

Clouds of Uncertainty

Report for the week ending July 11, 2026

Dylan Smith

Key Takeaways

- **MONOLOGUE:** The US-Iran ceasefire collapsed, and the binary questions markets keep asking miss the point: Hormuz trade is alive and dead at once, and what matters is how fast, how costly, and how often stalled.
- **MACRO:** A thin data week, in which Canada's decent jobs print carries the fingerprints of the World Cup rather than a recovery, and global manufacturing cooled as the inventory build faded.
- **MARKETS:** Oil swung on the ceasefire and ended higher, Japan's finance minister lifted the yen, JGBs, and local equities by urging pension funds to buy domestic assets, and SK Hynix's Nasdaq debut showed that the appetite for AI hardware is still hot.
- **MEMO:** Despite the common refrain that we're living through the most uncertain economic times in memory, investors are not demanding a premium for holding short-term risk. We sense some complacency.

Monologue

The ceasefire between the US and Iran collapsed this week. For how long, we don't yet know. This came a little sooner than expected, but it has played out largely as I warned when the ceasefire deal was announced a few weeks ago. You can get the timing or the form, but never both.

From what I've seen, commentary has focused too much on the binaries. Is the ceasefire holding, yes/no? Is this a hot war, yes/no? Is the Strait of Hormuz open, yes/no? The world we live in no longer permits such simple block-and-white analysis. We should instead be focusing on more Schrödinger-like scenarios. Trade through the Strait is both alive and dead. What matters for the global economy is how fast it's happening, how expensive it will be in the end state, and how frequently it will be stalled.

This mindset shift has not fully taken hold, but its implications are clear. Traders should be pricing in the uncertainty directly (in the oil futures curve) and indirectly (via its impact on other assets). Our Memo this week investigates the current price of risk, finding evidence that a sense of complacency may be worming its way into markets.

On the subject of risk and uncertainty, we do know that there is a clear and present downside case if the Strait of Hormuz is blockaded again and negotiations stall. Until now, previously unthinkable adjustments to both supply and demand have prevented crude prices from hitting \$150 per barrel, never mind the \$200 some analysts feared. China shifted its energy consumption mix abruptly, for instance, by rapidly prioritizing electric transport. It also ran down its oil reserves while it waited for the Strait to reopen. Meanwhile, the US made a series of unsavory choices to keep supply flowing. It has sold off its own strategic reserves on the global market and even allowed Russia to increase its official crude exports.

All of these mitigating strategies have limits. That's why a ceasefire was struck in the first place. If the parties are unable to come to the negotiating table for long enough to hash out a more durable deal, then the probability of a sudden energy shortage and global stagflation will only rise.

I should also comment on what we see as another source of short- to medium-term uncertainty: changes to the operating framework within which the US Federal Reserve sets interest rates. I'm on record as saying that we may be on the verge of some of the biggest changes in how monetary policy is conducted since the 1990s, which could affect the timing, magnitude, and direction of price changes in financial markets.

This week, Chairman Warsh released the names of the people leading his five task forces who will lay the foundations for these changes. The personnel list reveals two things. First, the selections enhance the credibility and seriousness of the task forces both inside and outside the Fed, since they comprise primarily of well-known and highly respected academics and former policymakers. Second, the inclusion of several names from the private sector, notably Doug McMillon (former President and CEO of Walmart) and Marc Andreessen (the venture capitalist behind Andreessen Horowitz), speaks to Warsh's modernization agenda. The Chairman is clearly trying to update how the Fed gets its real-time read on the economy and get on top of how AI will change the game.

Next up: the terms of reference under which these leaders will conduct their work. There are still more questions than answers on the final scope of changes in the Fed's policy operations.

With that, enjoy this week's note.

Dylan Smith

Founder and Chief Economist

Marginal Movers

Rising 🖐️

- **Institutional Private Credit:** [Big investors commit billions to private credit despite turmoil](#) — "many investors expected returns to increase, particularly if outflows from retail-focused vehicles limited how much money those funds were willing to lend."
- **Inflation (forecasting):** [Using Inflation Shock Patterns to Help Forecast Inflation](#) — "The index tracks the shares of consumer spending categories that

are experiencing consecutive positive or negative monthly inflation shocks, allowing detection of shifts in the underlying inflation environment."

Falling 📉

- **Public offers:** [What happens if OpenAI delays its IPO to 2027?](#) — "We need OpenAI and Anthropic to go public so we can start to see other software IPOs come to market."
 - **University Jobs:** [Job Recession in Higher Education](#) — "Some employment declines are made by technology. This one was made in Washington."
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Macro Monitor

With no major market-defining macro data this week, we're left to sift through a grab-bag of second-order releases for insights.

Canada's Labor Market Improves — thanks to FIFA

Any good news regarding Canada's fragile labor market should be celebrated, but the June Labour Force Survey should be enjoyed with a pinch of salt. Employment rose by a healthy enough 18k, but the concentration of hiring among 15-24 year olds, and in the accommodation and food services industry, are telltale fingerprints of the FIFA World Cup games in Toronto and Vancouver. We'll have to wait for July data to confirm whether a fundamental improvement is underway after two consecutive months of declines in the unemployment rate.

Global manufacturing momentum stalls

After a period of strong growth and rising momentum, partly driven by an inventory buildup, global manufacturing output cooled slightly in June, per the latest PMI readings. Despite this, output is still growing in the US, Canada, and the Eurozone.

A Global Greening

World, S&P Global Manufacturing PMI, >50 signals expansion

	Jun '25	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26	Feb '26	Mar '26	Apr '26	May '26	Jun '26
World	50.4	49.7	50.9	50.7	50.8	50.5	50.4	50.9	51.8	51.3	52.6	52.7	52.2
World, Developed	50.5	49.2	50.9	50.3	50.6	50.5	50.5	51.4	51.8	52.0	53.8	53.9	53.2
World, Emerging	50.4	50.1	50.9	51.2	51.1	50.5	50.4	50.6	52.0	50.7	51.6	51.6	51.4
Americas													
United States	52.9	49.8	53.0	52.0	52.5	52.2	51.8	52.4	51.6	52.3	54.5	55.1	53.9
Canada	45.6	46.1	48.3	47.7	49.6	48.4	48.6	50.4	51.0	50.0	53.3	52.9	53.0
Brazil	48.3	48.2	47.7	46.5	48.2	48.8	47.6	47.0	47.3	49.0	52.6	49.1	50.8
Mexico	46.3	49.1	50.2	49.6	49.5	47.3	46.1	46.3	47.1	48.9	47.7	49.6	51.3
Europe													
EU	49.2	49.6	50.4	49.7	49.8	49.5	48.8	49.5	50.5	51.3	52.0	51.4	51.2
Euro Area	49.5	49.8	50.7	49.8	50.0	49.6	48.8	49.5	50.8	51.6	52.2	51.6	51.4
Austria	47.0	48.2	49.1	47.6	48.8	50.4	49.3	47.2	49.4	52.4	51.2	51.7	50.9
Czech Republic	50.2	49.7	49.4	49.2	47.2	48.0	50.4	49.8	50.0	52.8	52.9	52.2	53.9
France	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	50.1	50.0	52.8	49.7	51.2
Germany	49.0	49.1	49.8	49.5	49.6	48.2	47.0	49.1	50.9	52.2	51.4	50.1	50.3
Greece	53.1	51.7	54.5	52.0	53.5	52.7	52.9	54.2	54.4	54.5	52.4	53.3	53.8
Ireland	53.7	53.2	51.6	51.8	50.9	52.8	52.2	52.2	53.1	53.7	54.9	55.9	54.9
Italy	48.4	49.8	50.4	49.0	49.9	50.6	47.9	48.1	50.6	51.3	52.1	52.9	52.2
Netherlands	51.2	51.9	51.9	53.7	51.8	51.8	51.1	50.1	50.8	52.0	54.4	55.9	55.5
Poland	44.8	45.9	46.6	48.0	48.8	49.1	48.5	48.8	47.1	48.7	48.8	49.4	46.1
Spain	51.4	51.9	54.3	51.5	52.1	51.5	49.6	49.2	50.0	48.7	51.7	51.2	49.7
Switzerland	48.7	49.5	48.2	46.1	48.1	49.6	46.4	48.8	47.4	53.3	54.5	57.3	54.3
United Kingdom	47.7	48.0	47.0	46.2	49.7	50.2	50.6	51.8	51.7	51.0	53.7	53.9	52.5
Asia & Pacific													
ASEAN	48.6	50.1	51.0	51.6	52.7	53.0	52.7	52.8	53.8	51.8	50.7	51.5	50.5
Australia	50.6	51.3	53.0	51.4	49.7	51.6	51.6	52.3	51.0	49.8	51.3	50.7	51.5
China	50.4	49.5	50.5	51.2	50.6	49.9	50.1	50.3	52.1	50.8	52.2	51.8	51.7
India	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.9	54.7	55.0	54.2
Indonesia	46.9	49.2	51.5	50.4	51.2	53.3	51.2	52.6	53.8	50.1	49.1	50.0	46.9
Japan	50.1	48.9	49.7	48.5	48.2	48.7	50.0	51.5	53.0	51.6	55.1	54.5	54.8
Malaysia	49.3	49.7	49.9	49.8	49.5	50.1	50.1	50.2	49.3	50.7	51.6	49.9	50.7
New Zealand	48.4	53.1	50.3	50.3	51.7	51.9	56.0	54.9	54.5	52.8	50.6	51.3	59.7
Philippines	50.7	50.9	50.8	49.9	50.1	47.4	50.2	52.9	54.6	51.3	48.3	50.8	50.9
Russia	47.5	47.0	48.7	48.2	48.0	48.3	48.1	49.4	49.5	48.3	48.1	48.8	50.3
South Korea	48.7	48.0	48.3	50.7	49.4	49.4	50.1	51.2	51.1	52.6	53.6	54.8	52.1
Taiwan	47.2	46.2	47.4	46.8	47.7	48.8	50.9	51.7	55.2	53.3	55.3	56.1	55.2
Thailand	51.7	51.9	52.7	54.6	56.6	56.8	57.4	52.7	53.5	54.1	52.7	52.6	53.6
Turkey	46.7	45.9	47.3	46.7	46.5	48.0	48.9	48.1	49.3	47.9	45.7	49.8	47.1
Vietnam	48.9	52.4	50.4	50.4	54.5	53.8	53.0	52.5	54.3	51.2	50.5	52.8	51.8

arc MACRO

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

Market Monitor

Oil prices took something of a round trip this week as investors tried to digest precisely what the status of the US-Iran ceasefire is and what it means for the flow of hydrocarbons out of the Strait of Hormuz. But it was Japan that took center stage in macro markets on Friday when Finance Minister Satsuki Katayama urged domestic pension funds to shift more of their assets into domestic securities and promised policies to make that happen.

Global markets took this seriously, interpreting it as a form of "stealth intervention" aimed at buoying undervalued assets, particularly the Yen. This in turn would help to manage Japan's 200%+ of GDP public debt burden amid rising interest rates. The Yen, JGBs, and local equities all rose sharply on Friday and closed the week roughly flat.

Japan's currency is trading at JPY 162 against the US dollar, with a suite of fair value techniques putting the appropriate rate somewhere between 90 and 110. [Goldman Sachs says](#) that conditions for the yen carry trade have rarely looked better. Fiscal concerns, oil price sensitivity, and a potentially rising interest rate differential make borrowing in Yen to invest in US dollars a winning strategy, putting persistent downward pressure on Japan's currency.

East Asia was prominent in equity markets too. South Korean chip manufacturer SK Hynix's shares popped 15% intraday on its Nasdaq debut, confirming that demand for AI-linked hardware stocks remains strong. It was the foreign listing in the United States and the second largest share sale ever. It only failed to generate more hype because of the long shadow of the record SpaceX listing last month. The excitement around the listing helped more tech-heavy U.S. indices post a strong up-week on AI-exposed stock gains, while the Dow Jones Industrial Average and small-cap Russell 2000 both lost ground.

See the appendix for the market monitor table

Memo

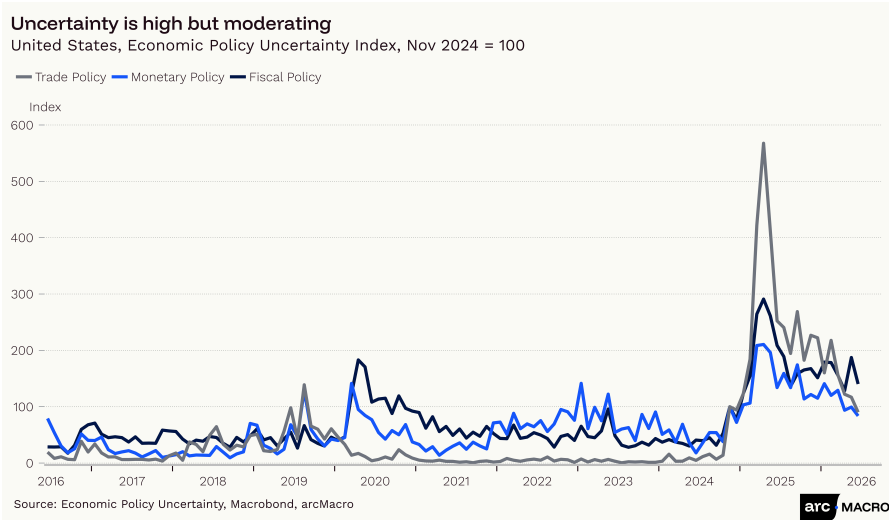
Where Did the Uncertainty Premium Go?

Bottom line: *Despite the common refrain that we're living through the most uncertain economic times in memory, investors are not demanding a premium for holding short-term risk. We sense some complacency.*

What it means for investors: *Risk tolerance is riding high. For those looking to raise funds, there is a window for action that will not be open forever. Private markets, in particular, may regret not making more active use of current conditions. For capital allocators, thin spreads and cheap risk suggest some contrarian caution may be a winning strategy.*

The breakdown of the US-Iran ceasefire this week and lack of clarity on the status of negotiations toward another comprehensive deal is the latest example of the uncertainty plaguing global markets. There are others too, such as whether the Fed will raise interest rates and how it will change how it operates under Kevin Warsh,

how the US might tame its runaway fiscal largesse, and the ever-present threat of trade war escalations.

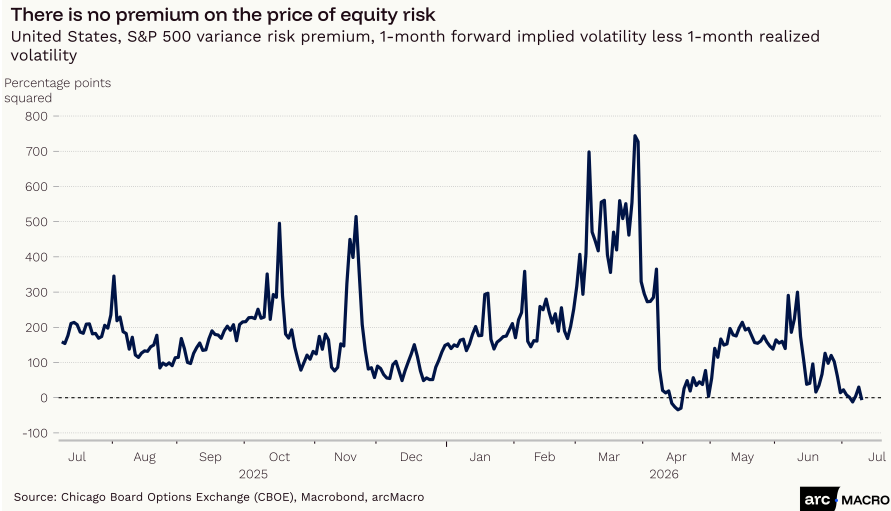


"Uncertainty" means that risk is unknown and unquantifiable. Risk has a price that is determined in options and other more complex derivative markets. More uncertainty should make risk more expensive — if you're less sure how much risk there is, you would expect to pay more for insurance.

This enables us to ask whether the price of risk looks fair. There are no perfect statistics, but those we do have paint a picture of complacency after a period of extreme price swings.

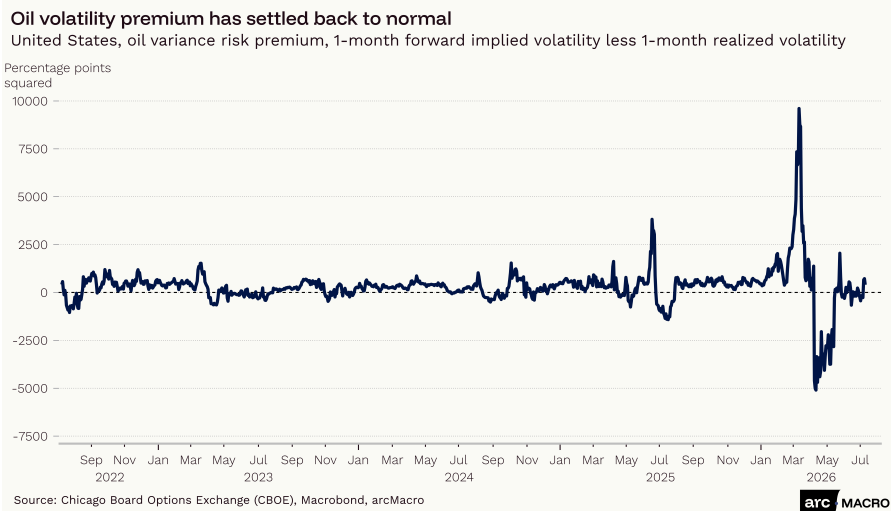
One of the best ways to look at the price of risk is to calculate the market-based assessment of future volatility implied by options prices — such as the VIX — and subtract actual realized volatility. A reading of zero represents actuarial fair value — risk is priced to reflect recent volatility trends. A positive value means that there is a premium that traders are paying to account for the possibility of higher volatility — they're insuring themselves against uncertainty.

We can see how this has played out in equity markets. When the Iran war started in late February, a large uncertainty premium opened up relative to the volatility levels that had prevailed before the conflict. Traders kept that uncertainty premium in place even relative to higher baseline volatility through May and June, but this has now settled back to actuarial fair value. Markets are placing no excess uncertainty premium on stocks relative to current volatility.



The story is even more extreme for oil prices, where we can carry out the same exercise using WTI crude price volatility and the OVX (the oil equivalent of the VIX). Here, an extreme spike at the onset of the war was more than reversed once trailing volatility caught up with expectations of more stable oil prices in late April and early May. At present, traders are paying only a small premium for insurance against the uncertain outlook in the Gulf, roughly in line with the historical average.

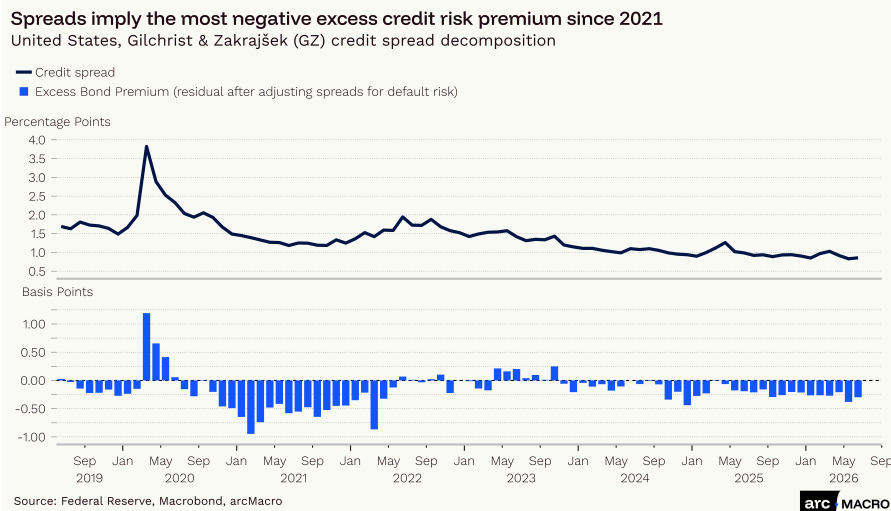
In our view, there is some complacency in both markets relative to the elevated uncertainty we believe should be incorporated in the price of risk.



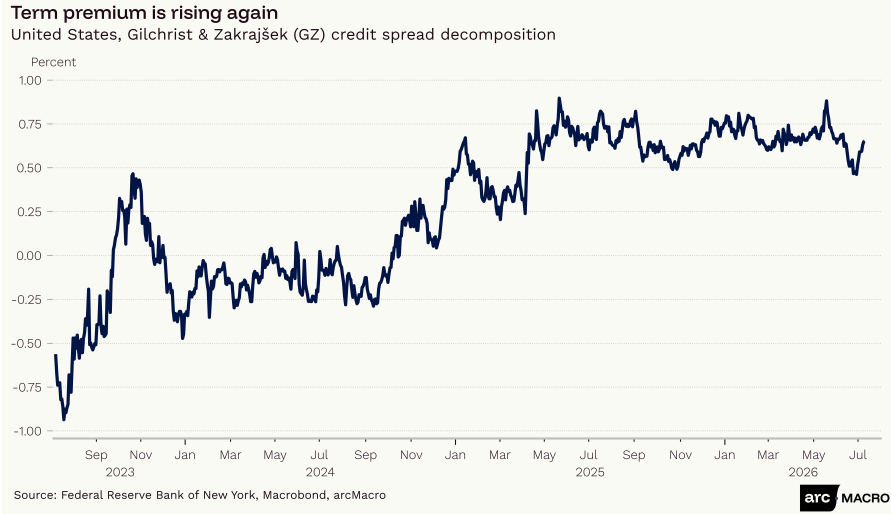
Given that a potential new regime for the conduct of monetary policy is in the works at the Federal Reserve, it would be useful to do the same exercise for fixed income. Bonds are more complex than equities or commodities so the same exercise is more difficult to replicate and less precise. Still, we can look at some indicative

series.

The most informative is the Fed's own excess bond premium indicator, which is currently telling us that, after adjusting for company-level default risk, the premium priced in is, in fact, negative. Investors are willing to pay to take on the risk of bond-negative factors such as an economic downturn. This again creates a sense of near-term economic complacency.



It's only really in the longer run that markets appear to be truly concerned about elevated economic uncertainty. We can see this in the term premium, which is the excess return that investors demand for buying longer-dated bonds instead of rolling over shorter-dated securities. The term premium experienced a step-change in 2023 when traders priced in a "higher for longer" regime of sustained inflation, larger fiscal deficits (and higher costs of carrying the debt), as well as potential future productivity improvements driving superior returns, and has not fallen since. A downward drift in the premium between May and early July has been reversed.



Apparently, it's the long-term health of Uncle Sam that keeps investors up at night, not current uncertainties regarding the oil trade, AI, or the new Fed Chair.

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	7575	92.2	1.2	751	11.0	730	10.7
Information Technology			3.4		24.2		19.5
Financials			0.1		8.5		1.7
Consumer Discretionary			0.4		4.7		-0.7
Communication Services			2.3		4.5		4.6
Health Care			-1.8		7.8		3.9
Industrials			-1.1		5.6		17.3
Consumer Staples			-1.3		-1.5		7.5
Energy			3.2		-4.7		22.1
Utilities			-0.8		-3.8		6.3
Real Estate			-0.4		3.9		10.9
Materials			-2.2		-2.2		11.2
Nasdaq Composite			1.7		15.2		13.1
Dow Jones Industrial Average			-0.5		9.2		9.5
Russell 2000			-0.6		13.0		20.0
Global Equities							
DM: MSCI World index			0.3		9.7		12.1
EM: MSCI EM Index			-1.7		11.5		21.9
CAN: TSX Composite			0.1		5.5		11.3
EUR: STOXX 600			-1.8		4.7		8.3
HK: Hang Seng			3.5		-6.1		-5.7
JPN: TOPIX			-0.7		7.9		18.4
UK: FTSE 100			-1.7		-1.0		5.7
Sovereign Fixed Income							
US: 2-year Treasury	4.21	0.07		0.43		0.74	
US: 5-year Treasury	4.3	0.07		0.39		0.57	
US: 10-year Treasury	4.56	0.07		0.27		0.38	
CAN: 2-year GoC	2.8	0.050		0.0100		0.22	
CAN: 10-year GoC	3.52	0.07		0.080		0.1	
UK: 10-year Gilt	4.96	0.10		0.13		0.42	
GER: 10-year Bund	3.07	0.14		0.080		0.22	
CHN: 10-year CGB	1.74	-0.01		-0.0794		-0.108	
JPN: 10-year JGB	2.86	0.090		0.49		0.8	
Corporate Bond Spreads							
US: A-rated	67.2	2.3		-5.8		-2.6	
US: BBB-rated	99.1	2.3		-11.4		-5.4	
Foreign Exchange Rates							
DXY US Dollar Index	101		0.1		2.2		2.7
EUR/USD	1.14		0.3		-2.3		-2.7
USD/CAD	1.42		-0.3		2.3		3.4
USD/CNY	6.8		0.1		-0.4		-2.8
USD/JPY	162		-0.1		2.4		3.9
GBP/USD	1.34		0.4		-0.4		-0.5
USD/CHF	0.808		0.2		2.4		1.9
Commodities							
WTI Crude	71.4	2.72	4.0	-26.5	-27.0	14	24.4
Gold	4099	-65	-1.6	-663	-13.9	-269	-6.2
S&P GSCI Commodities			2.9		-11.1		15.8
S&P GSCI Industrial Metals			1.5		0.2		6.3
S&P GSCI Agriculture			5.7		4.3		4.3

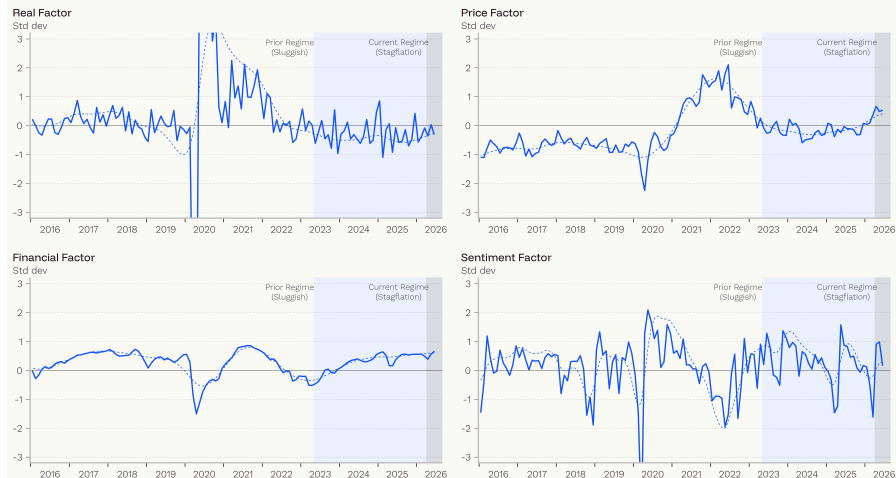
* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

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

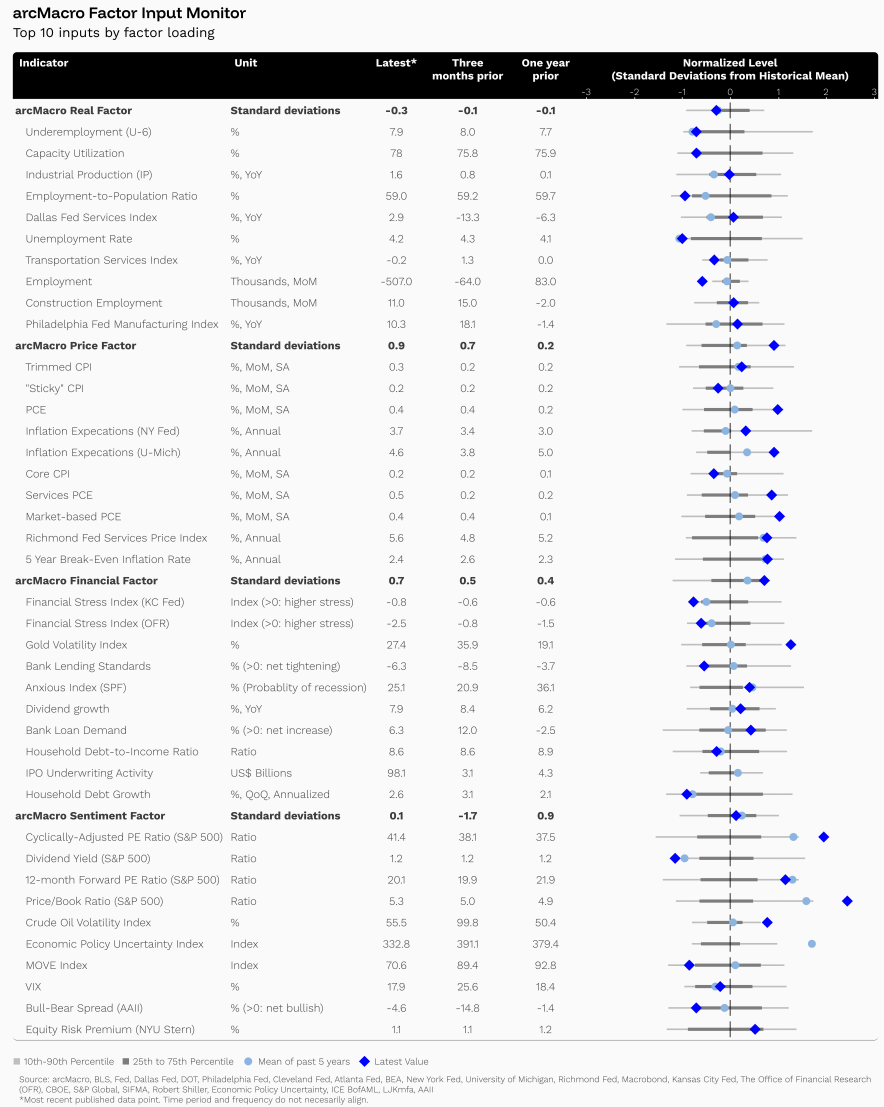
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arcMacro Real Time Factors

United States, z-score



Source: arcMacro



Disclosures

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