

Weekly Market Flash

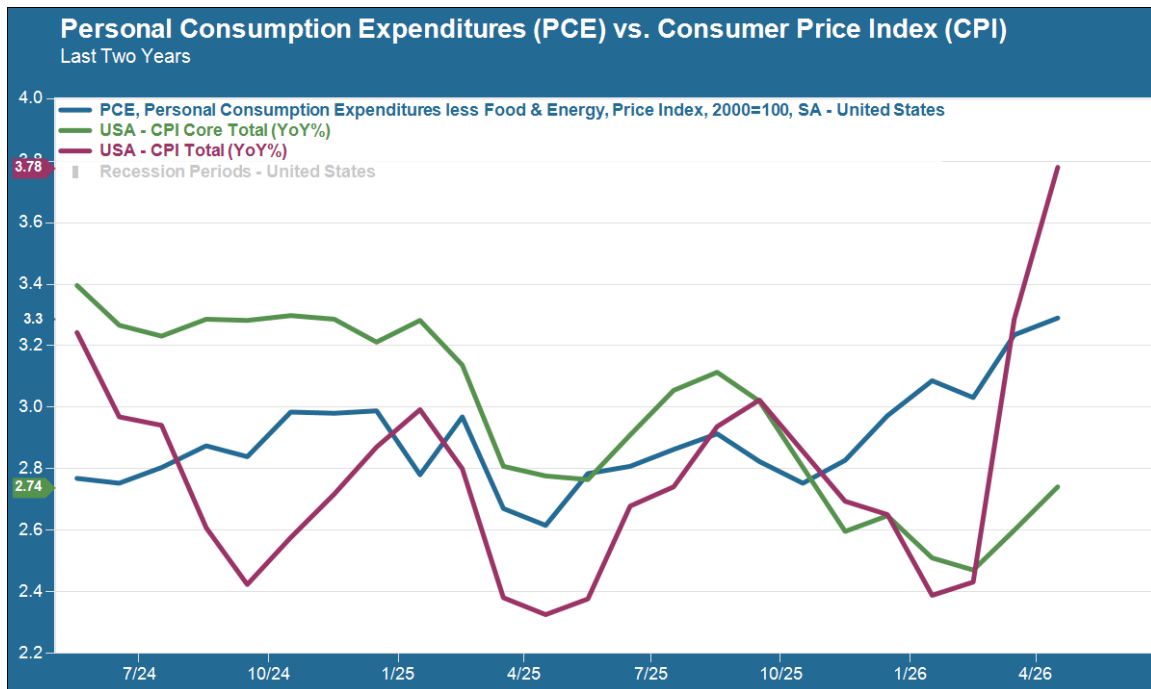
Consumers Flash Some Warning Signs

May 29, 2026

The American consumer is the stuff of legend. Resiliently spending her way through the best and the worst of times, the consumer is the iconic emblem, the longstanding growth machine of the great US economy, accounting for nearly 70 percent of total gross domestic product year in and year out. Small wonder, then, that economists and other students of the market closely follow the minutiae of consumer data, from retail sales to personal consumption expenditures to household sentiment surveys.

Struggling to Keep Up

Many of these data points have been holding up better than expected recently. But there are some growing signs of pressure that may bode for a troubled summer ahead. Data recently released by the New York Fed shows that 90-day credit card delinquencies for the first quarter of this year rose to just over 13 percent, the highest figure recorded since the immediate aftermath of the global financial crisis. The savings rate, meanwhile, has fallen to its lowest level since 2022. Other data show that a growing number of households are dipping into retirement savings and taking out more debt as they struggle to keep up with rising inflation. The inflation rate was sticky even before the war in the Middle East began two months ago, and it has been trending up steadily ever since.



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, MVF Research, FactSet

In the above chart we see the surge in energy prices producing a jump in the headline Consumer Price Index (CPI, crimson line), but also the steady rise in the core Personal Consumption Expenditure (PCE) index, the Fed's preferred metric (blue line) which excludes the food and energy categories, and the core CPI number (green line) for good measure. The core PCE index is at its highest level since 2023, and it suggests that inflation is now about more than just higher gas prices, but is starting to make itself felt in a

wider range of goods and services. Consumers are very much aware of this. In the latest Conference Board Consumer Confidence index, published earlier this week, two-thirds of respondents said that they will be cutting back on spending in the next six months due to higher prices, with the biggest cutbacks coming in discretionary and big-ticket items.

The Fed's Dilemma

Consumers aren't the only ones concerned about higher prices. A bevy of Fed speak this week reflected a growing sense among the nation's monetary policy stewards that a continuation of the present inflation trend could make the next change in interest rates a hike rather than the long-awaited cut. Investors are already pricing in a likely rate hike of 0.25 percent by the first quarter of next year. When the Federal Open Market Committee reports next on June 17, we will see whether the market's outlook is matched by the Summary Economic Predictions that will accompany the FOMC's press release. As of the prior SEP, a couple months ago, the median expectation was still for two rate cuts this year. We do not think that assumption will hold. To add to the drama, this will be the first FOMC chaired by Kevin Warsh, and may be an indication of changes afoot as the new Fed chair attempts to make his mark on the proceedings.

We do not expect to see rates move either up or down at the June meeting. There is still much that we don't know about how structural the current inflationary trend will be, or how long it will take for the disruptions caused by the crisis in the Strait of Hormuz to work themselves out. One encouraging sign from that Consumer Confidence report cited earlier was that households' inflationary expectations, while elevated, did not rise measurably from the previous month. In the 1970s, it was the wage-price spiral driven by expectations that produced the structural inflation of that decade – a feedback loop that went off the rails until the dramatic monetary policy actions of the Paul Volcker Fed at the end of the decade. We are nowhere near those levels today, and hopefully we won't be there tomorrow. Meanwhile, we will need to keep a close eye on the consumer-facing data as they come in over the coming weeks.

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