

Macro Markets: Half-Time Analysis for Investors: Macro Themes and Market Drivers for 2H2026 and Beyond?

Date: July 9, 2026

Jay Diamond: After a volatile and intense first half of the year characterized by war, oil spikes and a transition at the Federal Reserve, market participants can be forgiven for being thankful that the second half of 2026 is starting off with several welcome distractions, like the long, hot July 4th holiday weekend, the World Cup, Wimbledon, landmark Supreme Court decisions and, of course, a celebrity wedding at Madison Square Garden. But the relative calm at this mid-year turn of the calendar also makes for an opportune time for macro markets to pause and examine some of the forces that could drive markets in the coming months and quarters. To help us do that, our two friends of the podcast and leaders of our macroeconomic research and market strategy team, U.S. economist Matt Bush and market strategist Maria Giraldo. Matt and Maria are going to walk us through what is top of mind for the team as laid out in our latest quarterly macro themes. If you want to follow along, you can find the quarterly macro themes on our website and in the show notes. So welcome back, Matt and Maria, and thanks for taking the time to chat with us today.

Maria Giraldo: Thanks. It's great being here.

Matt Bush: Thanks, Jay.

Jay Diamond: All right. Now, Maria, I want to start with you before we dive into the quarterly macro themes, what is your sense of the mood of the market right now as we start the second half? And let's start with the bond market.

Maria Giraldo: Yeah. I do think generally it depends on which market you look at. It's a little mixed across markets. But like you said we'll start with bonds. And I'll start specifically by looking at rates. We see investors there are a little uncertain about the effects of the war. They're weighing different impacts from inflation to the potential for higher long term government spending in defense and other domestic areas as well. And given that there's been some challenges for tariff revenues this year, I think that has meant investors are demanding a little more premium for holding Treasuries. So the ten-year Treasury yield has been between about 4.4 percent to almost 4.7 percent since May. We started the year closer to 4.1 percent. But then, you know, we shift to risk assets and generally, we get here, a bit more of a constructive mood just based on the resilience the market has exhibited to the war and other developments. Specifically in credit, investors are feeling confident and constructive. They feel good about taking credit risk at this juncture. You know, both in investment grade and high yield, credit spreads are near the tight end of their historical ranges. Companies have been issuing debt at an exceptional pace. And while you do see some temporary indigestion when supply is particularly heavy, like the recent Amazon issuance, your demand has consistently been strong enough to keep the market functioning well. So that's telling you that there's healthy appetite. And that confidence isn't just a mood. It's really supported by fundamentals. Given how strong corporate earnings growth has been, U.S. companies seem to have weathered a war, inflation,

AI disruption, and mixed trends across consumer cohorts. You know their balance sheets are looking healthy and default rates are below average. So in that context, when investors look at all-in yields that are attractive because of where Treasury yields are, that's drawing steady demand. So we can dive into other markets, but at a high level I'd say investors are overall feeling constructive on taking risk. And in some areas maybe you see a little bit more measured risk taking just given some of the cross-currents now.

Jay Diamond: Now that's the bond market. What about the equity market, which had a very strong second quarter? Where does it stand now in terms of valuation and investor outlook?

Maria Giraldo: It did have very solid performance across markets. I'll talk a little bit about that. But that is where I see a bit more nuance. So overall your point that it has delivered some nice returns in the first half of the year the S&P 500 was up 10 percent. Small caps really rebounded with a 22 percent return. Some of that is because of their starting valuations. They came into the year with lower price multiples. And then some sectors that benefited from the war, like energy, were up 18 percent. But ironically, so were the sectors where investors might have expected poor performance. Like airlines in the S&P 500, airlines were up 28 percent in the first half of the year. So a lot of resilience here. But there's still some areas where we're seeing some measured risk taking. There's a lot of uncertainty as it relates to AI. Investors are worried about whether all the spend from the mega tech companies is warranted. And these companies came into the year with very high valuations. So comparatively, those returns have been weaker. The Magnificent Seven was down 2 percent in the first half of the year. So more cautious optimism in equities. Investors don't want to be over concentrated to any one theme, which is actually something we talked about at the start of the year when we presented our top ten themes for the year, how important diversification was going to be given where valuations were starting

off. So I think, you know, as we look out to the second half, some of the things that the market is still worried about are: is the war over, how has the consumer really fared and by extension, the economy, which I know Matt is going to talk about. Where is inflation headed? Who will the winners and losers be from AI? So I think, you know, we're continuing to see the shifting leadership as investors focus more on where better relative value is in the equity market and where they're getting better exposure to earnings growth potential that isn't already priced in.

Jay Diamond: Thank you for that, Maria. It's a great market backdrop to the quarterly macro themes for the second quarter. So Matt, tell us about the two themes that are an area of focus for our team now. Theme one is the AI investment boom: a growth engine with the inflationary side effects.

Matt Bush: AI investment has been a recurring theme for us, but this AI investment cycle just continues to grow in importance for the US economy. So it's worth revisiting again to demonstrate this growing importance. At the start of 2026, capital expenditure estimates from major hyperscalers was expected to be around 530 billion. Now, just six months later, that number is about 750 billion. And so this investment has been an important driver of economic growth in recent quarters. If you look at AI-related components of business investment, specifically computer equipment, software R&D, it added 1.5 percentage points to first quarter growth. So a very sizable contributor. Now some of that investment is netted out in the official GDP data because a lot of the equipment is imported. And some people dismiss or downplay the importance of the AI spending because of this important netting out effect. But we disagree with that view first, because we think there's some mis measurement in the official data that undercounts the true contribution to GDP from AI spending, something we outlined in detail in our recent AI paper that we published earlier this year. But second, more fundamentally, this

investment creates spillovers to other parts of the economy. Most obvious is the impact on consumer balance sheets via the wealth effect from all the AI induced equity gains that Maria talked about. It's also positive for other domestic industries like construction and manufacturing. So when you factor in those spillovers, we think it's a sizable impulse economic growth and that looks set to continue in coming quarters. What's newer in the AI macro story over the past several months is that it's also increasingly generating price pressures. We're seeing surging demand for data center components increasingly running into physical and supply constraints, most obviously in memory chips, but also in other data components and power supplies. And so that's created a unique dynamic where this category of consumer prices, that's usually solidly in deflation, after you factor in quality adjustments, it's actually flipped this year to being a meaningful contributor to inflationary pressure. So the software and computer accessories category of the core PCE price index, something that historically hasn't been paid much attention to because it's about 1 percent of the total index, has contributed about 70 basis points to the six month rate of core PCE annualized inflation as of May. So a pretty large contributor from this pretty small component. We think that this tech inflation will see a more moderate pace of price gains in the second half of the year, held by some upcoming methodology revisions to the software category in particular. But at the same time, we do think it will be a source of ongoing inflation pressure. We just recently heard price hike announcements on consumer tech goods from Apple and Microsoft, which could be a sign of more to come. So this category continues to be a risk to our view that we will see slowing inflation in coming months.

Jay Diamond: Theme two is about the oil market. And it's titled, "Energy prices fall on an agreement to get oil flowing, but questions remain," and we're certainly seeing that this week.

Matt Bush: Definitely. Obviously a quickly moving story. I think by the time you write something about developments around the war in oil markets, it's already out of date. And I think this theme is really just making the point that while the deal between the US and Iran and the sharp drop in oil prices is obviously a positive news for the outlook, the risk of tensions reigniting is elevated as we're seeing, and the buffer is that cushion from the shock from the supply disruptions have really been run down. And so the story of the first half of 2026 was that we had this historic energy supply shock, but more muted energy price gains than you'd expect. And that's because we saw this sharp drawdown in oil inventories that cushioned the supply shortfall. And where we did see demand destruction, it occurred mostly outside of the U.S. and in more price sensitive energy products than in crude oil. So the deal and the drop in oil prices does help take some risks off the table. But as we've seen in recent days, there are considerable obstacles to reaching a permanent agreement, meaning we could see and are likely to see periods where oil flowing through the Strait of Hormuz is disrupted. And so these disruptions, combined with the need to, over time, rebuild these inventories that have been drawn down, highlight the risk that while markets are eager to move past the war in oil disruptions as a theme, it could remain a lingering problem. And, Matt, I want to stay with you because these themes do play into our outlook. So how are they affecting our outlook? And let's start with growth.

Matt Bush: So our baseline outlook for headline GDP growth in the US is to stay pretty steady around a 2 percent pace. Under the surface, though, we do see some shifting drivers of that growth. We talked about AI CapEx being an increasingly important tailwind for growth. We think that will continue. We also think One Big Beautiful Bill provisions around business investment should provide some support to other categories of capital investment that have seen weaker growth over the past year or so. On the consumer side, kind of a mixed picture

there. Overall, we expect a slight slowdown looking forward. Consumption in the first half of the year was cushioned by the effect of tax cuts, even as real income growth slowed sharply on higher energy prices. Looking ahead, we expect kind of the opposite to play out. Energy prices coming down will help ease pressures, but the tax cut boost is going to fade.

Matt Bush: The good news is that the labor market has stabilized this year, with unemployment coming down a bit and the pace of job growth firming up, that should help consumer spending from cooling too much, and another support is strong wealth gains on household balance sheets, which is an increasingly important support for spending given pretty weak income growth.

Jay Diamond: Now, I do want to interject here that it is worth our listeners checking out the quarterly macro themes on our website and in the show notes, because there are some terrific charts here that illustrate the things that, Matt and Maria are talking about today. So, Matt, let's go to the next part of our outlook. Inflation.

Matt Bush: Inflation has been hot to start this year. Even looking through the energy shock core PCE inflation is up 4.1 percent annualized in the six months through May. And because the first quarter in particular saw elevated inflation prints, we see the year-over-year pace of core PCE staying above 3 percent for the rest of the year. What will be more important to watch, though, will be the sequential pace of inflation, the month over month readings to give an indication of where inflation is heading. We do expect to see some moderation there for a couple of reasons. First is that tariff effects on consumer prices look like they are mostly behind us now, which will make a meaningful difference given they were adding roughly 80 basis points to core inflation at their peak. On the services side of things, we still think housing inflation has more downside based on leading measures and for services away from housing, we think cooling wage growth

should help keep price pressures contained. There's also been a consistent seasonal pattern in recent years where Q1 inflation in particular sees the hottest prints before seeing more benign readings later in the year. So that so-called residual seasonality in the data should also lead to some cooler prints in coming months. All that being said, we talk about in the piece some risks we're watching that could keep inflation sticky. Oil prices have come down, but we're watching for continued supply disruptions from the war, particularly in areas like shipping and transport that could hold up the pace of disinflation for goods. And then you have these spillovers from AI to consumer prices that we talked about, which is another risk. It's a difficult dynamic to forecast when we've never seen this kind of inflation before.

Jay Diamond: Now we have a new Chair in charge of the Fed. How do we think all this will play out in Fed policy?

Matt Bush: I think what we learned from the June FOMC meeting in Kevin Warsh's first press conference is that the Fed's patience on inflation is wearing thin. After five years of inflation running above target, and another year where inflation looks set to come in higher than they forecast at the start of the year, particularly with the labor market stabilizing, they're able to focus more on the inflation side of the mandate. And you saw that with half of the FOMC that submitted economic projections anticipating rate hikes this year. Our baseline outlook has the Fed narrowly avoiding the need for rate hikes and holding policy steady into 2027. But that's contingent on better monthly inflation prints emerging soon. If we don't see that there's elevated risk of hikes beginning as soon as September. And the labor market's also another consideration. Payroll gains, which looked pretty hot at the beginning of this year, have cooled in recent months and the unemployment rate has been mostly steady. But if we do see signs of the labor market tightening, that could further add the case for rate hikes. Now, if rate hikes do

occur, we think it would be pretty quick, but smaller than most historic hiking cycles given rates are already close to neutral. So probably a smaller hiking cycle than we've seen in the past.

Jay Diamond: Thanks. Now, Maria, what are some of the investment implications of these themes and our updated outlook? And let's start with the yield curve and positioning.

Maria Giraldo: At a high level, you know, steady growth and the Fed that is, in our baseline, likely to hold steady, and understanding that there's different risks around that. Right now, we think fixed income still continues to look attractive. We do think investors need to be a little bit selective about how they're taking risks across the curve. You know starting with the front-end we think yields are a little bit high. Looking at the two-year Treasury yield that's at about 4.2 percent. And it's been above 4 percent for some time because the market's pricing in more rate hikes than we have in our baseline. And as Matt mentioned, if the Fed does have to move ahead with rate hikes, we think it would look different from previous hiking cycles. And the market seems to be a little bit more priced for a pretty aggressive hiking cycle. So in our view what this does is it affects the short to intermediate part of the curve, which we do think looks a bit attractive. There's maybe a little downside to two-year Treasury yields in particular. We, you know, looking at the ten-year Treasury yield, we've had a view that it would stay in a range for some time. You look back at 2023, going back to look the middle of 2023, it's been in a wide range of 3.75 to 4.75 percent. And as I mentioned at the top, that range has kind of moved a little bit higher, has narrowed in the last three months to closer to 4.4 to 4.7 percent. And that's because the markets are debating long term inflation assumptions and AI-driven productivity, and how that affects neutral rates in the long run. But again, we're still in that long standing range. So what's helpful about recognizing that range is that it gives us a sense of where yields start to become more attractive for us, say, if the ten-year—

which we don't think would last for a very long time—that's an opportunity where we start to look to extend duration. For now, because we're still in that range, it's more tactical as we see the tenure in the range.

Jay Diamond: And the investment implications that's related to our outlook for credit performance and credit spreads.

Maria Giraldo: Yeah. Within credit definitely being selective is important here rather than just adding to beta. Spreads are tight. And so we think returns are likely to come more from earning carry than another meaningful round of spread tightening. And then more importantly, for us as active managers, benchmark outperformance is likely to come from avoiding defaults and downgrades. So that argues for focusing on sectors and issuers where you're being appropriately compensated for the risk, rather than chasing the tightest parts of the market. In particular, we also don't want to be in crowded spaces. There's a lot of activity in corporate bond markets, but a lot of it is driven by the AI buildout. At least 50 percent of investment grade corporate bond issuance this year is financials and AI related issuance. So diversifying takes some flexibility to look across different structures and even geographies. But we do also think elevated issuance means there could be some tactical opportunities for active investors. You know, new issued concessions, periods when the market is dealing with indigestion from supply, that that can provide some temporary, attractive entry points. So another reason for active management. But at a high level, [we're] focused on being selective. We like areas like Agency MBS. We like structured credit. And we're being more measured in corporate bonds, where spreads already reflect a lot of good news, and the balance of risks looks more uneven compared to other credit markets.

Jay Diamond: And how does our outlook play into implications for the equity market inequities?

Maria Giraldo: In equities, I also sort of mentioned this at the top, but investors should continue to look beyond the obvious beneficiaries of AI and see where there's growth that's not quite priced in yet. The investment cycle has broadened out into other areas like utilities, industrials, infrastructure, power. We've seen a lot of performance out of the chip producers, particularly in memory, which is undersupplied. So that created a lot of opportunities beyond some of the more concentrated areas. And as capital spending expands, we still think investors should look for opportunities where there are companies that are enabling the buildout and it's not quite priced in yet into their earnings outlooks.

Jay Diamond: You know Matt, I would say that our macro outlook is relatively benign, but what are some of the risks to this outlook that could throw the Fed either into easing or tightening mode?

Matt Bush: The upside risk is sticky inflation leading to some rate hikes beginning this year. As I talked about, there are multiple sources of inflation risk right now. Energy prices and supply chain disruptions ramping back up, if US-Iran tensions escalate, bigger AI cost spillovers, consumer prices, tariff effects not coming out of the data as expected or just underlying inflation just being sticky at a level closer to 3 percent than 2 percent after five years of running above target. Any combination of these factors could prompt Fed hikes, but we would again foresee a limited amount of hikes in this scenario. And the market is already pricing in close to two hikes through the middle of 2027. So it's not clear how disruptive this would be to broader markets. Thinking about the other direction, downside risks. You do have a lot of the growth outlook ultimately tracing back to the AI story. Business investment outside AI is contracting

and a meaningful portion of consumer spending is being supported by these equity wealth gains generated by AI exposed companies. So any interruption to the AI thesis could see a dual pullback in both capital expenditures and consumer spending. We continue to believe AI is economically transformative over the medium term, but even a temporary pullback in equity prices could disrupt AI's engine of growth for the US economy.

Jay Diamond: Maria, we spent a lot of time talking about valuation and fundamentals as it relates to investment implications. But how important are technicals in our market outlook. So for example, demand for fixed income or issuance supply across the spectrum.

Maria Giraldo: Technicals are very important, particularly in the short run. But they can also turn quickly and are hard to predict. So we do have indicators that help us gauge how much technicals are driving tight spreads for example. And in the current environment, it's a lot. We see it in our measure of flows into the US corporate bond market, where we're capturing mutual funds, ETFs, life insurers and forward investors. So our estimate of that is that is still well above the historical average. That demand continues, in part because investors want to capture the yield on offer, but also because maybe they need to rebalance exposures a little bit that have drifted from target allocations given how well equities have performed. So this strong demand from long-term investors has helped absorb a tremendous amount of issuance this year. Earlier in the year, we had expected that significant AI related issuance would put some upward pressure on credit spreads, and it really actually hasn't materialized. So again, going back to technicals are pretty important, particularly in the short run. And as I mentioned, two periods of spread dislocation from heavy issuance just this year have only tended to last a couple of days and then spreads tighten right back up. But over the long term, it's really

fundamentals that tell you where markets should trade technicals than determine where they do trade again in the short run.

Jay Diamond: What are your views right now on liquidity in the markets.

Maria Giraldo: Liquidity and technicals in my mind go hand in hand. So when the technical backdrop turns, usually because some catalyst shifts investors assumptions about the outlook, you know, Matt mentioned, AI disruption being one of them that could materially shift the outlook, both on the economic front, but also what's driving markets. So when something like that happens, demand deteriorates quickly in that environment. Liquidity tends to dry up. And that causes investors to demand a higher premium because now they're no longer able to trade in and out of a credit as easily as it could before. So we can't really predict that what the catalyst is going to be or when it hits. So there's two ways that we engage in thinking about liquidity as it relates to our outlook, and they work on different time horizons. The first is that we model different scenarios and think about how liquidity and spreads might behave in each one of them. So that feeds directly into how we think about the balance of risk and our outlook when we're looking at a modest recession type scenario or deep recession type scenario. The second is right in the moment when there's a period of dislocation and liquidity is falling, spreads are widening, we apply our frameworks to establish where some of the bounds are around fair value. And what we're looking for is to answer a certain number of questions. At what point are we being overcompensated for liquidity risk? At what point is the pendulum of relative value shifting away from sectors we tend to favor, like structured credit or less liquid areas like infrastructure debt. When is that shifting toward corporate bonds? That's what drives our outlook in that period of volatility. Right now, I would characterize again, because the technical environment is very solid, liquidity is still looking pretty good. The summer tends to

be a period where liquidity dries up a little bit, but so far we actually still see it being very strong. But if that turns, we know we have our frameworks in place to establish how much you should be compensated for deteriorating liquidity in different types of environments.

Jay Diamond: Thank you all very much for your time. Are there any last thoughts you'd like to leave with our listeners, Maria?

Maria Giraldo: I think it's just going to be a very interesting second half of the year. As I mentioned, there's still a lot of lingering questions for investors, but overall, are we looking at a pretty stable fundamental environment and that should be good for active risk taking?

Jay Diamond: Well, thank you again, Matt and Maria, for your time and your insight. I can't wait for you to come back and visit with us soon. And thanks to all of you who have joined us for our podcast. Again, if you would like to read our latest quarterly macro themes, please find it on our website or in the show notes to this episode. If you like what you're hearing, please rate us five stars and follow us so that you won't miss us. And as always, if you have any questions for Matt, Maria or any of our other podcast guests, please send them to

MacroMarkets@GuggenheimInvestments.com, and we will do our best to answer them on a future episode or offline. I'm Jay Diamond, and we look forward to gathering you again for the next episode of Macro Markets with Guggenheim Investments. In the meantime, for more of our thought leadership, please visit us at [GuggenheimInvestments.com/perspectives](https://www.guggenheiminvestments.com/perspectives). So long.

Important notices and disclosures. This podcast is distributed or presented for informational or educational purposes only, and should not be considered a recommendation of any particular security strategy or investment product, or is investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and or a legal opinion. Always consult a financial tax and/or legal professional regarding your specific situation. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and nonproprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. No part of this material may be reproduced or referred to in any form without express written permission of Guggenheim Partners, LLC. There is neither representation nor warranty as to the current accuracy of, nor liability for decisions based on such information. All investments have inherent risks. The market value of fixed income securities will change in response to interest rate changes and market conditions, among other things. In general, bond prices rise when interest rates fall and vice versa. High yield securities present more liquidity and credit risk than investment grade bonds, and may be subject to greater volatility. Structured credit, including asset backed securities, mortgage backed securities and collateralized loan obligations are complex investments and may not be suitable for all investors. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate. Stock markets can be volatile. Small and medium capitalization companies may involve greater risk of loss and more abrupt fluctuations in market price than investments in larger companies. Guggenheim investments represents the investment

management businesses of Guggenheim Partners, LLC. Securities are distributed by
Guggenheim Funds Distributors, LLC.