MACRO UPDATE

Well, it wouldn't really be a week in 2026 if it didn't include at least one macro update would it? After the extensive macro analysis report from last week (please check that out if you have not done so already, as it will paint a good picture of the current state of the fiscal system), it's time to see where we stand a week later as there has been plenty going on. One of the most extensively discussed subjects of last week's report was the rate backdrop in the US and I got a few more thoughts on that as more data has come in. Let's start with the fact that Warsh told the Senate during the confirmation fight that he would absolutely not be anyone's sock puppet, and he opened hawkish at his first press conference over the summer. By the ECB gathering in Portugal he was telling the room that inflation risks had eased, without naming a single indicator that showed it. Same man, different script and my apologies for any overlap between this and last week's report.

Trump and Warsh have been speaking on and off since the confirmation went through, the President asking about forecasts and the economy, Warsh reportedly handing back an upbeat read each time. Both camps insist the Fed's independence is untouched. Set that next to the treatment Powell still gets, the blame for rates, the probe over the building renovation, the running effort to reshape the board around him. While we are in the middle of unprecedented times for the global macro picture, I would still argue that a soft CPI print this week could push rate-hike odds further out of pricing, pulls yields lower and bull-steepens the curve. That is the more bullish setup the sell-side is loaded into, another soft reading on the heels of a softer one the month before, and the labor data backs it on the surface.

Surely most of you will have seen this, but just for completion sake, payrolls fell by 23,000 last month. The prior two months were revised down by a combined 103,000. The headline unemployment rate dropped to 4.1%, but only because people walked out of the labor force rather than into jobs. Participation slid to 61.4%, which outside the pandemic is the weakest reading since the 1970s. Wage growth cooled to 3.2%, the slowest in more than five years. A labor market losing altitude (on paper at least) gives Warsh all the cover he needs to keep the front end pinned and keep repeating that the inflation fight is behind us. Not everyone buys the print though and I am a bit skeptical as well. The pushback is that a labor market cracking this hard would be showing up elsewhere by now, in the spending figures, in what companies are actually saying, and mostly it isn't and it could be related to one-time circumstances, but let's take the numbers as the market takes them and hope it sets us up for further strength into a potentially soft CPI print soon.

Moving on, the war is into its sixth month and the strait is still effectively shut beyond some minor transports. Iran and Oman spent the past few weeks agreeing coordinates for new shipping lanes, and Tehran now calls the arrangement still close to finalized, though a finalized arrangement with Oman does not reopen the waterway. Full reopening has been hung on a list of concessions from Washington, an end to the naval blockade, sanctions relief, the release of frozen assets, war compensation, a permanent end to the conflict, and a US pullback from the region. Trump answered by demanding compensation from Iran, for roadside-bomb deaths and, in a later revision, for damage across Lebanon, Syria, Yemen, and Gaza. He now calls himself only semi-negotiating and says the thing will work itself out, content to let the economic squeeze grind on Tehran rather than order fresh strikes. His Treasury Secretary floated a reopening under a 30 to 60 day ceasefire as soon as this week. By any honest reading the two sides are further apart than they were a week ago and as I noted in last week's macro report, no deal = increased strain on the UST market = potential weakness for risk assets and the general market = eventual fiscal intervention, but not before more selling.

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Let's see, what else do we have left for the macro story. That's right, more data center and AI buildout talk, because that is what has been driving the market up for the better part of this year and as long as it keeps underpinning buying, it remains an important factor. Nvidia lined up $500 billion in financing with a consortium of the biggest private-capital firms, compute itself pledged as collateral and the company backstopping up to 25% of it. Goldman is the only bank in the group, positioning itself as lead bookrunner on the public debt to come. Jensen Huang is now calling compute an investable infrastructure asset, which is a tidy way of saying the AI buildout has become a credit product. That makes the whole edifice more sensitive to credit conditions and stacks another layer of circularity onto a set of deals already drawing hard questions. Microsoft added almost half a trillion dollars of market value in a single session, a record for any stock, after Azure revenue grew 43%. Oh and the SEC cleared data-center securitizations to skip the risk-retention rules written after 2008, the ones meant to keep issuers honest. That paper went from $2.4 billion of issuance in 2020 to $15.5 billion last year and is on pace for another record, the post-crisis brake lifted for the fastest-growing corner of new credit. The parent of the NYSE is paying $6 billion for a corporate-bond venue in the same window, more consolidation of the plumbing all this debt has to run through.

There is a lot more we could discuss, but there is already enough overlap with that extensive report from last week, so let's close the macro section here and putting it all together with a central bank pinning the front end into hot inflation, a bond market left to do the tightening the Fed will not, an energy shock reloading the very impulse the Fed claims has faded, a currency-versus-bond-market choice being made in real time in both Washington and Tokyo, and a credit boom handed looser rules on the way up... I think that just about covers it. That is the terrain hard assets are cut for and the reason the debasement trade keeps working no matter how many times the market tries to call the end on it. Still though, there is still plenty of risk out there and that means that for now, after buying more in July, I am sitting on what is left of the cash position to see how tomorrow's data comes in and more importantly how the market reacts to it.

Finally, some data on momentum to close things out as the S&P went from a 21-day closing low to a 21-day closing high in 4 trading days, a thrust that has shown up only 18 times on record. On its own it is a coin toss of course, higher on some occasions, lower on others, nothing to lean on. Screen for the ones that landed within 2% of a 52-week high and the picture flips, higher a year later every time, 9 for 9, mean gain 13.28%. Negative real rates push capital out of cash and into anything with a claim on real growth, the debasement trade does the rest as it gathers momentum and a market pressing fresh highs on a rare thrust is, in my opinion, price action telling you the path of least resistance points up barring outside intervention. The buyers are not waiting for permission from the data and momentum appears to be strong. A signal this lopsided, even if it is a relatively small sample size, lines up with the same backdrop the rest of this letter has been describing, repression on one side and liquidity on the other, and it points the same direction. Of course both the Fed and another run in the price of oil can break that momentum and then the 9 for 9 record more than likely will not hold, but short of one of those, the geopolitics stays a headline the market trades around rather than a wall it runs into as the market seemingly is starting to care less and less about the Strait or constant mixed message tweeting. Repression floors the downside and debasement funds the upside and a thrust into new highs is what that combination looks like when it finally lets go. The top-callers and those being short the market have been wrong the whole way up and it's a sign that fighting market momentum doesn't always go so well. Still though, the macro backdrop remains uncertain, so keep that balance in check and I hope that this brief update proves to be informative and that you have a good and healthy rest of your day, cheers! ~Mart

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