June 9, 2026

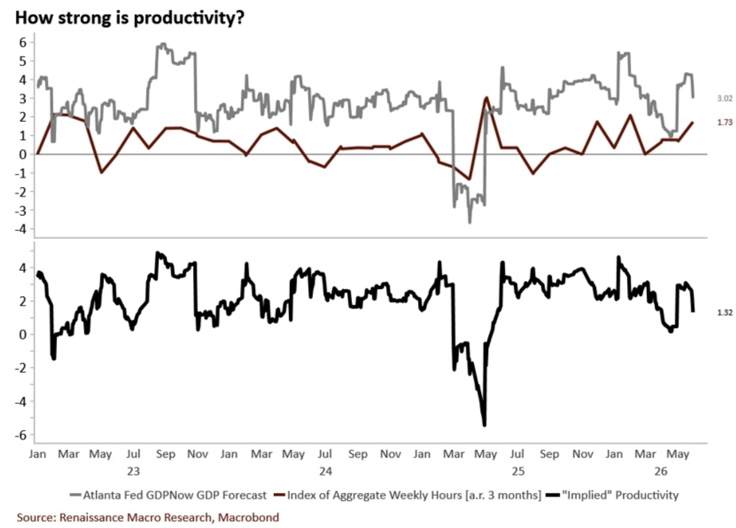
Monday Monetary Thoughts

Hawks will keep pushing

Productivity and breakeven

A few data follow-ups from last Friday's employment situation that I thought worthy of bring to your attention

First, expenditure-side tracking estimates of GDP need to jump; otherwise, the productivity boost we have seen over the last year will fade. So far this year, aggregate hours worked have expanded by 1.7 percent SAAR. In Q1, real GDP ran 1.6 percent while Atlanta Fed GDPNow Q2 is tracking 3.0 percent. All told, that points to 2.0 to 2.5 percent GDP in H1, which implies labor productivity less than 1.0 percent – a boom that is not. **<u>At the margin, the weak implied productivity growth is not welcome news for corporate profits growth.</u>**



Second, **<u>the breakeven level on employment is probably not as low as previously assumed. Despite solid payroll growth, unemployment has been flat</u>**. Payroll growth has been quite a bit stronger than the Household measure of employment. That's true even after adjusting the Household data for payroll concept. So, either payroll growth is running too hot or the Household employment data is undercounting because it is anchored to lower population estimates that no longer hold.

As I will discuss below, I put more weight on payrolls, but this is one reason why I think focusing on wage growth is so important. Employment breakeven rates are not directly observed. **<u>But, if jobs growth is indeed as strong as implied by payroll employment, it will not be long before wage growth perks up</u>**. Once that happens, the doves will have nothing left. The upshot is that if breakeven rates are higher, then it will take more jobs growth than appreciated to tighten the labor market

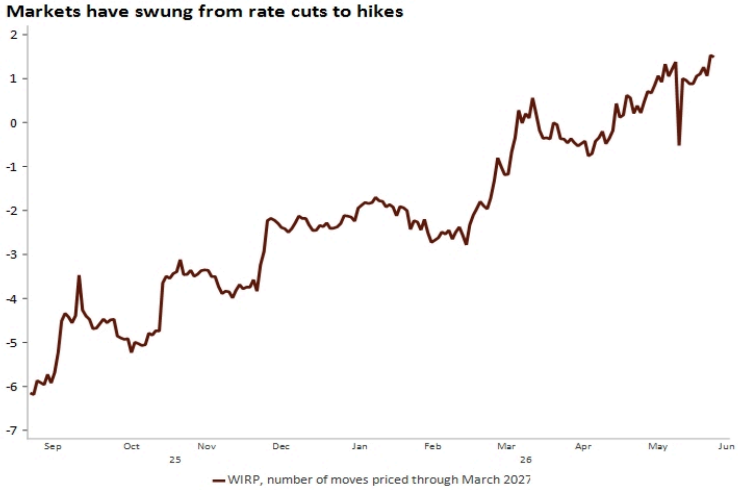
Markets will press hawkish narrative

Financial markets will continue to price in a tougher Fed this summer though how much of this the Fed ultimately ratifies remains to be seen.

Policy hawks will remain ascendant

Core inflation is already running above target. Last Friday, we saw payroll employment beat expectations. With labor supply growth low – breakeven on employment is thought to be as low as zero – the strong growth in payroll employment will begin to pull down the unemployment rate. **<u>Economic conditions are moving away from the Fed's goals on both sides of the dual mandate.</u>**

Markets have swung from rate cuts to hikes



Source: Renaissance Macro Research, Bloomberg

Typically, the Fed moves in a deliberate fashion. In June, the Fed is likely to drop their language on "additional adjustments," formally dropping an easing bias. As early as July or as late as September, the Fed will adopt a tightening bias and "determine the extent of additional policy firming." **<u>I would not expect the Fed to hike in October, but the final step comes in December as the Fed delivers a 25-basis point rate hike. I would expect two more thereafter, in January and March 2027. Markets have more room to keep pushing this scenario.</u>**

Insurance cuts at the end of 2025 look unnecessary in the context of current economic conditions and so, I would expect the front end of the yield curve to continue pushing higher. **<u>Hawks will push for taking away last year's insurance. After all, the insurance was to protect against a weaker labor market that seems to no longer exist.</u>**

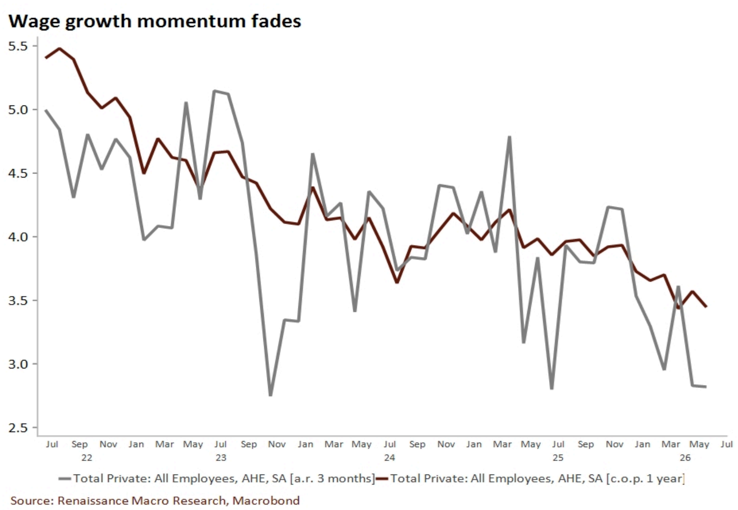
The Fed does things – in either direction – when it sees a sustained path in that direction. As a result, three rate hikes are much more likely than just one. For reference, the market presently sees about one-and-a-half hikes between now and March 2027. **<u>Thus, I think it is a reasonable bet to take short positions in the front end of the money market curve.</u>**

The points doves should make

While the hawks remain ascendant, I do think going ahead with a series of rate hikes would be a mistake, especially at the turn of the year. Thus, there might be a trading opportunity in the front end later this year or early next.

Nonfarm Employment Growth and Unemployment Rate in 2026

Month in 2026	Nonfarm Payroll Growth	Unemployment Rate
January	160	4.3
February	-156	4.4
March	214	4.3
April	179	4.3
May	172	4.3



First, the breakeven rate might be somewhat higher than appreciated. Over the last three months, non-farm payroll growth has averaged gains of 188,000 per month. During this three-month period, the unemployment rate remains flat at 4.3 percent. The U3 rate was also 4.3 percent in January, and since then payrolls have climbed by 102,000, on average. It's early, but it does not look like breakeven employment is close to zero.

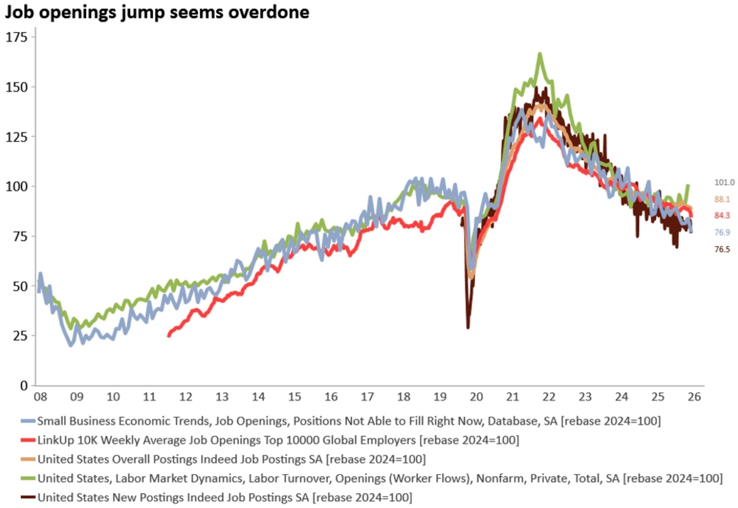
Second, **<u>the surest sign of a tight jobs market is an acceleration in wage growth</u>**. If employment was running well ahead of breakeven, unemployment would slide and wage growth would accelerate. For now, the evidence for this is minimal. Over the last three months, average hourly earnings have advanced just 2.8 percent SAAR, up 3.4 percent over the last year. The inflationary impulse from the jobs market is benign. The balance of power in the labor market still rests with employers, in our view.

Last, and probably least importantly, while it is encouraging that employment growth has perked up, I am a little bit concerned that recent data overstates underlying labor market strength. If that's right, we could see softer payroll employment data later as the Fed is hawking up.

The Beige Book reports that employment showed "little to no change" across nearly all Districts. High-frequency measures of job openings have declined. Survey-based measures of labor market activity do not point to a meaningful pick-up in growth either. Small business hiring intentions have cooled, consumers remain anxious about the jobs market, and PMI employment measures remain subdued.

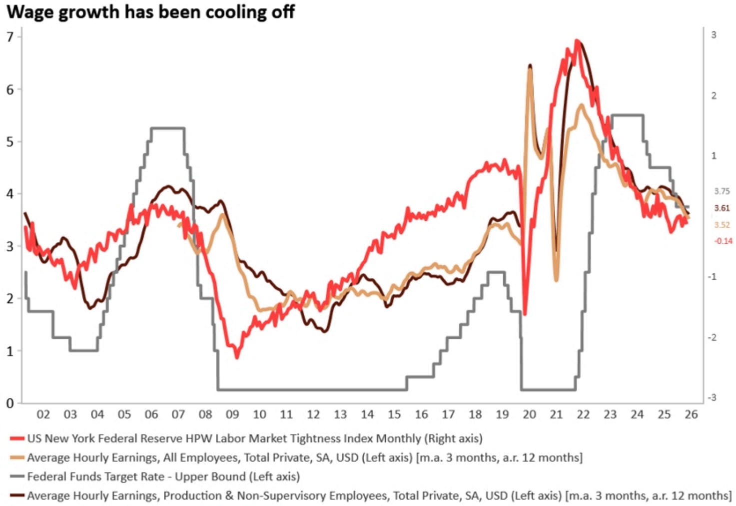
Conditions have improved from where they were in January, but I would not simply extrapolate the last two months into the future.

Job openings jump seems overdone



Source: Renaissance Macro Research, Macrobond

Wage growth has been cooling off



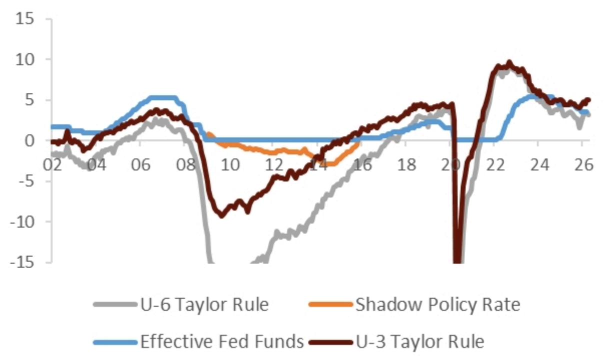
Source: Renaissance Macro Research, Macrobond

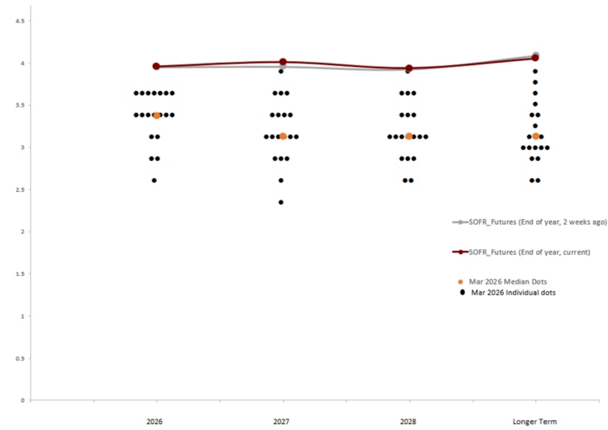
Policy patience

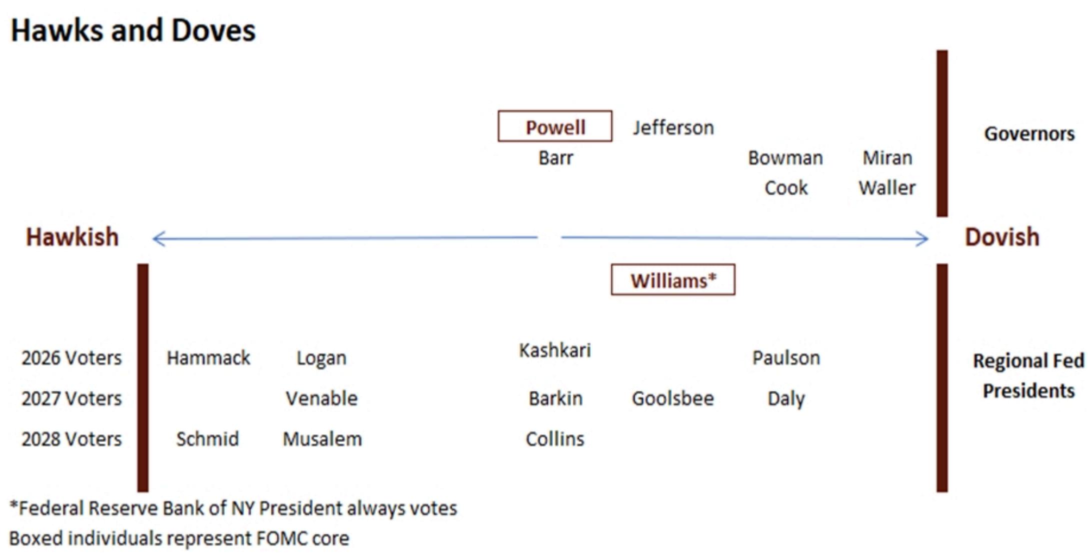
For now, I think the actual monetary policy outcome is one of patience – overtures that nudge policy in a hawkish direction but one that falls short of following through on a hike. I would not expect the Fed to follow through with measures of wage growth inconsistent with above target consumer price inflation.

Moreover, at some level, markets are likely to do some of the Fed's work for it as was the case on Friday – dollar up, yields up, stocks down. I don't anticipate changes in the policy rate this year, but I do think there is probably some upside to the US Dollar exchange rate and bond yields from here.

Monetary metrics

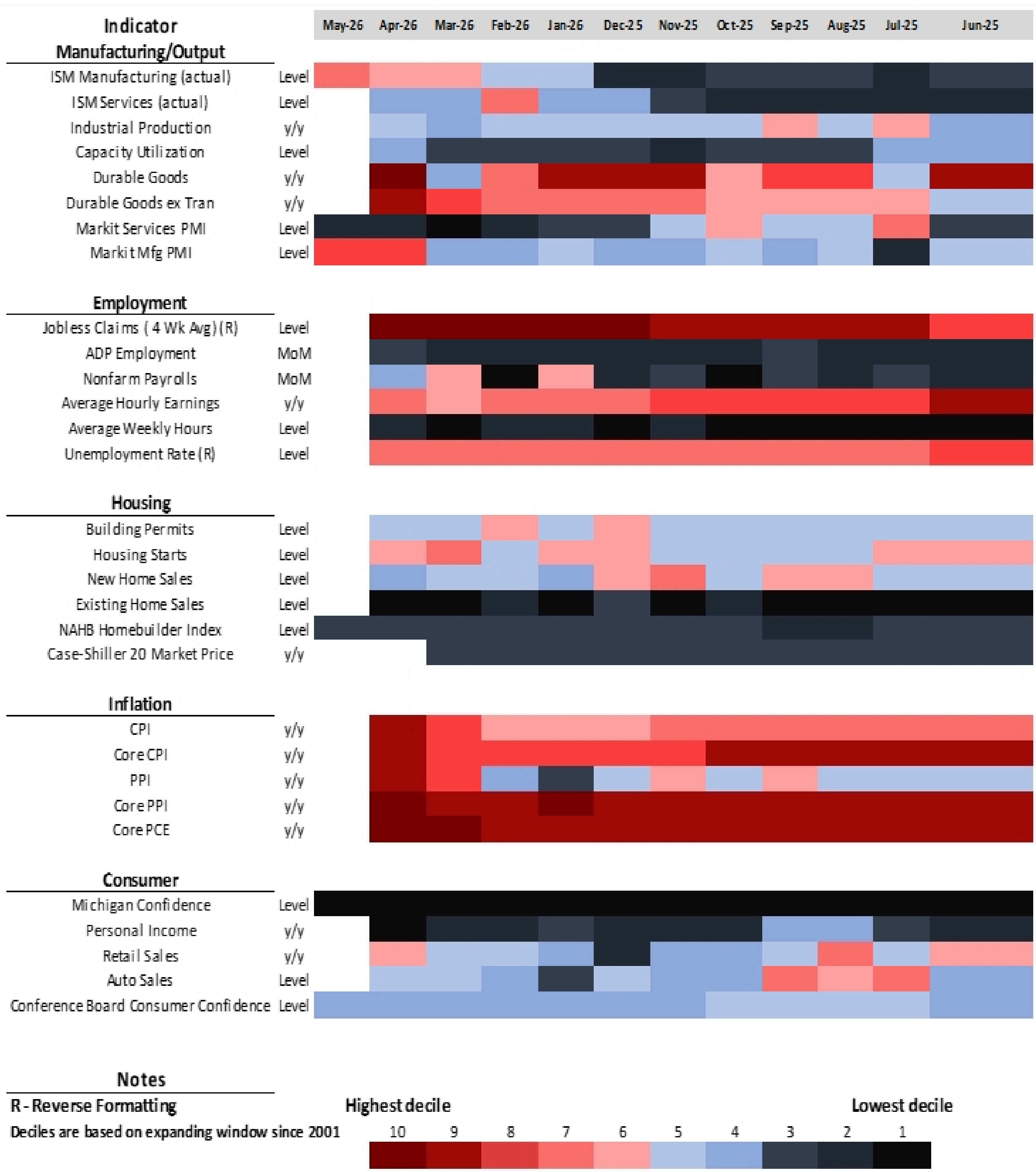




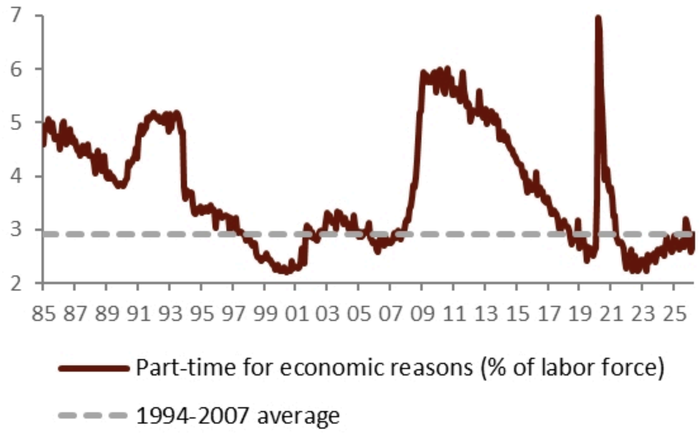


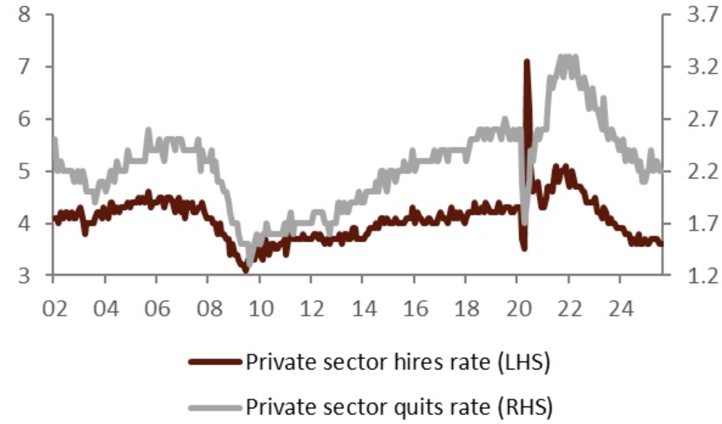
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
December projection	2.3	2.0	1.9	1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0
Unemployment rate	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
December projection	4.4	4.2	4.2	4.2	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6–3.1	2.0–2.3	2.0	2.0
December projection	2.4	2.1	2.0	2.0	2.3–2.5	2.0–2.2	2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5–2.8	2.0–2.4	2.0	
December projection	2.5	2.1	2.0		2.4–2.6	2.0–2.2	2.0	
Projected policy path								
Fed funds rate	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5
December projection	3.4	3.1	3.1	3.0	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5

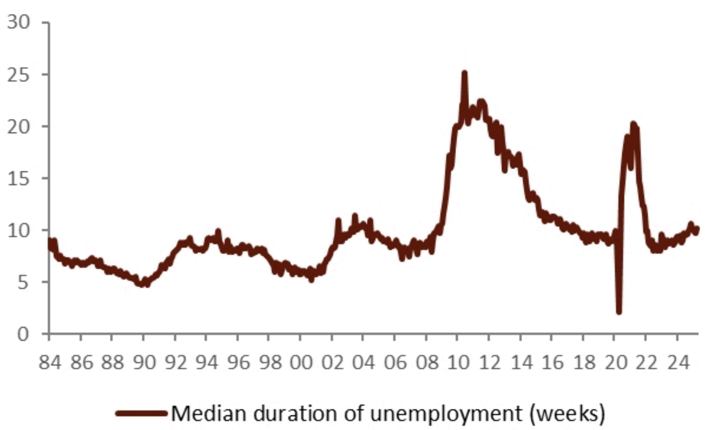
High frequency data heat-map

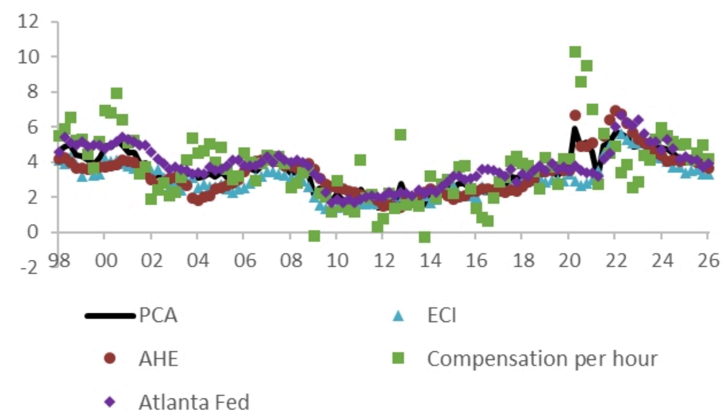


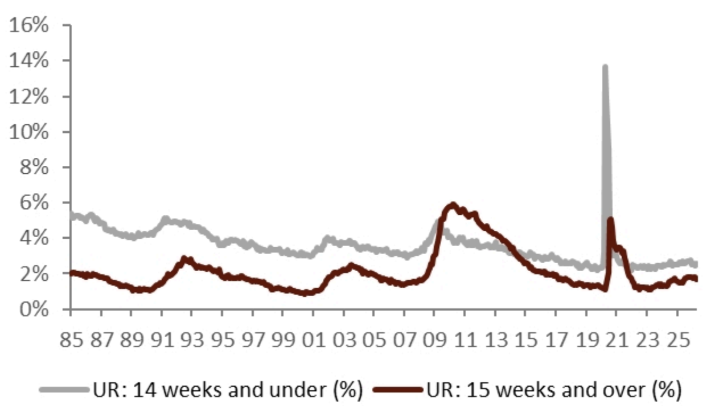
Labor market indicators

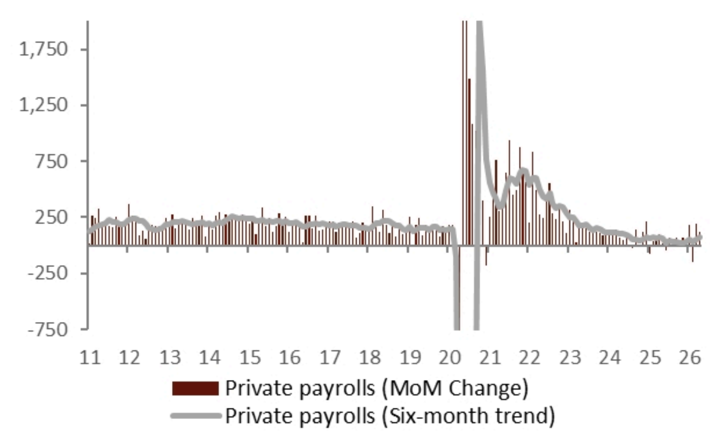




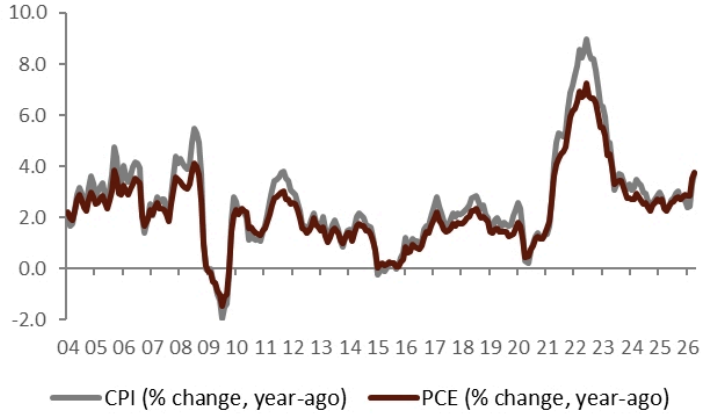


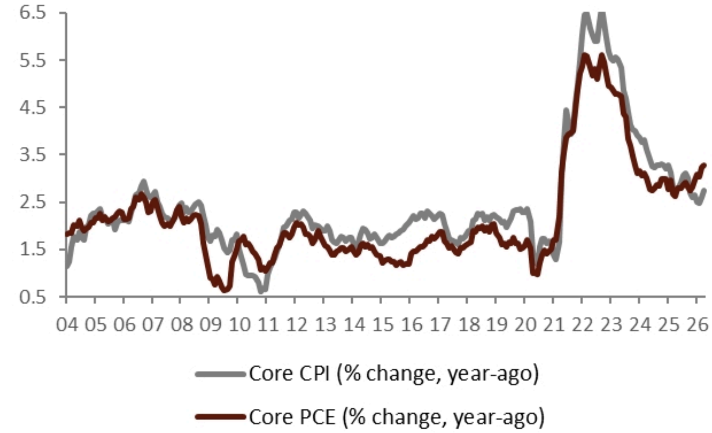


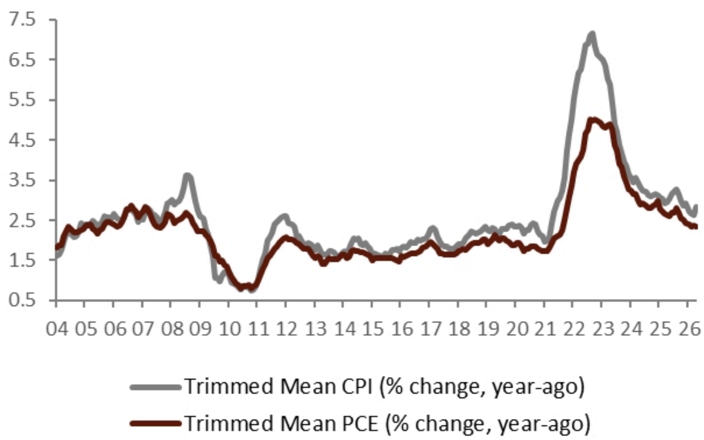


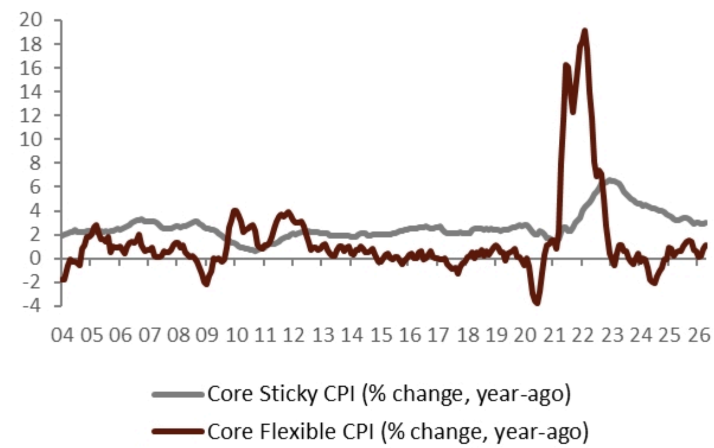


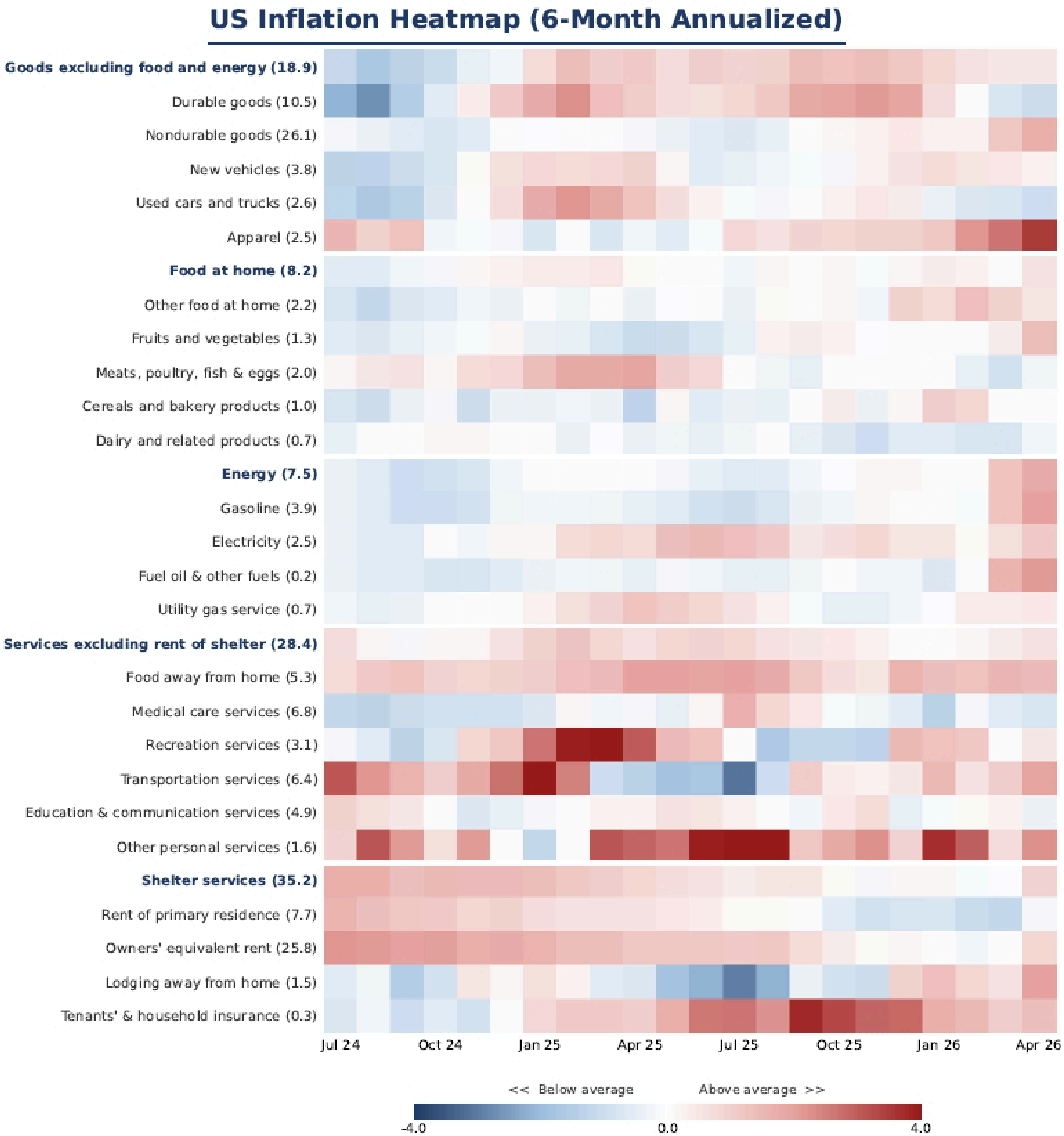
Inflation indicators





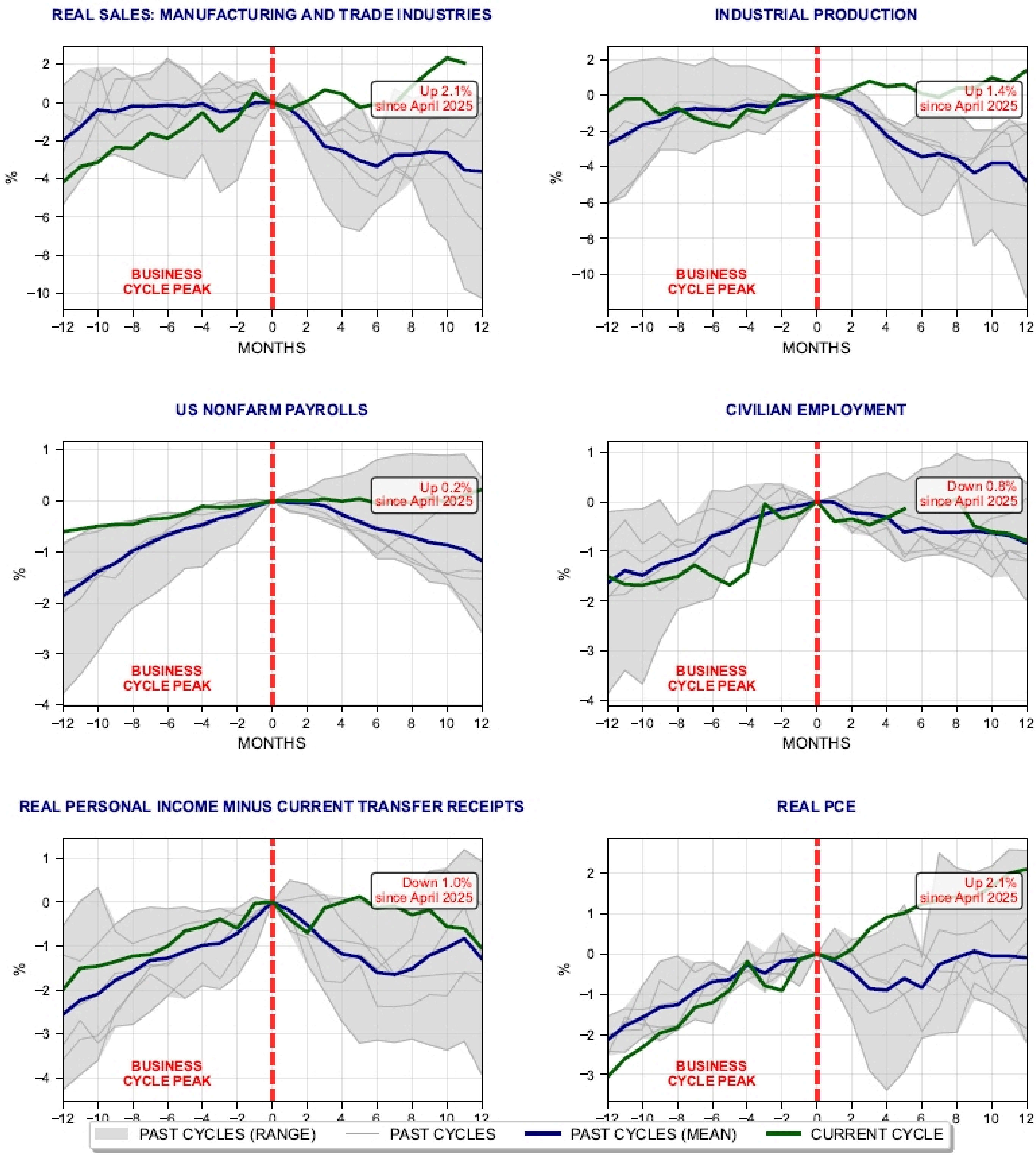






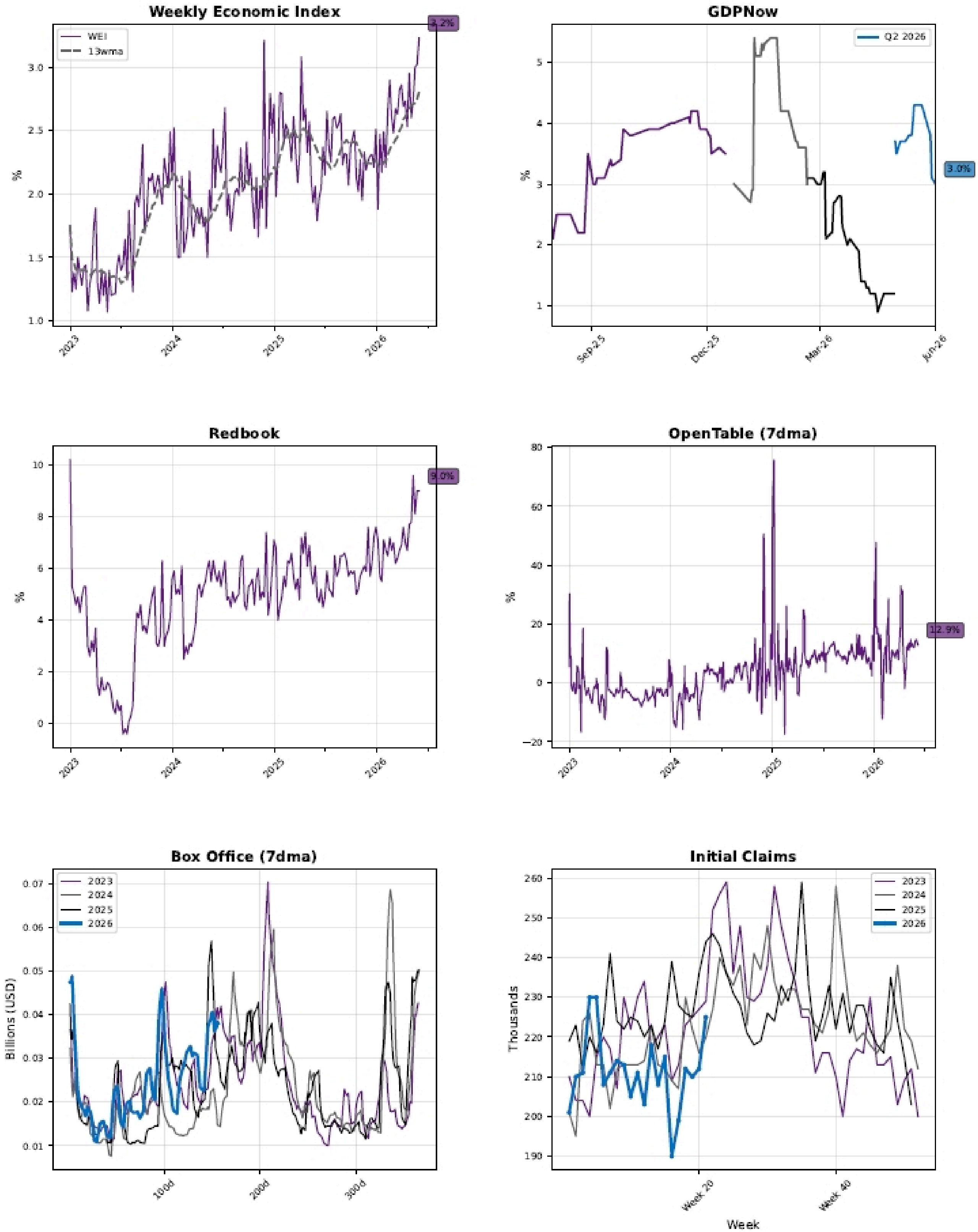
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: April 2026.

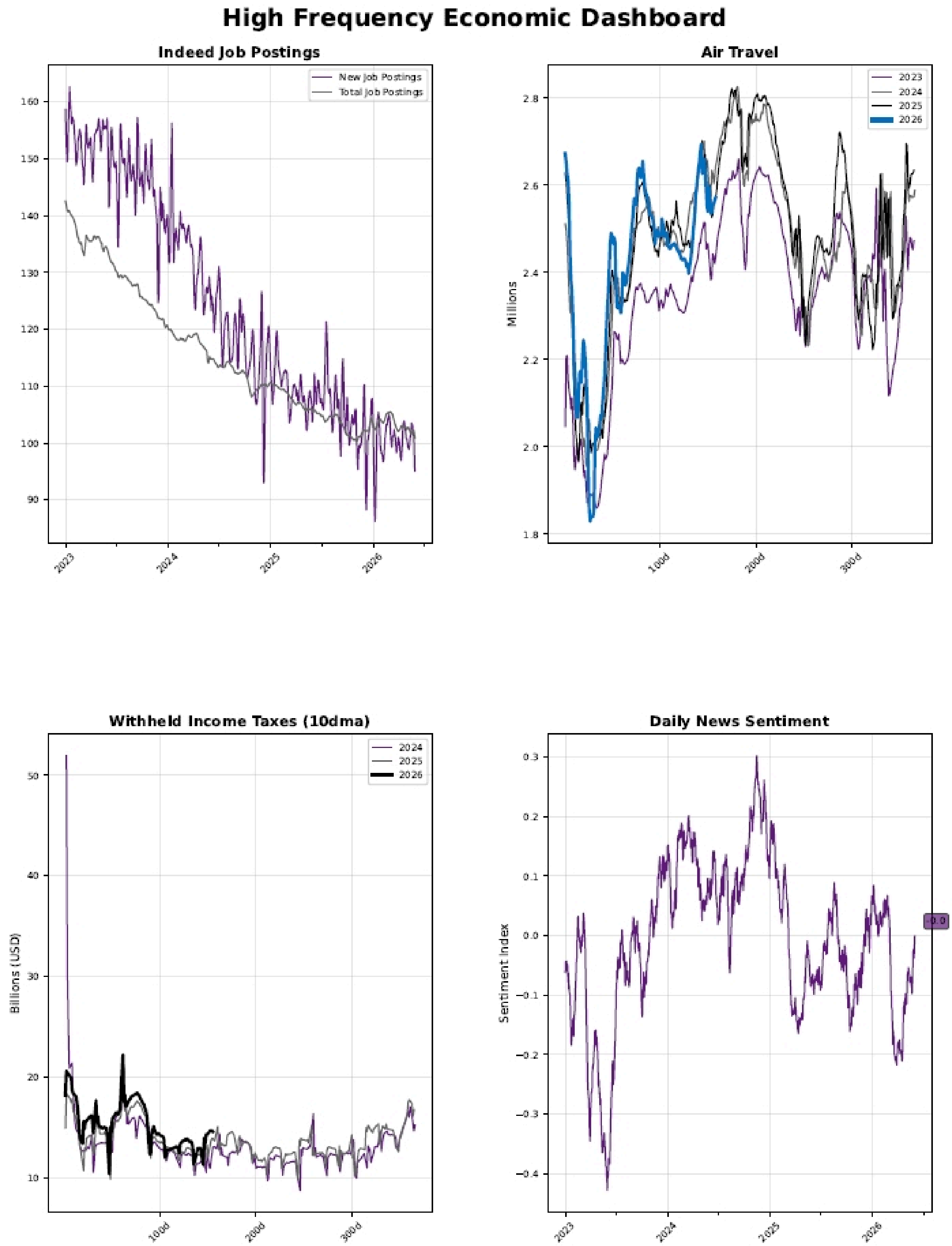
NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard




High Frequency Economic Dashboard
Indeed Job Postings
New Job Postings
Total Job Postings
Air Travel
Millions
2023
2024
2025
2026
Withheld Income Taxes (10dma)
Billions (USD)
Daily News Sentiment
Sentiment Index