# THE SHORT AND LONG

**Weekly Bulletin**

# Profits power hiring while inflation worries recede

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## TAKEAWAYS

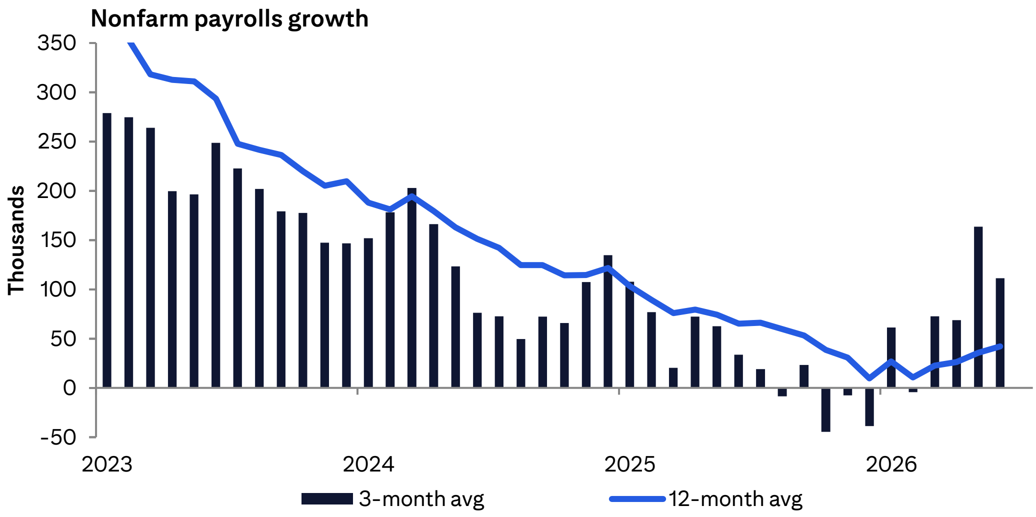
The U.S. labor market remains solid. While June payrolls missed expectations, the larger trend matters more than any single print in our view. Private employment gains have averaged nearly 100,000 jobs per month over the past three months, and the unemployment rate declined in June[1].

Profitability is one key element that differentiates the U.S. from Europe. U.S. macro profit margins have risen roughly 2.5 percentage points since 2019, fueling corporate optimism, hiring, and investment[2]. Eurozone and UK margins have merely held steady, and business confidence there remains subdued.

Central banks sound less worried about inflation. Recent data show price pressures have been concentrated in energy, rather than broadening to other parts of the economy. We continue to believe the next policy move is more likely a hike than a cut, but neither appear imminent.

## This week in charts

**FIGURE 1: U.S. employment trend remains strong despite the miss in June's payroll report**




Source: Haver Analytics as of July 6, 2026.

## Looking closer

June's payroll growth came in below consensus expectations, but we prefer to look at the trend rather than any single report. The start of the year shows a clear inflection point in job growth, and nonfarm payroll growth has averaged over 100,000 jobs per month since April. With the unemployment rate also declining, the U.S. labor market continues to show improvement.

[1-2] Haver Analytics as of July 6, 2026.

**Look past the payroll miss to see improving jobs trend**

Markets braced for a soft June employment report, and the headline delivered one. Job gains came in below consensus, and revisions trimmed the prior two months. We have long argued that a single payroll print tells investors little. The trend tells a more important story, and the trend continues to strengthen.

Both the three-month and 12-month measures of employment growth are picking up. Private payrolls have expanded by nearly 100,000 jobs per month over the past three months, a pace we view as well above what the economy needs to absorb new labor force entrants. The unemployment rate declined, underscoring the labor market's underlying health. Labor force participation declined, but we expect lower participation over time given aging demographics.

Our profits-driven view of the economic outlook anticipated this dynamic. Aggregate U.S. profits data released in recent weeks came in strong, and profits typically drive hiring and investment. Profits can also drive business animal spirits. CFO optimism about their own companies sits on a rising trend, echoing what we saw from CEOs a week earlier.

One nuance deserves attention. Since the COVID pandemic[3], CFOs have consistently expressed more optimism about their own companies than about the general economy. We think the "own-company measure[4]" matters most. When executives decide whether to hire and invest, they act on their own prospects, not their views of unrelated sectors. Those prospects are improving, and that bodes well for the outlook.

**Bottom line**: The employment trend, not any single report, drives our constructive view of the U.S. labor market. Strong profits continue to fuel hiring, investment, and rising corporate confidence.

**U.S. profit margins are rising. Europe has not kept pace**

Comparing profitability across countries requires care. Many economies do not report corporate profits directly, so we proxy them with gross operating surplus from national accounts. Statistical agencies use different methodologies, so we avoid comparing levels across countries. Methodologies stay consistent over time, however, which makes trends within each region meaningful.

The trend tells a clear story. U.S. gross operating surplus has risen from 40% of GDP before the pandemic to 42.4% today, an improvement of roughly 2.5 percentage points. The Eurozone and UK show essentially no change over the same period, with margins holding up but failing to improve.

We believe this margin expansion explains much of the improvement in U.S. business confidence. Europe presents a mirror image. German business expectations, as measured by the IFO survey, remain weak. UK sentiment measures tell a similar story. The Confederation of British Industry survey looks soft, and Deloitte's CFO survey echoes that weakness, though the Lloyds Bank measure has held up somewhat better.

Faced with the same shocks, from last year's trade disruptions to this year's Middle East conflict and energy price spike, U.S. companies have absorbed the hits with confidence intact, while European expectations have deteriorated. The profitability gap helps explain this divergence.

**Bottom line**: Rising U.S. profit margins are powering the corporate optimism that Europe lacks. With the Eurozone and UK unable to keep up with the profitability trend seen in the U.S., business confidence abroad remains comparatively fragile.

**Inflation pressures remain contained as rate hikes recede**

We entered this year arguing markets priced rate cuts too aggressively because inflation would prove sticky. We did not anticipate the Middle East conflict or the inflation risk from higher energy prices, which pushed us into monitoring mode. The key question became whether price pressures were broadening beyond energy. So far, the data says no.

[3] The COVID-19 pandemic began in 2019 and was declared over as a public health emergency in May 2023.
[4] Term used in the Duke University CFO Survey where executives rate their optimism for their own company's prospects and for the overall U.S. economy.

The evidence remains encouraging on both sides of the Atlantic. The share of U.S. Personal Consumption Expenditure (PCE) inflation components rising faster than 5% annualized sits far below its 2022 peak, when central banks confronted a genuine inflation problem, and has held roughly stable through the first half of this year. Eurozone flash core Consumer Price Index (CPI) for June actually eased slightly. With oil prices now retreating, headline inflation pressures are not building.

Central bankers have noticed. At the European Central Bank's (ECB) annual Sintra conference last week, the gathering of central bank leaders signaled they are watching carefully but are not increasingly concerned. Market expectations for rate hikes have come down accordingly. We view this as validation of our position that the pendulum swings between imminent cuts and imminent hikes were both too large.

Still, we would not dismiss hikes entirely. Eurozone core inflation runs at 2.5% against the ECB's 2% target, and U.S. core inflation remains above 3%[5]. If inflation stays too high, central banks will eventually have to respond. We continue to think the next move is more likely a hike than a cut, just not an imminent one. Only a broadening of inflation beyond energy, not economic strength alone, would accelerate that timeline.

The new Fed leadership adds another dimension. Chairman Kevin Warsh has committed to less forward guidance, delivering a significantly shorter policy statement and reiterating the Fed's commitment to price stability and independence. Our concerns about the leadership transition have lessened following the Chairman's first Federal Open Market Committee (FOMC) meeting.

We expect this new leadership to adopt data-driven policy with fewer verbal signposts. Since economic data is volatile from reading to reading, we expect more choppiness in rate markets as investors have less guidance to rely on than before.

We do not view that as a bad thing. Rather, it reinforces our view that central banks will act less as volatility dampeners going forward, particularly as other central banks follow the Fed in stepping back from delivering forward guidance.

**Bottom line**: Inflation is not broadening beyond energy, and policymakers sound less concerned, but core inflation remains above target on both sides of the Atlantic. We still see the next policy move as more likely a hike than a cut, with less central bank guidance pointing to more rate volatility ahead.

[5] Haver Analytics as of July 6, 2026.

| | What happened | What's ahead |
|---|---|---|
| **ECONOMIC DATA** | **U.S.**<br>June payrolls grew 57K, and the unemployment rate fell to 4.2%.<br>June manufacturing Institute for Supply Management (ISM) of 53.3, slightly lower than May's 54, production fell to 52.2 from 54.3, new orders fell to 56 from 56.8 in May, but still in expansion for sixth straight month. | **U.S.**<br>Trade balance for May set to release. |
| | **Global**<br>China NBS manufacturing Purchasing Managers' Index (PMI) rose to 50.3 from 50, beats expectations, driven by strong AI export demand.<br>Eurozone CPI eased to 2.8% year-over-year (Y/Y) as PMI dipped to 51.3. | **Global**<br>Taiwan trade balance for June set to release.<br>Japan PPI for June set to release.<br>Germany trade balance for May set to release. |
| **POLICY** | **U.S.**<br>Supreme Court ruled Fed's Lisa Cook can remain while litigation over her removal proceeds.<br>With hostilities eased, both U.S. and Iran agree to halt military actions and resume talks in Qatar. | **U.S.**<br>FOMC meeting minutes to be published.<br>White House working on standardized set of criteria to judge frontier AI models. |
| | **Global**<br>Russia-Ukraine war escalated when Russian hit Kyiv and other Ukrainian cities with missile and drone barrage.<br>SAU accelerates oil output as traffic thru. Strait of Hormuz traffic improved.<br>ECB sees U.S. Fed Chairman Kevin Warsh as a new ally, easing fears of U.S. retreat from global cooperation. | **Global**<br>ECB meeting minutes set to release.<br>NATO summit in Türkiye . |
| **MARKETS** | **U.S.**<br>OpenAI in early-stage talks with U.S. government to give 5% stake in the company. | **U.S.**<br>After softer payrolls report, dovish shift in expectations for Fed rate path – monitoring how FOMC weighs above-target inflation with still solid job growth. |
| | **Global**<br>China's domestic memory chips are gaining international recognition. | **Global**<br>Momentum unwinds with memory/semis names dragging from recent scrutiny surrounding excess compute for sale and input cost pushback. |

Source: Bloomberg as of July 7, 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.

## RELATED READING

**June 30, 2026 | Inflation climbs again: The case for portfolio resilience**

In last week's Bulletin, we looked at why U.S. inflation climbed to its highest level since 2023 and how this is impacting market expectations for rate hikes. We also looked at volatility increases across equities and currencies, while illustrating why we continue to expect that bonds may offer less of a ballast than they have historically.

**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' 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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|---|---|---|---|
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| High quality (very strong) | Aa | AA | AA |
| Upper medium grade (Strong) | A | A | A |
| Medium grade | Baa | BBB | BBB |
| **Not Investment Grade** | | | |
| Lower medium grade (somewhat speculative) | Ba | BB | BB |
| Low grade (speculative) | B | B | B |
| Poor quality (may default) | Caa | CCC | CCC |
| Most speculative | Ca | CC | CC |
| No interest being paid or bankruptcy petition filed | C | D | C |
| In default | C | D | D |

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- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
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- manager risk.

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Weekly Bulletin