NATIXIS INVESTMENT MANAGERS | SOLUTIONS

MACRO COMMENTARY | August 2026

Charts and Smarts®

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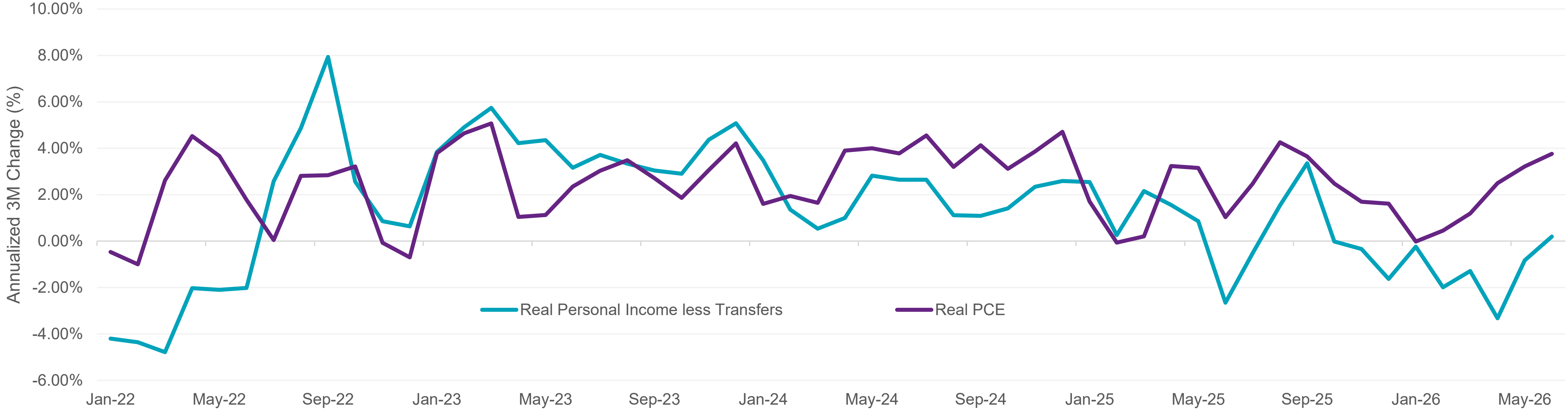
Real personal income vs real personal spending (1/31/22–6/30/26)

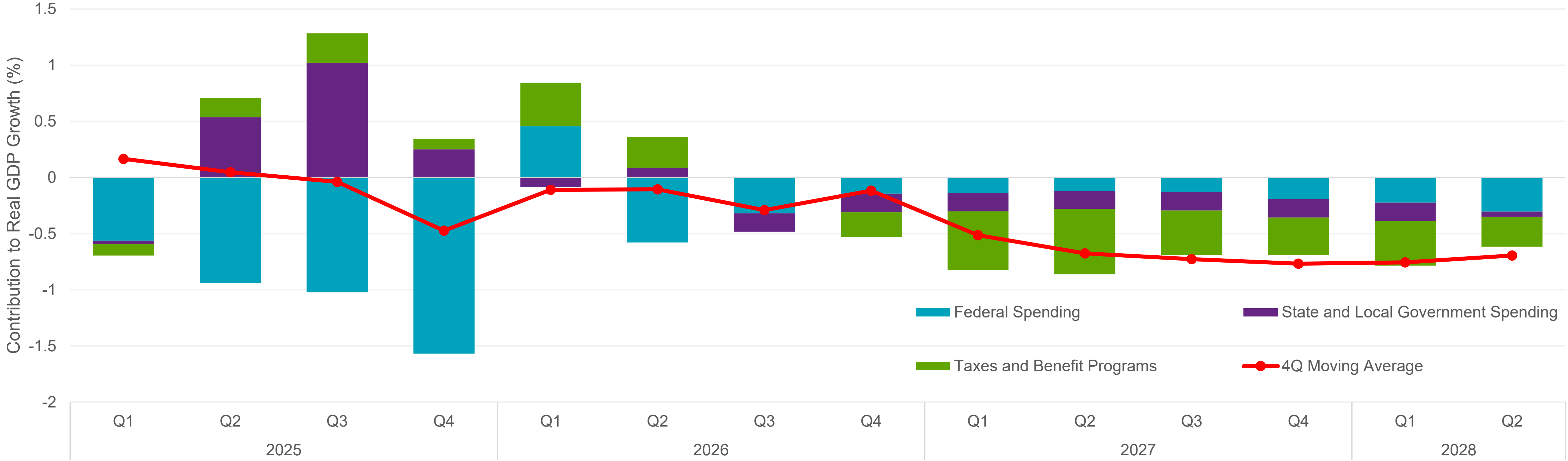


While second - quarter GDP may have surprised to the downside, under the surface the details pointed to a much more robust bounce in activity. Real GDP printed just 1.5%, but that was held back by a nearly 70 basis points (bps) drag from inventories, 100bps from net exports, and another 14bps from government spending. Stripping out government expenditures and the notorious noise from inventory investment and net exports, real final private domestic demand, a more reliable indicator of underlying demand, surged to 3.9%, the fastest pace since the first quarter of 2023. The AI infrastructure build-out continues to add meaningfully to growth, but the true driver of the surge in underlying growth for the quarter was the rebound in consumer spending. Real personal consumption expenditures grew over 2.1% in the quarter, good for the fastest pace since Q3 2025. The bounce in consumption has been impressive, to say the least, as spending has been accelerating since the turn of the year despite price pressures from stickier inflation prints and the surge in energy prices. But as we push further into Q3, the peak in consumption may be behind us. Yes, real personal income has begun to bounce, but that was largely a function of fading energy prices, a positive impulse that is largely behind us once again after another flare-up in oil prices. More importantly, there continues to be little in the way of convincing evidence of a durable bounce in nominal wage growth as evidence is growing that the labor market is not as strong as many had believed over the past few months. With real income growth remaining anemic as the World Cup, Prime Day, and tax refund fiscal impulse grow ever smaller in the rearview mirror, consumption is likely to moderate once more as another convergence between spending and incomes looks likely to play out in the back half of the year.

Source: Portfolio Analysis & Consulting; Bloomberg. PCE is personal consumption expenditures.

Black Water

Fiscal impulse (Q1 2025–Q2 2028E)

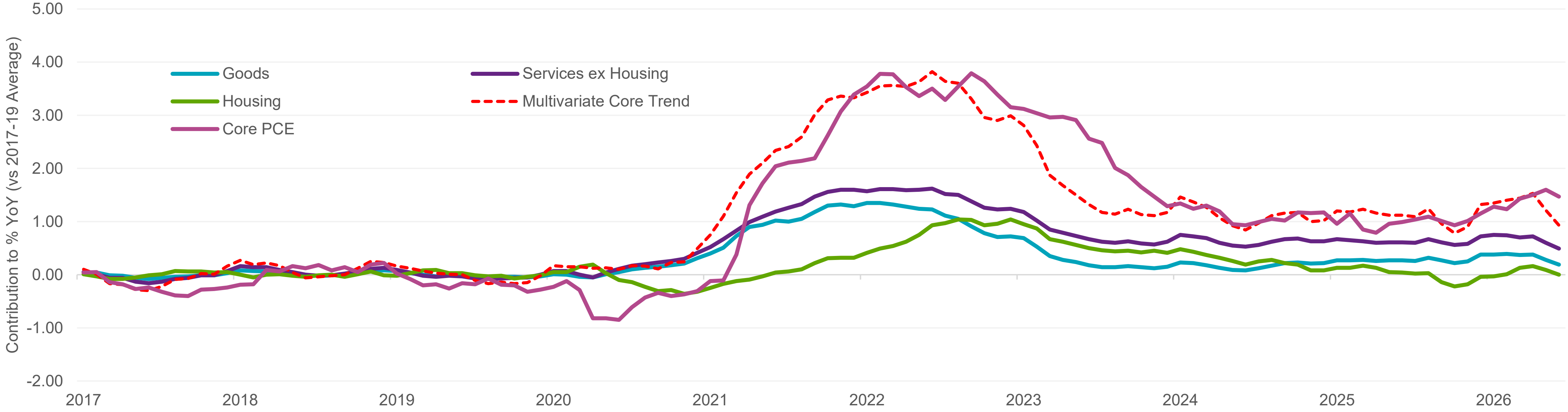


While consumption has indeed been remarkably resilient in the face of firmer inflation and elevated gas prices in part thanks to a modest fiscal impulse to start the year, as we've highlighted on numerous occasions, the market's growth optimism surrounding tax policy was misplaced given the modest size and one-time nature of the refunds. But as we push deeper into 2026, that impulse is set to fade. The stimulative effects of the tax policy changes are behind us, and the path ahead will see that fiscal boost flip to a fiscal drag that will grow in intensity as the calendar flips into 2027 and the pay-fors of the Big Beautiful Bill, namely cuts to benefits like food stamps, take hold. That drag will be fairly modest for the balance of 2026 but will grow in scale through the first half of 2027. With consumption already likely to soften on the back of tepid real incomes, spending cuts, particularly for lower-income cohorts, will likely begin to weigh further on the marginal rate of growth of spending. And while nonresidential investment is likely to remain robust as AI capex budgets look set to push up over $1T for 2027, the growth rate of that spend is set to cool from the breakneck pace of the past two years. To be sure, current estimates place that capex growth at a still lofty 35%, but it will represent a marked downshift in growth from the 73% and 85% clip of 2025 and 2026. In other words, the growth impulse from capex spending is likely to cool just as consumption headwinds mount and fiscal drag grows. The floor for activity is likely to remain high, but headwinds are increasing for growth. The ho-hum economy looks set to continue for the foreseeable future.

Source: Portfolio Analysis & Consulting; Bloomberg. As of 8/5/26.

Listen to the Music

NY fed multivariate core trend inflation (1/31/17–6/30/26)

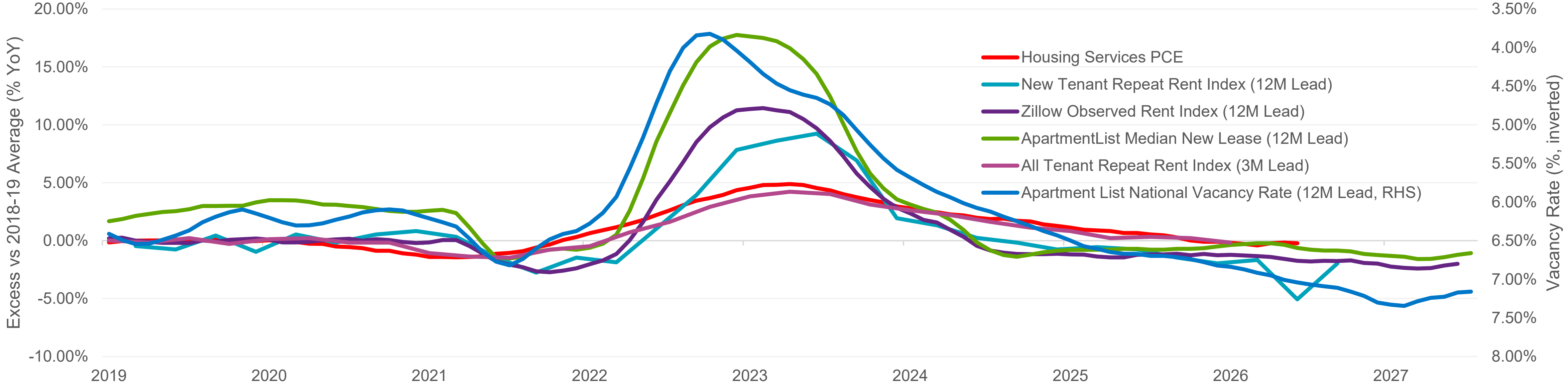


The August air is thick with hawkishness as markets and the Fed are hard at work attempting to outhawk each other, but the underpinning of that hawkishness appears to be fading. We've written previously that the window has opened for the doves to wrest back control of the FOMC, and at the moment, that window appears to be opening further. While one encouraging inflation print is by no means enough to flip the script after the string of stickier prints we've seen thus far in 2026, trends do appear to be growing more encouraging. One such piece of evidence supporting that improving trend is the latest softening in the New York Fed's Multivariate Core Trend Inflation estimate. The model attempts to provide insight into the persistence and breadth of underlying trend inflation by decomposing the major sectors of the PCE price index into a common trend component and sector-specific trends, thereby stripping out both common and sector-specific transitory shocks. While year-over-year core PCE softened in the latest print, the multivariate core trend has been softening materially over the past two months and now sits close to the cycle lows printed late last year. And what's notable is that the declines are broad based, as sector-specific factors are dragging housing lower as the shutdown-induced measurement issues fade while common trends soften within both goods and supercore services. Although the model is not infallible, it does support the idea that transitory factors are largely to blame for the firming in core inflation this year and under-the-surface disinflationary trends are beginning to reassert themselves. Should we see that disinflation continue to take hold in core PCE prints over the next few months, the hawks' grip on the committee is likely to weaken materially, keeping the Fed on hold as opposed to ratifying the tightening currently priced into markets.

Source: Portfolio Analysis & Consulting; Bloomberg.

Long Train Runnin’

PCE rent vs market rents (1/31/19–7/31/26)

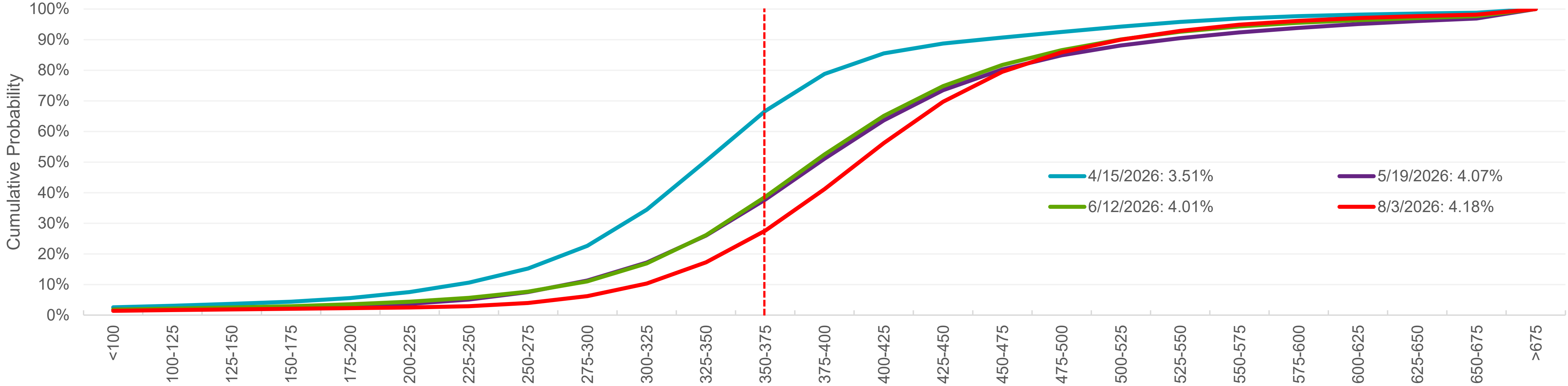


Amidst all the concern around inflation, there’s been growing chatter regarding the end of one of the biggest disinflationary tailwinds over the past few years: rent. Shelter has been a noisy component over the past year thanks to the disruption imposed by the government shutdown late last year. The inability of the Bureau of Labor Statistics to sample prices in October led to a plug of zero for the month. But the effect of that decision didn’t only affect the October inflation data but continues to be felt today as prices remain in the sample for a six-month span. As a result, and as we’ve discussed in the past, shelter costs were artificially low through the remaining months of 2025 and through the first three months of 2026, before the effect flipped in April, contributing to some of the firmer inflation prints we’ve experienced this year. But that noise is continuing to fade and giving way to renewed disinflation from shelter. Amidst all of the technical noise, recent stabilization in vacancy rates and rental prices is leading some to conclude that tailwind from shelter is behind us. But the lags inherent in the measurement of shelter costs remain suggest that we still have runway for further disinflation into 2027. Measures of current market rents may have stabilized, but they continue to run well below pre-pandemic levels, which should continue to pressure shelter costs lower and keep their contributions well below levels consistent with the Fed’s 2% target well into 2027. While the Fed continues to focus on the stickiness in other areas of the inflation basket, namely supercore services, softness in shelter should continue provide an offset to any continued stickiness in supercore services prices and allow time for what appears to be more idiosyncratic acyclical factors driving those non-housing services prices to ease. While we may be approaching the latter stages of the long and gradual disinflation process in shelter, don’t fall for the growing narratives. Shelter disinflation continues to support a gradual easing in inflation.

Source: Portfolio Analysis & Consulting; Bloomberg; ApartmentList.

It Won't Be Right

Cumulative probability of target range for June 2027 SOFR (As of 8/3/26)



We've discussed in the past the concept that market pricing of expected Fed policy is a function of the probability distribution. While market participants focus heavily on the average pricing that is often quoted with respect to the number of hikes markets are discounting, there's arguably more information in the mode of that distribution and the shape of the tails. At the moment, that average is very much consistent with the modal outcome reflected in the probability distribution, with each measure currently reflecting nearly 50bps of tightening by June 2027. But the shape of that curve speaks volumes of how the distribution of outcomes has shifted this year in the eyes of the market. The days of the easing bias have long since departed, and with it, the left tail of the distribution of outcomes for policy rates has been slashed and compressed as seen by the cumulative probability of policy holding steady or easing further compressing from nearly 70% as recently as mid-April to just over 25% today. In other words, the market is now discounting nearly 75% odds of tighter policy rates over the coming year as the hawks have steadily gained control of the FOMC on the back of firmer inflation this year. But as always, markets love to take things too far, and while the bar for hikes has fallen significantly over the past few months with even the doves shifting in a hawkish direction, the right tail looks far too fat relative to underlying trends for both sides of the Fed's dual mandate. The Fed may be largely a single-mandate central bank at the moment, but with labor markets remaining on somewhat shaky footing and underlying inflation trends improving over the past few months, the case is growing for that right tail to begin compressing. The left tail may not be all that significant at the moment, but should incoming labor market data remain soft as inflation prints remain benign the center of that distribution is set to grow and shift modestly back to the left as the fat right tail gets slashed. The fuel for a rally in rates continues to build.

Source: Portfolio Analysis & Consulting; Federal Reserve Bank of Atlanta. Legend shows the expected June 2027 policy rate as of the indicated date.

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