

Monday Monetary Thoughts

Fed hawking up

Neil Dutta

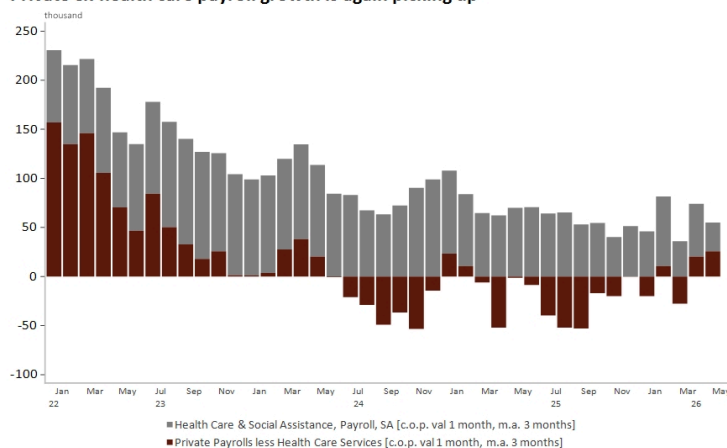
The Fed is on a glidepath to remove its easing bias

That equity markets continue to surge and labor market conditions remain stable at worst or improving at best, implies that the Fed can focus entirely on consumer prices. In short, labor markets aren't getting any worse while inflation is. Central bankers will be hawkish, as a result. I remain skeptical that the Fed will end up hiking, but their bias will be to move in that direction, nonetheless

After hitting a dead-spot in February, private payroll employment excluding healthcare has rebounded over the last two months and been rising for three of the last four. I am not sure how much the labor market is accelerating, but it is obvious that conditions are not getting any worse. The unemployment rate has been flat for nearly a year.

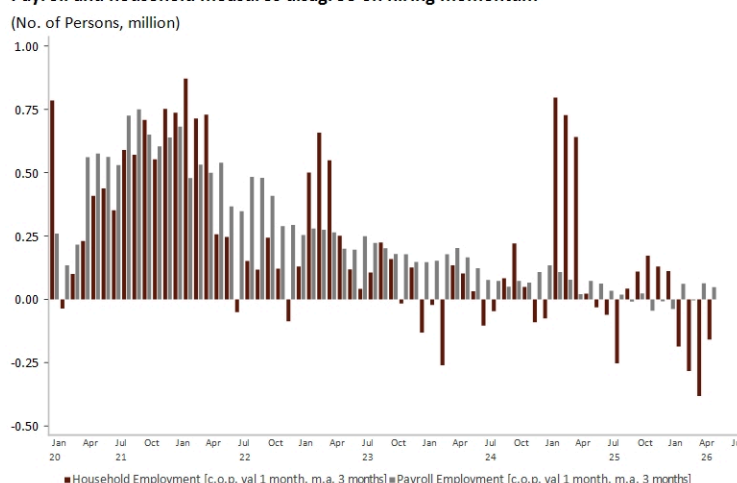
As an aside, it's a bit challenging to ascertain what the breakeven level on employment is. Over the last three months, payroll employment has averaged growth of roughly 50,000 per month, the Household measure of employment has contracted all while unemployment has been flat. I tend to put more weight on the payroll measure and from this lens, it's not obvious that breakeven is zero.

Private ex-health care payroll growth is again picking up



Source: Renaissance Macro Research, Macrobond

Payroll and household measures disagree on hiring momentum

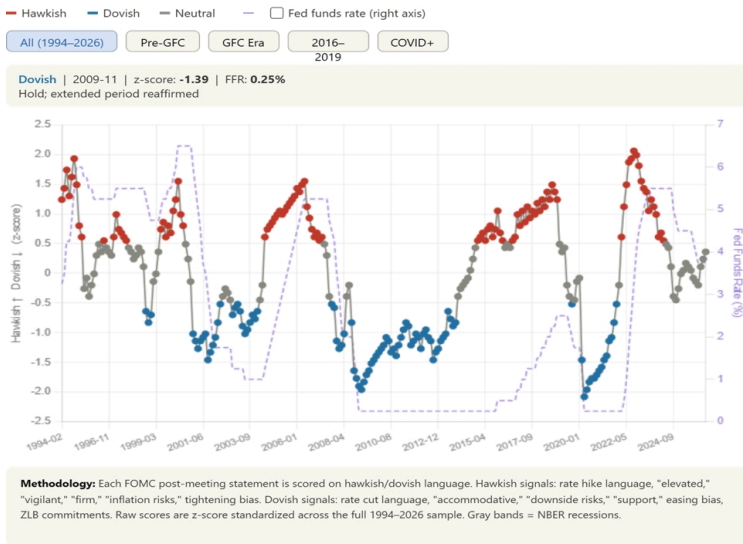


Source: Renaissance Macro Research, Macrobond

Next, financial market conditions continue to remain buoyant. Credit spreads remain tight. Stock prices continue to surge. A model that translates movements in equity prices, bond yields and the USD exchange rate into a GDP growth estimate is consistent with solidly above-trend growth. Markets remain optimistic on the outlook.

Hawks squawk

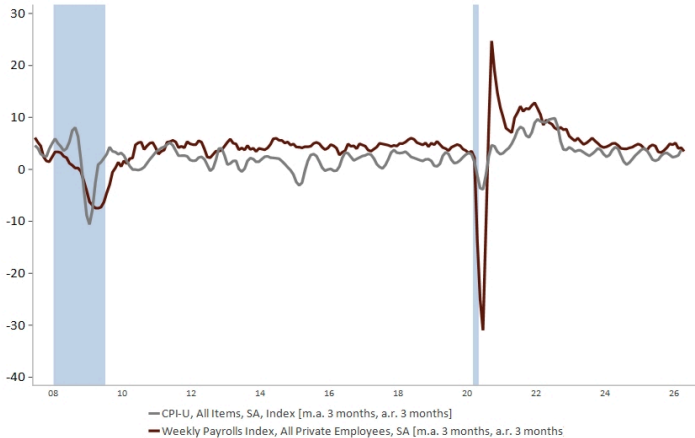
Tallying up the votes is moving in one direction too. Indeed, the cacophony of Fed speakers venting their frustration with the FOMC press statement is getting louder. Regional Fed Presidents Kashkari, Logan and Hammack all dissented at the last FOMC meeting. Susan Collins is on record agreeing with the three dissenters and Austan Goolsbee, a voter next year, has been highlighting inflation as the primary focus for policymakers now.



At issue is the following phrase: "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks ..." This phrase could come out as soon as June, but if conditions continue as is, certainly by September.

In short, the labor market is not as much of a problem as inflation currently is. The policy hawks will continue to have the upper hand.

Aggregate payroll growth no longer outpacing inflation



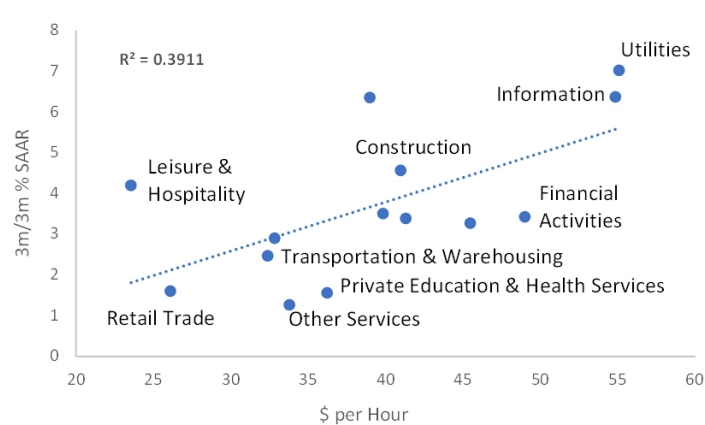
Source: Renaissance Macro Research, Macrobond

Some risks ...

With stocks continuing to surge, I know no one wants to talk about the downside risks around the economic outlook, but they're out there, some near and some far.

In the near-term, aggregate labor incomes are not strengthening even as consumer prices are climbing. This is a recipe for weaker real consumption as real income growth slows. Thrifty consumers will mean firms will not need to produce as much. That will, in turn, affect labor market decisions.

Low-paying industries see weakest wage growth momentum



Source: Renaissance Macro Research, Haver Analytics

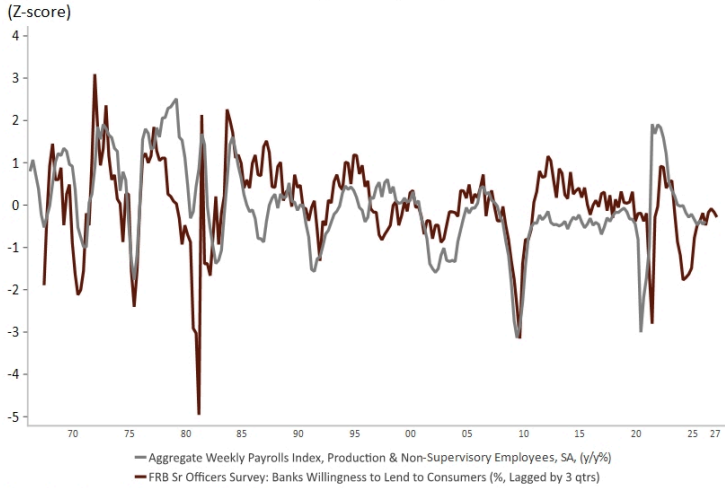
Importantly, the lowest paying industries have seen the weakest momentum in wage growth recently. See our nearby figure. I plot average hourly earnings on the horizontal axis and the momentum in hourly earnings (defined as the 3m/3m % SAAR) on the vertical axis.

The upward sloping regression line tells us that employees in high-paying industries like information and utilities are seeing rapid wage growth while those in low-paying industries like retail trade, education & health, other services, and transportation & warehousing are seeing somewhat slower wage growth.

Certain cyclical areas of the jobs market do not exactly instill confidence. Labor market conditions tied to housing keep slowing. Residential construction, real estate, and wood products manufacturing continued to slide. We're seeing continued weakness in finance & insurance and information services.

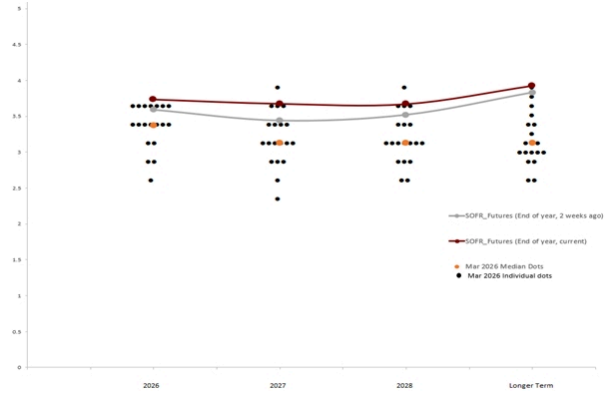
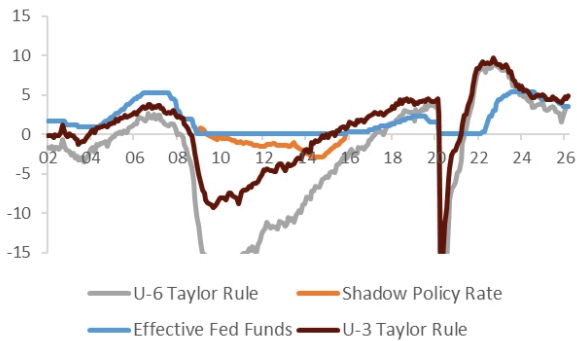
Lastly, even as we are seeing an easing of financial market conditions, credit conditions aren't easing in any meaningful sense. Lending standards have tightened for consumers and bank willingness to lend to consumers remains weak through Q2. Historically, it's unusual to see a major rebound in labor market activity here.

Tight consumer credit conditions weigh on payroll growth



Source: Renaissance Macro Research, Macrobond

Monetary metrics



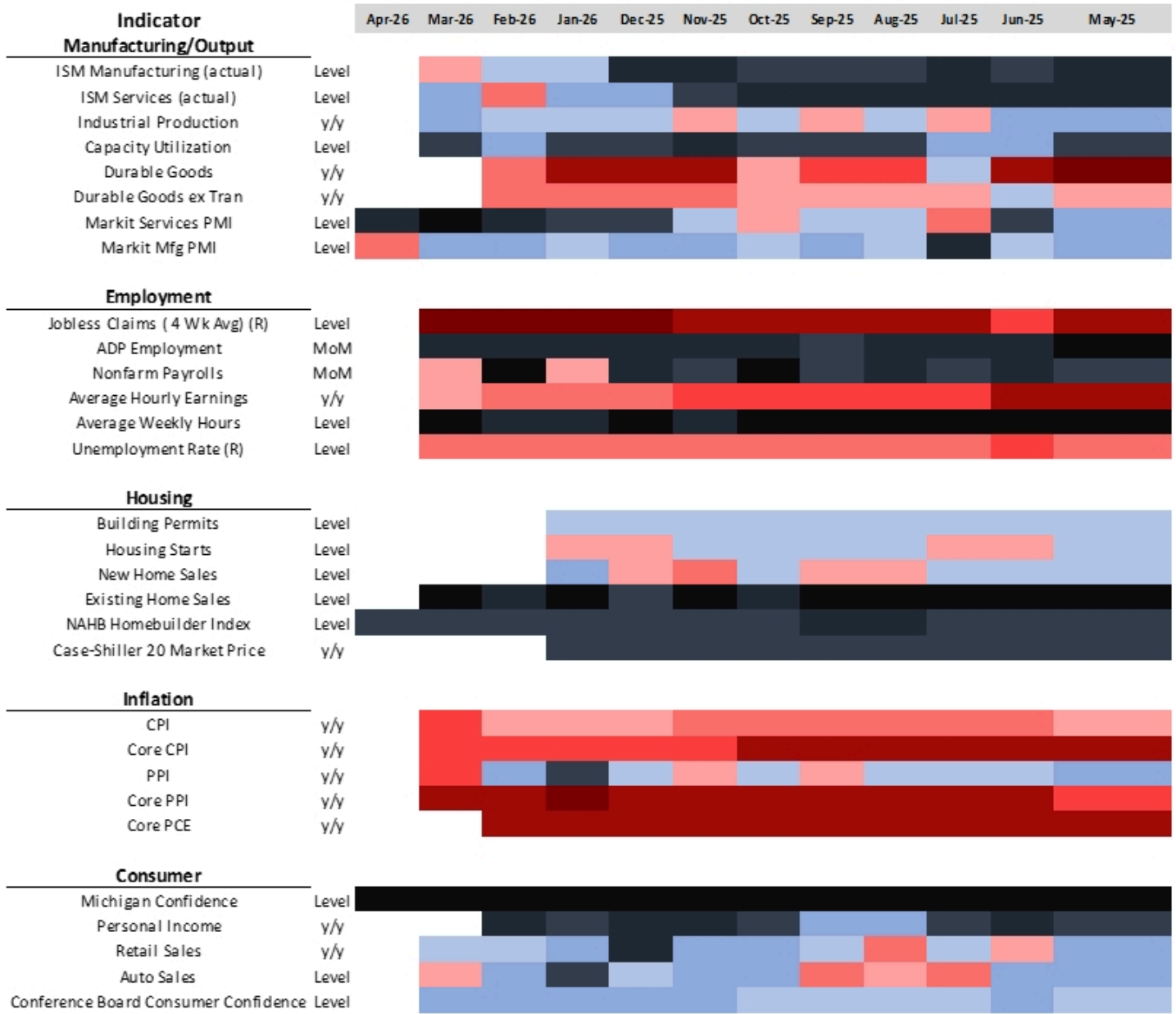
Hawks and Doves



*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

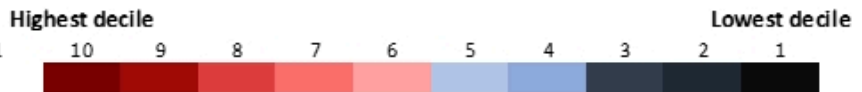
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2-2.5	2.0-2.4	2.0-2.3	1.8-2.0
December projection	2.3	2.0	1.9	1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0
Unemployment rate	4.4	4.3	4.2	4.2	4.3-4.5	4.2-4.4	4.0-4.4	4.0-4.3
December projection	4.4	4.2	4.2	4.2	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6-3.1	2.0-2.3	2.0	2.0
December projection	2.4	2.1	2.0	2.0	2.3-2.5	2.0-2.2	2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5-2.8	2.0-2.4	2.0	
December projection	2.5	2.1	2.0		2.4-2.6	2.0-2.2	2.0	
Projected policy path								
Fed funds rate	3.4	3.1	3.1	3.1	3.1-3.6	2.9-3.6	2.9-3.6	2.9-3.5
December projection	3.4	3.1	3.1	3.0	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5

High frequency data heat-map

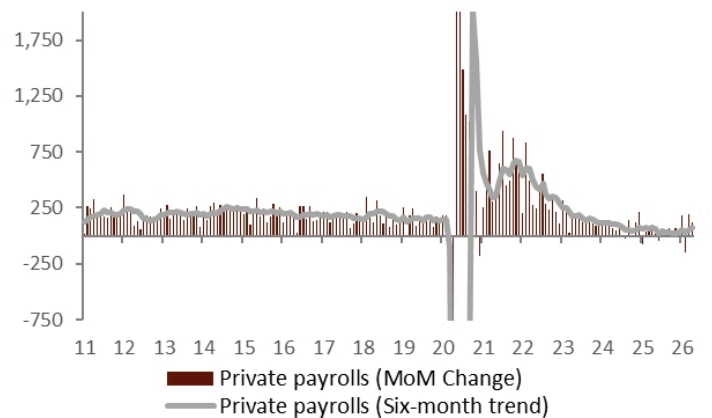
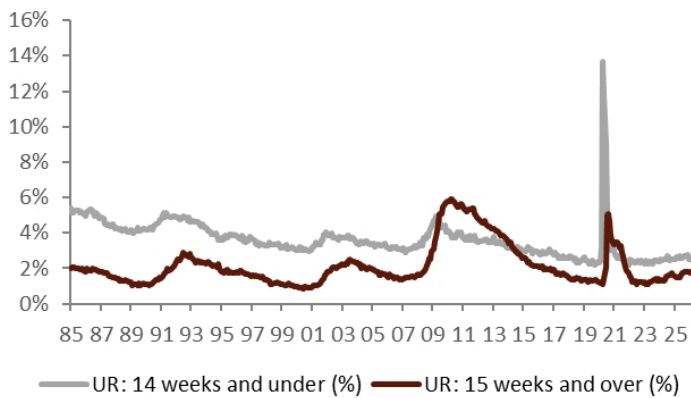
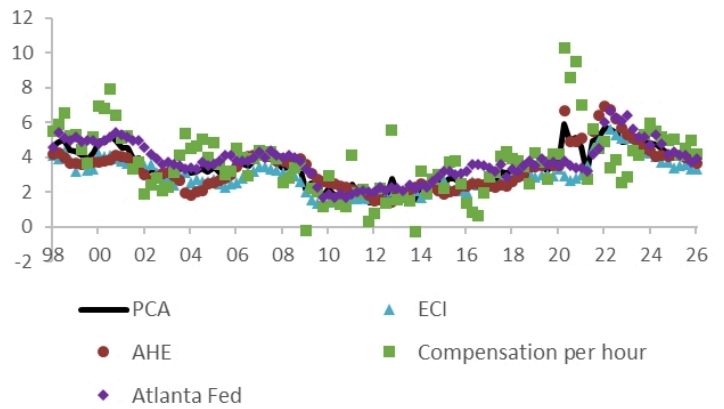
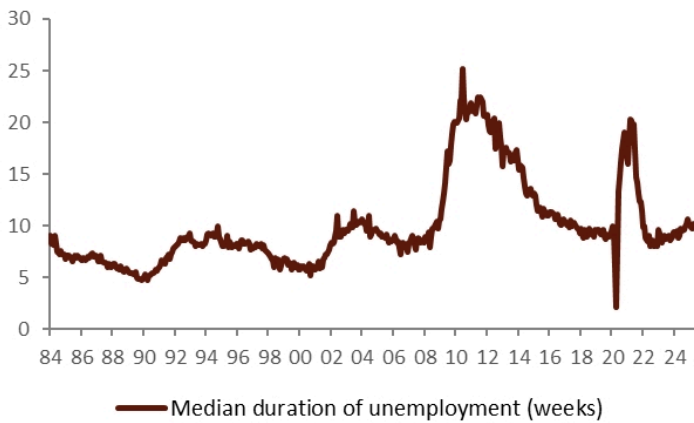
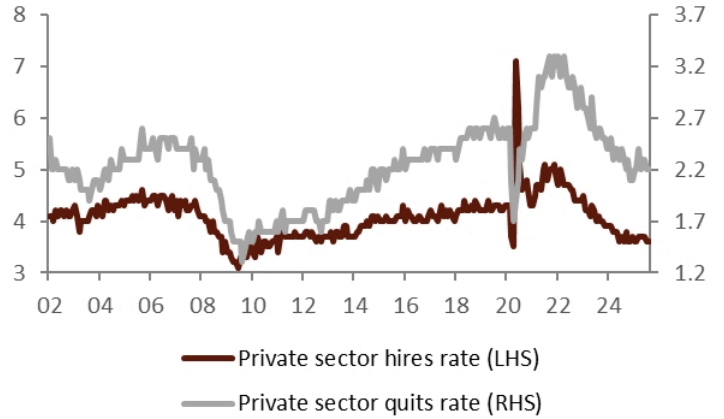
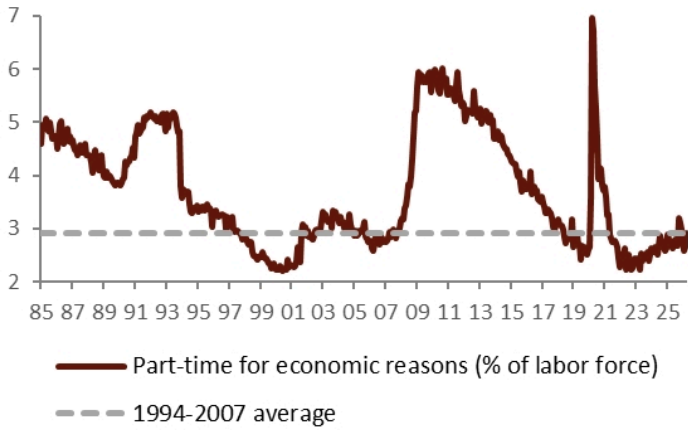


Notes
R - Reverse Formatting

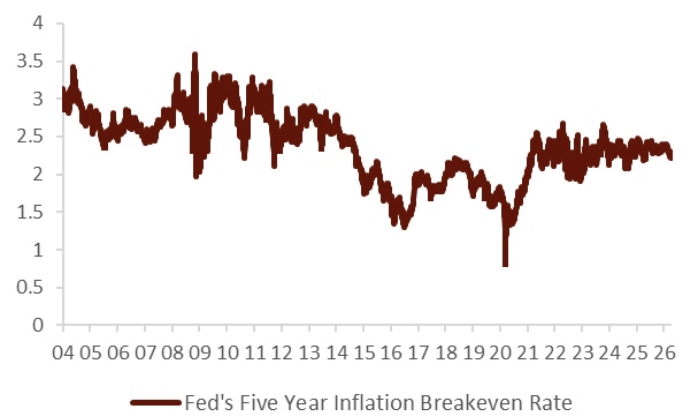
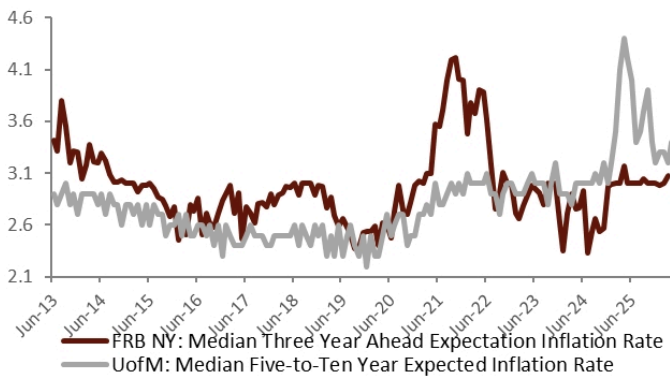
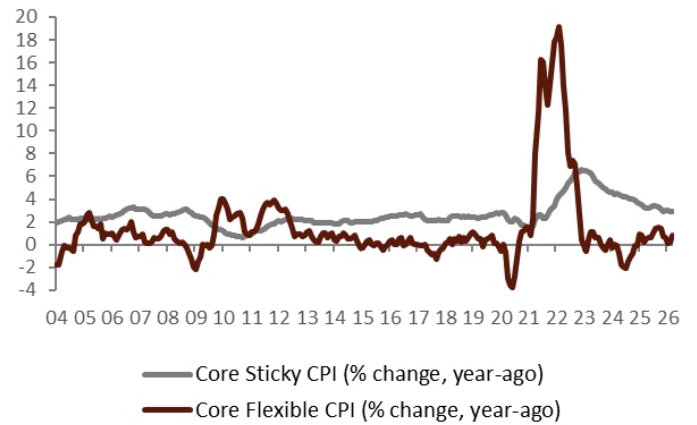
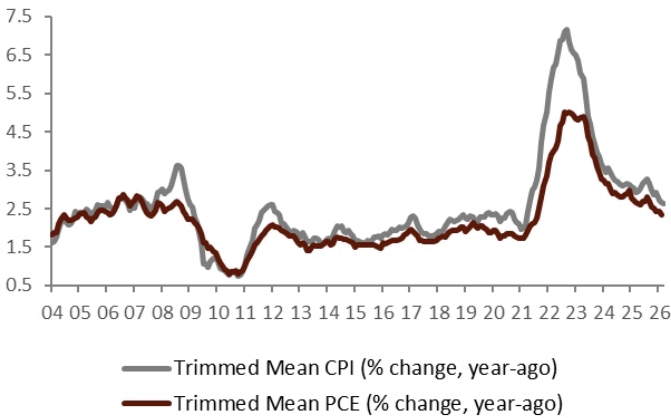
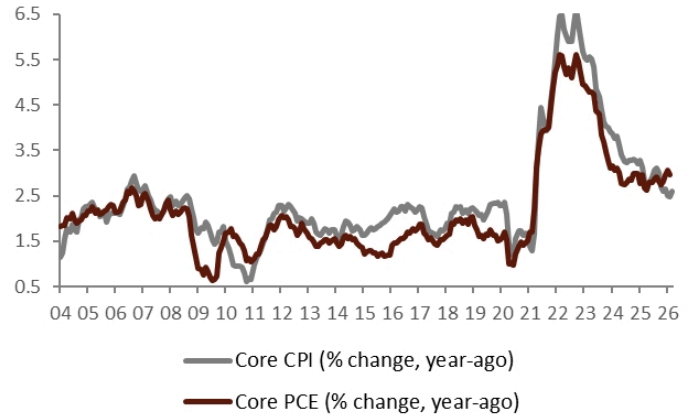
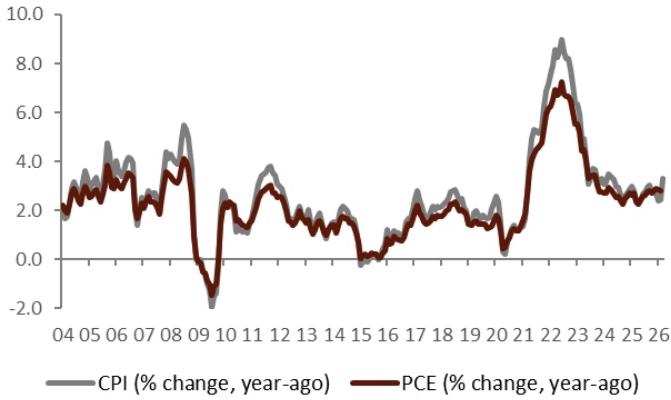
Dediles are based on expanding window since 2001



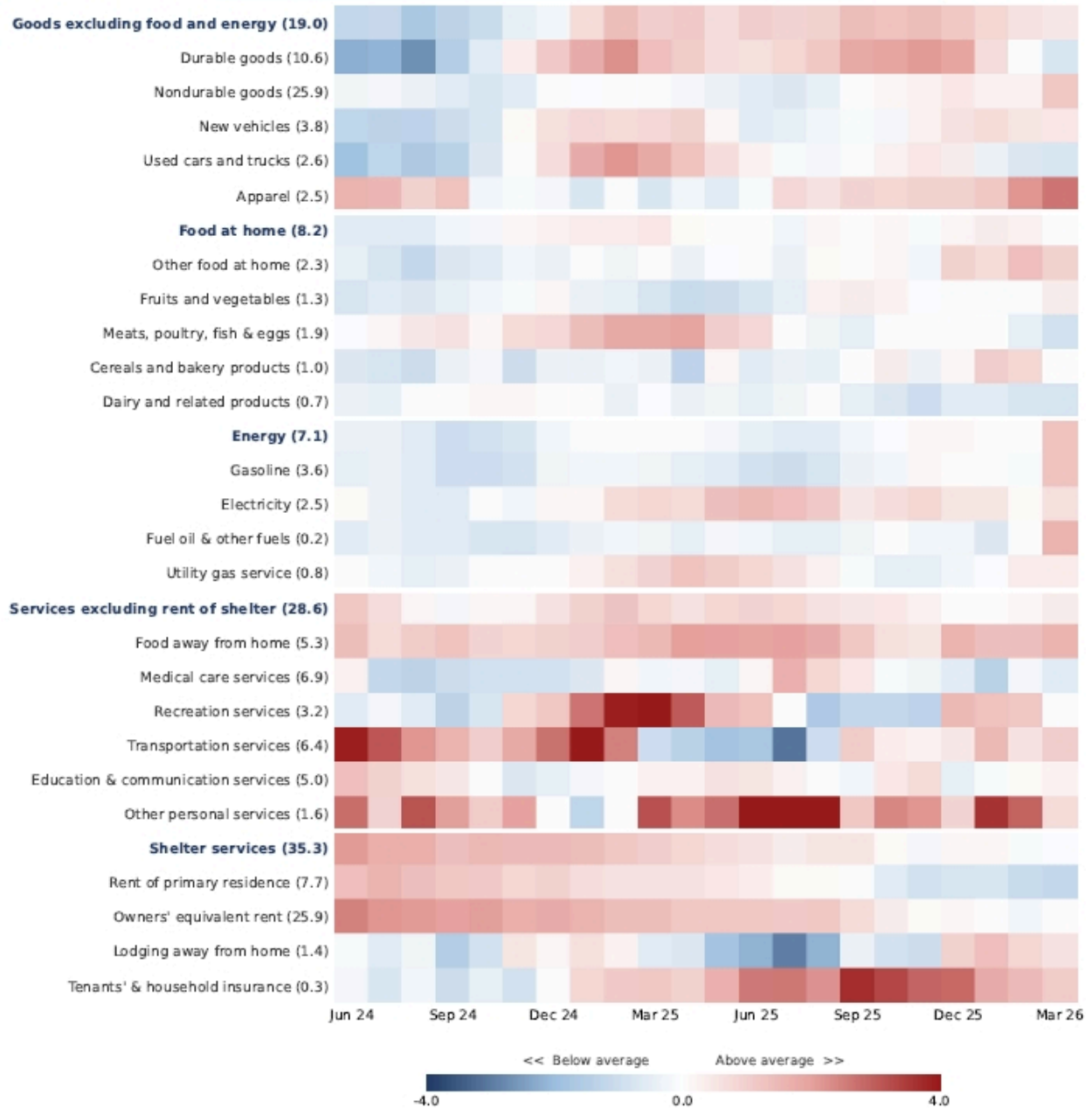
Labor market indicators



Inflation indicators



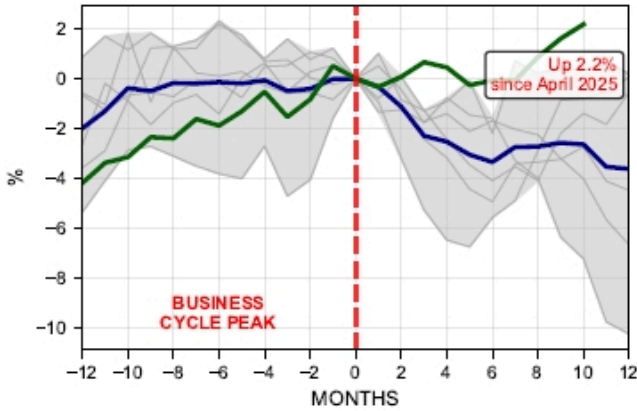
US Inflation Heatmap (6-Month Annualized)



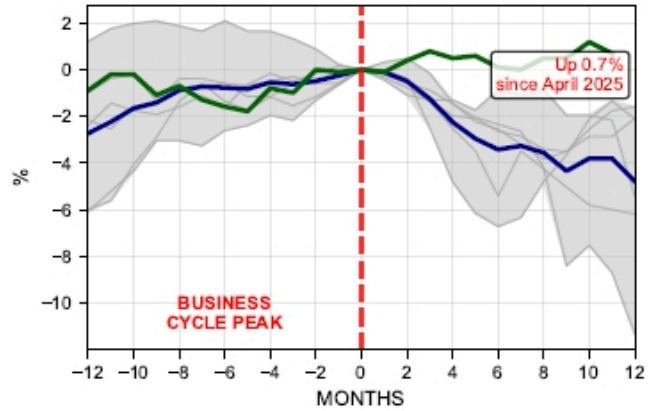
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: March 2026.

NBER RECESSION INDICATORS DASHBOARD

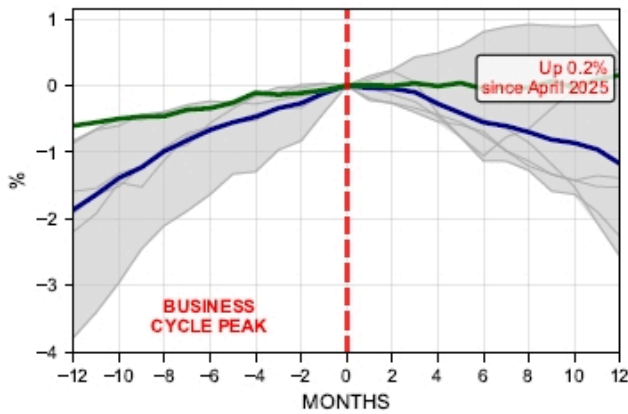
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



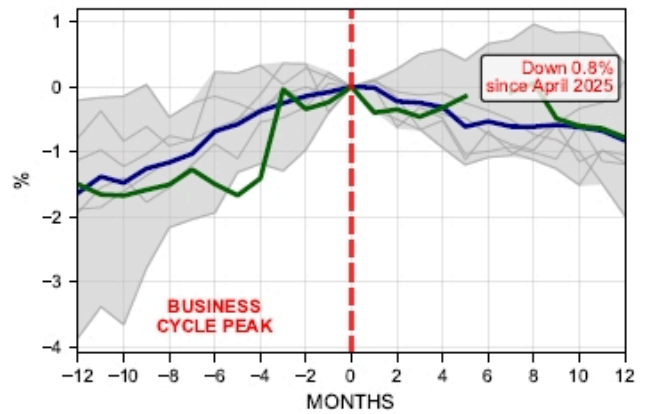
INDUSTRIAL PRODUCTION



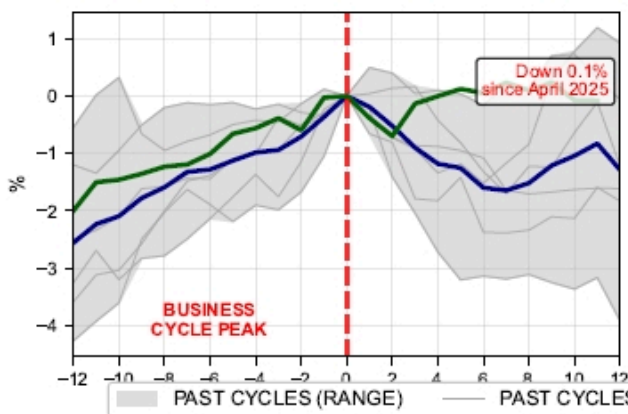
US NONFARM PAYROLLS



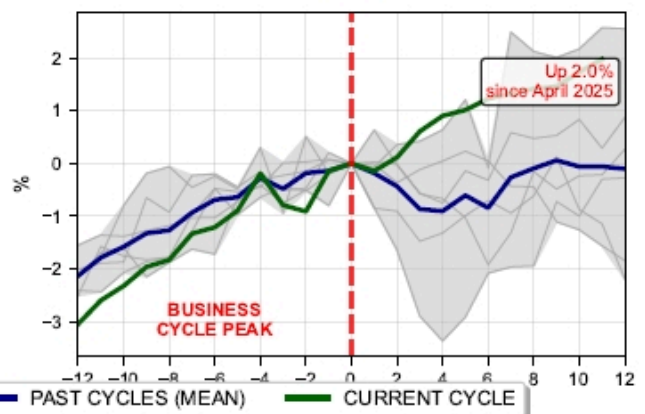
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



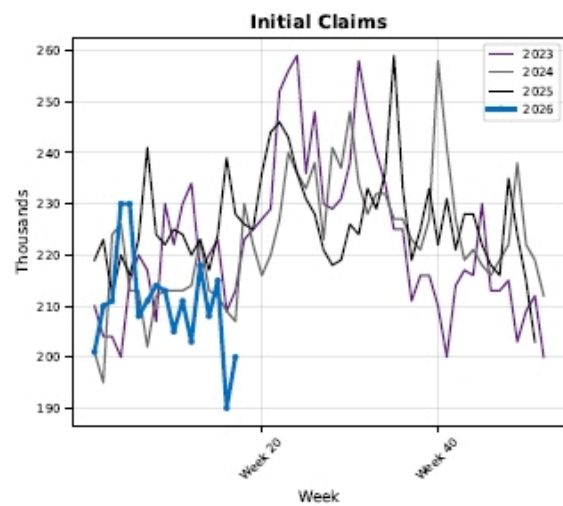
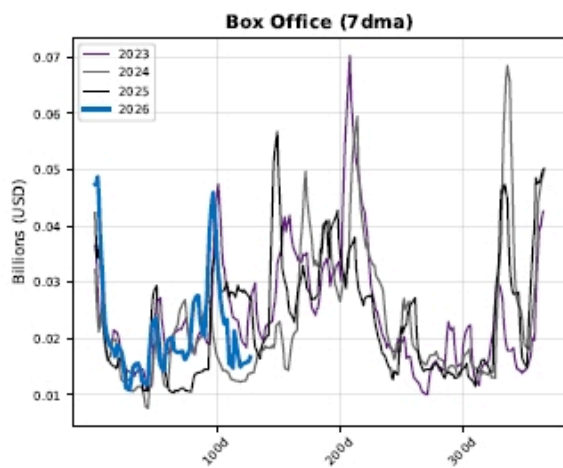
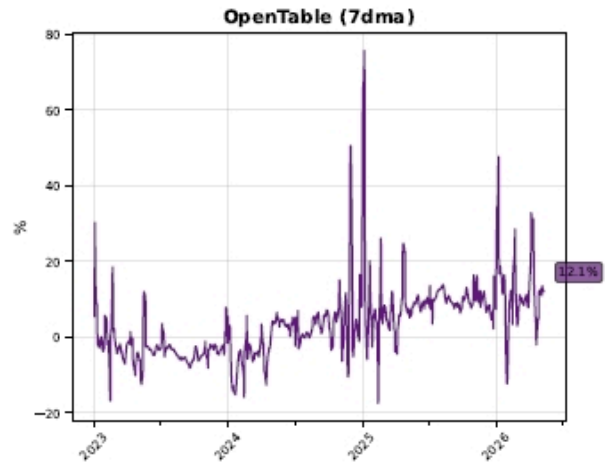
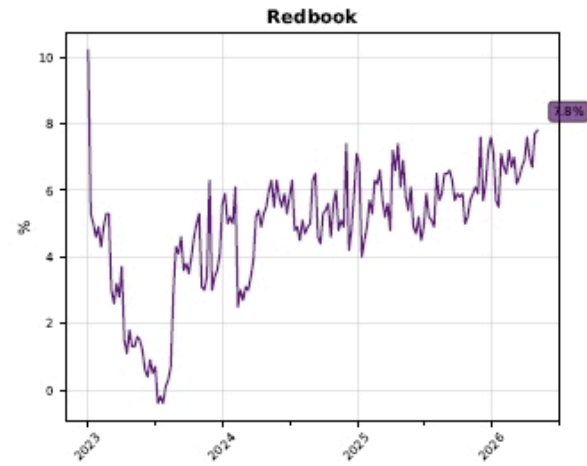
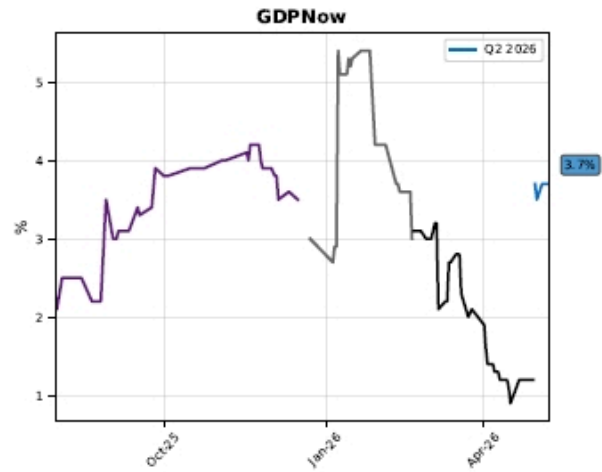
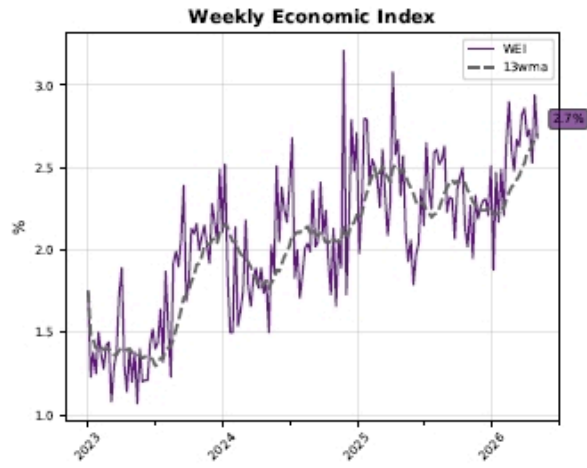
REAL PCE



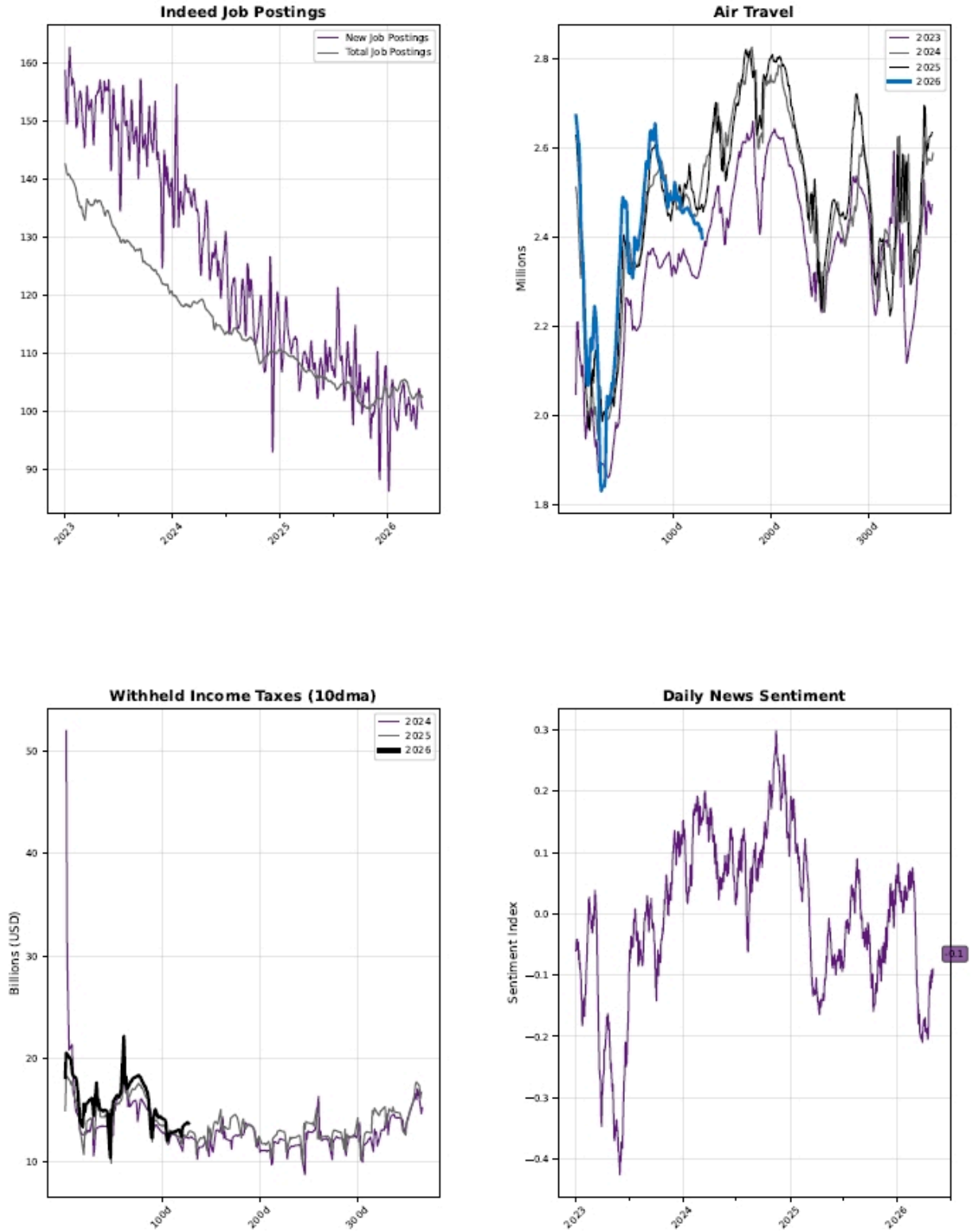
PAST CYCLES (RANGE)
 PAST CYCLES
 PAST CYCLES (MEAN)
 CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard



DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive. Copyright © RenMac 2026. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac. No portion of this material, including data, analysis, or commentary, may be input into, uploaded to, or otherwise used in connection with any artificial intelligence (AI) system, machine learning model, large language model (LLM), chatbot, or automated content generation platform, including but not limited to ChatGPT, Claude, Gemini, or similar tools, without the prior express written consent of Renaissance Macro Research, LLC. Any such use is strictly prohibited and constitutes a violation of copyright and confidentiality protections.