THE SHORT AND LONG

Weekly Bulletin

Opportunity seeking amid complacency

JUNE 16, 2026

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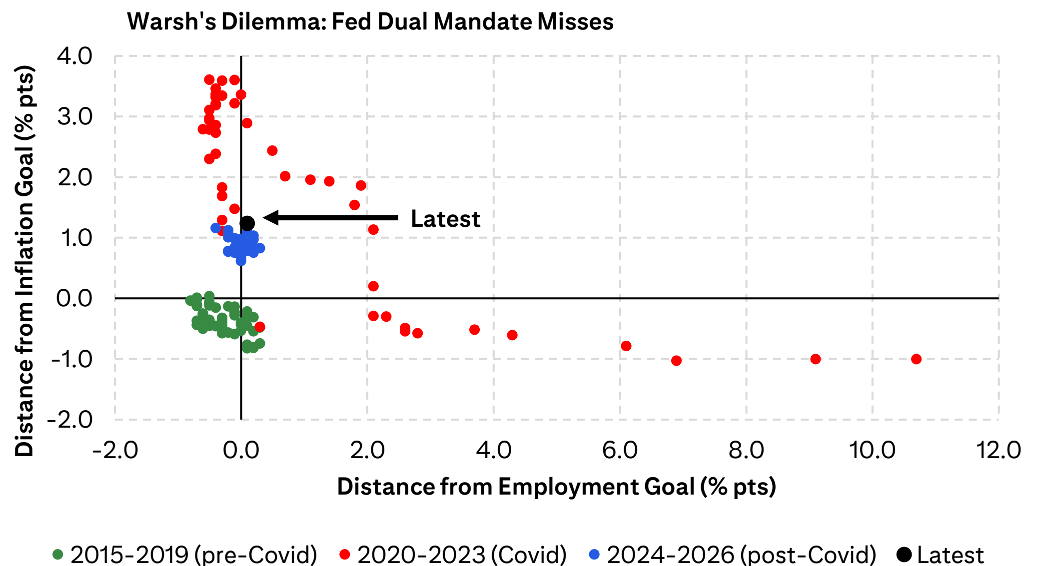
TAKEAWAYS

- U.S. inflation remains elevated, but its momentum and breadth are not worsening. With growth recovering, we believe a Fed led by Warsh would likely cite these conditions to justify holding rates steady in the near term, while maintaining that it is still too early to consider a hike.
- One of our U.S. equity sentiment indicators has again flagged complacency, which has historically signaled more muted near-term returns. At the same time, holding excess cash during inflationary periods carries a real cost, so any market pullback could create an opportunity to deploy capital while fundamentals remain supportive.
- The narrow market narrative overstates the risk. With 43% of S&P 500 constituents outperforming the index year to date, market breadth is stronger than in each of the past three years and roughly in line with the 10-year average.

This week in charts

FIGURE 1: Inflation remains elevated, but it is not worsening dramatically



Source: Haver Analytics as of June 10, 2026.

Looking closer

On the Fed's dual-mandate objectives of maximum employment and stable prices, the Federal Open Market Committee (FOMC) is overshooting its inflation target but in line with its employment objective. This is not supportive of lower policy rates.

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The Fed faces an inflation problem, not an employment problem

Fed Chair Warsh faces a potential dilemma due to the distance from the Fed's inflation goal relative to the distance from its employment objective (Figure 1). Three clusters of dots in the above chart tell the story. 1) The pre-Covid readings sit close to target on both measures, 2) the Covid years (2021-23) scatter widely as an unemployment rate surge was followed by soaring inflation, and 3) the post-Covid readings now group together with employment on target but inflation remaining too high. The latest reading lands in that post-Covid cluster, which keeps the focus for policy on inflation, not jobs.

In fact, the labor market continues to surprise to the upside. The economy added an average of 188,000 jobs per month over the past three months. We will watch whether it persists, but for now it reinforces that the labor market is still in good shape.

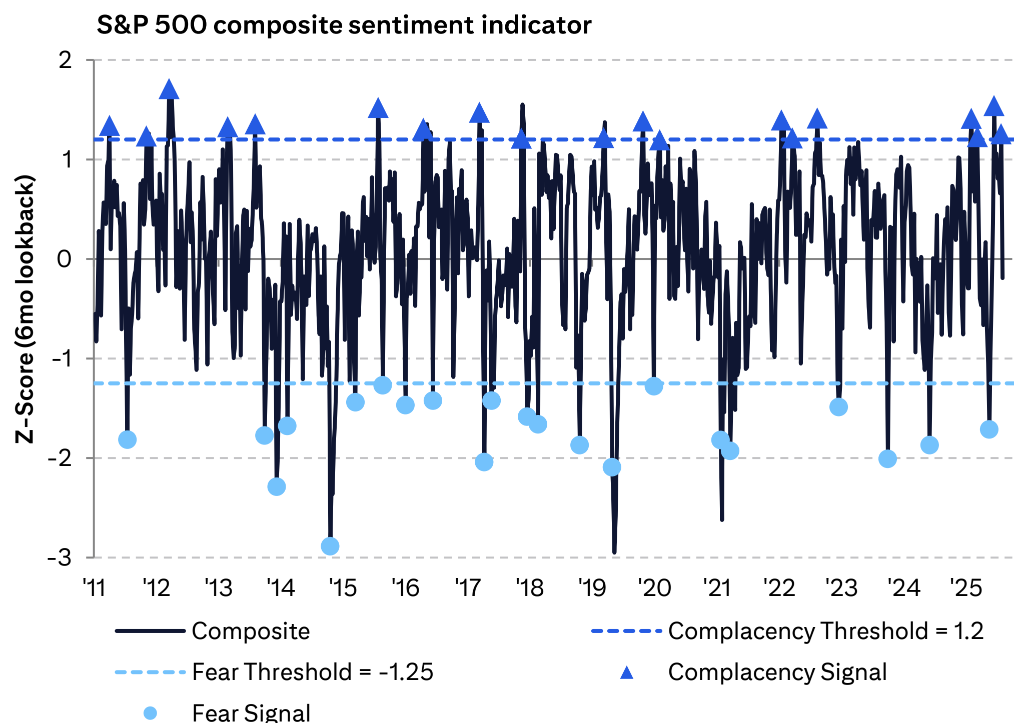
The breadth of rapid price gains remains high but is not deteriorating. The share of Consumer Price Index (CPI) components growing at 5% or more on a one-month annualized basis was 39% in May, close to the average over the past two years. That figure sits roughly 14 percentage points above the pre-Covid average, when inflation ran close to the target. Across the one-month, three-month, six-month, and 12-month windows, momentum is not pointing to a breakout in core inflation.

Bottom line: Inflation is elevated and sticky, but rapid price gains are not spreading through the categories, and momentum does not yet point to a breakout in underlying price growth. We think these dynamics take rate cuts off the table for the year but also make a 2026 rate hike unlikely at this point.

Complacency signals caution, but excess cash still carries a real cost

A S&P 500 sentiment and positioning indicator we use triggered "complacency" for the second time in six weeks, with readings on April 17 and May 29. When it flags complacency, near-term returns have historically been muted, and small pullbacks tend to follow. We saw one play out two weeks ago, when the equity market gave back roughly 4.5%.

FIGURE 2: Market sentiment hit complacency signal, historically predicts some weakness



This chart shows the z-score of the S&P 500 composite sentiment indicator since 2011. A z-score measures how many standard deviations a data point is from the mean and is commonly used to assess financial health.

Source: Bloomberg as of June 11, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

We note an important nuance. Fear readings have historically preceded much stronger rebounds, while complacency readings point more softly toward consolidation. Nonetheless, overall positioning has retreated somewhat since the May 29th complacency reading, and we would expect a choppy albeit gradual move higher from here as underlying fundamentals remain strong.

Specifically, corporate profits sit near recent highs, and margins are expanding year-over-year across most sectors, with Healthcare and Consumer Staples the least impressive of the group. Real interest rates are rising for constructive reasons, including improving growth and productivity expectations, alongside broadening capital expenditures (capex), where nearly half of all sectors now show year-over-year capex growth above 10%.

Against that backdrop, excess cash has the potential to carry a real cost. Since January 2007, the S&P 500 has grown over 6x in nominal terms compared to just 1.3x nominal growth for cash, and negative returns in real terms. Over long horizons, cash has outperformed equities only about 10% to 20% of the time. Cash can serve as a short-term strategic asset, but it's difficult to compound wealth with capital on the sidelines.

Bottom line: A complacency reading suggests near term returns may be more limited, though any pullback would likely occur against a backdrop of strong fundamentals. Excess cash may preserve nominal principal, but it can erode real wealth over time, especially in periods of elevated inflation. Periods of consolidation may therefore offer an attractive opportunity to put that cash to work.

Leadership stays concentrated, yet market breadth looks healthier than the headlines

We often hear questions about a narrow market led by a handful of names. Concentrated leadership is common in a market-cap-weighted index, and the leaders tend to earn that status over time. The return attribution from the top five names by market cap has been large through 2023-2025, which is exactly what the recent narrative captures.

The fuller picture shows more participation than the headlines suggest. Roughly 43% of S&P 500 members are beating the index year to date. Over the past ten years, an average of about 40% of members beat the index in a given year, and the past three years ran closer to 30%. Today's reading therefore sits above the recent trend and roughly in line with the longer-run average, which points to more balanced leadership than the "narrow market" headlines imply.

Some themes do feel narrow, and AI is a clear example. When we look under the hood, though, the gains have broadened out to companies further up the supply chain, and that breadth has been notable. We read this as a reflection of a strong economy and the ongoing capex cycle rather than a market relying on only a few names.

What we are watching: We are investigating and monitoring several themes as a team. We maintain a duration underweight since long-end government bonds have historically performed worst in overheating regimes, and we would hold that view unless recession risk rises materially, which sits at roughly 3.3% odds for the U.S. We are watching the global Defense sector, where rising spending and potentially conservative estimates suggest potential earnings upside.

Bottom line: Breadth is stronger than it was from 2023 through 2025, suggesting the market is more balanced than the narrow market narrative implies.

	What happened	What's ahead
ECONOMIC DATA	**U.S.** May core CPI +0.2% month-over-month, headline CPI increased 0.5% month-over-month, core finished goods price gain more moderate at 0.3%. Pipeline prices suggest goods price pressures still building.	**U.S.** Retail sales Leading index for May
	Global China PPI rose +3.9% year-over-year, CPI +1.2%, with price-driven strong export (+19.4%) and imports (+27.4%) beat expectations. UK GDP contracted 0.1% in April, driven by 0.2% fall in services.	**Global** UK and Japan's CPI
POLICY	**U.S.** United States Trade Representative (USTR) proposed 10%-12.5% forced labor tariffs on goods from major trading partners.	**U.S.** Federal Open Market Committee (FOMC) decision Trump meeting with defense industry executives to discuss increasing weapons production.
	Global U.S.-Iran agreement coming together, Memorandum of Understanding (MOU) progress will be watched carefully.	**Global** Central bank decisions: Bank of England (BoE), Bank of Japan (BoJ), Reserve Bank of Australia (RBA), Banco Central do Brazil (BCB).
MARKETS	**U.S.** SpaceX IPO trading began Friday.	**U.S.** Notable entertainment and technology earnings set to report this week.
	Global Asian markets sold off after Tech earnings. European Central Bank (EBC) hiked interest rates.	**Global** Notable Tech and Financial Services earnings set to report this week.

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RELATED READING

June 9, 2026: Rethinking Cash in Portfolios

In last week's Bulletin, we looked at why cash tends to underperform during inflationary periods, and why this means cash may not be the safe haven it has historically been. We also detailed three roles we believe cash can play in portfolios.

June 4, 2026: The Short and Long Podcast

In the second episode, "A New Environment? Investing in an Age of Geopolitical & Macro Shock," host and Chief Investment Officer of Citi Wealth Kate Moore speaks with Lazard's Eric Van Nostrand in a conversation moderated by Citi Wealth's Head of Economics Conrad DeQuadros on whether today's market optimism is running ahead of reality and the forces shaping global markets. Watch on **YouTube**, **Apple**, or **Spotify**, and subscribe for future episodes.

April 8, 2026 | The Short and Long: Q2 Macro Investment View

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report states global shocks to markets are driving higher volatility and rapid risk repricing, while the U.S. economy remains relatively resilient.

April 2, 2026 | Global Investment Council

The Citi Wealth Global Investment Council met April 2, 2026, and reallocated equity exposure from Europe to the U.S. The move maintains equity allocation while shifting risk toward more resilient markets. European fundamentals were already weakening prior to the Middle East conflict, and the U.S. offers more durable earnings with less geopolitical vulnerability.

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Lower medium grade (somewhat speculative)	Ba	BB	BB
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No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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