

# PALOS

## The Palos Perspective

Issue No. 18 | June 7, 2026

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*A Macro Market View by Hubert Marleau*

## Employment Has Risen, but So Has Inflation

Three weeks ago, I wrote: “The expected consolidation will likely be short-lived because the economy keeps rolling up. Economists have shaved their 12-month U.S. recession probability to 25% as economic activity has held up well as both boomers and high-income earners intend to keep on spending and business capital expenditure plans are sturdy. Indeed, on May 14, the Atlanta Fed raised its second quarter GDP growth estimate to 4.0%, up from 3.7% on May 8. Meanwhile, the Citigroup Economic Surprise Index - the difference between actual economic releases and Bloomberg surveys - confirms that the business performance of the US economy keeps on beating market expectations. The index has been in positive territory since June 2025 and rising briskly for the past six weeks.

Goldman Sachs has a Risk Appetite Indicator (RAE) that uses high-frequency data across five primary headings: bond, equity, liquidity, commodities and credit. It has been a useful contrarian tool when a sharp fall occurs, as it has lately, suggesting that traders might become too cautious in the short term, thereby inciting investors to step in, ensuring an eventual resumption of the S&P 500 rally that Wall Street estimates will end the year around 8000 because AI will have expanded the pie fast and broad enough to beat the earnings beyond the tech sector.”

The week of June 1 brought key pieces of fresh labour data that showed that job openings were plentiful, new jobs have been created, and hourly compensation matched inflation, while productivity was keeping unit labour costs in check.

Unfortunately, mounting inflationary pressure, stemming from higher tariff rates and energy prices has tilted the misery index – which is the addition of the yearly increase in the consumer prices to 3.8% and the current unemployment rate to 4.3% – to an inflation content of 47%. That is too much for any responsible central banker to accept, if the growth path of the economy is to remain intact.

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In this connection, the likelihood of a Fed rate hike rose significantly, which in turn finally brought about the widely anticipated valuation adjustment. The S&P 500 booked a plummet for the week of 3.0% to 7485.

I realize that a price drop of such magnitude is nerve-racking, in part because President Trump said that he did not care about the mid-term elections even though his popularity has consistently and considerably declined. However, investors should not despair because economic conditions are still promising. First, the True Inflation Index, a measure of price changes in real time, is below the annual rate of 2.0% and trending down. Second, the Fed's NowCasting economic models (New York and Atlanta) are pointing toward more than a 2.5% annual growth rate for both Q1 and Q2. Third, commercial energy producers are betting robustly that contract oil prices are heading to \$75 a barrel. Fourth, the profit picture is appealing, consumer spending is holding up, business capital formation is booming, and energy export is growing. Fifth, the recent increase in bond yields has been caused mostly by higher real growth rather than inflation expectations. Sixth, the surge in initial public offerings (IPOs) has forced a reallocation of portfolio positions to the detriment of chipmakers; and seventh, the non-tech sector is doing reasonably well.

Put simply, the market will continue to be choppy, as it always is, but it should travel north to 8000 by year-end given that the US government may take equity stakes in forthcoming giant IPOs: OpenAI, Anthropic, SpaceX and others. In the meantime, in light of this week's sell-off, investors should have some perspective: nothing keeps going up every single day, as Bernstein analyst Stacy Rasgon rightly says.

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