

Higher for Longer

Report for the week ending May 16, 2026

Dylan Smith

Key Takeaways

- **MONOLOGUE:** We turn our attention back to the Gulf, where a prolonged blockade looks like the base case. As long as oil holds in the \$95-\$115 range, Washington can endure the pain, but the longer the standoff lasts, the more entrenched inflation becomes. We think a Fed hike in the next 12 months is more likely than not.
- **MACRO:** April inflation data confirmed the pass-through is underway, with surging producer prices pointing to higher core inflation ahead. Our models are flickering from "Sluggish" to "Stagflation."
- **MARKETS:** Bond traders are finally taking the prospect of rate hikes seriously, sending the 10-year Treasury yield surging and UK yields to pre-GFC levels. The S&P 500 closed flat as investors gave back May's earnings-driven gains.
- **MEMO:** We track direct price pass-through from commodities affected by the blockade of the Strait of Hormuz to US consumer goods and services. Without a catalyst for a rapid drop in the price of crude oil and refining byproducts, core inflation will rise significantly.

Monologue

After a few weeks of collectively putting our fingers in our ears, shutting our eyes, and chanting "earnings, earnings, earnings," it's time once again to turn our attention to the stalemate in the Strait of Hormuz.

The evolving scenarios for the Iran conflict (whether toward a resolution or a resumption of outright war) remain the key drivers of global markets. The probabilities behind these scenarios have subtly shifted after another failed round of peace proposals this week, as well as the absence of the Iran question in discussions between Presidents Trump and Xi at the US-China summit in Beijing.

The substance and outcome of the US peace proposal this week were both informative. President Trump's diplomatic team has narrowed its focus to Iran's nuclear program, essentially offering to lift the blockade in exchange for Iran shuttering its nuclear program. Iran's rejection of the offer revealed its understanding of its leverage over the Trump administration – the connection between oil-driven inflation and the Republicans' midterm election prospects – and its willingness to push for better terms. Until Beijing withdraws its financial support, Iran will endure the economic pain imposed by the US.

There is still a wide range of potential outcomes on the table, leaving investors to navigate a highly uncertain landscape. Geopolitical analysts continue to frame the evolution of the conflict in terms of three broad scenarios:

1. **The US walks away**, unilaterally lifting its blockade and claiming that its core aims have been met with Iran's enriched uranium stockpile buried under rubble and the nuclear program controlled by satellite monitoring and the threat of missile strikes.

Drawbacks: Iran retains full control of the Strait of Hormuz and may toll it or otherwise restrict trade. The Iranian regime emerges from the war in a stronger position.

2. **The US resumes airstrikes**, targeting leaders, critical infrastructure, and possibly refining and export facilities.

Drawbacks: Iran would almost certainly retaliate against US allies on the Arabian Peninsula, straining America's diplomatic relationships and risking a sharper, permanent rise in oil and gas prices.

3. **The US waits out the blockade to cripple Iran's economy**, strengthening its negotiating leverage and securing free trade through the Strait of Hormuz and international oversight of Iran's nuclear reserves.

Drawbacks: A full blockade is costly and challenging; China may continue to support Iran, and a prolonged blockade and rising oil prices remain a domestic political challenge ahead of the midterm elections in November.

The third scenario is the base case. As long as benchmark crude oil prices remain in a \$95-\$115 per barrel range, maintaining the blockade is just about palatable to the Trump administration. A sustained move above this range would push the American side into one of the other two options.

This raises the question of how long oil is likely to stay in this range as the blockade continues. **The answer may be a long time.** Spot prices aren't the whole picture in commodity markets. Longer-dated contracts (6-12 months ahead) are trading in a \$75 to \$85 per barrel range. Rising odds of a prolonged blockade would likely close this backwardation before it dramatically raised spot prices (still inflationary, but with less headline impact for the administration).

What's more, **a prolonged blockade will incentivize drillers outside the Gulf to raise production.** The unwillingness of American companies to do so up to now has been a source of frustration for President Trump. Higher Western Hemisphere output would partially offset missing Gulf barrels, helping to contain prices within the acceptable range for longer. It's worth noting that products from Gulf refineries, such as jet fuel and urea (for fertilizers), would be less easy to substitute and could surge in price even with spot crude stable.

Take this with a pinch of salt, but the oil futures market looks out of sync with the views of punters on [Kalshi](#) and [Polymarket](#), who collectively think that it's more likely than not that a peace deal will be reached before the end of 2026, but that the odds of a deal being in place before November are vanishing.

From an Iranian perspective, this timeframe may be an optimal strategy. Leaders will recall Ayatollah Khomeini's humiliation of President Carter during the hostage crisis. Stringing a weak president along until after the elections, then immediately agreeing to a deal, was a successful tactic in the 1980s. Whether they get there this time will depend on how well their economy holds up. **Iran's critical vulnerability is its reliance on support from China and Russia.**

What does this all mean for markets? A longer blockade entrenches the inflationary implications of the initial price shock and amplifies shortages in both oil and refined products. This, in turn, will eventually work its way into core prices (the degree and speed of transmission are the subject of this week's Memo) and inflation expectations.

Official core PCE inflation stuck above 4% is an increasingly likely scenario, and would require action from the Federal Reserve. With labor markets firmer so far this year than many expected, the case for interest rate cuts has dissipated, and we think it more likely than not that we'll see a hike in the next 12 months.

But, as we argued last week, **we're not envisaging a sharp hiking cycle**, as (outside the AI investment industry), demand is not surging as it was in 2022. A hawkish stance, reinforced by one or two 25 basis point hikes, will be enough to contain expectations and trim excesses in credit-fueled investment markets under scenario 3 of the Iran conflict.

Markets finally realizing that hikes are on the table darkens the outlook for fixed income and implies some irrational exuberance coming out of public equities. This week's market action has anticipated these dynamics, which could intensify. At the same time, fifty basis points of Fed hiking is not a dealbreaker. It should not, for instance, destroy the business case for most deals in private markets (still trying to develop real momentum) or crush consumption, which, in any case, is driven by top-end consumers more resilient to inflation.

Of course, the Trump chaos factor should not be ignored. The more the pressure ramps up as midterms approach, the higher the likelihood of rash action, even if waiting it out is the optimal strategy. Plan accordingly.

Dylan Smith

Founder and Chief Economist

Marginal Movers

Rising 👉

- **Maple Bonds:** [Behind Alphabet's record-breaking Canadian bond deal](#) — "The

full-scale invasion of Canada, by foreign corporations flooding into our debt market, is well under way."

- **Derivatives:** CME Group and Silicon Data Partner to Launch First Compute Futures — "Investors need a trusted futures market to provide transparency, liquidity and effective risk management."

Falling 📉

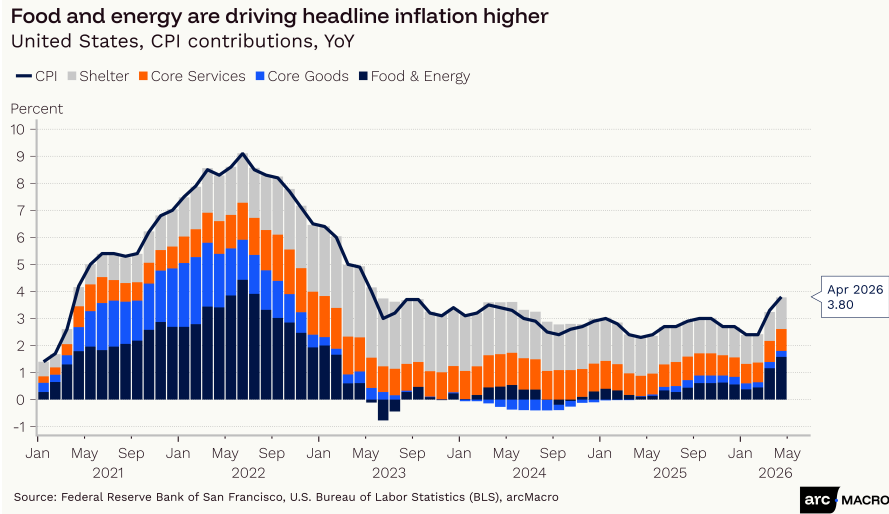
- **PE's free lunch:** LPs are lowering their return expectations, but don't expect fundraising to get easier — "some LPs are increasingly willing to accept returns of less than two-times net from top-quartile managers—not that they are necessarily willing to admit it."
 - **Externalities:** Growth is Getting Harder to Find, Not Ideas — "We then document a positive, significant, and fairly steady relationship between firms' patent and labor productivity growth rates. Average firm growth after controlling for patent growth, however, declines."
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Macro Monitor

We're still in the early phase of the Iran inflation shock

Consumer Price Index (CPI) data for April, published on Tuesday, was met with relief by markets. Headline inflation of +0.6% MoM (3.8% YoY) was in line with expectations and cooler than March (0.9% MoM). Core inflation was a touch higher than expected (0.4%, vs. the median forecast of 0.3%), but that was due to some statistical volatility in shelter costs unrelated to supply-side dynamics.

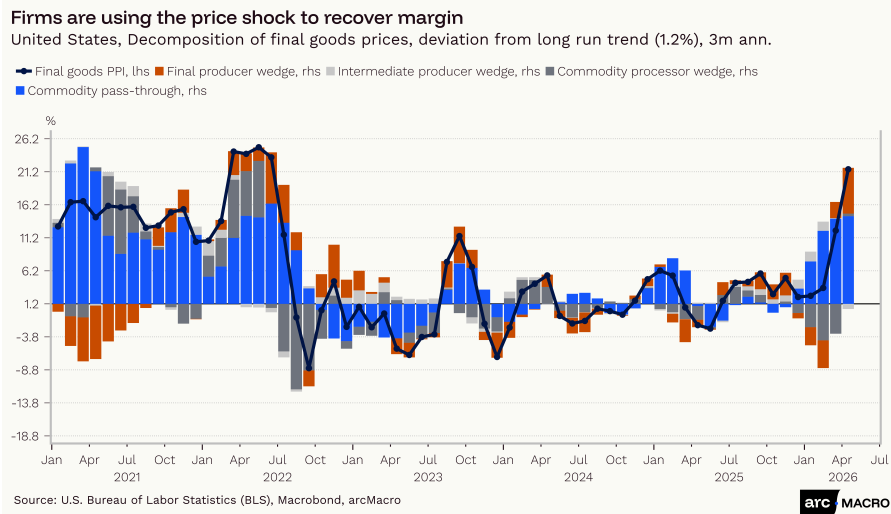
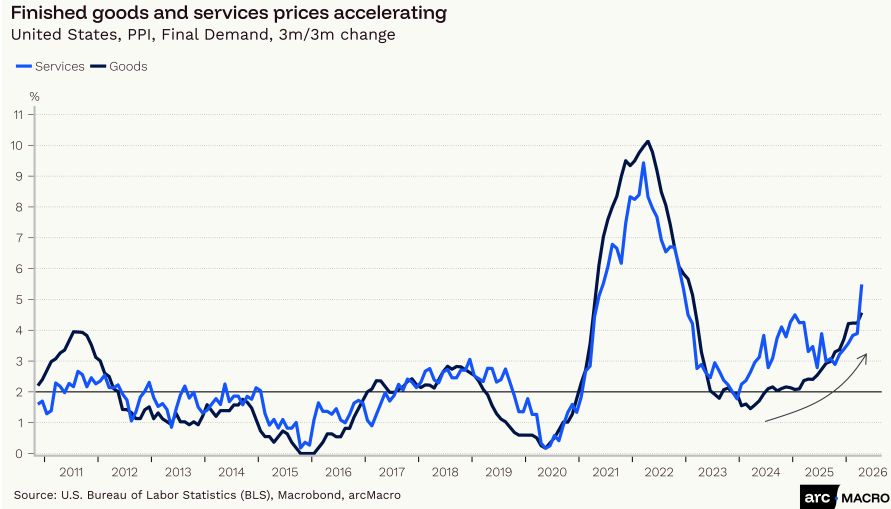
[Contributions chart]



In our view, markets missed the forest for the trees. Just two months after oil prices surged, we shouldn't expect to see any movement in core prices yet. Historically, pass-through from a permanent energy price shock to core inflation has taken three to six months, and it's taken longer to get into "underlying" sticky inflation (such as services prices). Even in the overheated post-pandemic economy, it took a year for "sticky" price categories to start rising after the initial goods price shocks.

That's why Wednesday's Producer Price Index (PPI) data were always going to carry a more informative signal — and why it had a bigger impact on bond markets. US producer prices surged by 1.4% MoM in April, far more than the 0.4% increase expected by forecasters. More importantly, the move wasn't limited to energy prices; core PPI inflation was +1.0% MoM compared to +0.3% expected. As we detail in this week's Memo, a surge in input costs such as industrial chemicals and plastics (both oil refining byproducts, of which Gulf countries are key producers) was behind the surprise.

What's more, companies have decided to pass that cost on to consumers. In fact, after a year of tariff-related input cost increases, our PPI margins model provides evidence that companies are using the energy price shock to restore margins, adding to inflationary pressure.



A stagflationary signal

Our arcMacro factor framework still defines the US economy as being in a "Sluggish" regime, characterized by below-trend growth, easy financial conditions, and non-surging inflation. As we noted in our Q2 Outlook, it would only take a sharp rise in inflation, with no change in growth or financial conditions, to tip into a "Stagflation" regime.

Due to the volatility of real-time data and its tendency to be revised, we don't officially call a change in regime until we have at least two months of data confirming the signal. So, without updating our regime, we note that for a couple of weeks, our model has been signaling a shift to a "Stagflation" regime as inflation rises.

How does that square with the improving labor market and still-robust growth indicators? It boils down to our models placing an emphasis on broad activity signals. The series with the highest factor loadings on the Activity Factor are capacity utilization and the employment-to-population ratio (see appendix for details). Both tell us how hard the factors of production in the economy are being worked. Currently, the data is saying "not that hard overall."

In this sense, our models interpret the K-shaped consumer economy and narrowness of AI-led growth as signs that the economy is operating below potential despite its recession resilience.

It's possible – maybe even likely – that data will improve before we hit the two-month threshold for a "Stagflation." But that's the way we're trending.

See last week's note for a discussion of what "Stagflation" means for the economy and markets.

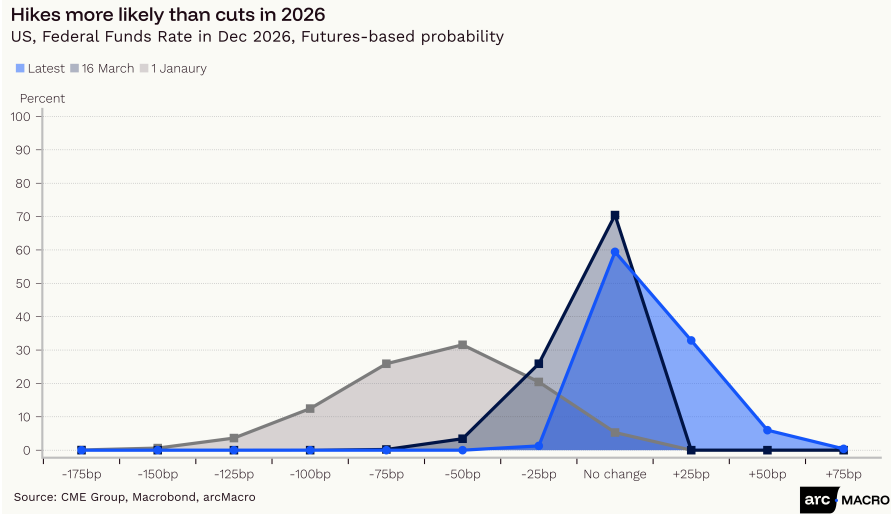
See the appendix for arcMacro proprietary Factors and the Key Macroeconomic Indicators tracking chart.

Market Monitor

Public markets

Fixed income was the big market mover this week as government bonds took a pummeling. A combination of hot US producer price inflation data and global geopolitical developments prompted bond traders to take the prospect of central bank rate hikes seriously for the first time since the war began.

Futures markets now imply a 40% chance of a rate hike by the end of the year, a marked shift in the outlook compared to this time a month ago, when roughly the same probability was assigned to a cut.



The US yield curve shifted upward by around 20 basis points compared to last week – a huge move. That brought the yield on the 10-year Treasury note to 4.59% — the highest level since February 2025. In the UK, where political uncertainty is an additional concern, the 10-year yield rose above 5% (closing the week at 5.24%). It's now at its highest level since before the 2008 Global Financial Crisis (GFC), and well above the levels that forced the resignation of Prime Minister Liz Truss in 2022. Bond markets may claim a second scalp if Sir Keir Starmer steps aside or is defeated in a leadership challenge.

Bond markets held up a little better in the euro area and Japan, where rate hikes are already expected, and in Canada, where the bar for rate hikes is very high. The US dollar appreciated by 1.4% against a basket of America's trading partners as higher relative rates made dollar assets more appealing.

Corporate fixed income yields rose less than the government benchmark, leading to a mild spread compression in both investment-grade and high-yield bonds.

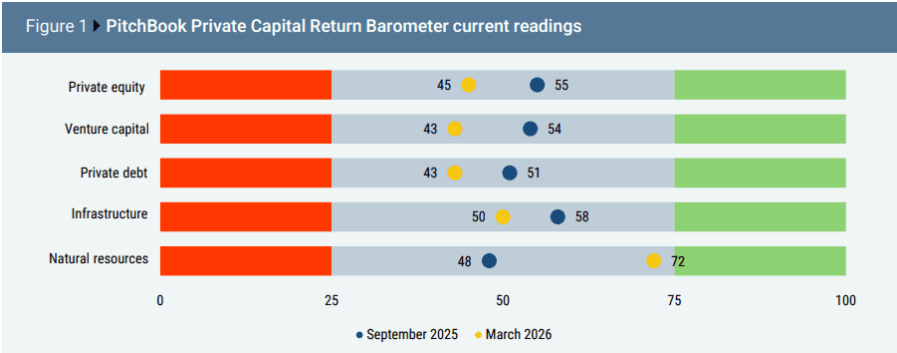
A midweek disconnect between bond and equity markets was resolved on Friday as investors took profits and factored in higher discount rates, giving back a portion of the earnings-driven gains made in May. The S&P 500 closed the week essentially flat, with cyclical sectors (Consumer Discretionary, Real Estate, Utilities) falling, offset by Information Technology and Healthcare. Still, the S&P 500 is up 8.2% year-to-date, while the Nasdaq is up by 12.8% and the small-cap Russell 2000 is up by 12.5%.

WTI crude oil prices rose by \$10 per barrel to \$105.0 as America's path to an offramp from the Iran war narrowed. Industrial metals also rose (by 2.6%), with components such as copper surging. Gold obeyed theory for once, falling by 4.5% to \$4,528 per ounce as higher interest rates made the zero-yielding metal less appealing.

Private markets

PitchBook's updated Q1 [return barometer](#) has shown a sharp decline in expected near-term returns for private capital due to the economic shock of the Iran conflict. Without the volatility generated by the war, the private markets industry's return prospects would be booming. From PitchBook:

Elevated implied equity volatility is creating downward pressure on the estimate, reflecting reduced market stability and greater uncertainty around portfolio valuations. However, improving trends in business confidence and the composite leading indicators are mitigating factors, suggesting that broader macro conditions remain supportive. Overall, the PE reading suggests a balanced return environment as macro momentum provides support while market uncertainty constrains upside and keeps model-implied returns near neutral during the quarter.



See the appendix for the market monitor table

Memo

Tracing Pass-through

Bottom line: *We track direct price pass-through from commodities affected by the blockade of the Strait of Hormuz to US consumer goods and services. Energy price pass-through has been immediate, with trends in agricultural producer prices indicating that grocery bills will rise soon. Additionally, a range of manufacturing input costs are surging, implying a sharper rise in core consumer price inflation than is typically the case for oil price shocks. Second-round effects are not due for several months yet, but disinflation in all "underlying" measures has already stalled.*

What it means for investors: *Without a catalyst for a rapid drop in the price of crude oil and refining byproducts, core inflation will rise significantly, and the updraft in underlying measures will steepen. Faced with this outlook and memories of 2022, we think 25-50 basis points of hiking from the Fed over the next year should be the base case.*

The latest round of inflation data, covering the month of April, has forced markets to reckon with the very real possibility that the Federal Reserve has no choice but to raise interest rates (across scenarios, our recent Quarterly Outlook puts the odds that the next interest rate move is up, not down, at 70%).

In a note published a week after the start of the Iran War, we wrote that it typically takes 3-6 months for the inflationary impact of oil price shocks to peak, and longer for the effects to pass through into core inflation and then to underlying prices. We only have two months of official data so far, so it's worth remembering that, as views on the inflationary impact of the Iran war evolve, we're still operating with imperfect information.

That doesn't prevent us from peering beneath the surface inflation numbers to understand how prices have begun to move, and what that might mean for the inflation outlook. We have granular enough data to track the shock in near real time.

The basic logic is that the shock can be traced from commodity prices (crude oil and refining byproducts) to consumer price categories via a range of industrial input prices. This is an important link, since firms along the supply chain must decide whether to pass costs on to consumers or accept tighter margins.

For example, we can track the price of paraxylene, a critical input to a variety of plastics, which has been affected by the blockade of the Strait of Hormuz. We can also track the prices manufacturers are paying for plastic resins and pellets. And finally, we can trace inflation in a range of consumer products these firms manufacture – from textiles containing synthetic fibers to recreational goods made primarily of plastic. Along the way, we can monitor the size of the impact and the delay in price adjustment.

To monitor these direct pass-through channels, we've put together the table below. Panel 1 tracks raw commodity prices, Panel 2 tracks related producer input prices, and Panel 3 tracks the final consumer prices. Our preferred frequency is the 3-month change in prices, which smooths out random noise while still being short enough to give a read on persistence.

The first two months of data are highly informative:

- **The transmission mechanism from crude oil to fuel and energy prices was immediate.** The full impact was captured in March, and consumer energy price inflation is already moderating.
- **Consumers have not yet felt the effects in grocery bills.** Producer prices for farm products (+10%) and agricultural chemicals (+5.8%) surged in April, but retail food prices are inflating at a slower pace than they did in February.
- **Manufacturing inputs not usually linked to crude oil prices are rising rapidly.** Plastics, industrial chemicals, electricity, and even electronics prices are surging, suggesting that the outlook for core goods price inflation is at risk.
- **Higher apparel prices may foreshadow a general rise in goods prices.** Clothing prices are inflating at the fastest rate in more than two years.

Inflation Pass-Through Tracker

United States, 3-month change, % (not annualized)

COMMODITY PRICES								
	Apr 26	Mar 26	Feb 26	Jan 26	Dec 25	Nov 25	2y trend	
WTI Crude Oil	61%	77%	14%	7%	-8%	-9%		
Jet Fuel Kerosene	88%	107%	18%	1%	-8%	1%		
Diesel	82%	113%	15%	-2%	-12%	-1%		
Propane	26%	25%	1%	2%	-10%	-2%		
Urea	65%	65%	21%	8%	-2%	-12%		
Methanol	39%	50%	4%	6%	-3%	-6%		
Paraxylene	36%	40%	10%	12%	4%	-2%		
Aluminum	13%	21%	12%	8%	11%	8%		
PPI								
PRODUCER PRICES								
Weight	Apr 26	Mar 26	Feb 26	Jan 26	Dec 25	Nov 25	2y trend	
Farm Products	5.5%	10.2%	5.1%	4.5%	-4.5%	-1.0%	-1.2%	
Processed Foods & Feeds	13.0%	1.5%	0.9%	-0.2%	-0.7%	-2.2%	-1.0%	
Synthetic Fibers	0.2%	-1.7%	-0.5%	3.0%	-0.1%	-0.9%	0.7%	
Electric Power	6.9%	0.2%	-1.3%	-0.4%	0.6%	3.0%	1.9%	
Gasoline	6.3%	57.9%	31.3%	-3.7%	-2.5%	-4.7%	4.4%	
Utility Natural Gas	1.7%	2.9%	4.6%	12.6%	5.7%	4.6%	0.8%	
Industrial Chemicals	2.8%	9.2%	3.1%	1.3%	-1.0%	-0.5%	-1.0%	
Plastic Resins	1.2%	5.8%	1.7%	-0.8%	0.2%	0.0%	-0.5%	
Agricultural Chemicals	0.6%	5.8%	3.0%	0.2%	-1.2%	-5.4%	-2.5%	
Plastic Products	2.6%	1.5%	0.5%	0.3%	0.3%	0.1%	0.1%	
Fabricated Metal	2.2%	1.4%	1.6%	1.7%	1.8%	2.2%	2.5%	
Nonferrous Metals	3.4%	2.4%	8.9%	12.4%	18.0%	17.7%	12.5%	
Electronic Systems	1.2%	0.6%	8.7%	9.4%	9.7%	2.2%	1.3%	
Transportation Equipment	10.8%	0.6%	0.5%	0.6%	0.7%	1.0%	0.8%	
58.4%								
CPI								
CONSUMER PRICES								
Weight	Apr 26	Mar 26	Feb 26	Jan 26	Dec 25	Nov 25	2y trend	
Food	13.5%	0.9%	0.6%	1.2%	0.9%	0.7%	0.3%	
Energy Commodities	4.2%	29.6%	18.7%	-2.5%	-2.9%	1.0%	4.8%	
Energy Services	3.2%	2.2%	0.8%	1.4%	1.9%	2.5%	1.0%	
Transportation Services	6.4%	1.2%	2.2%	2.0%	1.5%	-0.2%	-0.3%	
Airline Fare	1.0%	7.0%	10.9%	12.0%	7.6%	-1.7%	-3.4%	
IT Commodities	0.7%	-2.2%	-2.6%	-4.6%	-1.8%	-2.2%	-1.0%	
Medical Equipment	0.1%	0.2%	1.8%	0.9%	-0.1%	-0.6%	-0.1%	
Apparel	2.5%	3.0%	2.6%	1.9%	0.4%	-0.1%	0.1%	
Housekeeping Supplies	0.8%	-0.3%	0.4%	0.7%	0.7%	0.0%	0.6%	
Other Household Goods	0.6%	-1.4%	-1.3%	1.6%	3.0%	2.8%	0.4%	
Sporting Goods	0.5%	1.0%	1.5%	1.4%	0.2%	-0.8%	0.1%	
New Vehicles	3.8%	0.0%	0.3%	0.2%	0.3%	0.2%	0.4%	
Motor Vehicle Parts	0.3%	0.9%	0.7%	0.9%	-0.1%	-0.1%	-0.6%	
Appliances	0.2%	1.1%	2.8%	1.7%	-1.9%	-3.7%	-0.6%	
Hospital Services	2.1%	0.8%	2.0%	2.6%	2.3%	1.8%	1.0%	
40.1%								

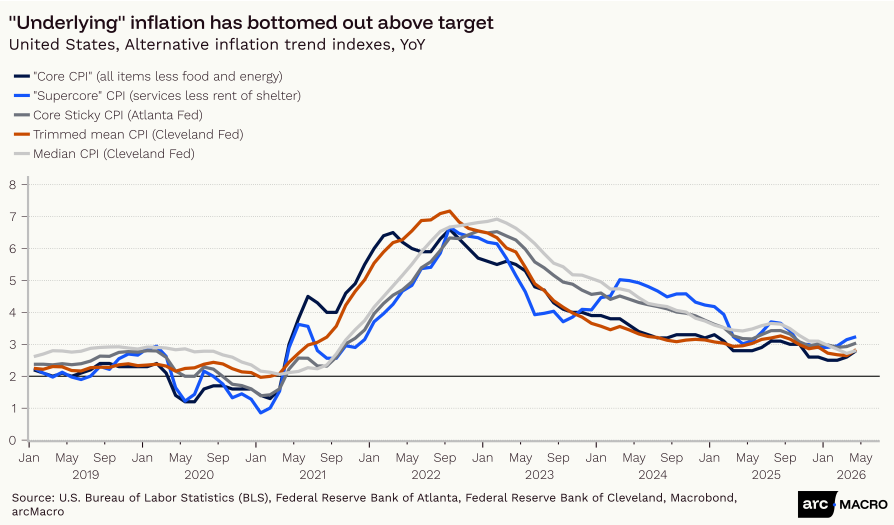
Source: CME Group, Energy Information Administration (EIA), Zhengzhou Commodity Exchange, Singapore Exchange, London Metal Exchange (LME), U.S. Bureau of Labor Statistics (BLS), arcMacro

We will update this chart regularly to track the direct pass-through from the Strait of Hormuz closure to US consumer prices.

After direct price pass-through is understood, attention will move on to second-round effects in "underlying inflation." There are many ways to measure this concept. We'll leave the pros and cons of trimmed means vs. "sticky prices" for another day.

Suffice to say that *all* measures of underlying CPI inflation have bottomed out before any of them made it back to the Fed's 2% inflation target. This means that in a few months' time, when the second-round impact of the Iran shock start to emerge, they'll be building on already rising underlying inflation.

That fact alone justifies the higher interest rate outlook pummeling bond markets.



Appendix

Proprietary Factor and Regime Model and Key Indicators

The Week in Markets

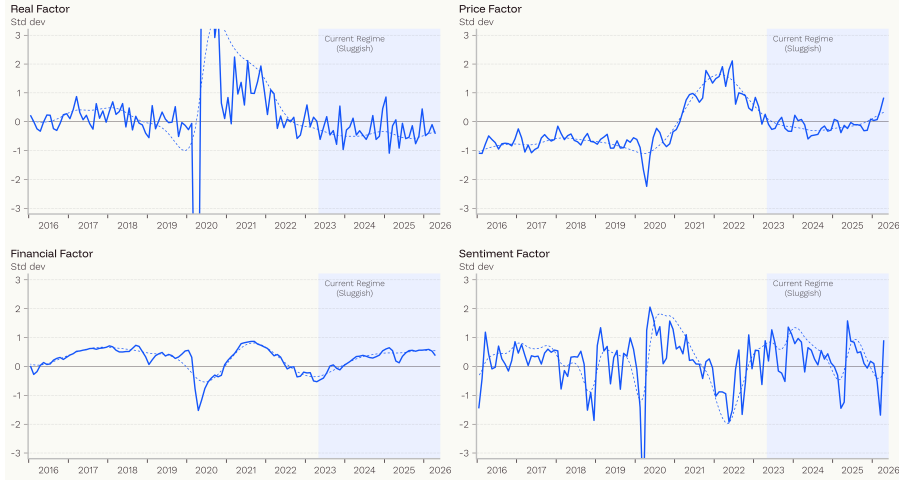
	Latest*	Change since last week (units)	Change since last week (%)	3-month change (units)	3-month change (%)	Year-to-date change (units)	Year-to-date change (%)
US Equities							
S&P 500	7409	9.57	0.1	576	8.4	563	8.2
Information Technology			1.2		22.5		17.0
Financials			-0.3		-1.0		-6.8
Consumer Discretionary			-3.1		5.6		0.4
Communication Services			-0.8		13.1		11.1
Health Care			1.0		-7.1		-6.5
Industrials			-1.1		-0.8		10.4
Consumer Staples			1.2		-3.6		11.2
Energy			6.8		9.4		32.0
Utilities			-2.1		-3.2		2.5
Real Estate			-2.6		0.8		7.7
Materials			-2.3		-4.7		9.9
Nasdaq Composite			-0.1		16.1		12.8
Dow Jones Industrial Average			-0.2		0.2		3.0
Russell 2000			-2.4		6.8		12.5
Global Equities							
DM: MSCI World Index			-0.5		5.8		9.1
EM: MSCI EM Index			-2.4		6.9		19.6
CAN: TSX Composite			-0.7		4.2		6.7
EUR: STOXX 600			-0.9		-1.9		2.5
HK: Hang Seng			-1.6		-4.0		1.3
JPN: TOPIX			0.9		-0.5		13.3
UK: FTSE 100			-0.4		-2.0		2.7
Sovereign Fixed Income							
US: 2-year Treasury	4.09	0.19		0.62		0.62	
US: 5-year Treasury	4.26	0.24		0.59		0.53	
US: 10-year Treasury	4.59	0.21		0.5		0.41	
CAN: 2-year GoC	2.96	0.1		0.47		0.38	
CAN: 10-year GoC	3.58	0.11		0.3		0.16	
UK: 10-year Gilt	5.24	0.26		0.72		0.7	
GER: 10-year Bund	3.11	0.11		0.32		0.26	
CHN: 10-year CGB	1.77	0.00		-0.0235		-0.0815	
JPN: 10-year JGB	2.61	0.14		0.39		0.55	
Corporate Bond Spreads							
US: A-rated	64.3	-4.8		-3.4		-5.5	
US: BBB-rated	96.9	-6.3		-6.7		-7.6	
Foreign Exchange Rates							
DXY US Dollar Index	99.3		1.4		2.4		1.0
EUR/USD	1.17		-0.5		-1.4		-0.4
USD/CAD	1.37		0.3		0.9		0.1
USD/CNY	6.79		-0.2		-1.7		-2.9
USD/JPY	158		0.5		3.1		1.0
GBP/USD	1.35		-0.7		-1.0		0.4
USD/CHF	0.782		0.4		2.0		-1.4
Commodities							
WTI Crude	105	10	10.5	42.6	67.8	48	83.6
Gold	4528	-213	-4.5	-515	-10.2	160	3.7
S&P GSCI Commodities			2.6		28.8		36.9
S&P GSCI Industrial Metals			0.6		8.8		12.3
S&P GSCI Agriculture			-1.5		4.7		3.1

* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

Source: S&P Global, Russell Investment Group, Nasdaq, U.S. Department of Treasury, Macrobond Financial AB, Central Bank of Germany (Deutsche Bundesbank), Bank of Canada, Intercontinental Exchange (ICE), International Monetary Fund (IMF), CME Group, LBMA (London Bullion Market Association), Robert Shiller, Chicago Board Options Exchange (CBOE), U.S. Department of Labor, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Citi, Federal Reserve Bank of St. Louis, Energy Information Administration (EIA), MSCI, STOXX, Tokyo Stock Exchange, Toronto Stock Exchange, FTSE Russell, Hang Seng indexes Company, Pitchbook | LCD, arcMacro

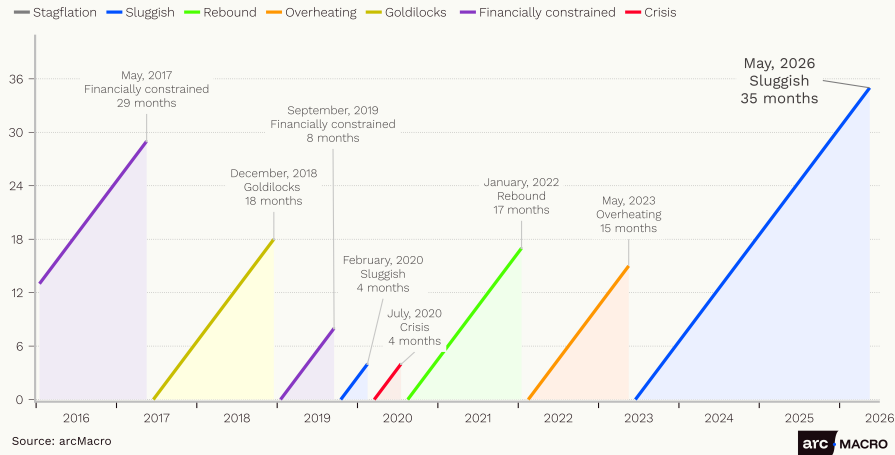


arcMacro Real Time Factors United States, z-score



Source: arcMacro

arcMacro Regime Summary
United States, Cumulative Months in Regime



arcMacro Factor Input Monitor
Top 10 inputs by factor loading

Indicator	Unit	Latest*	Three months prior	One year prior	Normalized Level (Standard Deviations from Historical Mean)
arcMacro Real Factor	Standard deviations	-0.4	-0.5	0.1	
Underemployment (U-6)	%	8.2	8.1	7.8	
Capacity Utilization	%	78	75.6	76.1	
Industrial Production (IP)	%, YoY	0.8	1.3	0.5	
Employment-to-Population Ratio	%	59.1	59.4	60.0	
Dallas Fed Services Index	%, YoY	-9.9	2.7	-21.2	
Unemployment Rate	%	4.3	4.3	4.2	
Transportation Services Index	%, YoY	0.5	0.2	1.4	
Employment	Thousands, MoM	-226.0	-895.0	389.0	
Construction Employment	Thousands, MoM	9.0	45.0	-2.0	
Philadelphia Fed Manufacturing Index	%, YoY	26.7	12.6	-12.9	
arcMacro Price Factor	Standard deviations	1.3	0.3	0.1	
Trimmed CPI	%, MoM, SA	0.4	0.2	0.2	
"Sticky" CPI	%, MoM, SA	0.4	0.4	0.3	
PCE	%, MoM, SA	0.7	0.3	0.0	
Inflation Expectations (NY Fed)	%, Annual	3.6	3.1	3.6	
Inflation Expectations (U-Mich)	%, Annual	4.5	3.4	6.6	
Core CPI	%, MoM, SA	0.4	0.3	0.2	
Services PCE	%, MoM, SA	0.3	0.3	0.2	
Market-based PCE	%, MoM, SA	0.7	0.3	0.0	
Richmond Fed Services Price Index	%, Annual	5.7	4.3	4.9	
5 Year Break-Even Inflation Rate	%, Annual	2.6	2.4	2.3	
arcMacro Financial Factor	Standard deviations	0.4	0.6	0.2	
Financial Stress Index (KC Fed)	Index (>0: higher stress)	-0.7	-0.7	0.1	
Financial Stress Index (OFR)	Index (>0: higher stress)	-1.8	-2.6	0.4	
Gold Volatility Index	%	30.4	28.3	23.4	
Bank Lending Standards	% (>0: net tightening)	-6.3	-8.5	-3.7	
Anxious Index (SPF)	% (Probability of recession)	25.1	20.9	36.1	
Dividend growth	%, YoY	7.9	8.4	6.2	
Bank Loan Demand	% (>0: net increase)	6.3	12.0	-2.5	
Household Debt-to-Income Ratio	Ratio	8.4	8.5	8.7	
IPO Underwriting Activity	US\$ Billions	10.3	2.7	1.6	
Household Debt Growth	%, QoQ, Annualized	3.3	4.3	3.3	
arcMacro Sentiment Factor	Standard deviations	0.9	0.1	-1.3	
Cyclically-Adjusted PE Ratio (S&P 500)	Ratio	39.6	38.9	35.1	
Dividend Yield (S&P 500)	Ratio	1.2	1.2	1.2	
12-month Forward PE Ratio (S&P 500)	Ratio	20.9	22.2	19.8	
Price/Book Ratio (S&P 500)	Ratio	5.3	5.0	4.9	
Crude Oil Volatility Index	%	83.1	43.1	47.7	
Economic Policy Uncertainty Index	Index	323.0	343.2	536.9	
MOVE Index	Index	73.7	60.6	120.1	
VIX	%	20.0	16.1	32.0	
Bull-Bear Spread (AAII)	% (>0: net bullish)	-2.1	14.4	-33.5	
Equity Risk Premium (NYU Stern)	%	1.0	1.2	1.1	

* 10th-90th Percentile ■ 25th to 75th Percentile ● Mean of past 5 years ◆ Latest Value
Source: arcMacro, BLS, Fed, Dallas Fed, DOT, Philadelphia Fed, Cleveland Fed, Atlanta Fed, BEA, New York Fed, University of Michigan, Richmond Fed, Macrobond, Kansas City Fed, The Office of Financial Research (OFR), CBOE, S&P Global, SIFMA, Robert Shiller, Economic Policy Uncertainty, ICE BofAML, LjRmfA, AAI
*Most recent published data point. Time period and frequency do not necessarily align.

Disclosures

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