-forced-labor-section-301-investigations)

S&P PMIs Indicate Solid Growth in Early Q3 – Along with Renewed Price Pressure

Ahead of next week’s report on Q2, which we expect to expand at a decent 1.5 percent annualized pace (see preview in the Week Ahead section, below), we received early information on Q3 – and results suggested that the U.S economy entered the second half of 2026 on a respectable trajectory. Today’s release of the July “flash” estimates for S&P Global’s manufacturing and services PMIs revealed that activity in the services sector firmed while that in manufacturing dipped – contributing to a composite read of 53.6 percent, up from 51.9 percent in June (the 42nd consecutive expansionary observation; chart, next page, left). Returning to the constituents, the services measure rose 2.4 points to a fourth consecutive expansionary read of 53.6 (and 41st in the past 42 months). The manufacturing index, meanwhile, eased by 0.1 percentage point to 53.8 – the 12th straight read above the critical threshold. That said, while July’s report was mostly favorable, it also included a few cautionary caveats. As noted by Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, the latest development may prove to be “short lived” as the prior boost from the FIFA World Cup begins to fade and the reignition of conflict in the Middle East further snares supply chains.

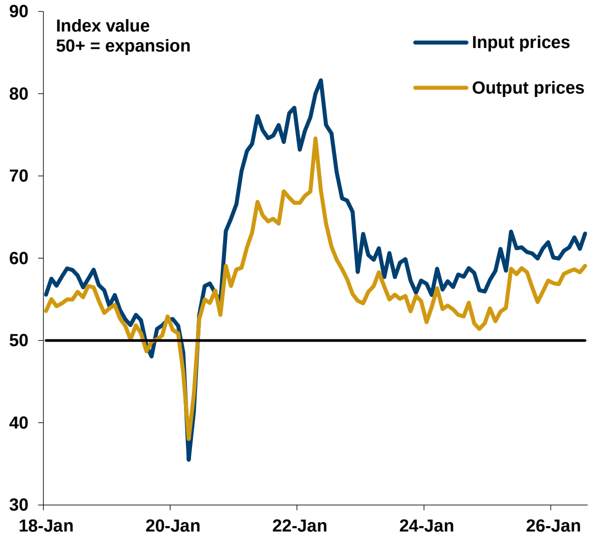
Looking at the internals of the report, advances in both the aggregate employment and new orders subcategories stood out on the positive side. With respect to the former, following a two-month period of contraction, employment rebounded 1.6 points to 50.7 in July. Concurrently, new orders rose 1.5 points to 53.6 – the 27th straight expansionary read. Concerningly, but expected, the input price index surged 1.9 points to 63.0, its highest reading in 14 months, while the output price index firmed 0.8 point to 59.1, its highest reading in 47 months (chart, next page, right). Following President Trump’s formal notice of the resumption of hostilities with Iran on July 13, supply-chain issues have reemerged and the price of oil has surged. On the point, “Manufacturers reported the sharpest lengthening of supplier delivery times since August 2022, with lead times now worsening for 11 straight months as shipping disruption around the Strait of Hormuz and demand for safety stocks compounded tariff-related availability issues,” stated Williamson.

US PMI: Composite



Source: S&P Global via Haver Analytics

US PMI: Composite Prices



Source: S&P Global via Haver Analytics

Thus, the data in hand suggest the FOMC ahead of next week's meeting faces similar economic conditions, and challenges, to those in June. Economic activity remains on track, but inflation is well above two percent – with renewed war, and now another tariff program, skewing risks. In essence, uncertainly is unusually elevated and the longer-term path of monetary policy is far from clear.

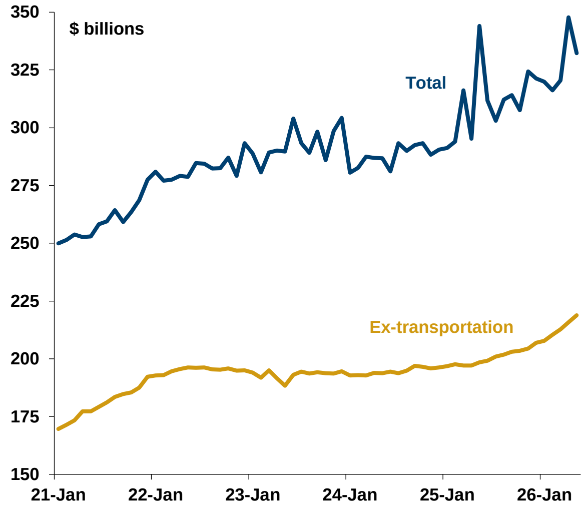
Daiwa Capital Markets

The Week Ahead

Durable Goods Orders (June) (Monday)
Forecast: +4.0%

The transportation component of durable goods typically introduces significant volatility to total orders, often reflecting wide swings in the civilian aircraft subcategory (range of -51.8 to +167.4 percent in the past six months). That trend is expected to continue in June, with a jump in aircraft orders at Boeing likely to boost the headline (121 versus 27 in May). Averaging through the noise, total bookings have tilted higher – a performance we anticipate to be maintained in the latest report. 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

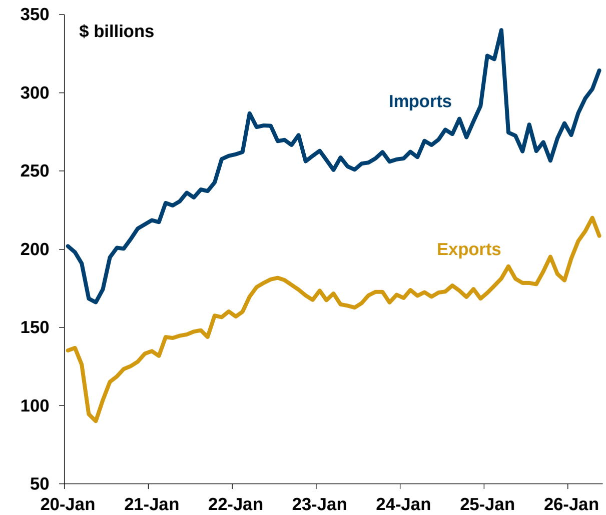


Source: U.S. Census Bureau via Haver Analytics

International Trade in Goods (June) (Tuesday)
Forecast: -$102.5 billion ($3.4 billion narrower deficit)

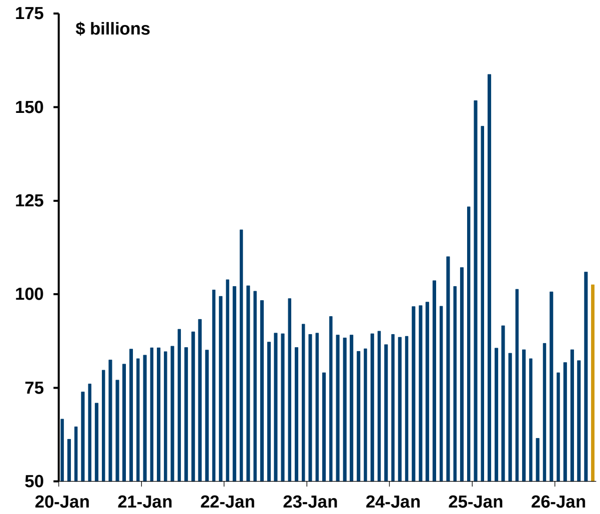
Monthly trade flows have swung widely since late 2025 as firms have adjusted to the Trump administration's variable tariff agenda (and more recently the oil shock associated with the US-Iran conflict). Previously in May, the nominal goods trade deficit surged by $23.7 billion to a 14-month high of $105.9 billion, reflecting a $12.1 billion jump in imports (+4.0 percent) and a $11.6 billion drop in exports (-5.3 percent). While we expect a partial reversal to occur in June, the projected narrowing would still leave the average deficit for 2026-Q2 at $96.9 billion (versus -$82.0 billion in 2026-Q1), suggestive of net exports acting as a drag on GDP growth.

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



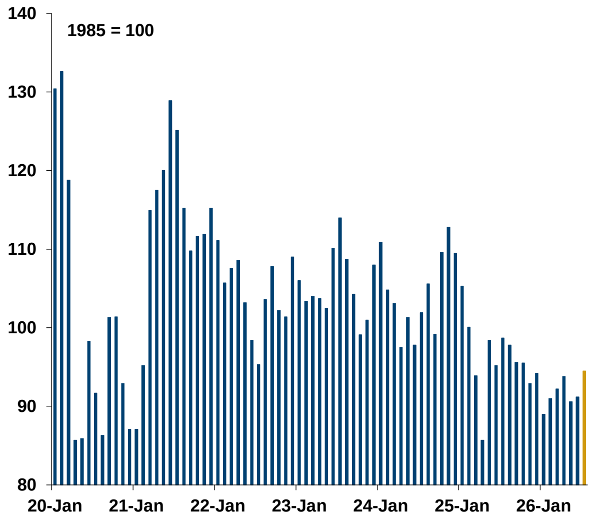
** The gold bar is a forecast for June 2026.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Consumer Confidence (July) (Tuesday)
Forecast: 94.5 (+3.3 pts. or +3.6%)

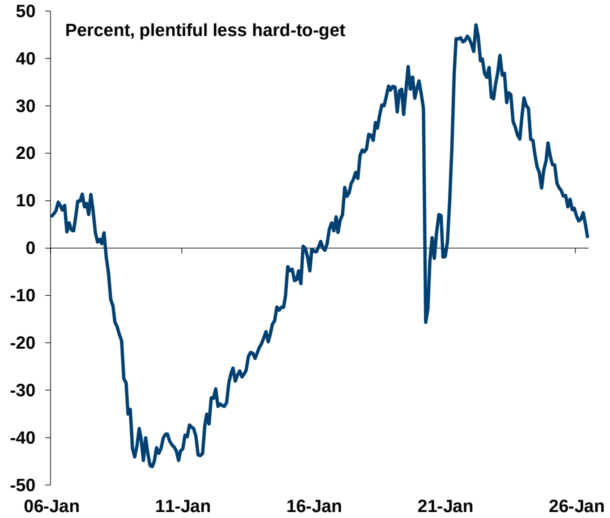
Given elevated energy prices and downbeat perceptions of labor market conditions, household attitudes are likely to remain depressed in July. As such, the Conference Board's consumer confidence metric seems poised to hold near the bottom of the range of the past decade. With respect to the employment situation, the updated reading on the labor market differential will warrant particular attention. Recall, this measure, which subtracts the share of survey respondents who say that positions are "plentiful" by those who say they are "hard to get," continued on its downward trend in June with a 2.6-percentage-point decline to 2.4 percent – the lowest value observed in 64 months.

Consumer Confidence*



** The gold bar is a forecast for July 2026.*
Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

Labor Market Differential*

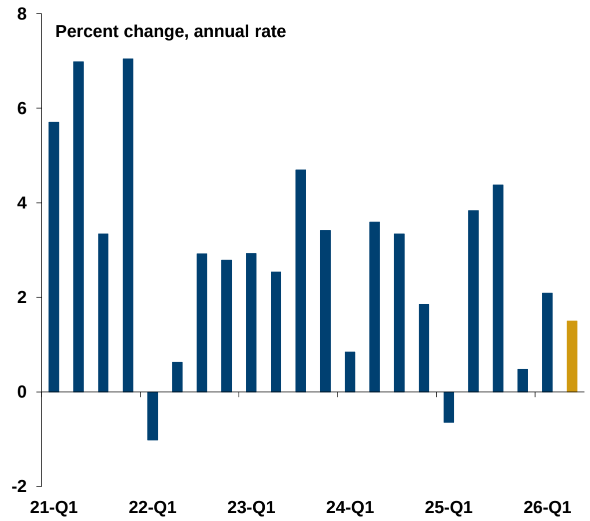


** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*
Source: The Conference Board via Haver Analytics

GDP (2026-Q2) (Thursday)
Forecast: +1.5%

While data in hand suggest that GDP grew at a respectable pace in the second quarter of 2026, it likely decelerated from the annualized pace of +2.1 percent in Q1. Households remained active at the end of 26-H1, with growth seemingly poised to settle in the low 2's after the +0.5 percent read in the first quarter. Nonresidential fixed investment, however, could slow down in Q2 from the annualized jump of 10.6 percent previously. Similar to Q1, equipment spending and intellectual property investment are likely to remain on a growth track, but outlays in new structures (outside of data centers) could again provide a partial offset. We also look for net exports and inventory investment to contribute negatively.

GDP Growth*

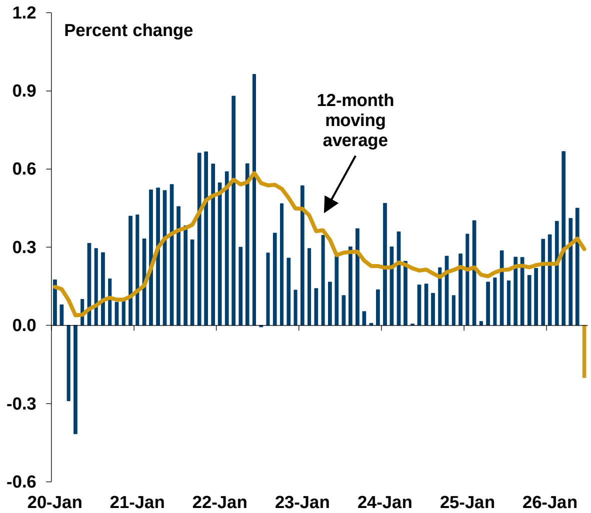


** The gold bar is a forecast for 2026-Q2.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Personal Income, Consumption, Price Indexes (June) (Thursday)
Forecast: +0.3% income, +0.5% consumption, -0.2% headline, +0.1% core

Recent results from average hourly earnings point to nominal income growth in June coming in close to the average gain of 0.3 percent in the first five months of 2026. With respect to spending, positive results for retail and vehicle sales suggest solid outlays for both nondurable and durable items. Spending on services, meanwhile, has remained on a favorable trend in 2026 thus far. Data from the latest CPI and PPI reports signal shifts of -0.2 and +0.1 percent for the headline and core price indexes for personal consumption expenditures, respectively. The projected readings would translate to year-over-year advances of 3.6 percent for the headline (versus +4.1 percent in May) and 3.2 percent for the core (versus +3.4 percent).

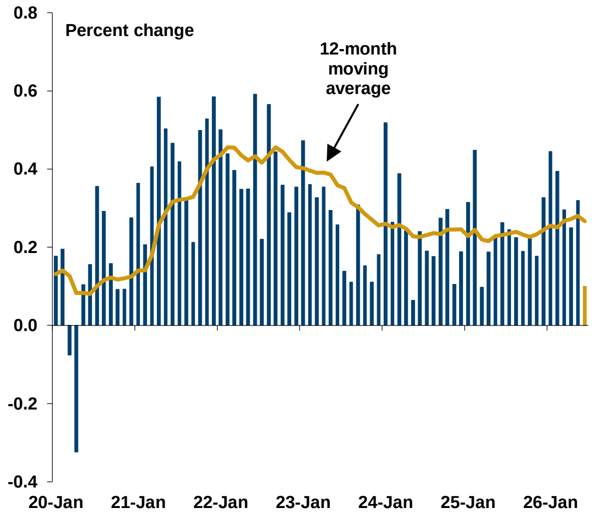
Headline PCE Price Index*



** The gold bar is a forecast for June 2026.*

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

Core PCE Price Index*



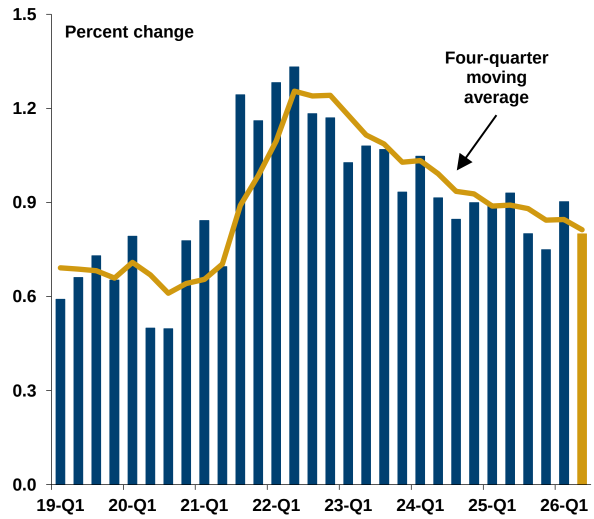
** The gold bar is a forecast for June 2026.*

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

Employment Cost Index (2026-Q2) (Friday)
Forecast: +0.8%

Readings on average hourly earnings from the employment report suggest that compensation growth in the second quarter of 2026 decelerated from the gain of 0.9 percent (not annualized) in Q1 though remained in line with the average of +0.8 percent in 2025. If the projection is realized, year-over-year growth in the ECI would ease 0.1 percentage point to 3.3 percent, a reading well below the cycle peak of 5.1 percent in 2022-Q2 and indicative of the labor market no longer being a source of undesirable inflationary pressure.

Employment Cost Index*



** The gold bar is a forecast for 2026-Q2.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Daiwa Capital Markets

Economic Indicators

July/August 2026

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
LEADING INDICATORS Apr 0.2% May 0.1% June -0.2%			UNEMPLOYMENT CLAIMS Initial / Continuing (millions) June 27 0.217 1.821 July 4 0.217 1.798 July 11 0.209 1.796 July 18 0.187 N/A CHICAGO FED NATIONAL ACTIVITY INDEX Monthly / 3-Mo. Avg. Apr 0.05 0.03 May -0.19 -0.10 June -0.02 -0.05	NEW HOME SALES Apr 0.646 million May 0.618 million June 0.628 million
27	28	29	30	31
DURABLE GOODS ORDERS (8:30) Apr 8.5% May -4.5% **June 4.0%**	INTERNATIONAL TRADE IN GOODS (8:30) Apr -$82.2 billion May -$105.9 billion **June -$102.5 billion** ADVANCE INVENTORIES (8:30) Wholesale / Retail Apr 0.7% 0.7% May 0.1% 0.6% June -- -- FHFA HOUSE PRICE INDEX (9:00) Mar 0.2% Apr -0.1% May -- S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00) Mar -0.2% Apr 0.0% May -- CONFERENCE BOARD CONSUMER CONFIDENCE (10:00) May 90.6 June 91.2 **July 94.5** FOMC MEETING (FIRST DAY)	FOMC RATE DECISION (2:00)	UNEMP. CLAIMS (8:30) GDP (8:30) GDP / Chained Price 25-Q4 0.5% 3.7% 26-Q1 2.1% 3.6% **26-Q2(a) 1.5% 4.5%** PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) Inc. / Cons. / Core Apr 0.0% 0.4% 0.3% May 0.7% 0.7% 0.3% **June 0.3% 0.5% 0.1%**	EMPLOYMENT COST INDEX (8:30) Comp. / Wages 25-Q4 0.7% 0.7% 26-Q1 0.9% 0.8% **26-Q2 0.8% 0.8%** MNI CHICAGO BUSINESS BAROMETER (9:45) May 62.7 June 56.7 July -- CONSUMER SENTIMENT (10:00) June 49.5 July(p) 54.4 **July(r) 54.4**
3	4	5	6	7
ISM MFG. INDEX CONSTRUCTION VEHICLE SALES	TRADE BALANCE FACTORY ORDERS JOLTS DATA	ISM SERVICES INDEX	UNEMP. CLAIMS PRODUCTIVITY & COSTS WHOLESALE TRADE	EMPLOYMENT REPORT CONSUMER CREDIT
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX EXISTING HOME SALES	CPI FEDERAL BUDGET	UNEMP. CLAIMS PPI	RETAIL SALES CONSUMER SENTIMENT BUSINESS INVENTORIES

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

Forecasts in bold.

Daiwa Capital Markets

Treasury Financing

July/August 2026

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
AUCTION RESULTS: Rate Cover 13-week bills 3.730% 3.00 26-week bills 3.835% 2.94	**AUCTION RESULTS:** Rate Cover 6-week bills 3.650% 2.79 **ANNOUNCE:** $72 billion 17-week bills for auction on July 22 $110 billion 4-week bills for auction on July 23 $100 billion 8-week bills for auction on July 23 **SETTLE:** $72 billion 17-week bills $110 billion 4-week bills $100 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 3.845% 2.76 20-yr bonds 5.163% 2.64	**AUCTION RESULTS:** Rate Cover 4-week bills 3.730% 2.79 8-week bills 3.795% 2.31 10-yr TIPS 2.438% 2.30 **ANNOUNCE:** $171 billion 13-,26-week bills for auction on July 27 $95 billion 6-week bills for auction on July 28 $69 billion 2-year notes for auction on July 27 $70 billion 5-year notes for auction on July 27 $44 billion 7-year notes for auction on July 28 $30 billion 2-year FRNs for auction on July 29 **SETTLE:** $171 billion 13-,26-week bills $95 billion 6-week bills	**SETTLE:** $13 billion 20-year bonds
27	28	29	30	31
AUCTION: $171 billion 13-,26-week bills $69 billion 2-year notes $70 billion 5-year notes	**AUCTION:** $95 billion 6-week bills $44 billion 7-year notes **ANNOUNCE:** $72 billion* 17-week bills for auction on July 29 $110 billion* 4-week bills for auction on July 30 $100 billion* 8-week bills for auction on July 30 **SETTLE:** $72 billion 17-week bills $110 billion 4-week bills $100 billion 8-week bills	**AUCTION:** $72 billion* 17-week bills $30 billion 2-year FRNs	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 3 $95 billion* 6-week bills for auction on Aug 4 $52 billion* 52-week bills for auction on Aug 4 **SETTLE:** $171 billion 13-,26-week bills $95 billion 6-week bills	**SETTLE:** $21 billion 10-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes $30 billion 2-year FRNs
3	4	5	6	7
AUCTION: $171 billion* 13-,26-week bills	**AUCTION:** $95 billion* 6-week bills $52 billion* 52-week bills **ANNOUNCE:** $72 billion* 17-week bills for auction on Aug 5 $110 billion* 4-week bills for auction on Aug 6 $100 billion* 8-week bills for auction on Aug 6 **SETTLE:** $72 billion* 17-week bills $110 billion* 4-week bills $100 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on Aug 11 $42 billion* 10-year notes for auction on Aug 12 $25 billion* 30-year bonds for auction on Aug 13	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 10 $95 billion* 6-week bills for auction on Aug 11 **SETTLE:** $171 billion* 13-,26-week bills $95 billion* 6-week bills $52 billion* 52-week bills	
10	11	12	13	14
AUCTION: $171 billion* 13-,26-week bills	**AUCTION:** $95 billion* 6-week bills $58 billion* 3-year notes **ANNOUNCE:** $72 billion* 17-week bills for auction on Aug 12 $110 billion* 4-week bills for auction on Aug 13 $100 billion* 8-week bills for auction on Aug 13 **SETTLE:** $72 billion* 17-week bills $110 billion* 4-week bills $100 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills $42 billion* 10-year notes	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills $25 billion* 30-year bonds **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 17 $95 billion* 6-week bills for auction on Aug 18 $16 billion* 20-year bonds for auction on Aug 19 $8 billion* 30-year TIPS for auction on Aug 20 **SETTLE:** $171 billion* 13-,26-week bills $95 billion* 6-week bills	

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