

# The Fog of Warsh

Report for the week ending June 13, 2026

Dylan Smith

## Key Takeaways

- **MONOLOGUE:** Warsh chairs his first FOMC this week. Despite our view that market pricing for hikes this year is sensible, we expect a dovish surprise as he shifts the bias from easing to neutral without tilting toward tightening.
- **MACRO:** CPI hit 4.2% and PPI 6.5%, but the Iran shock is still mostly a supply-chain cost story, with firms now rebuilding margins. Canada is the mirror image, with the Bank of Canada able to keep rates unchanged and its outlook balanced due to the soft economy and contained inflation.
- **MARKETS:** Better-than-expected inflation drove a macro trade, lifting the rate-sensitive Russell 2000 ahead of the Nasdaq (SpaceX IPO notwithstanding). Bonds rallied, easily absorbing Anthropic's \$35 billion debt deal. Oil led commodities lower on Chinese demand compression and more signals that a ceasefire extension is imminent.
- **MEMO:** We charted every bubble indicator we could find. We did it for fun, but we learned a lot. Valuation and issuance signals say a peak could be near, but cross-asset measures say a correction wouldn't become a crisis.

## Monologue

Kevin Warsh will deliver his first interest rate announcement and press conference as Chair of the Federal Reserve this week. This milestone is generating a predictable level of geeky, giddy excitement in the econosphere, with much ado about the asset price implications of the word count in his inaugural FOMC Statement and even the secret signals the Chair's sartorial selections might send.

Fun as this nerding out can be, it risks underplaying how important a moment Warsh's first presser will be for those of us trying to peer through the fog of war and uncertainty to get a sense of the direction of travel of the economy and markets.

The interest rate outlook has shifted dramatically in the first half of 2026. Most analysts went into the year expecting 50 basis points to be chopped off the effective policy rate of 3.6% (we thought a single 25 basis point cut was more likely), with markets assigning a 45% chance that the rate would move all the way below 3.0%. That's a far cry from the ~60% chance they're now pricing of an *increase* by December.

Of the many victims of this shift in interest rates, private markets can count themselves among the worst hit. Yields on the leveraged loans that finance private equity buyouts have risen by 45 basis points year-to-date. Lower rates were supposed to re-ignite dealmaking and help the industry escape its post-2022 funk. Instead, as we discussed in our note last week, deal economics have never looked so bad for so long (see Market Monitor for more).

While bets on higher interest rates look justified based on the recent activity, labor market, and inflation data (more on that in our Macro Memo), uncertainty on the rate path is very high, and part of that relates to Warsh himself. During his nomination process, he has been unable to comment directly on his near-term policy preferences, and when he has touched on interest rates, there have been conflicting signals. In what was widely interpreted as a dovish flutter of the eyelashes to President Trump before the nomination, he argued that future productivity gains from AI will enable the Fed to reduce interest rates. During the confirmation process, however, he cited the Fed's slow response to the prior inflation surge as an error and implied he would act faster in response to inflationary shocks.

Markets are increasingly betting that the latter view is the better measure of the man. **This is why, despite fundamentally agreeing that market pricing is economically sensible, I believe that we are setting ourselves up for a dovish surprise this week.** In my view, Warsh will project a more balanced outlook than markets expect, which in turn will lower forward interest rates for a time.

Warsh is facing an incredibly fine balancing act in his first meeting. Whether fairly or not, there is a perception among the Trump administration and those following it that Warsh "owes" the President who nominated him a rate cut. Immediately dispelling this perception risks creating a political headache that will dog the first 18 months of his term, and could prompt the White House to resume its attacks on the Federal Reserve's independence. However, there are serious economic and financial risks associated with mistakenly cutting rates, especially against such a strong market consensus that they may need to rise. He would immediately lose credibility with investors and make his job far more difficult.

**Warsh will therefore want to convey the message that, while he would really like to cut rates, and could see a world where that eventually becomes possible, current circumstances do not allow this. In so doing, he would set himself up to gradually move toward where the market is without losing political sponsorship.**

**To achieve this, the only sensible communication strategy available to Warsh is to make his first meeting as uninteresting as possible** by citing two-sided risks and emphasizing the Fed's keen monitoring of the incoming data on employment and inflation. In other words, he will shift the FOMC from an "easing" bias to a "neutral" one, but not go as far as leaning toward "tightening." If he's smart, he'll avail himself of the expectation that the Warsh Fed will be more succinct in their comments, and leave himself more "strategic ambiguity" to shift financial conditions when he needs to.

There are two market implications:

**First, the yield curve will fall somewhat as markets shift their view on the pace and timing of potential hikes (perhaps incorrectly).**

**Second, and more philosophically, we should not look to Warsh's first meeting for confirmation that he agrees with the outlook enshrined in market pricing.**

Rather, we should read between the lines of the statement and the press conference to assess the road Warsh is preparing for himself to walk between markets and the Presidency. We should ask whether he has left himself room to lead all stakeholders gradually toward hikes.

Chair Warsh has had some early help in this regard from his incumbent colleagues on the FOMC. In recent speeches, they have taken on a notably more hawkish tone than before. This gives Warsh cover to shift the Fed's messaging without going too far personally. He may even welcome a few hawkish dissents.

The Chair's peers across the Atlantic at the European Central Bank have made his job a little easier, too. The more conservative and less politically constrained (at the moment) central bank of the Eurozone hiked its policy rates by 25 basis points this week, citing the impact of the closure of the Strait of Hormuz and its desire to maintain a robust policy stance across a range of potential scenarios (see my prior note on the Atlantic Debate to understand how this thinking differs from the Fed's; one open question is whether Warsh is minded to move the Fed toward the European approach).

There is one important risk to taking an overly dovish stance that Warsh will need to bear in mind: excessively easy monetary policy could push markets into a state of completely unbridled exuberance. It was a bad week for AI hardware stocks despite marginally supportive developments in macro and the sentiment effect of the SpaceX IPO.

Still, the Nasdaq is up by almost 12% this year, and I'm getting a lot of questions again about whether we're officially in a bubble and near the top. This led to a semi-whimsical mission to chart every known indicator of a "bubble" or "market top" in this week's Memo — which proved surprisingly insightful, providing us with a fresh take on where equity markets actually stand, and what the consequences of a serious correction or bear market would be.

Read on for more.

**Dylan Smith**

*Founder and Chief Economist*

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## Marginal Movers

### Rising 🙌

- **Capex cycle winners:** [The unlikely corporate winners of AI](#) — "The AI boom is lifting the fortunes of hundreds of formerly drab industrial, utility and mining companies as investors turn to the "picks and shovels" needed to build and power vast data centres."
- **The "K-shaped" consumer:** [Wedding Inflation Has Desperate Brides Paying Witches for Perfect \\$100,000 Days](#) — "At \$14, the spell was the cheapest thing Danaher bought for her \$100,000 wedding. "

### Falling 🙇

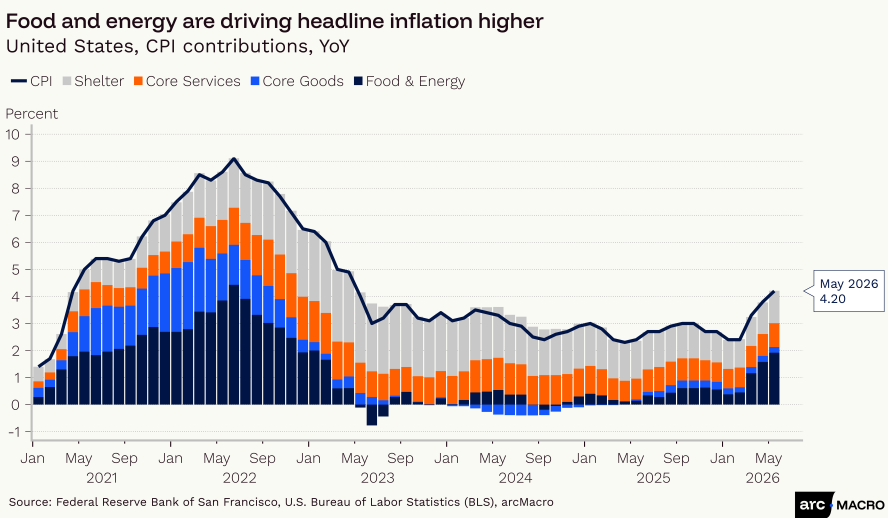
- **PE Valuations:** [Apollo's Kleinman Says Private Equity Lost Its Way on Deals](#) — "Private equity "lost its way a little bit" during the easy-money era and firms will "have to start capitulating for sure on valuations" after borrowing costs normalized, warned Scott Kleinman, co-president of [Apollo Global Management Inc.](#)"
  - **Energy Abundance:** [The abundance illusion](#) — "This is the New Joule Order (NJO): the era in which the security premium becomes the dominant force in energy markets. Electrification is the purchase of optionality — an electron can be sourced from oil, gas, coal, sun, wind or nuclear, while the combustion engine is married to a single fuel that must transit someone else's chokepoint. China has been building toward it since the 1990s. The West is still debating it — and the gap is now measured not in conference emissions pledges but in barrels per day, inventory levels, and the declining usable capacity of strategic reserves. *And also:* "Forward oil prices are now lower than when the war started, and energy equities have followed. This assumes Hormuz reopens imminently and the world returns to February 27 in a matter of weeks. It has been the consensus since the first week of March, and it has been wrong every week since."
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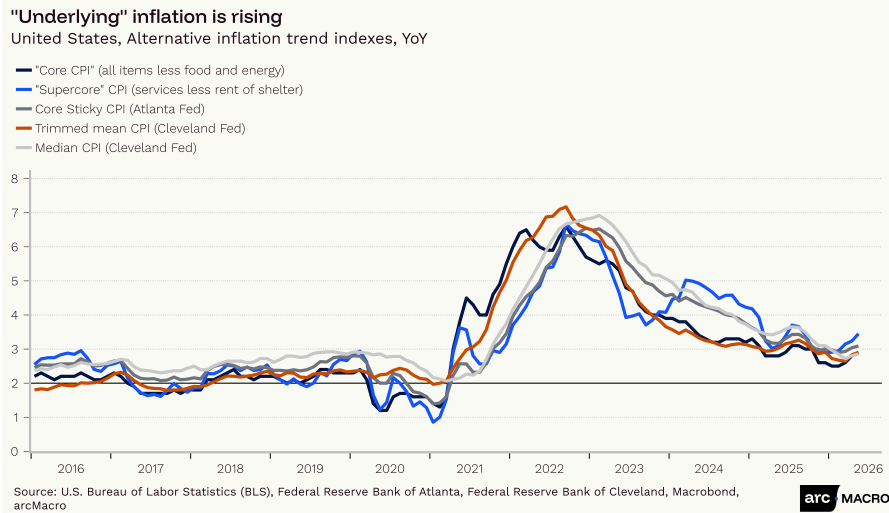
# Macro Monitor

## Hard Core Inflation

Consumer prices accelerated in May in line with consensus expectations. The headline Consumer Price Index (CPI) inflation rose by 0.5% over the April level, bringing the annual inflation to 4.2%. That's the fastest pace of inflation since April 2023. Food and energy prices contributed 1.9 percentage points to the yearly increase in the headline (a touch under half).

Stripping those two components out, core inflation rose a little less than expected, coming in at 0.2% month-on-month, and 2.9% year-on-year. Disinflation or outright deflation in categories linked to government programs, including health insurance and hospital services, contained growth in the core index. Low inflation in consumer discretionary categories helped, too. No matter how you cut it, all measures of "underlying" inflation are well above target and rising in year-on-year terms. US inflation goes well beyond energy prices.





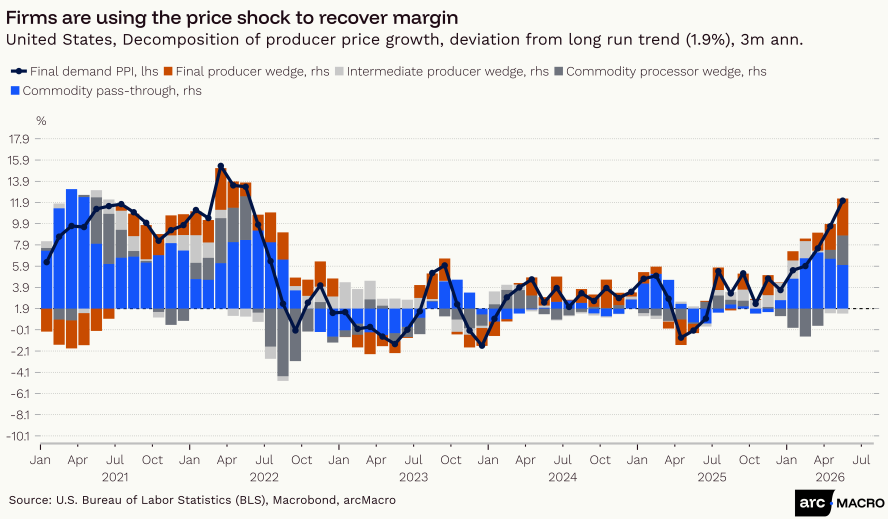
This said, **the Iran conflict supply shock is still primarily a supply chain cost phenomenon.** Without further price moderation, consumer inflation is set to rise still further.

That was the message from the Producer Price Index (PPI) released this week. Headline producer prices rose by 1.1% (not annualized) in May, and core PPI by 0.4%. That translates into year-on-year growth of 6.5% and 4.9%, respectively. Firms are dealing with a serious rise in their input prices, and it's showing up everywhere. On our preferred 3m/3m annualized measure (which smooths volatility while still providing a real-time signal), goods prices are inflating at an annualized rate of 5.1%, and services prices by an almost identical 5.0%. That largely comes from surging transport and warehouse costs, but all types of wholesale services inflation are running above 4%. It's very difficult to see consumer price inflation settling down, even if the Strait of Hormuz opens, with that kind of shock working its way through the value chain.

Our tracking of Hormuz-related costs validates the observation that inflation is still in the supply chain, with plastics and other basic industrial inputs surging, but their related consumer price momentum is still fairly subdued.

The most important part of the PPI release was in the first chart below, which shows our model that separates producer price inflation into contributions from commodity price pass-through and a series of "wedges" that proxy margin growth along the value chain. **The contribution from margin growth has shifted from slightly negative at the start of the year to significantly positive. Firms are using higher energy prices to recover margins.**

Cross-checking this insight against other sources, notably the Beige Book, suggests that margin expansion and input price pass-through could be contributing even more to price growth than they currently do. Part of the reason firms in some sectors are resisting full pass-through is the effect that inflation is already having on consumers' spending power; inflation-adjusted average earnings have fallen by 0.7% compared to a year ago, putting pressure on less affluent consumers.



## Inflation Pass-Through Tracker

United States, 3-month change (since Feb 2026), %

COMMODITY PRICES								
	May 26	Apr 26	Mar 26	Feb 26	Jan 26	Dec 25	2y trend	
WTI Crude Oil	30%	61%	77%	14%	7%	-8%		
Jet Fuel Kerosene	33%	88%	107%	18%	1%	-8%		
Diesel	39%	82%	113%	15%	-2%	-12%		
Propane	21%	26%	25%	1%	2%	-10%		
Urea	21%	65%	65%	21%	8%	-2%		
Methanol	39%	39%	50%	4%	6%	-3%		
Paraxylene	30%	36%	40%	10%	12%	4%		
Aluminum	19%	13%	21%	12%	8%	11%		
<b>PPI</b>								
PRODUCER PRICES								
	Weight	May 26	Apr 26	Mar 26	Feb 26	Jan 26	Dec 25	2y trend
Farm Products	5.5%	3.0%	8.8%	5.1%	4.5%	-4.5%	-1.0%	
Processed Foods & Feeds	13.0%	1.7%	1.5%	0.9%	-0.2%	-0.7%	-2.2%	
Synthetic Fibers	0.2%	0.9%	0.1%	-0.1%	2.7%	-0.1%	-0.9%	
Electric Power	6.9%	0.1%	0.3%	-1.2%	-0.3%	0.6%	3.0%	
Gasoline	6.3%	78.5%	57.3%	31.1%	-3.9%	-2.4%	-4.7%	
Utility Natural Gas	1.7%	-6.0%	2.3%	4.4%	12.4%	5.7%	4.6%	
Industrial Chemicals	2.8%	16.4%	9.9%	3.0%	1.1%	-1.2%	-0.5%	
Plastic Resins	1.2%	22.0%	7.0%	1.9%	0.3%	0.4%	0.0%	
Agricultural Chemicals	0.6%	9.0%	7.6%	3.6%	0.5%	-0.9%	-5.4%	
Plastic Products	2.6%	3.4%	1.6%	0.6%	0.3%	0.3%	0.1%	
Fabricated Metal	2.2%	1.8%	1.7%	1.9%	1.9%	1.8%	2.2%	
Nonferrous Metals	3.4%	4.5%	2.7%	9.2%	13.0%	18.4%	17.7%	
Electronic Systems	1.2%	0.7%	0.7%	8.7%	9.5%	9.7%	2.2%	
Transportation Equipment	10.8%	0.6%	0.6%	0.5%	0.6%	0.7%	1.0%	
	<b>58.4%</b>							
<b>CPI</b>								
CONSUMER PRICES								
	Weight	May 26	Apr 26	Mar 26	Feb 26	Jan 26	Dec 25	2y trend
Food	13.4%	0.7%	0.9%	0.6%	1.2%	0.9%	0.7%	
Energy Commodities	4.6%	36.7%	29.6%	18.7%	-2.5%	-2.9%	1.0%	
Energy Services	3.2%	2.4%	2.2%	0.8%	1.4%	1.9%	2.5%	
Transportation Services	6.4%	0.4%	1.2%	2.2%	2.0%	1.5%	-0.2%	
Airline Fare	1.1%	8.4%	7.0%	10.9%	12.0%	7.6%	-1.7%	
IT Commodities	0.7%	0.9%	-2.2%	-2.6%	-4.6%	-1.8%	-2.2%	
Medical Equipment	0.1%	-1.1%	0.2%	1.8%	0.9%	-0.1%	-0.6%	
Apparel	2.5%	2.0%	3.0%	2.6%	1.9%	0.4%	-0.1%	
Housekeeping Supplies	0.8%	0.3%	-0.3%	0.4%	0.7%	0.7%	0.0%	
Other Household Goods	0.5%	-0.8%	-1.4%	-1.3%	1.6%	3.0%	2.8%	
Sporting Goods	0.5%	0.9%	1.0%	1.5%	1.4%	0.2%	-0.8%	
New Vehicles	3.7%	-0.3%	0.0%	0.3%	0.2%	0.3%	0.2%	
Motor Vehicle Parts	0.3%	-0.3%	0.9%	0.7%	0.9%	-0.1%	-0.1%	
Appliances	0.2%	-1.5%	1.1%	2.8%	1.7%	-1.9%	-3.7%	
Hospital Services	2.1%	0.8%	0.8%	2.0%	2.6%	2.3%	1.8%	
	<b>40.4%</b>							

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

## Bank of Canada Sitting Pretty

The Bank of Canada's (BoC's) Governing Council left its benchmark interest rate unchanged at 2.25%. The Bank's statement and press conference emphasized mixed signals and a high degree of uncertainty in the outlook, suggesting the Council will continue to hold rates steady for the foreseeable future.

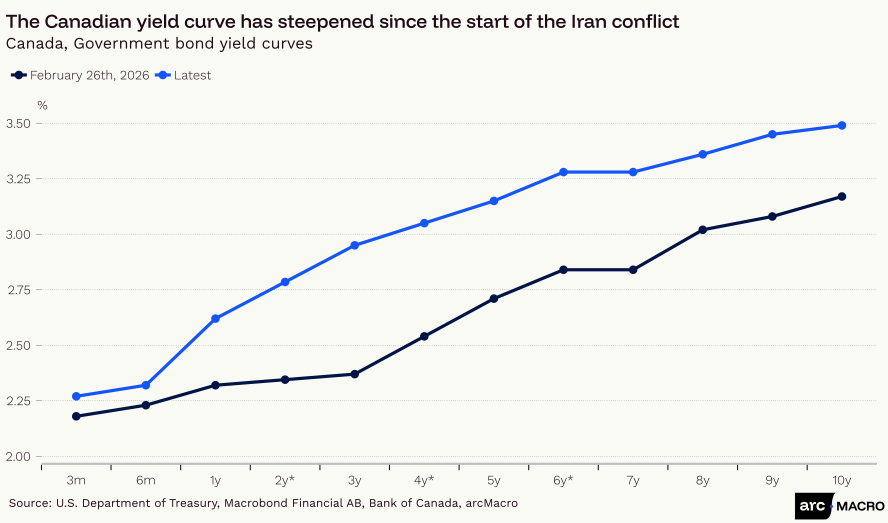
Governor Macklem highlighted new tariff threats from President Trump and the impact of the Iran conflict on prices as major risks, but also pointed out that looser financial conditions in Canada (from a weaker Canadian dollar and rising equity prices) have helped to offset these shocks.

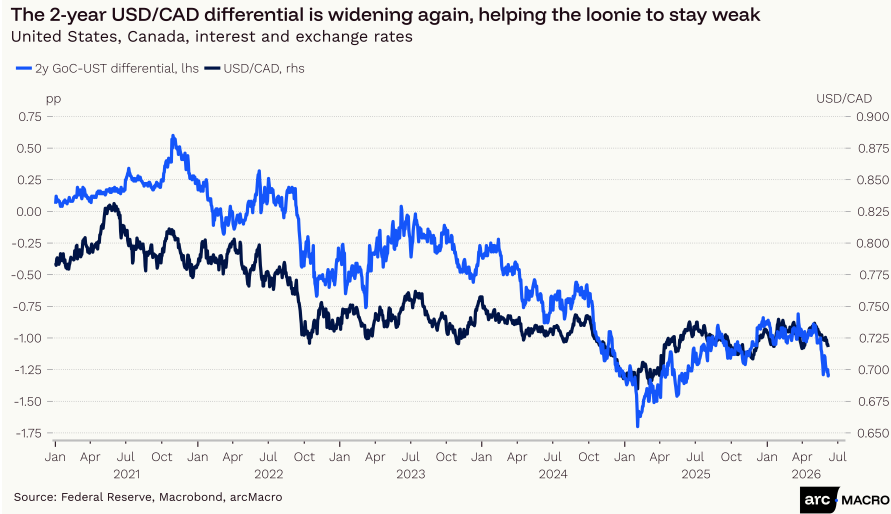
On inflation, the MPC noted that there is little evidence so far that higher energy prices are passing through into core inflation, and that the economy is operating in a clear state of excess supply. While the Bank will be watching price dynamics closely, this background slack imparts a bias toward remaining accommodative and sets a very high bar for hikes from the BoC.

Indeed, we've argued that Canada's inflation dynamics are fundamentally different from those in the US, where higher energy and goods prices are amplifying existing inflationary pressures from tariffs, blistering AI investment deployment, and pockets of labor market tightness in cyclical sectors. This means that while American policymakers debate whether and when to raise the policy rate, the risks in Canada are two-sided; if inflation remains contained to the energy sector but growth or employment dynamics deteriorate further, interest rate cuts are a plausible option.

Putting it all together, we see the wedge between yields on short-term (0-2-year) US Treasuries (USTs) and Government of Canada bonds (GoCs) remaining wide, keeping the loonie weak (despite data this week showing the strongest trade surplus since Donald Trump took office on the back of higher oil prices).

Our longer-term outlook is more balanced. If Canada can gain clarity on its trade relationship with the US, and if the Carney government's investment drive starts to bear fruit, Canada will enter a period of catch-up growth, making up for lost time after severe underinvestment. This argues for higher interest rates in the 5-10 year portion of the yield curve (we've already seen the curve steepen somewhat on this horizon).





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

## Market Monitor

### Public markets

Stock markets traded nervously ahead of Friday's record-breaking SpaceX IPO. After a small bounce on Monday, semiconductors led the major indices down before reversing course in the final few sessions of the week. Don't get distracted by the new debut, however — this was a macro trade based on better-than-expected inflation numbers and easing bets on the pace and extent of potential rate rises. Hence, the small-cap, interest-rate-sensitive Russell 2000 rose 3.9% on the week, compared to the tech-heavy Nasdaq's 0.7% gain.

Bond markets mirrored equities, easily digesting a large issue of their own (Anthropic's \$35 billion private debt round). Sovereign fixed income posted price gains that forced yields down by 5-8 basis points across the board, and gains were compounded in investment grade credit, where spreads compressed by 8 basis points.

It was a sea of red in commodity markets, with oil prices the main mover. The WTI crude benchmark responded to yet another set of hints of an imminent deal from the White House (rebutted by Iran) by falling \$5.7 per barrel to \$84.9. Another important factor in the oil price narrative is the extent of the decline in Chinese demand as consumers and industry switch to electric. We caution that price dynamics are still heavily premised on an expected full reopening of the Strait of Hormuz before the late summer demand surge from Western economies (cooling, driving, harvesting), and are being supported by strategic reserve sales in the US. Carlyle's Jeff Currie estimates that these factors are sufficient to offset the Chinese adjustment (see the link in the "Marginal Movers" section), implying that forward prices are too optimistic.

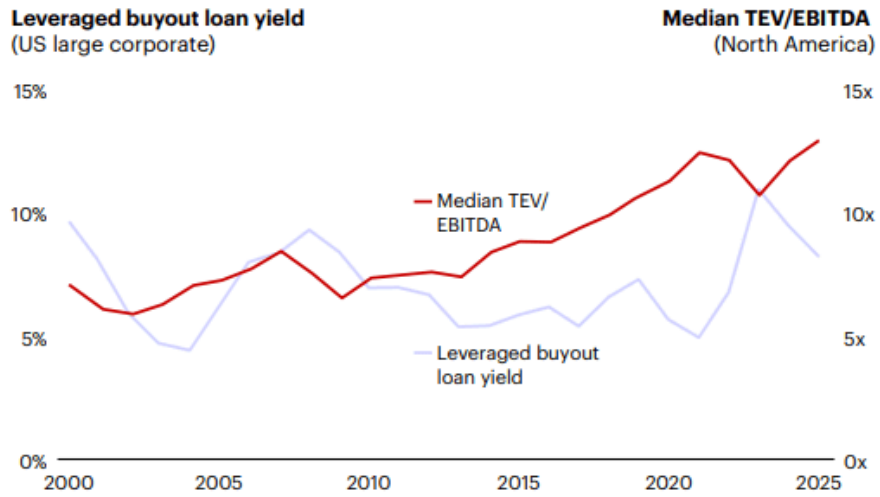
## **Private Markets**

Bain & Co. is out with its [mid-year private equity report](#). We recommend giving it a read.

The fundamental diagnosis of the challenges facing PE is [very similar to our analysis last week](#). A combination of high interest rates and high valuations is making deal-level economics challenging, throttling new buyouts and closing the door on the two most common exit routes – sponsor-to-sponsor transactions and corporate M&A.

The report does not paint a picture of the way out for the industry. Sure, PE firms can build resilience and focus on value creation to stay competitive relative to peers and benchmarks, but the only way out of a macro hole is a macro ladder. PE will be stuck in the mud until either interest rates fall or valuations normalize. Our memo offers some thoughts on the second path (a stock price correction that does not tank growth would be welcomed by the industry), but we're not hopeful about lower interest rates in the near term. Investors and operators should plan accordingly.

**Figure 4:** Steep purchase multiples and elevated capital costs are making buyouts as expensive as they've ever been



Notes: TEV is total enterprise value; deal cost index is loan yield multiplied by median TEV/EBITDA; US large corporate defined as LBOs with more than \$50 million in EBITDA; median TEV/EBITDA multiple includes fully, partially, and not realized deals and all equity check sizes; data as of Q3 2025  
Sources: PitchBook, a Morningstar company; SPI by StepStone

See the appendix for the market monitor table

# Memo

## How to Spot the Top; or, what we learned when we put every bubble chart in one place

**Bottom line:** *Mostly for fun, we've pulled together every chart on bubbles and market tops we know about, from Nobel-winning peer-reviewed economic research to unproven cultural indicators. It was an unexpectedly revealing exercise. Valuation signals and issuance patterns suggest that a top in the equity market could well be near (although timing is impossible to predict), though newer indicators associated with the 2022 market top are not raising red flags. More fundamental is the finding that cross-asset signals designed to tell us whether an equity correction would be economically significant are relatively benign.*

**What it means for investors:** *It's reasonable to worry about a serious correction in stock prices. Don't waste your time extrapolating to a resulting serious financial crisis or major economic downturn.*

The current surge in IPO fundraising has been identified by many as a "late cycle" phenomenon, prompting the question of whether an AI-fueled "bubble" is about to "pop."

The underlying logic is that firms sense a peak in stock valuations and move fast to maximize their fundraising and exit values before the market corrects to more normal levels.

The central challenge to identifying a bubble is that it can only be defined in retrospect. In real time, it is impossible to tell the difference between a bubble and a perfectly justified capex cycle based on the development and dissemination of a new technology. Anyone calling a bubble is making a judgment, not identifying an objective and verifiable fact. Nobel laureate in economics Gene Fama made this point in his 2013 prize lecture. In any case, even when the evidence for an exuberant mispricing is strong, the timing is indeterminate; bubbles very often outlast the capital, patience, and discipline required to bet against them.

But why let these pesky truths stand in the way of good fun? We're being asked whether markets are peaking, so we'll provide an answer by sharing a chart for **every bubble indicator** we know of, from peer-reviewed academic studies to cultural memes. Many of these indicators are deeply flawed or have lost relevance

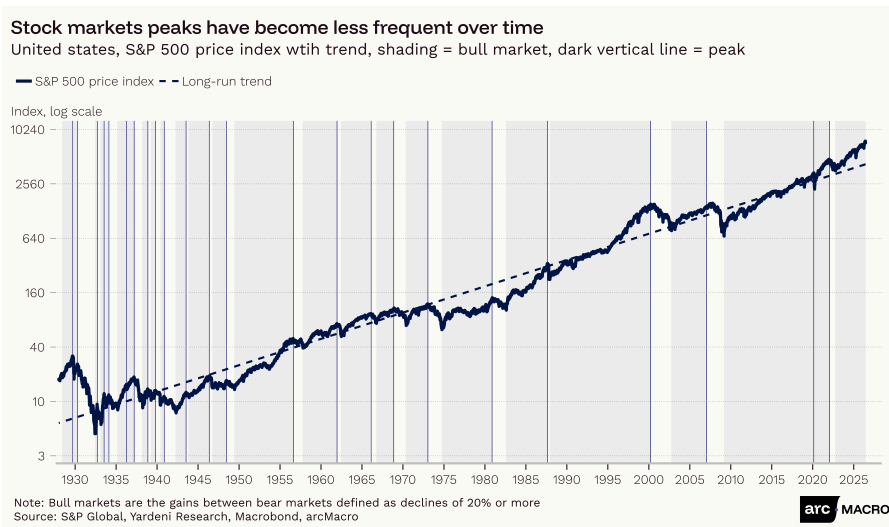
as the economy and financial system have evolved, but we won't burden ourselves with such subtleties. Instead, we're interested in seeing what we can glean by looking at all of them.

## Defining the top

Before we dive in, a problem: Even if we are at the "top", how would we identify and define it? There is a range of statistical options, all of which try to quantify the idea that prices have deviated to an extreme unsustainable degree from fundamentals. Again, this can only be done with the benefit of hindsight (you need the drop to know you've stopped going up).

We've opted for the simple definition published by [Yardeni Research](#), which identifies the "peak" as the day before the S&P 500 index starts falling by 20% or more ("bear market").

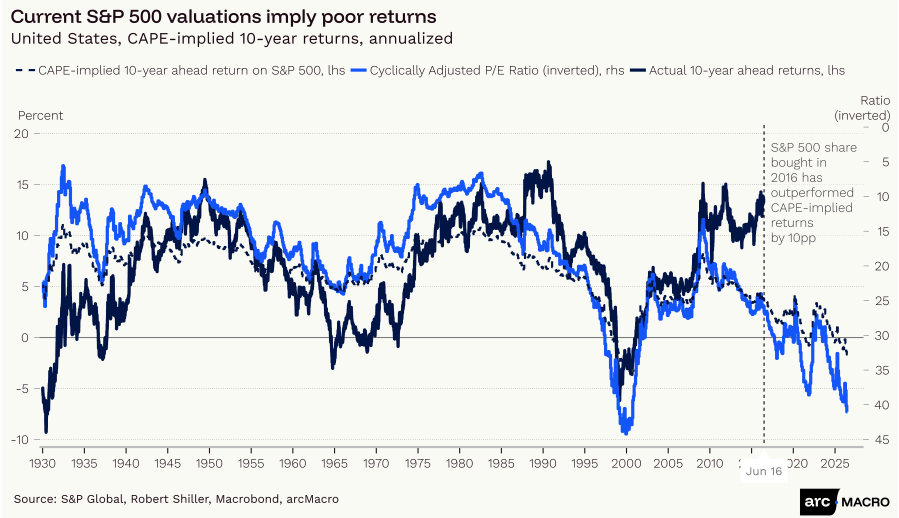
Now let's see how well **every bubble indicator** has signaled these peaks in the past and what they're saying now.



## Valuation-based measures

### Cyclically Adjusted P/E (CAPE) Ratio

- Logic: Price divided by 10-year average inflation-adjusted earnings — higher readings signal lower future returns.
- Current signal: Stocks are very rich, implying near-zero returns over the next decade (it's been wrong over the past decade).



## Buffett Indicator

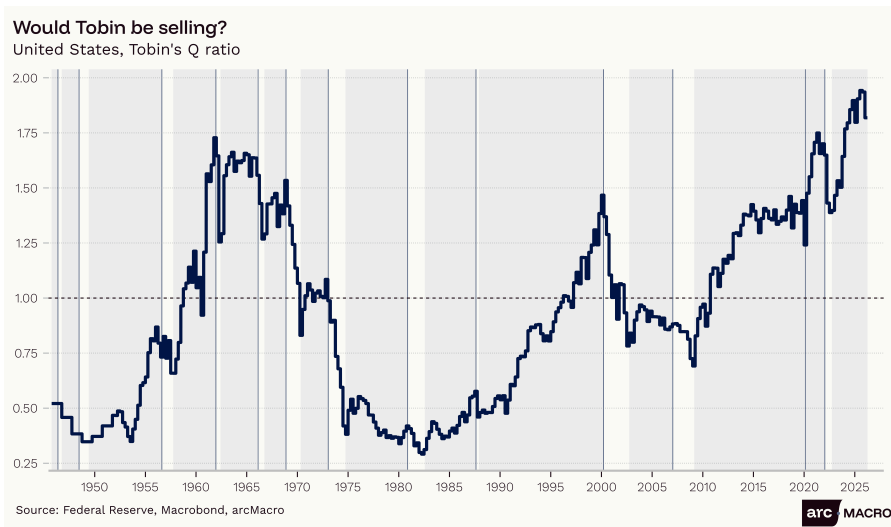
- Logic: Total market capitalization divided by GDP — higher readings imply that stocks are overvalued compared to the ability of the economy to generate earnings.
- Current signal: Stocks are more overvalued than they were during the dotcom bubble.



## Tobin's Q

- Logic: Total market value of corporate equities and debt divided by the replacement cost of net assets— values significantly above one represent overvaluation.

- Current signal: Stocks are more overvalued than they were during the dotcom bubble or 1960s boom.



## Equity Risk Premium (ERP)

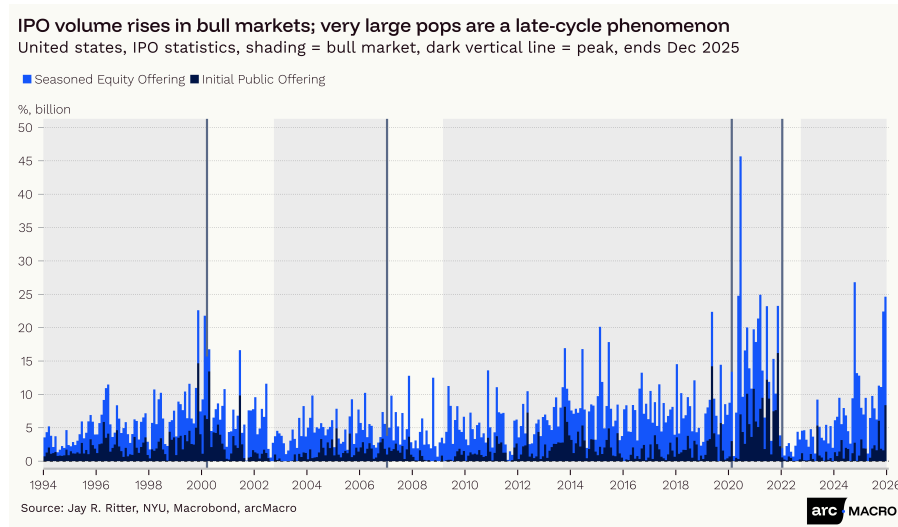
- Logic: Expected return from holding the stock market index over the risk-free interest rate— If investors demand a small premium for taking on the additional risk in stocks over bonds, equities are overvalued.
- Current signal: The ERP is low, but above post-COVID dips, and recent lows have falsely identified market tops.



## Issuance-based measures

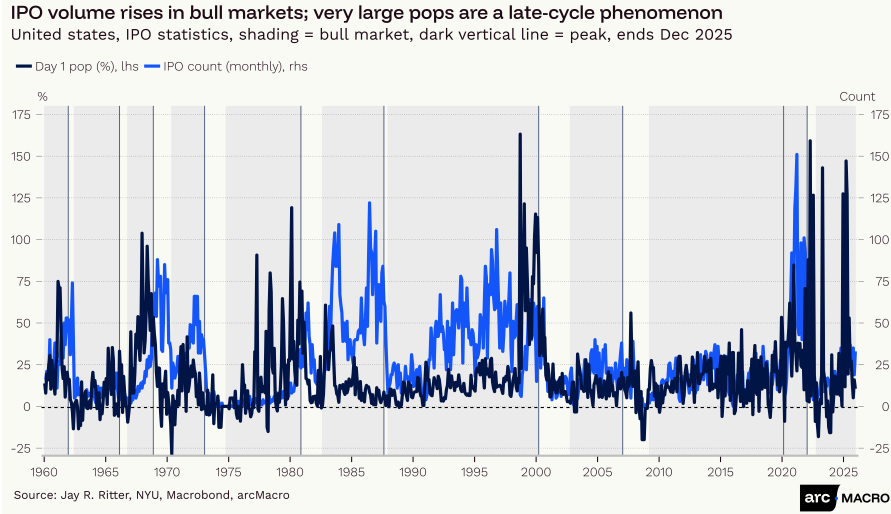
### IPO/SEO volumes

- Logic: Proceeds of equity offerings — higher volumes suggest "frothy" market and possible bubble.
- Current signal: Already rising in late 2025; recent issuance suggests peak may be approaching.



### First day pop

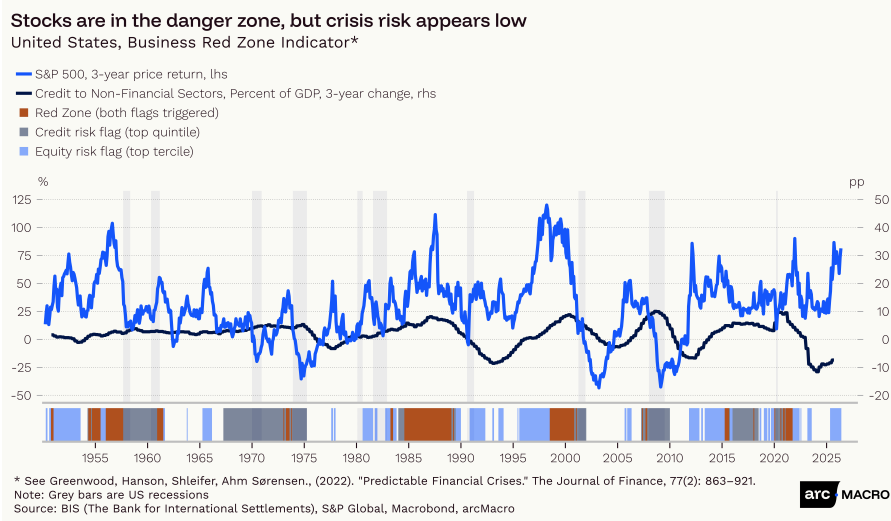
- Logic: Monthly average percentage gain from offer price to first-day closing price — large average pops signal speculative demand for new issues and cluster near market peaks.
- Current signal: No concern, but SpaceX IPO will likely spike the chart below when data are updated to 2026.



## Adding cross-asset signals

### The Red Zone Indicator (Greenwood-Hanson-Shleifer-Sørensen)

- Logic: Binary flag that turns on when both credit growth and asset-price growth over the prior three years are in their elevated distributional tails — when the signal trips, there is a 40% probability of a financial crisis.
- Current signal: Green – stocks are high, but three-year corporate credit growth is below historical average.

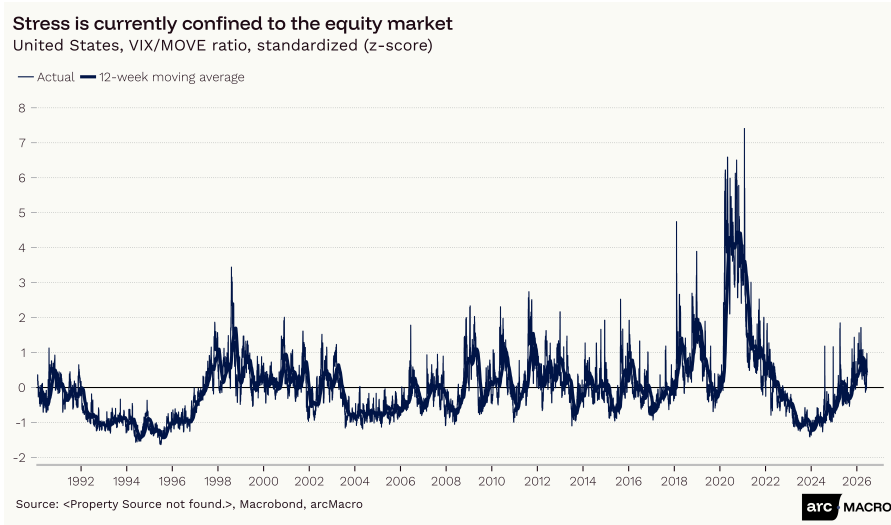


## VIX/MOVE ratio

- Logic: Compares equity-market implied volatility (VIX) against Treasury-market

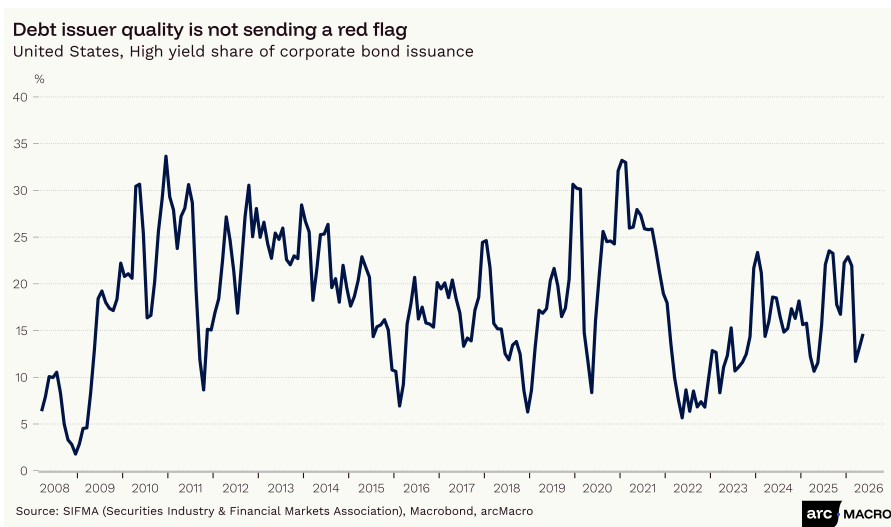
implied volatility (MOVE). A depressed ratio signals equity investors are complacent, while the bond market warns of turbulence.

- Current signal: No cause for concern; volatility aligned across markets.



## High-yield issuance as a share of total corporate issuance

- Logic: Average quality of corporate credit — gauges overheating in corporate financing.
- Current signal: No concern

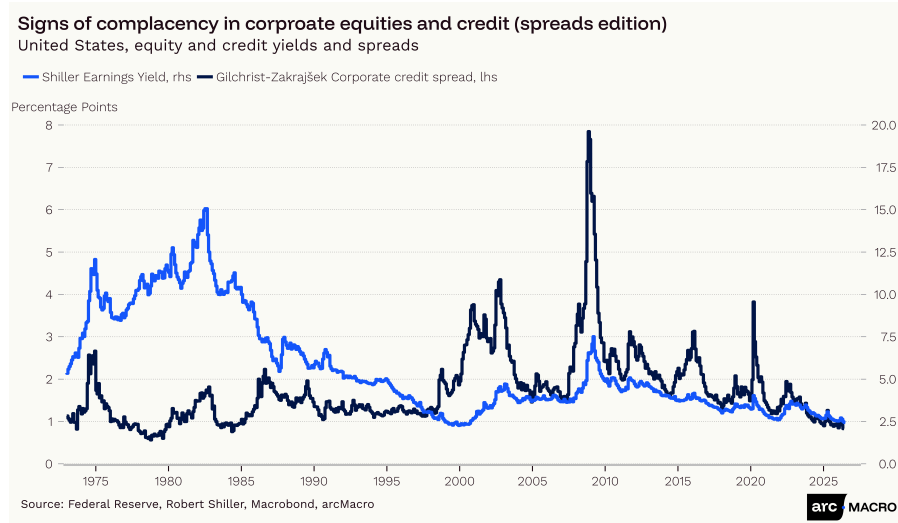


## Equity earnings yield vs high-yield spread

- Logic: The earnings yield versus high-yield spread compares the equity

earnings yield (1/CAPE) against the high-yield credit spread as a cross-asset froth gauge — low yields in both markets signal joint complacency.

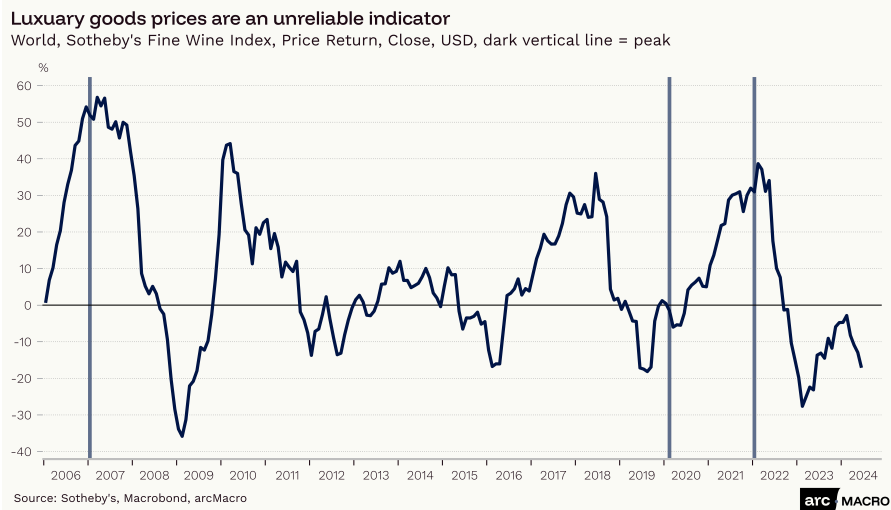
- Current signal: Red flag: yields highly compressed in both market segments.



## New Indicators and cultural red flags

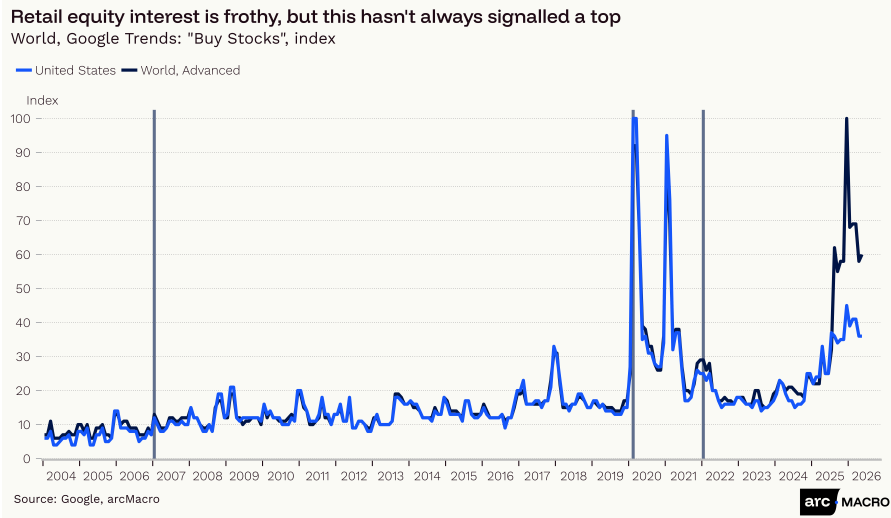
### Fine Wine Prices

- Logic: Secondary-market prices of blue-chip investment wines — higher prices suggest broadly frothy and speculative market conditions.
- Current signal: No reason for concern



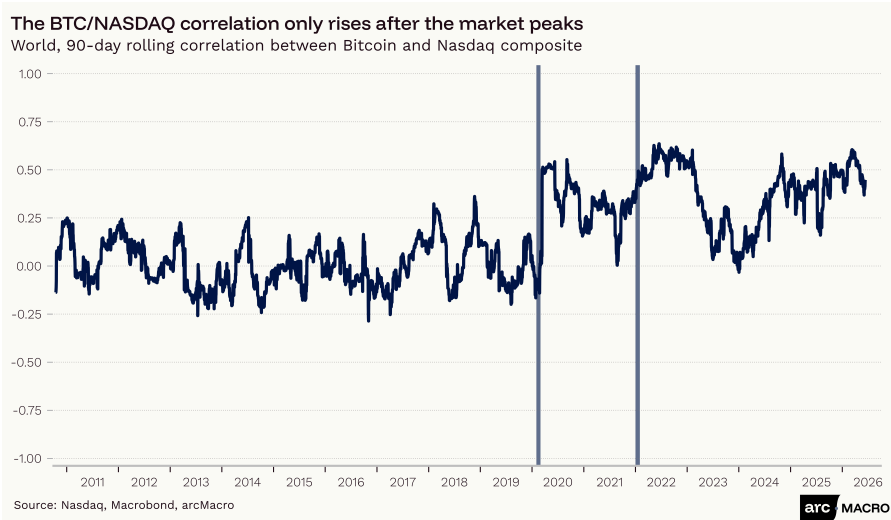
## Retail participation

- Logic: Share of market activity driven by individual (non-professional) investors — surging retail involvement signals speculative euphoria that tends to cluster near market peaks.
- Current signal: Moderate cause for concern.



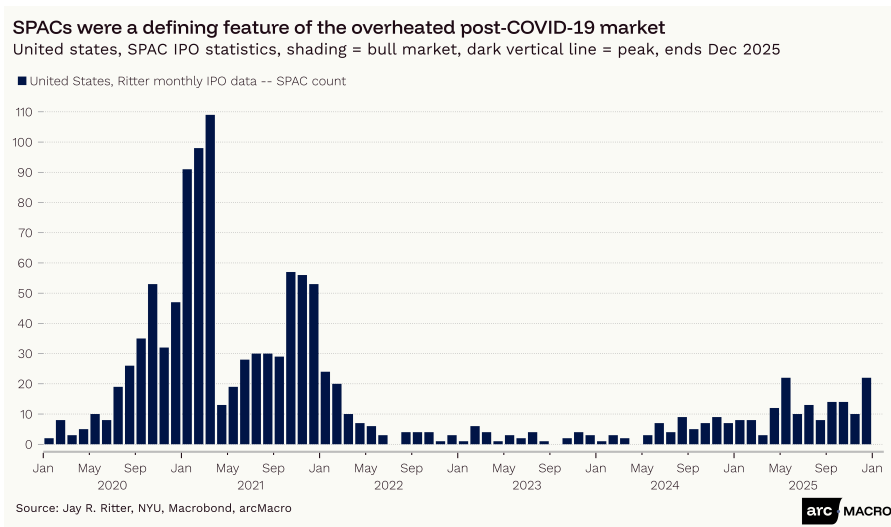
## Nasdaq-Bitcoin correlation

- Logic: The Nasdaq-Bitcoin rolling correlation measures the co-movement between tech equities and Bitcoin returns over a trailing window — high positive correlation signals crypto trading as a leveraged risk-on proxy.
- Current signal: Orange flag, but this indicator does not have a strong track record.



## SPAC Issuance

- Logic: SPAC issuance is the volume of special-purpose acquisition company offerings over a period — blank-check vehicles proliferate when speculative appetite and easy capital peak.
- Current signal: Little cause for concern.



## Barron's Cover

- Logic: Contrarian notion that when Barron's features a bullish market theme prominently on its cover, the trend is already widely recognized and near exhaustion.
- Current signal: The cover below is from two weeks ago. Sell chip stocks!



**The Chip Rally Has Gone Parabolic. It's Time to Separate the Pillars From the Pretenders.**

Jun 1, 2026

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## 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 (%)
<b>US Equities</b>							
S&P 500	7431	47.7	0.6	656	9.7	586	8.6
Information Technology			0.5		22.2		17.5
Financials			2.0		7.6		-2.9
Consumer Discretionary			0.7		3.7		-1.9
Communication Services			-1.9		3.2		2.8
Health Care			0.5		0.6		-0.9
Industrials			1.1		3.9		13.4
Consumer Staples			2.6		0.9		10.3
Energy			-0.4		0.4		27.0
Utilities			0.4		-3.6		3.7
Real Estate			1.3		6.7		12.5
Materials			3.0		3.8		13.2
Nasdaq Composite			0.7		14.0		11.4
Dow Jones Industrial Average			0.7		8.0		6.5
Russell 2000			3.9		15.8		18.6
<b>Global Equities</b>							
DM: MSCI World index			0.6		9.5		10.6
EM: MSCI EM Index			0.0		14.0		23.4
CAN: TSX Composite			1.5		5.5		10.2
EUR: STOXX 600			1.7		5.1		6.9
HK: Hang Seng			-1.0		-4.6		-3.6
JPN: TOPIX			-1.7		5.0		13.9
UK: FTSE 100			1.0		1.1		5.4
<b>Sovereign Fixed Income</b>							
US: 2-year Treasury	4.09	-0.08		0.45		0.62	
US: 5-year Treasury	4.21	-0.08		0.42		0.48	
US: 10-year Treasury	4.48	-0.07		0.27		0.3	
CAN: 2-year GoC	2.77	-0.1		0.12		0.19	
UK: 10-year Gilt	4.91	-0.060		0.020		-0.0100	
GER: 10-year Bund	2.98	-0.05		0.090		0.13	
CHN: 10-year CGB	1.74	0.02		-0.0648		-0.105	
JPN: 10-year JGB	2.65	0.0100		0.48		0.59	
<b>Corporate Bond Spreads</b>							
US: A-rated	63.7	-0.8		-13.3		-6.1	
US: BBB-rated	96.8	0.5		-17.7		-7.7	
<b>Foreign Exchange Rates</b>							
DXY US Dollar Index	99.8		-0.3		0.5		1.5
EUR/USD	1.15		-0.9		-0.9		-1.8
USD/CAD	1.4		0.7		3.1		2.1
USD/CNY	6.78		0.1		-1.4		-3.1
USD/JPY	161		0.4		1.8		2.7
GBP/USD	1.34		-0.8		-0.6		-0.7
USD/CHF	0.8		1.5		3.0		0.9
<b>Commodities</b>							
WTI Crude	84.9	-5.66	-6.3	-2.37	-2.7	27.5	47.8
Gold	4186	-179	-4.1	-996	-19.2	-182	-4.2
S&P GSCI Commodities			-3.8		-3.4		21.6
S&P GSCI Industrial Metals			-0.3		3.9		12.2
S&P GSCI Agriculture			-0.2		-6.8		-4.7

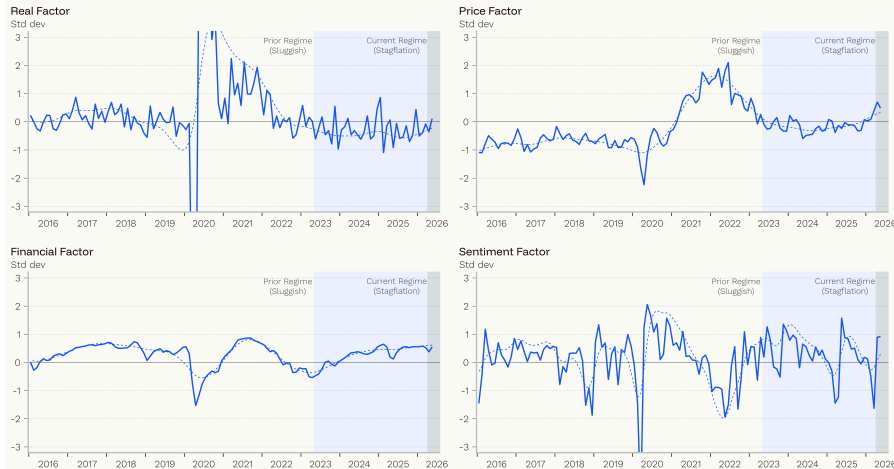
\* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

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)
<b>arcMacro Real Factor</b>	<b>Standard deviations</b>	<b>0.1</b>	<b>-0.4</b>	<b>-0.9</b>	
Underemployment (U-6)	%	8.1	7.9	7.8	
Capacity Utilization	%	78	75.6	76.1	
Industrial Production (IP)	%, YoY	1.4	1.4	0.9	
Employment-to-Population Ratio	%	59.2	59.3	59.7	
Dallas Fed Services Index	%, YoY	-7.7	-3.2	-11.8	
Unemployment Rate	%	4.3	4.4	4.3	
Transportation Services Index	%, YoY	1.7	-0.4	2.0	
Employment	Thousands, MoM	149.0	-185.0	-654.0	
Construction Employment	Thousands, MoM	17.0	-21.0	-2.0	
Philadelphia Fed Manufacturing Index	%, YoY	-0.4	16.3	-0.7	
<b>arcMacro Price Factor</b>	<b>Standard deviations</b>	<b>0.8</b>	<b>0.4</b>	<b>0.0</b>	
Trimmed CPI	%, MoM, SA	0.3	0.2	0.2	
"Sticky" CPI	%, MoM, SA	0.2	0.2	0.2	
PCE	%, MoM, SA	0.4	0.3	0.2	
Inflation Expectations (NY Fed)	%, Annual	3.5	3.0	3.2	
Inflation Expectations (U-Mich)	%, Annual	4.6	3.8	5.0	
Core CPI	%, MoM, SA	0.2	0.2	0.1	
Services PCE	%, MoM, SA	0.3	0.5	0.2	
Market-based PCE	%, MoM, SA	0.5	0.3	0.2	
Richmond Fed Services Price Index	%, Annual	5.5	5.2	5.0	
5 Year Break-Even Inflation Rate	%, Annual	2.6	2.5	2.4	
<b>arcMacro Financial Factor</b>	<b>Standard deviations</b>	<b>0.6</b>	<b>0.6</b>	<b>0.1</b>	
Financial Stress Index (KC Fed)	Index (>0: higher stress)	-0.9	-0.6	-0.5	
Financial Stress Index (OFR)	Index (>0: higher stress)	-2.4	-2.3	-1.2	
Gold Volatility Index	%	26.0	34.3	21.5	
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	8.6	8.6	8.9	
IPO Underwriting Activity	US\$ Billions	13.1	4.9	2.2	
Household Debt Growth	%, QoQ, Annualized	2595966.0	3092884.0	2060881.0	
<b>arcMacro Sentiment Factor</b>	<b>Standard deviations</b>	<b>0.9</b>	<b>-0.6</b>	<b>1.6</b>	
Cyclically-Adjusted PE Ratio (S&P 500)	Ratio	41.0	36.9	36.1	
Dividend Yield (S&P 500)	Ratio	1.2	1.2	1.2	
12-month Forward PE Ratio (S&P 500)	Ratio	21.2	21.6	21.3	
Price/Book Ratio (S&P 500)	Ratio	5.3	5.0	4.9	
Crude Oil Volatility Index	%	72.9	53.7	42.5	
Economic Policy Uncertainty Index	Index	355.3	346.4	488.9	
MOVE Index	Index	74.7	64.5	100.0	
VIX	%	17.2	19.2	20.5	
Bull-Bear Spread (AAII)	%, (>0: net bullish)	-2.5	0.5	-9.6	
Equity Risk Premium (NYU Stern)	%	11	11	1.2	

■ 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, LJKmfa, AAI  
\*Most recent published data point. Time period and frequency do not necessarily align.

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