MONTHLY MARKET COMMENTARY · Q2 2026

Macroeconomic Divergence Will Push Rates Higher

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3.3%	5.0%	– 8.0 %
MARCH 2026 HEADLINE CPI	PROJECTED 10-YR T REASURY YIELD, EOY	FINANCIAL SERVICES Q1 2026 PERFORMANCE

OVERVIEW

A Critical Juncture for the U.S. Economy

The United States economy in Q2 2026 stands at a critical juncture, defined by a fundamental decoupling of short-term monetary policy and long-term interest rate expectations. While the Federal Reserve navigates profound institutional transition and intense political pressure, the underlying structural drivers of inflation have entrenched a higher-for-longer reality for long-term yields.

Fiscal dominance, monetary exhaustion, and technological transition suggest that 2026 is not merely a post-pandemic normalization, but the beginning of a new regime where long-term rates remain structurally elevated despite nascent attempts at monetary accommodation.

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> -Steven McClurg, CEO

THE INFLATIONARY ARC

From Pandemic Liquidity to Fiscal Dominance (2020–2026)

The persistent nature of inflation in 2026 is the culmination of a six-year trajectory of unprecedented liquidity injections and supply-side constraints. CPI data reveals an economy that has struggled to find a stable equilibrium since the initial shocks of 2020. The erosion of purchasing power is not merely a statistical artifact but a primary driver of the current contraction in consumer discretionary spending.

Households are increasingly reallocating income toward essential goods and services, compressing demand for higher-margin discretionary categories. YouGov survey data supports this shift, with 66% of Americans expecting worsening financial conditions in 2026 planning to cut back on dining out, 54% reducing clothing purchases, and 48% scaling back subscriptions and entertainment. This shift in consumption patterns is feeding back into corporate earnings expectations, reinforcing a broader slowdown in economic momentum.

The inflationary cycle began with deflationary shocks in 2020.

Calendar Year	Annual Inflation Rate	Economic Context
2020	1.20%	Initial pandemic deflation and lockdown impacts
2021	4.70%	Re-opening demand and supply chain bottlenecks
2022	8.00%	Peak post-pandemic liquidity and early energy shocks
2023	4.10%	Persistent core services inflation
2024	2.90%	Moderation amid restrictive monetary policy
2025	2.60%	Brief stabilization before fiscal stimulus
2026 (Mar)	3.30%	Acceleration driven by energy and fiscal expansion

By April 2026, the cumulative rise in inflation since 2020 has reached a level that fundamentally alters the weighted average cost of capital (WACC) for domestic enterprises.

Using the data points provided, the compounding effect has created a taxation by stealth that has reduced real household income and prompted a belt-tightening phase across the middle class. The March 2026 jump to 3.3% headline inflation was primarily driven by a 12.5% increase in energy costs, linked directly to the ongoing conflict with Iran and the resulting blockade of the Strait of Hormuz. Gasoline prices surged 18.9% month-over-month, while fuel oil spiked by 44.2%, creating an immediate hit to household purchasing power.

FISCAL CATALYSTS

The "One Big Beautiful Bill" and Federal Spending

A primary driver of the 2026 inflationary resurgence is the massive fiscal intervention represented by the One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025. This legislation, which forms the core of the current administration's second-term agenda, has pushed federal spending to $7.1 trillion for fiscal year 2025, representing roughly 23% of the total Gross Domestic Product (GDP).

The OBBBA is estimated to cost US taxpayers an additional $3.4 trillion over the next decade, a figure that rises to $4.1 trillion when accounting for the increased interest on the national debt. The bill permanently extends the 2017 tax cuts, provides new deductions for overtime and tips, and creates a novel "Trump Account" for child savings with a one-time $1,000 federal contribution per child born between 2025 and 2028. While the administration claims the bill is deficit-neutral through growth and the elimination of fraud, the Congressional Budget Office (CBO) forecasts a $2.8 trillion increase in the deficit by 2034.

Provision of OBBBA	Estimated Cost/Impact (10-Year)
Extension of 2017 Individual Tax Rates	+$2.2 trillion
Doubled Standard Deduction	+$1.4 trillion
Tax Deduction for Overtime and Tips	+$245 billion
Military and Border Enforcement Spending	+$325 billion
Medicaid and SNAP Reforms (Spending Cuts)	-$1.1 trillion
Net Revenue Impact (Total Tax Cuts)	+$4.5 trillion
Extension of 2017 Individual Tax Rates	+$2.2 trillion

This fiscal expansion occurs as the Federal Reserve attempts to maintain a restrictive stance to combat the 3.3% inflation rate. The "stubborn" Fed, balancing a mandate of price stability against the White House's demands for lower rates, has kept the Federal Funds Rate in the 3.5% to 3.75% range as of early 2026. However, the markets have effectively looked through these short-term targets, as the 10-year Treasury yield climbed toward 4.37% in April, signaling a lack of confidence in the Fed's ability to contain the long-term inflationary effects of the OBBBA.

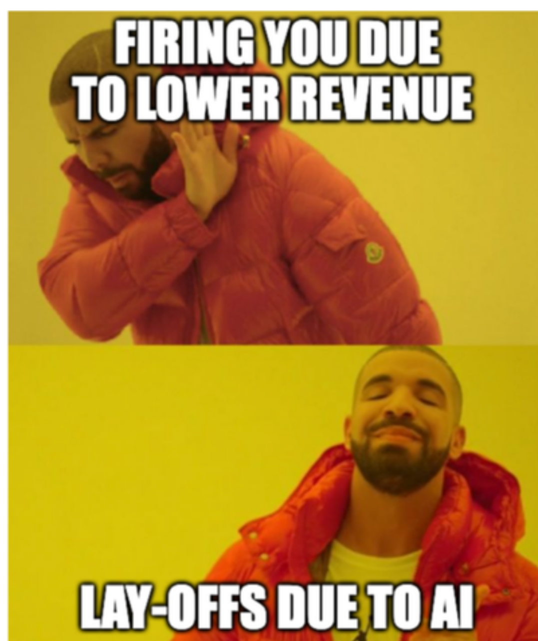
> *“Markets are increasingly pricing in the inflationary consequences of the OBBBA’s $7.1 trillion fiscal expansion.”*
>
> -Steven McClurg, CEO

AI AND LABOR

AI as a Strategic Veil for Labor Contraction

I have been watching an increase in company layoffs “due to AI” very closely, and spoken to several corporate executives about their opinions on AI replacing people. The conclusion I have come to is that very few current jobs are moving to AI.

In 2026, the labor market entered a "low-hire, low-fire" equilibrium, yet the technology and manufacturing sectors are experiencing a wave of significant layoffs. A nuanced observation of corporate strategy reveals that CEOs are increasingly careful with their linguistic choices regarding workforce reductions.



AI AND LABOR

The AI-Layoff Narrative vs. Reality

Analysis of corporate earnings suggests that many roles being eliminated are not yet being functionally replaced by AI. Instead, companies are taking advantage of the AI hype to right-size workforces that were over-expanded during the 2021–2022 hiring surge. While AI is accelerating specific tasks, such as coding, where it reportedly writes 30% of new code at firms like Microsoft, it is not yet capable of replacing entire human roles at the scale suggested by layoff headlines.

Instead, the 2026 layoffs represent a strategic pivot through five distinct stages of market transition:

01 CUTTING THE FAT

Companies are identifying and removing marginal workers who survived the low-interest-rate era but provide limited incremental value. These roles are framed as AI-replaceable regardless of whether an AI system is actually implemented.

02 TRIMMING COST CENTERS

Departments that provide no revenue such as wellness programs, DEI divisions, and certain marketing teams are being phased out. Wellness programs are being replaced by automated AI prompts, while DEI initiatives are being effectively terminated across the Fortune 500.

03 DIFFICULT CULTS AND PRODUCTIVITY EVALUATIONS:

For productive personnel, the decision to retain now depends on AI compatibility. If a worker’s output can be replicated by an AI agent within 2–3 years, they are placed on the chopping block. Conversely, those competent in directing AI initiatives are viewed as essential AI managers.

04 MARKET TURNAROUND AND RESOURCE EVALUATION:

As the market begins to stabilize, companies are slow to re-hire. Instead of human headcount, they are evaluating "AI agents" and robotics as the first choice for expansion, leading to a jobless recovery in certain sectors.

05 FRANTIC HIRING AND TECHNOLOGICAL MISS:

Once the growth stage returns, the traditional "fight for talent" may bypass human workers if technology has reached expected competency levels by the end of 2026. This creates the risk of a miss in job recovery for the next economic cycle.

SECTORAL PROFIT

Declines and Month-over-Month Performance

The tech sector has seen an average decline of -2.77% month-over-month as of April 1, 2026, reflecting a broader disillusionment with the immediate profitability of AI capex. While companies like Oracle and Meta have committed billions to AI data centers, the payoff is far from guaranteed, and market concentration remains dangerously high.

Sector	April 2026 Performance (MoM/Quarterly)	Key Drivers
Technology	-2.77% (April 1)	AI capex concerns and OpenAI miss
Energy	+38% (Q1)	Iran war and oil supply shock
Industrials	-5.0% (March)	Rising borrowing costs and macro de-risking
Financial Services	-8.0% (Q1)	Inverted yield curve and debt service stress
Retail/Discretionary	Declining	High inflation and belt-tightening
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In the retail and manufacturing sectors, profits have dropped as high inflation over the last five years catches up to consumer behavior. Families are no longer turning over their cars, spending significantly less on travel and hotels, and tightening budgets even on non-discretionary items like groceries. This drop in discretionary spending is a direct consequence of the Fed’s "stubborn" stance on rates, which has kept interest on consumer debt, including credit cards and auto loans, at levels that cannibalize household savings.

FEDERAL RESERVE

The Pirro Investigation and the Confirmation Impasse

The confirmation of Kevin Warsh, President Trump's nominee to succeed Powell, was delayed for months by a criminal investigation into the Fed's headquarters renovation. Led by U.S. Attorney Jeanine Pirro, the probe into the $2.5 billion project was characterized by Powell as a "consequence of the Federal Reserve setting interest rates based on our best assessment... rather than following the preferences of the President".

Senator Thom Tillis (R-NC) utilized the investigation as a procedural roadblock, refusing to vote on any Fed nominees until investigations were dropped, citing the need to protect the Fed's independence from legal intimidation. Although the DOJ eventually closed the investigation in late April 2026, the transition remains "fuzzy".

THE "TWO POPES" SCENARIO:

Powell and Warsh

A unique challenge for the Fed in the second half of 2026 is the possibility that Jerome Powell remains on the Board of Governors even after losing the Chairmanship. Powell's term as a Governor lasts until January 2028, and he has signaled he may stay to protect the institution's independence. This would create a "Two Popes" scenario, a Chair and a former Chair both on the 7-member board, which analysts warn could lead to profound divisions and a cloud of uncertainty over monetary policy.

Kevin Warsh, the likely successor, is not an economist by training, a trait he shares with Powell. However, Warsh's history as an inflation hawk during the 2008 crisis has recently been complicated by his public calls for rate cuts to support the White House's growth agenda. If confirmed, Warsh is expected to push for a narrower mandate for the Fed, focusing on price stability while drastically reducing the central bank's balance sheet to correct the distortions created by QE.

THE FED CUT

Timeline and Target Rates

Market expectations for the Fed Funds Rate in 2026 are increasingly divergent from the Fed's own dot plot. Based on the current trajectory of the Warsh confirmation, the timeline for rate cuts is expected to shift toward the third quarter:

- **May 15** — Powell's term as Chair ends; he may stay as "Chair Pro Tempore" or a Governor.
- **June 16–17** — FOMC Meeting. Experts call this the drop-dead date for leadership clarity.
- **July** — Expected confirmation of the next Governor/Chair.
- **August** — First anticipated rate cut (50 bps catch-up cut), followed by a series of 25 bps cuts.

TARGET:

While the market suggests a target rate of 3.0%, the Fed may overshoot to 2.5% in an attempt to stimulate a softening job market before the midterm elections.

THE YIELD CURVE RECONSTITUTION:

Long Rates and the 5% Threshold

The most critical insight for 2026 is that long-term interest rates will likely increase even as the Federal Reserve cuts short-term targets. This un-inversion of the yield curve is not a signal of economic health, but rather a reflection of rising inflation expectations and fiscal mismanagement.

FEDERAL RESERVE

The 10-Year Treasury and the Inflation Creep

The Fed's mandate of full employment, coupled with the $7.1 trillion in federal spending, will almost certainly reignite inflationary pressures. Even if the Fed stops its rate cuts at 3%, inflation is expected to creep above 3.5% due to the delayed effects of the OBBBA and the 2026 energy shock. Higher inflation and higher expectations of inflation are projected to push the 10-year Treasury yield to 5.0% by the end of 2026.

This scenario creates a healthy yield curve in technical terms, giving investors a suitable return for duration risk, but it remains a brutal form of taxation for the broader economy. While business owners may be satisfied with lower short-term rates for working capital, the persistent high rates on the long end will continue to penalize homebuyers and the real estate sector.

HOUSING MARKET

Real Estate Correction

The housing market in 2026 has moved beyond attainable levels, having surged during the 2020–2025 period. Anecdotal data from the Brentwood, Tennessee market supports my stance. While single-family sale prices in Brentwood averaged $1.86 million in January 2026 (a 17% YoY increase), the actual price per square foot only appreciated by 2.6%.

The market is showing the classic signs of a correction:

- Inventory Surge: Active inventory in markets like Brentwood has risen 30% YOY
- Selling Below List: 79% of closed sales in January 2026 were below asking price.
- Supply Balance: Months of supply reached 6.34, crossing from a seller's market into balanced territory for the first time in years.
- Condo/Townhome Weakness: This segment has firmly entered "buyer's market" territory with prices dropping 22% and supply reaching 7.5 months.

This correction is a necessary release valve. As housing prices drop and oil prices potentially stabilize later in the year, these sectors will help offset the inflationary pressures from the OBBBA, preventing a move into double-digit inflation.

MONETARY POLICY

Risk Assets

Risk asset prices, including equities and cryptocurrencies, typically find support in accommodative monetary policy. However, the timing of the next bull cycle in 2026 is hard to determine until more data arrives.

Accommodative monetary policy normally supports risk asset prices, and I don’t expect this time to be different. The question is always when. I spoke at an event last week, and was repeatedly asked the same question: “You called the top in bitcoin now 3 cycles in a row, and this time you called it earlier, and were right. If you believe the market will recover, then when?” My answer is “I don’t know, but I will know when I see the right signs. Finger to the wind, likely after the new Fed Chair presides over the first cut, or after midterms, but at the moment, timing is hard until I see more data.””

That being said, for long term investors, there are pockets of assets that are cheap, and could get cheaper, but prices are at a level that a slow, timed allocation starting soon is not unreasonable. I, for one, am mostly cash still.

SECTORS

Sector Rotations and Bargain Hunting

The tech sector's decline has created specific opportunities in the semiconductor and hardware industries, which remain the structural growth drivers of the 2026 economy. Micron Technology, for instance, trades at a forward P/E of under 4 times 2027 estimates despite record quarterly profits of 755% growth, as the market questions the sustainability of DRAM demand in a boom-and-bust cycle.

Conversely, the MESI rotation (Materials, Energy, Staples, and Industrials) has provided a hedge for investors looking to avoid the AI-washing volatility of the Nasdaq 100.

Asset Class	2026 Outlook	Strategic Stance
US 10-Year Treasury	Bear Steepening toward 5.0%	Yield capture for duration risk
Bitcoin	Post-top consolidation	Wait for post-August Fed clarity
High-Growth Tech	Selective (e.g., NVDA, MU)	Accumulate on OpenAI target miss weakness
Luxury Real Estate	Correction underway	Balanced market; buyers gain power
Cash/Short-Term	High yield (3.5%+)	Maintain liquidity for Q3/Q4 deployment

INFLATION

Strategic Synthesis and Macroeconomic Recommendations

The economic reality of 2026 is one of monetary dominance being challenged by fiscal dominance. The $3.4 trillion OBBBA is the primary inflationary engine, forcing the Federal Reserve into a defensive position. The strategic use of AI as a narrative for layoffs allows companies to preserve margins and stock prices in the short term, but it risks a structural miss in job recovery that could lead to stagflation if technological productivity does not materialize at the scale promised by C-suite executives.

This dynamic creates a policy trap in which tighter monetary conditions are required to contain inflation, even as labor market weakness begins to emerge beneath the surface. As a result, the economy faces an increasingly narrow path where sustained growth depends on productivity gains arriving quickly enough to offset both elevated borrowing costs and softening employment trends.

BOTTOM LINE:

Policy and Investment Implications

The analysis leads to several second-order conclusions for professional investors and policymakers:

1. The Fed's Job Mandate is a Mirage: The Fed's dual mandate is currently in conflict. However, with AI-driven shifts fundamentally altering the natural rate of unemployment, the Fed should prioritize price stability over job figures, as the current layoffs are a technological and profit-driven restructuring that interest rates cannot solve.

2. Long-Term Rates are the New Reality: Investors must adjust to a world where 5% is the floor for long-term Treasury yields. The era of free money is over, and the weighted average cost of capital will remain a hurdle for any project with a duration exceeding 5 years.

3. Real Estate Correction is Positive: The unsustainable housing prices of the early 2020s are finally reverting to mean. This will help anchor long-term inflation expectations, provided the Fed does not cut rates too aggressively in response to political pressure.

4. AI as an Efficiency Play, Not a Growth Play: In 2026, AI is being used by companies as a cost-cutting tool rather than a revenue-generating tool. Investors should favor companies that can demonstrate actual margin expansion through automation rather than those merely using AI as a linguistic shield for layoffs.

The transition from the Biden administration high inflation to the Trump administration fiscal expansion has created a volatile but high-yielding environment. While the transition at the Federal Reserve will be turbulent and unusually bumpy, the reconstitution of the yield curve will eventually provide a healthier backdrop for long-term capital allocation, once the market moves past the OpenAI doubts and the energy shocks of mid-2026.

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