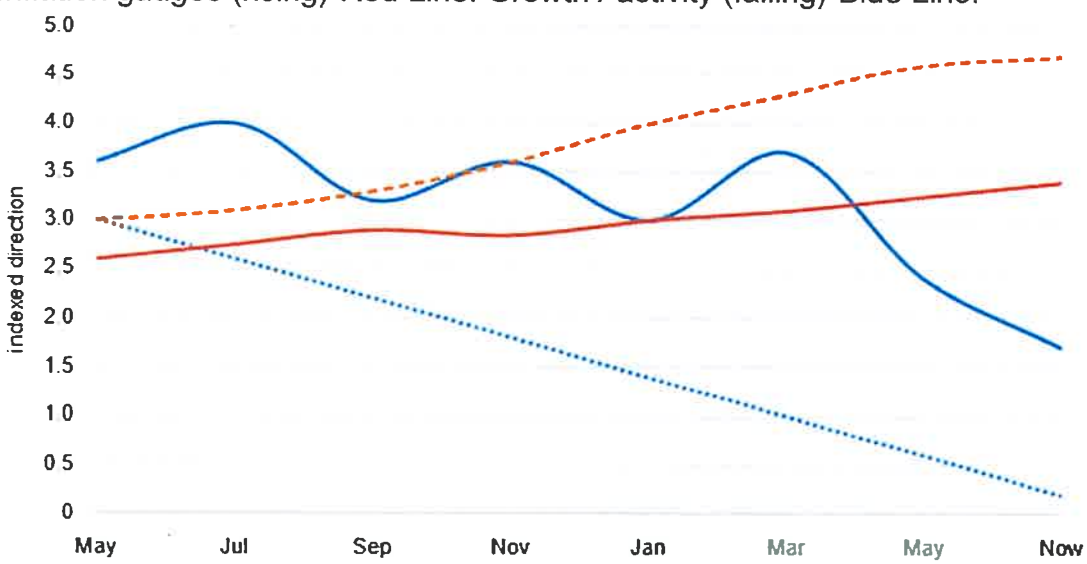
July 21, 2026 · Prepared from current economic-trend data.

Bottom line: The data has taken on a mild **stagflationary tilt**. Growth and the labor market are softening at the same time inflation is re-accelerating. That combination boxes in the Fed and argues for rates biased higher across the curve, and leaves equities richly valued with little cushion. The one clear positive: credit markets remain calm, which is what keeps the expansion, and the stock market breadth confirms the price, **intact for <u>now</u>**.

The core tension: inflation up, growth down.

Indexed to show direction — producer/PCE prices re-accelerating while activity gauges roll over.

Inflation gauges (rising)-Red Line. Growth / activity (falling)-Blue Line.



The signals at a glance

Indicator	Latest	What it's saying
Core PCE YoY	**3.4% ↑**	Fed's preferred gauge, re-accelerating and well above the 2% target.
PPI ex food/energy	**4.7% ↑**	Producer-pipeline inflation surging; PPI final demand at 5.5%.
Nonfarm payrolls	**+57K ↓**	Sharp deceleration; unemployment up to 4.2%.
Wage growth	**3.5% ↓**	Hourly earnings & Atlanta Fed (3.6%) both easing.

Indicator	Latest	What it's saying
GDPNow / GDP	**1.7% / 2.1%**	Growth cooling; Leading Indicators grinding lower.
Fed funds	**3.75%**	Already cut from 4.50%; further easing now stalled.
10Y / 30Y Treasury	**4.63% / 5.13%**	Long end rising; real yields moving up (10Y TIP 2.35%).
2s10s spread	**+0.37 ↑**	Narrowing, but re-steepening off its lows.
S&P 500	**7,474**	Near highs, but equity risk premium ~0 (0.04%).
HY credit spreads	**305 / 310 ↓**	Tight and falling, no credit stress priced in.

What it means for the Fed

The dual mandate is pulling in opposite directions. The **employment** side (weak payrolls, rising unemployment, slowing growth) argues for cuts; the **price-stability** side (core PCE at 3.4% and rising, a broad commodity and PPI surge) argues firmly against them. With Fed funds already down to 3.75%, the most likely posture is a **hold / pause** rather than further easing until the inflation pop proves temporary. Cutting into rising commodities risks re-anchoring inflation expectations higher; the bar for an outright *hike* is high given labor weakness, but persistent PPI/PCE gains would start pricing that tail.

Implications for markets

- **Equities: S**&P near highs, but internals are cautionary, momentum has rolled over, the equity risk premium is essentially zero, and growth/value has compressed. Priced for perfection with slowing growth and no Fed backstop on inflation. Expect flatter, choppier returns.
- **Short-term rates:** Anchored near 3.75–4.26%. The rising 2-year (4.26%) is the market pricing rate-cut expectations back out. Sticky inflation drifts the front end higher.
- **Long-term rates: Biased** higher. 10Y (4.63%) and 30Y (5.13%) climbing, real yields surging, curve re-steepening, a classic term-premium / inflation-risk signal. A headwind for long-duration bonds and long-duration (growth/tech) equities.
- **Credit: The** constructive offset. High-yield spreads are tight and falling and corporate profits are at highs, markets are not pricing a recession or credit event.

The variable to watch.

Whether the PPI/PCE re-acceleration continues. That single question determines whether the Fed's next move is a delayed cut or a hawkish surprise, and **it is the pivot point for both rates and equity valuations.**
