THE SHORT AND LONG

Weekly Bulletin

Hawkish pivot as macro and liquidity remain resilient

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TAKEAWAYS

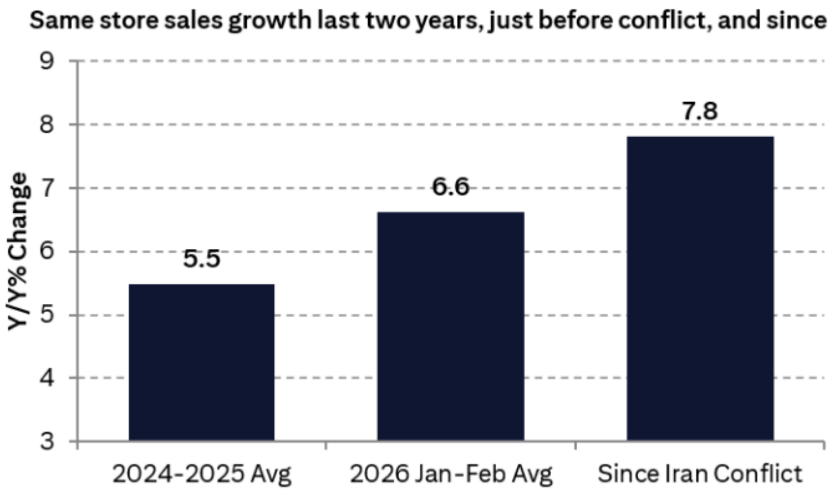
The U.S. Federal Open Market Committee (FOMC) under new Chair Kevin Warsh shifted to a more hawkish stance than markets expected. Officials raised core Personal Consumption Expenditure (PCE) projections and now predict inflation lingering above their 2% target until late 2028.

The U.S. consumer keeps spending. Nominal same store sales accelerated during the Middle East conflict to an average of 7.8% yearly growth[1]. This healthy demand has been supported by a resilient labor market, which could continue to support economic activity into the second half of the year.

Household cash allocations remain elevated at nearly 11.6% of assets, creating a pool of excess liquidity that may have helped accelerate equity market recoveries. Recent rebounds have averaged just 11 trading days from the market trough, underscoring how quickly capital can be redeployed into risk assets[2]. We hold a strong conviction that equities are positioned to outperform bonds and prefer to take risk on that side of the portfolio.

This week in charts

FIGURE 1: Retail sales data shows accelerated spending since the start of the Middle East conflict



Source: Haver Analytics as of June 18, 2026.

Looking closer

So much attention rests with the AI trade that we believe many investors may be missing broader signs of economic strength. Same store sales growth averaged 5.5% from 2024-25, and in 2026, opened at a faster 6.6% pace. The strength held even amidst higher oil prices because of the Middle East conflict. The consumer remains strong.

[1] Haver Analytics as of June 18, 2026.
[2] Haver Analytics and Bloomberg as of June 18, 2026.

Warsh drops forward guidance and adds to hawkish signaling

Kevin Warsh's inaugural meeting as Fed Chair last week confirmed suspicions that forward guidance will play a significantly smaller role than in the past. Forward guidance helps market participants price the future with more certainty, which has the effect of dampening volatility. Removing forward guidance will likely have the opposite effect. We expect a broad market, both in rates and equities, to potentially increase going forward.

Chair Warsh reiterated a commitment to price stability during the press conference. With concerns around weakness in the labor market fading, Warsh and the Fed are turning their attention back towards reigning in inflation.

Notably, the committee trimmed its 2026 growth forecast slightly but revised up their core PCE inflation expectations to 3.3% from 2026 from 2.7% prior. As a result, nine of the 18 participants now expect higher rates by year end, a near full regime change from the March projections.

Bottom line: Chair Warsh and FOMC voters moved more hawkishly than markets initially anticipated. We will continue to assess the extent to which this hawkish repricing has more room to run, which could lead to a further dampening on risk appetite in global markets.

Data signals a resilient macro backdrop

So much attention rests with the AI trade that we believe many investors may be missing broader signs of economic strength. Notably, nominal same store sales growth continues to accelerate after averaging 5.5% across 2024 and 2025 and then opening 2026 at a fast 6.6% pace (Figure 1).

The strength held even as conditions in the Middle East escalated. Gasoline prices surged, and inflation broadened. However, consumer spending has accelerated. Nominal same store sales growth has run at 7.8% since the Middle East conflict started, a pace we have not seen since 2022[3].

Additional evidence from small business hiring intentions, which have remained resilient, point to a healthy backdrop for growth. That matters because most small companies lack the levers large firms can pull to manage higher prices or shifting technology.

Wages also reinforce the picture. A net 31% of business owners raised wages in May on a seasonally adjusted basis, above long-term averages, supporting the spending we see in the data[4].

Bottom Line: Rising wages, resilient labor markets, and healthy spending support economic growth as we move into the second half of 2026.

Ample liquidity supportive of rebound speed and market durability

Cash on the sidelines has been a theme for most of the post-Global Financial Crisis (GFC)[5] era, and it persists today. Bank deposits, Treasury bills, and money market fund holdings sit at 11.6% of total household assets. Investors reduced cash leading up to the equity market corrections in 2000 and during the GFC, but today, even as rising equity and home prices have lifted total assets, that cash as a share of those assets remains elevated.

This liquidity matters for how markets behave. It provides a ready source of buying power, and in our view, it has underpinned the speed and intensity of recent equity rebounds.

The pattern is striking. Since 2020, setting aside the 2022 bear market, seven of 11 drawdowns of 3% or more rebounded faster than they fell, with recoveries in those periods averaging just 11 trading days[6]. Across all of those episodes, the average rebound took 18 days, around three weeks. Recoveries have become faster and less forgiving. As a result, the window to re-risk has narrowed materially, and missed entry points have proven costly.

[3-4] Haver Analytics as of June 18, 2026.
[5] The Global Financial Crisis began in mid-2007 and largely ended by early 2009.
[6] Bloomberg as of June 18, 2026.

Sentiment adds to the picture. The exuberance around hotly anticipated Initial Public Offerings (IPOs) signal broad bullishness, and the recent SpaceX listing is a vivid example. The stock now carries three times the market cap of the largest company in the world by sales on roughly 3% of its revenue[7]. When enthusiasm clusters around a single idea, we keep our antennae up for air pockets. This is awareness, not a forecast.

In an environment where liquidity stays high and rebounds keep compressing, waiting for extended weakness may prove impractical, so a more responsive approach in our view is adding risk. We hold a strong conviction that equities will outperform bonds and prefer to express risk there.

Bottom line: Ample liquidity has allowed investors to step in fast, and that buying power continues to compress the length of market recoveries. Assuming inflation does not accelerate meaningfully and trigger a more aggressive hiking cycle, our bias is to own more risk.

[7] Bloomberg as of June 18, 2026.

	What happened	What's ahead
ECONOMIC DATA	**U.S.** May retail sales +0.9% month-over-month, versus consensus for 0.55% gain and April's 0.4% increase. Preliminary Michigan Consumer Sentiment read of 28.9 in June, +9% off May's record low of 44.8. **Global** China May retail sales –0.6% year-over-year, first contraction since December 2022 with industrial production +4.5%. UK May Consumer Price Index (CPI) +2.8 year-over-year, flat from April, below +3.0 estimation.	**U.S.** PCE for May set to release. Flash Purchasing Managers' Indices (PMIs) for June set to release. Final Michigan sentiment report for June set to release. Q2 CFO survey set to release. **Global** Japan's Tokyo CPI for June set to release. Taiwain's export orders set to release. June Eurozone flash PMIs.
POLICY	**U.S.** FOMC meeting ended with rates unchanged at 3.50-75%. Statement was shortened and turned hawkish, emphasizing economic growth remains solid and labor market stable. **Global** Memorandum of Understanding (MoU) signed on Wednesday, extending ceasefire for 60 days and reopening the Strait of Hormuz, but nuclear issue and Iran-Israel tensions remain unresolved. U.S.-China tariff truce runs to November 2026.	**U.S.** Fed bank stress test results for June set to release. 60-day negotiation phase after MoU. **Global** China's 1/5-year loan prime rate decision set to release. Bank of Japan's (BoJ's) summary of opinions from June meeting set to release.
MARKETS	**U.S.** SpaceX completed the largest IPO, +19% debut.	**U.S.** Notable Tech and Consumer Staples earnings set to report this week. Liquidity remains strong, S&P 500 price targets being revised higher. **Global** Monitoring positioning/sentiment dynamics after S&P 500 indicator bounced from "complacency" threshold. "Broadening" trade as oil hovers ~$80/bbl

Source: Bloomberg as of June 23, 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 16, 2026 | Opportunity seeking amid complacency

In last week's Bulletin, we looked at why the Fed faces an inflation problem, and how these dynamics take rate cuts off the table for the year and makes a 2026 rate hike unlikely too at this point. We also looked at complacency signals, which have historically signaled more muted near-term returns.

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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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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