

ECONOMIC RESEARCH – JUNE 2026

INVESTMENT INSIGHT

USA

- ✓ **Economic resilience will fade in Q2**
- ✓ **The stagflation anticipated for Q2 is materializing**

A SURPRISING START TO THE KEVIN WARSH ERA

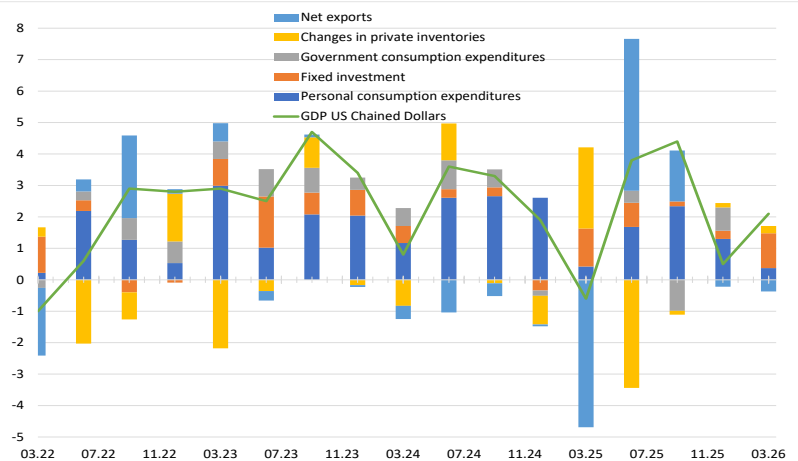
Involuntary Inventories Mask Weak Underlying Demand

The final upward revision of Q1 US real GDP to +2.1% masked deep structural vulnerabilities, as growth was artificially driven by involuntary corporate inventory accumulation rather than real demand. Service spending collapsed from an initial +1.8% estimate to a meager +0.5%, while overall personal consumption contributed just +0.3%. High tariffs, an aggressive energy price rebound, and a historic Q4 government shutdown successfully drained momentum from the consumer base, leaving the economy dependent on unsold stock.

Lower-Wage Hiring Fails to Fuel Retail Velocity

On the surface, the US labor market flashed resilience with a +178,000 headcount addition in March, yet a closer diagnostic reveals highly fragile foundations. The vast majority of these new roles were concentrated in low-wage sectors, failing to generate the disposable income necessary to jumpstart stagnant retail sales. Confirming this broad-based services slowdown, the ISM Services Employment Index fell below the critical 50-point expansion threshold. While structural tech-driven productivity gains kept the headline numbers afloat, the average worker's real purchasing power faced severe erosion from cost-push inflation.

Quarterly GDP growth - United States



Sources : Bloomberg, BBGI Group

Macro Indicators Diverge Wildly on Recession Risks

The closing weeks of Q2 triggered a historic divergence among leading US economic tracking metrics, exposing a highly volatile and confusing macroeconomic picture. The Atlanta Fed's GDPNow growth tracker plummeted from over +4% to a dismal +1.18% by late June, signaling a severe domestic slowdown. Conversely, a revised consensus of Wall Street analysts contrarily lifted its near-term expectations up to +2.5%. This statistical friction leaves corporate planners navigating extreme data volatility, trapped between a rapidly cooling consumer reality and buoyant high-level market expectations.

Micro-Stagflation Emerges via Upstream Component Shortages

The US has entered a distinct phase of "micro-stagflation," pinning both headline and core CPI between a sticky 3.0% and 3.5%. Beyond the visual pain of expensive gas at the pump, the far more dangerous risk stems from physical shortages of critical petrochemical and industrial inputs following global maritime blockades. These supply-side disruptions are actively fracturing domestic manufacturing logistics. This structural relocation of supply lines suggests that cost-push price pressures will remain entrenched throughout the summer, extending the current economic paralysis into a weak third quarter.

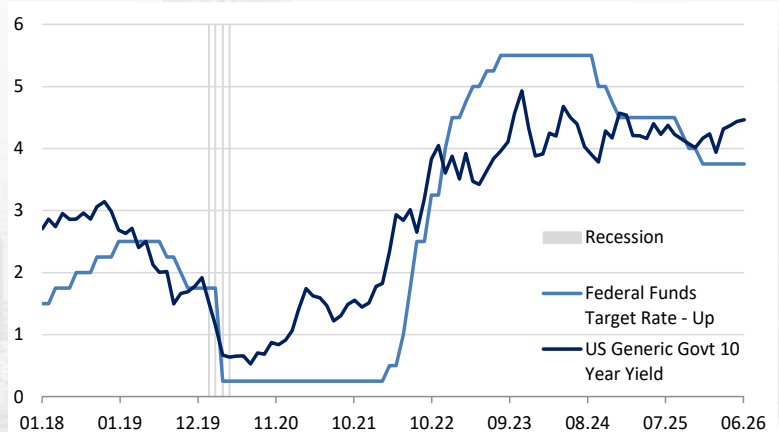
AI Supercycle Anchors Growth Against Oil Shock

The broader economy is currently trapped between two massive, opposing structural forces: a punitive geopolitical oil shock and a booming artificial intelligence infrastructure supercycle. Total capital spending by medium-sized companies has frozen due to a complete lack of clarity on interest rates, but hyperscale tech giants are keeping the economy from stalling out. Massive, non-discretionary capital allocations into AI hardware, data centers, and advanced cloud infrastructure are single-handedly stabilizing the national productivity index. Tech infrastructure remains the sole shield against an outright economic contraction.

Mortgage Peak Paralyzes Residential Real Estate

The transmission of "higher for longer" inflation expectations directly infected the debt markets, pushing long-term mortgage rates back to prohibitive territory. This persistent credit squeeze dealt a major blow to residential real estate activity, freezing both new home buyer affordability and broader construction starts. While sector performance technically beat worst-case winter projections, the ongoing dispersion of energy cost inflation is draining the pool of available household capital. High financing costs are guaranteed to enforce a deep real estate freeze well into the back half of the year.

US recessions, Long rates and Fed funds



Sources : Bloomberg, BBGI Group