THE SHORT AND LONG

Weekly Bulletin

Broad growth, cooler sentiment, and long-term themes

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TAKEAWAYS

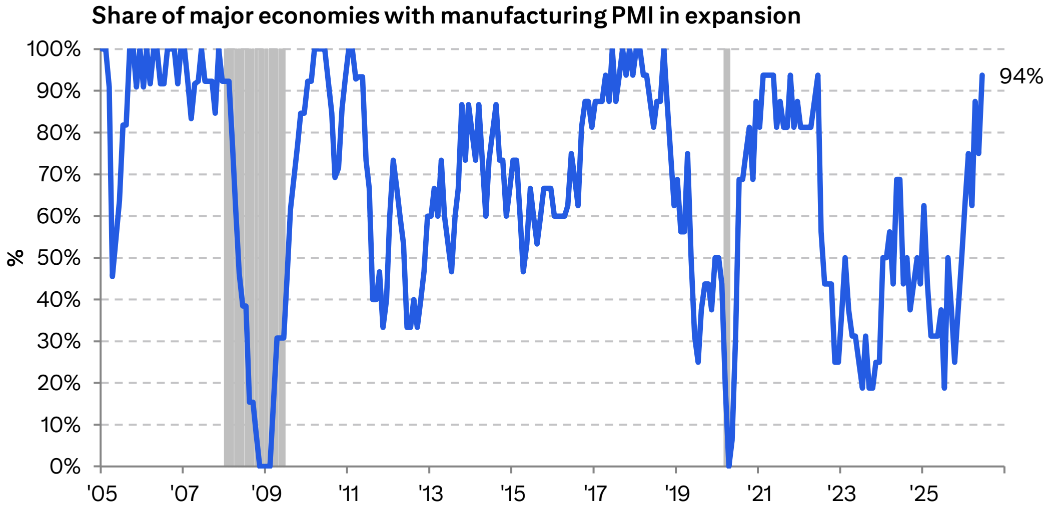
The expansion continues to broaden, with surveys indicating that manufacturing activity is growing across 94% of major economies while our U.S. inflation breadth measure eased to 30% in June from 39% in May. We see a high-growth, high but moderating inflation backdrop that remains fundamentally supportive.

U.S. equities have stalled since May 29 when a S&P 500 sentiment and positioning indicator we use signaled complacency. Such readings are typically followed by rangebound returns, and indeed since then, the S&P 500 is down about 1% and the Nasdaq Composite down about 6%. Strong underlying fundamentals leave us comfortable adding risk, within risk parameters.

Our long-term themes remain intact. Cybersecurity, Natural Resources and commodities, Energy Infrastructure and Security, and Physical AI have the potential to benefit from durable, multiyear demand drivers, and recent pullbacks in sectors like Natural Resources and Energy offer potential opportunities to add exposure over time.

This week in charts

FIGURE 1: Broadening manufacturing growth lays the global expansion groundwork



Source: Haver Analytics as of July 21, 2026. Major economies includes the 16 largest nation's economies. The gray area indicates a U.S. recession.

Looking closer

Manufacturing activity has broadened significantly, with 94% of major economies now in expansion, according to Purchasing Managers' Indices (PMI), signaling increasingly synchronized global growth. This strengthening backdrop supports our constructive macroeconomic outlook and reinforces the case for adding equity risk as earnings and fundamentals continue to shine.

Global manufacturing broadens as U.S. inflation breadth stabilizes

The global economy remains in an overheating phase, characterized by high growth and high inflation. Economic strength has broadened, with 94% of major economies' Manufacturing PMIs indicating expansion of activity (Figure 1). In the U.S., the Philadelphia Fed survey indicated the strongest business outlook since 2021.

Trade data reinforces the picture. South Korea's semiconductor exports nearly tripled year-ago levels in the most recent data, and Chinese high-tech exports rose roughly 52%. AI-centric capital expenditure (capex) strength flows through global economies and industries, supporting the broadening in manufacturing worldwide.

We watch inflation breadth closely to judge whether price pressures are broadening or narrowing. The share of Consumer Price Index (CPI) components rising at a 5% or higher one-month annualized rate fell to 30% in June from 39% in May, compared with a 25% pre-pandemic average and the 2022 peak of 74%.

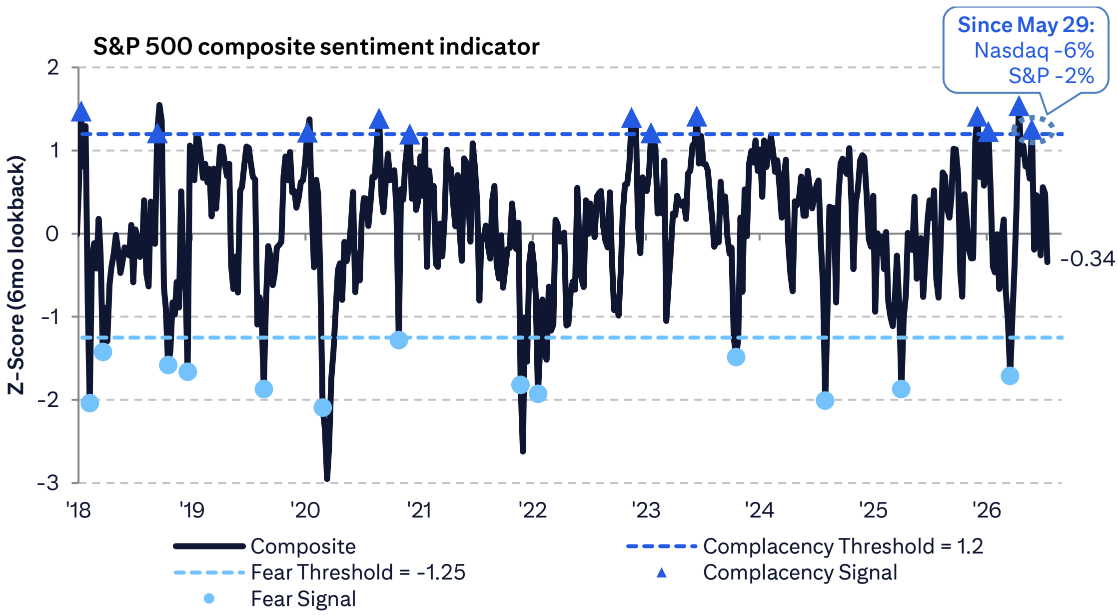
Not every signal is benign. Growth in import prices firmed to the strongest pace in four years, a pattern historically accompanied by a weak U.S. dollar – as imports become more expensive with a weaker currency. Today, however, we read it as a demand story, and robust demand for technology-related imports keeps us confident in underlying macroeconomic trends.

Bottom line: The expansion continues to broaden, with manufacturing growing across 94% of major economies while U.S. inflation breadth eased to 30% in June. We see a high-growth, high but moderating inflation backdrop that remains fundamentally supportive of equity risk.

Equities stall after the complacency signal, but fundamentals support adding risk

A S&P 500 sentiment and positioning indicator we reference flashed a complacency signal on May 29, when the six-month z-score crossed the 1.2 threshold (Figure 2). Equity markets have stalled since then, with the S&P 500 down about 1% and the Nasdaq drawing down roughly 6%.

FIGURE 2: As expected, equity markets fell slightly after latest complacency reading.



This shows the z-score of the S&P 500 composite sentiment indicator since 2018. 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 July 17, 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.

With sentiment having moderated, we can again turn our attention towards fundamentals, which in our view remain constructive. For clients holding excess cash, now may be a good time to consider allocating within stated risk tolerance parameters.

We are monitoring two key developments this week as we assess the fundamentals. Roughly 23% of S&P 500 by market capitalization is scheduled to report. These earnings will help give context on how corporates are doing in this economic environment. Despite higher input prices, corporate margins continue to expand, in aggregate. We will keep a close eye on earnings and margins going forward.

On the policy front, we will watch the European Central Bank (ECB) closely this week. Markets do not expect a hike in this meeting, but we will pay attention to the messaging around the ECB's assessment of economic conditions and its implications for their path forward.

Bottom line: The May 29 complacency signal preceded the recent stall in U.S. equity market returns, in line with historic precedent. Strong underlying fundamentals leave us comfortable adding risk, particularly given more neutral sentiment, within risk parameters.

Four long-term CIO themes

Cybersecurity enters a new phase as the agentic economy takes hold. As more AI agents work alongside humans, firms need greater observability around agents' permissions and access to proprietary data.

The cyber threat environment is intensifying: the average time for an attacker to reach high-value assets fell to 29 minutes in 2025, a 70% reduction from 98 minutes in 2021, according to the CrowdStrike Global Threat Report. Security spending more than doubled as a share of enterprise software budgets, from 4.8% in 2011 to 10.6% in 2025, and we expect it to keep taking share. We would look to build positions in the Cybersecurity theme and would welcome multiple compressions when adding to this theme over the long run.

Natural Resources and commodities remain a core expression of scarcity and resilience. Critical mineral refining stays highly concentrated, with China controlling roughly 91% of rare earths, 96% of graphite, 78% of cobalt, and 70% of lithium refining capacity[1]. As a result, nations have begun stockpiling key natural resources and commodities as a matter of national security.

Natural resources and commodities may also strengthen portfolio construction in specific macro regimes. Diversification benefits have historically proved most valuable in high-inflation regimes: in overheating environments, investors captured growth-driven commodity gains plus the scarcity premium, and in stagflation, the equity-commodity correlation turned sharply negative while the equity-bond correlations remained positive, highlighting the benefits of commodity diversification in this regime. Broad commodities and global upstream natural resources remain a CIO theme and a risk-additive asset during high growth macro regimes and as a portfolio ballast when growth slows and inflation runs hot.

Energy infrastructure and security gained urgency following the conflict in Iran, which reframed resilience for companies, countries, and economies. Data center growth is accelerating power needs: global data center electricity demand could more than double from 416 TWh in 2024 to 946 TWh by 2030. In our recent collaboration with Citi Research, we estimate that meeting 2030 electricity demand requires annual grid investment to rise about 50% from today's roughly $400 billion. Renewable generation reduces reliance on imported fuels and supply disruptions.

Physical AI continues its strong run, and the recent drawdown on memory-related worries and profit taking in semiconductors offers a potential entry point for long-term investors. We see robotics penetration expanding across industries, supported by labor supply constraints, demographic shifts around the globe, and an increasing number of partnerships between global robotics companies and AI developers. We maintain conviction on this theme.

Bottom line: Each of our four themes rests on durable, multi-year demand drivers rather than short-term momentum. We believe clients should consider adding to these themes opportunistically, consistent with their objectives and risk tolerance.

For more on our latest themes and investing priorities, check out our latest quarterly report, The Short and Long | Q3 Macro Investment View.

[1] International Energy Agency and Haver Analytics as of July 16, 2026.

	What happened	What's ahead
ECONOMIC DATA	**U.S.** Both Consumer Price Index (CPI) and Producer Price Index (PPI) came in cooler than expected, with core CPI flat M/M and headline CPI down 0.4% M/M. Core PPI +0.2% M/M and headline PPI declined 0.3% M/M. Headline June retail sales +0.2% M/M, in line with consensus. July Michigan Consumer Sentiment at 54.4 vs. consensus at 51 as inflation expectations cooled.	**U.S.** July Flash PMI
	Global China's Q2 GDP +4.3% and industrial production +5.3% came in lower than expectations, but retail sales +1% ahead of plan. Eurozone May industrial production fell short at -0.2% M/M.	**Global** UK and Japan CPI for June Taiwan and Japan's June export orders Eurozone flash PMIs for July
POLICY	**U.S.** Latest Fed Beige Book largely in line with recent trends and narratives with continued economic expansion, stable employment and elevated prices. Warsh expects AI to push up price levels over next year, though its inflationary impact depends on Fed.	**U.S.** U.S.-Iran negotiation continues with U.S. processing to withdraw IDF forces from Lebanon to placate Iran.
	Global South Korea's central bank raised rates by 25 bps, first hike in over three years, signaling potential further tightening ahead. Trump's plot claim, visa curbs risk tensions before Xi summit.	**Global** China's loan prime rate decision ECB decision
MARKETS	**U.S.** U.S. LLMs under pressure as open-source model Kimi K3 from China rivals performance from Anthropic and OpenAI. Nvidia slashed number of Asian customers to enhance compliance and curb silicon trafficking into China.	**U.S.** 23% of S&P 500 market cap set to report this week.
	Global ASML Q2 net sales of $10.6 B beat expectations, raised guidance again. Upside on TSMC Q2 earnings per share (EPS) with op. Margins coming in 190 bps ahead of plan, additional $100B investment in Arizona.	**Global** Potential price hike on ASML chipmaking machine despite pushback from largest customer, TSMC.

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RELATED READING

July 20, 2026 | The Short and Long Podcast

In the third episode, “AI, Quantum, and Cybersecurity; From Breach to Resilience,” host and Chief Investment Officer of Citi Wealth Kate Moore speaks with Fatima Boolani, Co-Head of U.S. Software Equity Research, Citi Research, and Anneka Gupta, Chief Product Officer at Rubrik, on how today’s cybersecurity threats require continuous adaptation in prevention and resilience and covers questions every investors should be asking right now around cybersecurity in the age of AI. Watch on **YouTube**, **Apple**, or **Spotify** and subscribe for future episodes.

July 14, 2026 | The Short and Long: Q3 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 delivers a breakdown of forces shaping global markets, how they impact potential investment opportunities, and provide guidance across asset classes.

July 7, 2026 | Profits Power Hiring While Inflation Worries Recede

We look at why the U.S. labor market remains solid, including profitability as a differentiating element from places like Europe. We also analyzed why central banks are sounding less worried about inflation as recent data shows price pressures have been concentrated in energy, rather than broadening to other parts of the economy.

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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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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- 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;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
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