

# PALOS

## The Palos Perspective

Issue No. 21 | June 27, 2026

### CONTENTS

8,000 Is Still My Target for the S&P 500	1
Disclaimer	3

*A Macro Market View by Hubert Marleau*

## 8,000 Is Still My Target for the S&P 500

Last week, I wrote that “The Fed shifted its monetary stance toward tightness. The officials of the Federal Reserve’s FOMC decided to hold their policy rate steady, around 3.625%, in a unanimous vote, but signalled a hawkish pivot in thinking towards potential rate hikes in 2026, because the economy is presently running strong at an annual pace of 2.5%+ in real terms, with inflation accelerating to 4.2% year-over-year and the employment rate holding firm around 4.3%. According to CME’s Fed Watch tool, the market is now pricing in one or two rate hikes in 2026, which makes good sense because the Fed’s monetary stance has not been tight for some time. Bloomberg’s US Financial Conditions Index is near post-pandemic highs: the policy rate (3.75%) is 50bps lower than the neutral rate (4.25%); the yield curve is positive across the board; and the path in growth of the US money supply, currently running at an annual rate of 5.0%, is sufficient to finance the expansion of the economy. Moreover, investors should note that the increase in bond yields was the direct result of a rise in real rates, stemming from the boom in AI capital spending and productivity and not rising inflation expectations.”

“Given that we have a hawkish Fed chairman dressed in dovish clothes in an economy that is pacing forward with energy prices tumbling and corporate earnings rising strongly, most forecasters were still predicting an 8,000 S&P 500 before year-end.”

The S&P 500 ended the week of June 22 on a very sour note, falling 2.0% in part because traders had been surprised that Fed Chair Kevin Warsh seemingly supported the hawkish turn of Fed’s monetary officials, and that the White House had still expressed confidence that he would do the right thing. In this connection, Treasury Secretary Scott Bessent essentially gave Warsh a green light to increase the policy rate while President Trump said he expects him to do what is best.

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The Fed is obliged by law to assess the balance of risks to its dual role mandate of price and full employment. Presently, those risks are skewed toward inflation. The core PCE inflation rate, which excludes volatile food and energy prices, and is the Fed's preferred measure of inflation, was up 3.4% y/y in May, while the Cleveland Fed's Inflation Nowcasting is projecting that it remains stuck there through June.

Acknowledging that the White House stands behind Warsh, the uncertainty thus relies on how he will interpret the current nature of inflation and how he will react to it. There are three ways to look at the causes of inflation. Is it caused by a one-time accounting effect like a change in the sales tax or tariff rate; a price signal showing an item has run out of supply; or a broad, generalised price increase stemming from too much money? Interestingly, both the world and US money supply is running at an annual rate of 5.5% and has been for months on end, suggesting that today's inflation has little to do with too much money, but with exogenous factors that are not related to monetary policies, which explains why the CBOE FedWatch tool is giving only a 30% chance that the Fed will lift the federal funds rate on July 29. Moreover, it is possible that if the Fed could engineer one "tap-on-the-brakes rate hike" to prove its independence without fracas from the Administration, such a move would not slow the undergoing economic expansion. As a matter of fact, reliable economic NowCasting models are tracking growth of 2.5% for both Q2 and Q3, with a 15% recession risk that a contraction could occur within 12 months. On Friday, the University of Michigan revealed that consumer sentiment rose 5 points in June, with expectations improving far more than views of current conditions: a sign of optimism about the economy.

Based on the aforementioned scenario, the stock market should regain its footing, given that the equity risk premium has shrunk, the oil geopolitical premium has vanished, the dollar debasement story has abated, and Micron Technology's blowout forecast reaffirmed the bull case for the AI trade, thereby returning some excitement to the market, even though it does not feel as strong as it once did, but carrying the S&P 500 nonetheless forward to my 8,000 target by the end of 2026.

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