

Thinking Out Loud



Everything Looks Different From Space

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This week was best characterized by a crosscurrent of headline-driven volatility, shaped by inflation uncertainty, a boxed-in Fed, an ambiguous labor market, and a record IPO. The large-cap technology trade suffered its sharpest unwind of the AI era before snapping back on headlines around a potential Middle East peace deal.

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May CPI and PPI delivered the same message: hot headlines, cooler cores. At the consumer level, headline CPI rose 0.5%, lifting annual inflation to 4.2%, the highest since April 2023, while core CPI came in below consensus at 0.2% month over month. Energy drove as much as 60% of the headline gain, while falling goods prices suggest tariff pressure may be fading. PPI looked hotter, rising 1.1% versus the 0.6% expectation. However, core producer prices increased 0.4% month over month, only 0.10% above expectations. Going forward, we believe the overall inflation backdrop requires attention, as households are bearing the brunt through both higher costs and weaker real income. Gas prices of \$4.15 per gallon¹, up 33% year over year, are hitting consumers directly, while real wages are down 0.7% year over year. From the producer side, higher input costs for fertilizer and diesel could reduce crop yields in the fall and into 2027, further pressuring food and energy costs. At the same time, a federal appeals court has allowed the administration to enforce a 10% global tariff under Section 122 trade authority, keeping tariffs as a near-term headwind. Finally, AI demand continues to lift electricity and component costs, which may eventually fall on consumers.

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The labor market is doing what the Fed needs: cooling without breaking. Initial claims rose to 229K, the third straight weekly increase, while continuing claims climbed to 1.795 million — both higher, but not alarming. ADP's weekly data still show private employers adding jobs, though at a modest pace. Forward indicators are softer, with small-business job openings and hiring plans at six-year lows, labor costs a growing concern, and consumers less confident about job security. Wage growth has slowed to 3.4% year over year, which, against 4.2% inflation, leaves households facing a real-pay squeeze.

A relatively catalyst-free sell-off in large-cap technology pulled down most major equity indices during the week. The semiconductor index was down more than 12% from its June 3, 2026 level by Wednesday's close, including an intraday drop of roughly 10% on Tuesday. The Magnificent Seven complex lost 9.2% on a trailing-week basis through Thursday, while the Nasdaq-100 fell 6.0%. Under the surface, however, the S&P 500 excluding AI and large-cap technology names outperformed.

This brings us to Thursday, when headlines broke that the President had canceled planned strikes on Iran and that the main points of an interim deal had been approved, driving the S&P 500 up 1.8%, its best session since April 8. The NASDAQ rose 2.5%, the Russell 2000 gained 3.0%, and semiconductors and memory names led the recovery. The reported U.S.–Iran memorandum potentially headed for signing in Geneva struck us as a carefully curated narrative, arriving just as midterm elections draw closer and GOP resistance in Congress gains momentum. President Trump says the U.S. and Iran are close to signing a deal that would reopen the Strait of Hormuz, extend the ceasefire for 60 days, and give Iran sanctions relief. The deal would also restart nuclear talks, but any real action on Iran's uranium stockpile

¹ AAA

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would require a second agreement. For now, the deal is not final, and past talks have fallen apart before.

On Capitol Hill, the House voted down a short-term extension of FISA Section 702, 198–218, with 19 Republicans voting against it, briefly putting a key foreign-surveillance tool at risk of expiring. The fight quickly moved from Bill Pulte’s controversial acting-DNI role to President Trump’s nomination of Jay Clayton as permanent DNI, but lawmakers remain divided over intelligence leadership and surveillance reform.

Against this backdrop, about a mile west on Constitution Avenue, the Fed heads into Chairman Kevin Warsh’s first FOMC meeting with inflation still above 4%, a relatively sound labor market, and a bond market repricing the rate path in real time. The policy path may now hinge partly on a Middle East diplomatic outcome the Fed neither controls nor can forecast. Even if the Strait reopens, we believe energy and supply-chain pressures will continue to flow through inflation data into year-end. As a result, we expect a hawkish hold at next week’s FOMC meeting, with added rate volatility tied to a possible shift in Fed communication around forward guidance and projections.

Finally, SpaceX priced the largest IPO in history, testing the market’s ability to absorb new equity supply. The company sold 555 million shares at \$135, raising a record \$75 billion at a roughly \$1.77 trillion valuation. Prelisting demand was strong, including at least a \$5 billion order from BlackRock², while the retail allocation was cut to roughly 20% from the planned 30%.

The bigger question is supply. SpaceX is expected to be the first of three mega-listings, with OpenAI and Anthropic also reportedly preparing IPOs near \$1 trillion valuations. That comes as equity issuance is already running near \$120 billion per quarter, up from roughly \$30 billion in early 2023³, raising concerns that new supply could pull demand away from the broader market. There are also market-structure risks. SpaceX could enter the NASDAQ-100 just 15 days after it starts trading, creating automatic index-fund demand. Wall Street is also trying to avoid a repeat of Facebook’s messy 2012 debut, when a larger deal size and higher price range left the market with too much supply.

We’d love to hear your thoughts.

² Reuters

³ MarketWatch

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