LPL Financial

Economic Navigator

Deflecting the Headwinds: Growth Despite Energy Shocks

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Executive Summary

- **Incredible Net Wealth Will Likely Drive Q3 Economic Growth:** Household net wealth, including financial assets, stands at approximately 7.8 times annual disposable income and will likely put quarterly growth at 2.2% annualized.
- **"Truflation" Metric Plummets:** Federal Reserve (Fed) research shows that trend inflation remained in the 2.5–3.0% range for the 24 months before the Iran war. Once oil shocks fade, inflation will likely return to this range.[1]
- **More Dropping Out of the Labor Force:** During the latter part of this year, we expect the unemployment rate to rise to 4.6%, as individuals restart their job search. Quarterly payroll gains should average 160,000.
- **APPENDIX:** View the supporting charts on rates, oil, trade, and other global macro factors.

Why the Navigator?

The macroeconomic context is a key component of the investment process. Every asset class — whether credit, equities, currencies, commodities, real estate, or infrastructure — responds to the forces shaping the global economy. Inflation trends, interest rate cycles, fiscal and monetary policy shifts, and economic growth trajectories all influence market behavior and risk-adjusted returns. Ignoring these dynamics means missing the bigger picture.

So, what will the drivers of growth be for the remainder of 2026 and what characteristics of growth are worth noting? How will Chairman Warsh lead the Fed and how will it impact policy?

In this edition of the *Economic Navigator*, we provide an update on our expectations for growth, inflation, and unemployment and what it means for businesses and consumers.

Rising Real Estate Values and Soaring Financial Assets Pushed Net Wealth Up to 7.8 Times Disposible Income

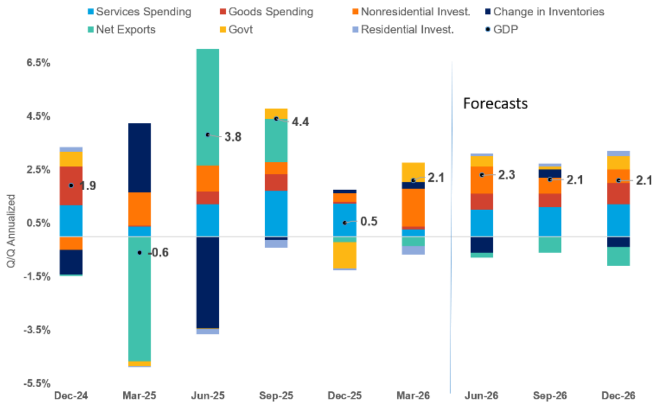
Economic growth may continue to positively surprise investors during a time when geopolitical strife, sticky inflation, and uncertain labor conditions weigh on confidence. Despite concern in some of the surveys from the University of Michigan and the Conference Board, the economy is doing quite well.

Nominal gross domestic product (GDP) correlates with the S&P 500's earnings per share (EPS) and as businesses and households invest and spend, earnings should rise as LPL Research explains in our *Midyear Outlook 2026: Policy, Buildouts, & Bottlenecks*.

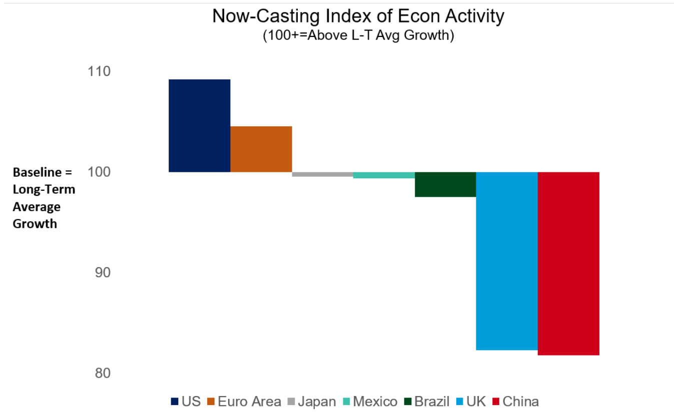
Looking at international economies, we see a growing dispersion among developed and emerging economies alike. For example, Now-Casting data imply the U.S. will likely grow above long-term average growth rates whereas the U.K. and China will grow below trend.

[1] Are We There Yet? The Road Back to 2 Percent Inflation

Wealth Effect Should Support U.S. Growth…



as Global Variance Widens



Source: LPL Research, Bureau of Labor Statistics 07/15/26

Source: LPL Research, Nowcasting Economics 07/13/26.

Past performance is no guarantee of future results. Economic forecasts may not develop as predicted.

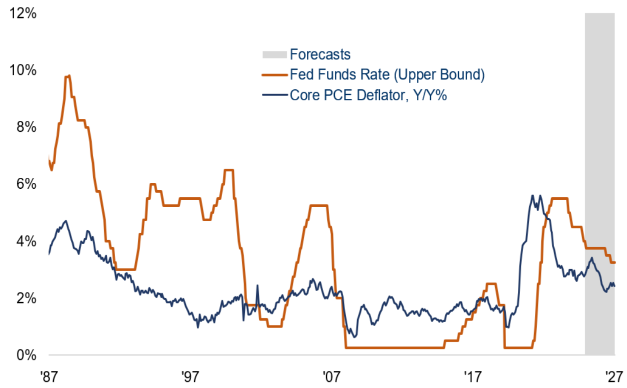
Near-Term Core Inflation May Hover Around 3%, but Don't Rule Out a December Surprise

In June, core inflation decelerated to 2.59% year over year, the lowest since February, and should ease further in Q3 and Q4 as durable goods prices improve. This June report was positive for investor sentiment. Analysis from the Richmond Fed shows that prior to the attack on Iran, trend inflation remained in the 2.5–3.0% range since the third quarter of 2023, with housing and food accounting for much of that persistence, while services inflation has continued to fall from its peak.[2] If the geopolitical risk premium embedded in commodity and shipping markets convincingly recedes, the economy should be left dealing mainly with slower-moving domestic categories rather than a fresh, broad-based price shock.

Our base case is that inflation pressures should moderate by the end of 2026, if geopolitical tensions ease, because the recent upside pressure has been driven disproportionately by energy and related supply-chain channels rather than by a broad-based reacceleration in underlying inflation. If geopolitical tensions de-escalate meaningfully, energy transit normalizes, and we don't get major amounts of strategic stockpiling, the direct boost to gasoline and utility prices should fade, and the indirect pressure on transportation, freight, and input costs should begin to subside as well. We believe this would take us back to 2.7% core inflation by the end of the year. That doesn't mean the Fed will be inclined to cut rates, but at least it keeps the Fed from hiking.

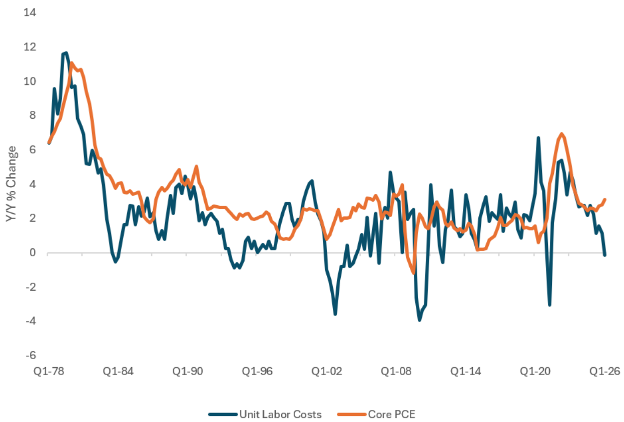
[2] Are We There Yet? The Road Back to 2 Percent Inflation | Richmond Fed

Expect Improvements By Q4...



Source: LPL Research, Bureau of Economic Analysis 07/15/26

from No Wage Inflation



Source: LPL Research, Bureau of Labor Statistics 07/15/26

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Unemployment Rate May Rise to 4.6% but Still Historically Low Due to Low Participation

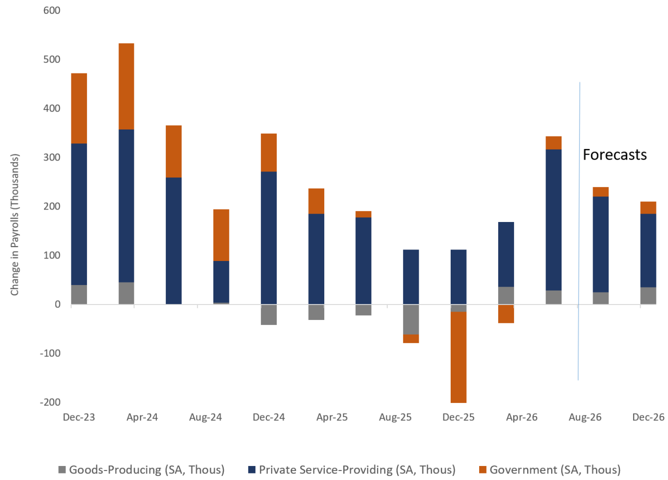
The labor market is still posting a relatively low unemployment rate, partially because layoffs remain restrained. The corporate sector is in a “low-hiring, low-firing, low-quits” equilibrium: firms are hiring more cautiously than in earlier years, but they are also not shedding many workers, which helps keep measured unemployment from rising much. Today’s hiring rate would historically have been associated with a much higher unemployment rate, but the unusually low separation rate is offsetting that pressure.

Another reason unemployment has stayed low is that labor supply growth has slowed sharply. Labor force growth could be near zero because of weaker population growth, lower net immigration, and aging-related declines in participation, meaning the economy needs only modest job growth to keep the unemployment rate steady.

Labor market flows offer some signs that conditions are tenuous. The number of individuals transitioning out of the labor force, whether from employment or unemployment, has been trending higher over recent months. These flows provide an important window into labor market dynamics because they capture behavioral changes that are not always evident in the headline unemployment rate. The growing share of workers exiting the labor force suggests that opportunities are becoming harder to find and that some job seekers are becoming discouraged.

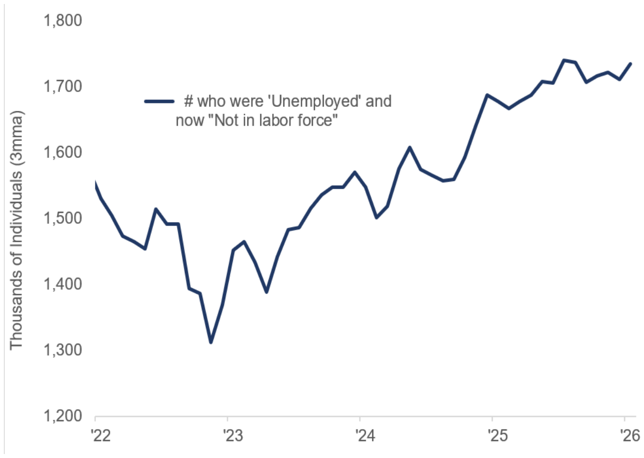
The bottom line is that the labor market remains intact, but signs of strain are becoming increasingly apparent. Firms are still adding workers, yet overall labor utilization remains below pre-pandemic norms as businesses trim hours rather than payrolls. At the same time, the rising number of individuals stepping away from the job market altogether warrants close attention, as it points to a gradual erosion in labor market vitality. For now, employment conditions remain sufficiently stable to allow the Fed to keep its focus on restoring price stability, but the weakening participation backdrop bears watching as a potential source of broader economic softness in the months ahead.

Job Growth Set to Continue ...



Source: LPL Research, Bureau of Labor Statistics 07/15/26

but People Are Dropping Out of the Labor Force



Source: LPL Research, Bureau of Labor Statistics 07/15/26

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Fed Picks Leaders for Task Forces and It's Quite Revealing

Kevin Warsh, the new chair of the Federal Open Market Committee, has an initiative to modernize the way policy is developed, and he has established five task forces to evaluate the current process and deliver recommendations for improvement.

He framed the initiative around a simple reality: the U.S. economy looks very different today than it did a generation ago. With rapid technological change and shifting labor market dynamics, the Fed is undertaking a broad review of how it conducts monetary policy. The five task forces have been charged with examining whether the central bank's analytical tools, policy frameworks, communications strategy, and operating procedures remain fit for purpose. By bringing together leading economists, former policymakers, business executives, and technology experts, the Fed appears intent on challenging conventional thinking and identifying ways to improve its decision-making process.

Here is what we know about the leaders of these committees and their published views.

The composition of the Communications Task Force suggests a strong push toward greater clarity and realism in how the Fed communicates in uncertainty. Peter Fisher has long argued that central banks should be careful about creating false confidence through overly precise guidance, while Mervyn King has criticized the tendency of central banks to imply they possess more knowledge than they actually do. Arminio Fraga brings an emerging-market central banking perspective where credibility is earned through consistent actions rather than elaborate forward guidance. As a result, this group is likely to recommend simplifying Fed communications, reducing the reliance on detailed forward guidance, and placing greater emphasis on explaining risks, alternative scenarios, and uncertainty surrounding forecasts.

The Balance Sheet Policy Task Force appears likely to take a more skeptical view of the very large balance sheet that has characterized the post-financial-crisis era. Raghuram Rajan has frequently warned about unintended consequences from prolonged monetary accommodation and distortions created by abundant liquidity. Jeremy Stein has conducted influential research on financial stability risks arising from credit markets and investor behavior, while Karen Dynan brings a more pragmatic, evidence-based macroeconomic perspective. Collectively, the group is unlikely to advocate for an abrupt retreat from quantitative easing tools, but it may recommend a smaller long-run balance sheet, a clearer framework for emergency asset purchases, and greater attention to financial stability considerations when deploying unconventional policies.

The Data and Productivity and Jobs Task Forces point toward a Fed that relies more heavily on real-time private-sector information and places greater weight on supply-side developments. Raj Chetty has pioneered the use of high-frequency administrative and private-sector data, while Doug McMillon's retail background provides direct insight into consumer spending patterns and pricing behavior.

Leaders Identified for Newly Established Task Forces

Communications: Review how the Federal Reserve conveys policy deliberations and decisions amid uncertainty.
Peter R. Fisher, University of Washington
Arminio Fraga, Gávea Investimentos; former president, Bank of Brazil
Mervyn King, former governor, Bank of England
Balance Sheet Policy: Examine the costs, benefits, and institutional implications of the Federal Reserve's current balance sheet regime.
Karen Dynan, professor of economics, Harvard University
Raghuram Rajan, University of Chicago; former governor, Reserve Bank of India
Jeremy Stein, Harvard University; former governor, Federal Reserve Board
Data: Improve the quality and timeliness of real economic signals that inform the Federal Reserve's policy judgments.
Raj Chetty, professor of economics, Harvard University
Doug McMillon, former president and CEO, Walmart Inc.
Kevin Murphy, professor of economics, University of Chicago
Productivity and Jobs: Assess the economic impact of new general-purpose technologies, including artificial intelligence, to inform the Federal Reserve's policy judgments.
Marc Andreessen, cofounder and general partner, Andreessen Horowitz
Charles I. Jones, Stanford University, currently on leave at Anthropic
Asha Sharma, executive vice president and XBOX CEO, Microsoft Corp.
Inflation Frameworks: Revisit how the Federal Reserve understands and responds to the drivers of inflation.
Greg Mankiw, Harvard University; former chairman, Council of Economic Advisers
Thomas Sargent, professor of economics, New York University; Nobel laureate
William White, C.D. Howe Institute; formerly with Bank for International Settlements

Source: LPL Research, Federal Reserve 07/15/26

At the same time, the inclusion of Marc Andreessen, Charles Jones, and Asha Sharma signals a strong interest in understanding how artificial intelligence and other general-purpose technologies could raise productivity growth and reshape labor markets. These groups will likely encourage the Fed to supplement traditional government statistics with real-time indicators and to devote greater resources to measuring technological change, labor reallocation, and productivity gains that may alter the economy's speed limit.

The Inflation Frameworks Task Force may ultimately produce the most consequential recommendations. Greg Mankiw, Thomas Sargent, and William White all have reputations for taking inflation risks seriously, albeit from different perspectives. Sargent's work emphasizes expectations and policy credibility, while White has repeatedly warned about the dangers of maintaining excessively easy monetary conditions, and Mankiw has generally favored practical, rules-based approaches to monetary policy. Given this lineup, the task force may recommend moving away from frameworks that tolerate prolonged overshoots of inflation, placing greater emphasis on inflation expectations and money and credit conditions, and adopting a more systematic approach to policy decisions.

The Task Forces: Putting it All Together

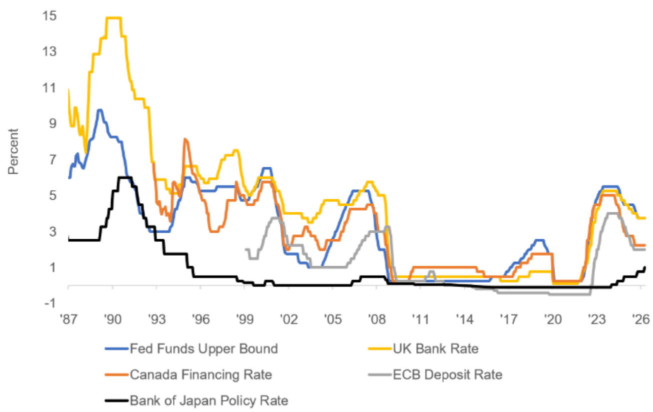
Looking across the five task forces, the composition of the groups suggests that Fed leadership is seeking a fresh assessment of many of the assumptions that have guided monetary policy over the past two decades. The emphasis appears to be on stronger empirical analysis, better real-time data, a deeper understanding of supply-side forces, such as productivity and technology, and a renewed focus on institutional credibility. Taken together, the appointments hint at a review process that is likely to question the effectiveness of highly interventionist policy approaches and explore whether a more disciplined and durable framework can better support the Fed's long-run objectives of price stability and maximum employment.

Key Takeaways

- Private sector business leaders should give some helpful recommendations for the Fed and if implemented, investors should expect net improvements for monetary policy.
- Nominal growth should remain positive in the second half, supporting S&P 500 earnings per share.
- Spending on AI-related equipment, intellectual property, and nonresidential structures will continue to provide an important cushion for overall activity.
- Elevated household net worth relative to income will continue to provide an important buffer for consumers and help support demand.
- We believe inflation should ease by year-end. We expect inflation to moderate toward 2.9% by the end of 2026 if geopolitical tensions ease meaningfully.
- Unemployment should edge higher but remain historically low, rising to around 4.6% by year-end as hiring stays subdued.

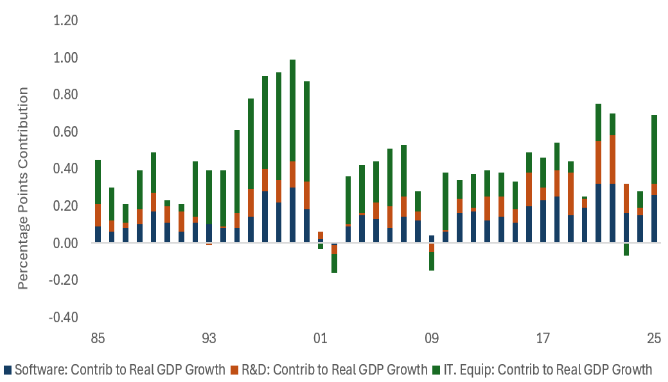
Appendix: Supporting Macro Charts

Bank of Japan Is Playing Catch-Up



Source: LPL Research, BOC, BOE, BOJ, ECB, Federal Reserve Board 07/15/26

There's Room to Go with Infrastructure Buildout



Source: LPL Research, Bureau of Economic Analysis 07/15/26

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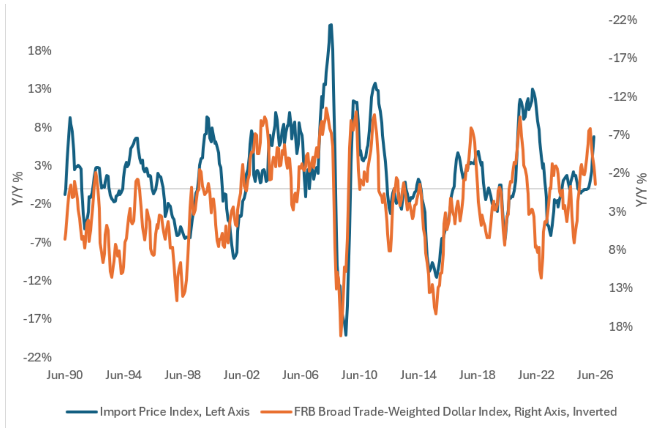
Net Worth Padding Upper Income People

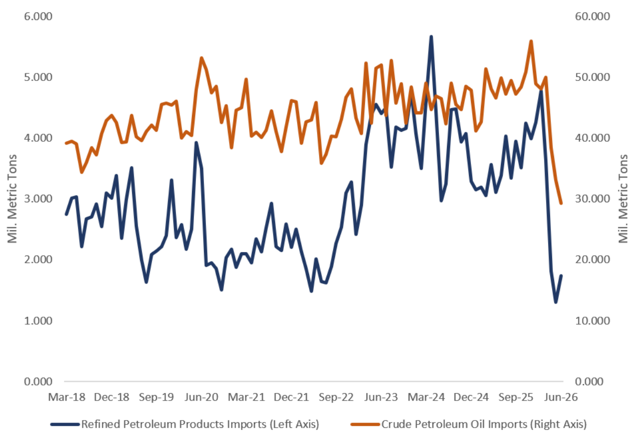
Source: LPL Research, Federal Reserve Board 07/15/26

Stronger Dollar Suppresses Import Prices



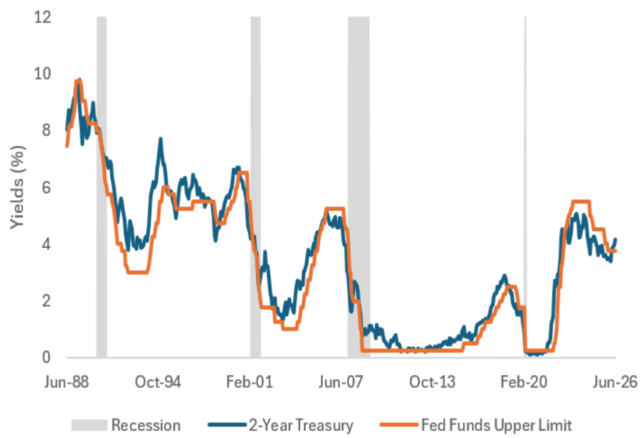
Source: LPL Research, BLS, Federal Reserve Board 07/15/26

Lower Chinese Imports Kept Global Prices At Bay



Source: LPL Research, China General Administration of Customs 07/15/26

Treasuries Rise As Growth Improves



Source: LPL Research, Federal Reserve 07/15/26

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Forecasts Imply 2026 May Be a Pivotal Year

	2025				2026						
Growth	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2024**	**2025**	**2026**
Nominal GDP (Y/Y %)	4.6	4.6	5.4	5.4	5.9	6.4	5.7	5.4	5.3	5.0	5.6
Real GDP (Yr/Yr %)	2.0	2.1	2.3	2.0	2.6	2.1	1.6	2.2	2.8	2.1	2.2
Real GDP (Q/Q Annualized)	-0.7	3.8	4.4	0.5	1.6	2.3	2.1	2.1			
Consumer Spending	0.6	2.5	3.5	1.9	1.4	1.5	1.8	1.8	2.9	2.6	1.7
Government Spending	−1.0	-0.1	2.2	-5.6	4.4	1.0	1.2	1.3	3.8	1.1	2.1
Private Investment	23.3	-13.8	0	2.3	7.0	6.3	7.1	7.8	3.0	1.9	7.2
Exports	0.2	−1.8	9.6	-3.3	13.1	2.5	4.2	5.5	3.6	1.6	11.5
Imports	38	−29.3	-4.4	-1.0	21.4	2.9	6.5	6.2	5.8	2.7	13.6
Real Final Sales to Domestic Purchasers (Q/Q Ann.)	1.4	2.4	2.8	0.6	2.8	2.1	1.9	2.0	3.1	2.4	2.4
Business Sector											
Nonfarm Productivity (Q/Q Annualized)	-0.9	4.2	5.2	1.6	0.3	2.5	4.7	3.1	2.9	2.2	2.0
Corporate Profits After Taxes (Yr/Yr %)	7.5	4.8	10.8	10.2	10.4	7.9	4.2	3.9	3.9	8.4	6.7
Industrial Production (Yr/Yr %)	0.7	0.5	1.7	1.5	0.8	1.2	1.1	1.1	-0.6	1.1	1.1
Consumer											
Real disposable income (Yr/Yr %)	2.0	1.8	1.8	1.0	0.7	1.1	1.4	1.8	2.9	1.7	1.3
Retail Sales (Yr/Yr %)	4.5	4.3	4.4	3.0	3.9	4.0	3.5	4.1	2.6	4.0	3.9
Retail Sales Ex-Autos (Yr/Yr %)	4.3	3.9	4.2	3.7	4.6	3.9	3.4	3.7	2.8	4.0	3.9
Consumer Confidence	99.8	93.1	97.4	94.2	90.7	91.9	93.0	96.0	104.5	96.1	92.9
Light Vehicle Sales (Mil. Units, SAAR)	16.4	16.2	16.5	15.7	15.4	16.3	15.8	16.0	15.9	16.2	15.9
Jobs & Housing											
Unemployment rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.4	4.5	4.0	4.3	4.4
Nonfarm Payroll (Change in Thousands)	61	101	70	-116	218	334	180	165	1459	29	224
Housing Starts (Mil. Units)	1.40	1.35	1.35	1.32	1.42	1.25	1.30	1.35	1.37	1.36	1.3
Existing Home Sales (Annualized, Millions)	4.08	4.01	4.04	4.16	4.05	4.10	4.00	4.05	4.06	4.07	4.05
Inflation, Annual											
Consumer Price Index (CPI)	2.7	2.5	2.9	2.7	2.7	3.8	3.4	3.5	3	2.7	3.4
Core CPI	3.1	2.8	3.1	2.7	2.5	2.7	2.8	2.8	3.3	2.9	2.9
PCE Inflation	2.6	2.4	2.7	2.8	3.1	3.7	3.3	2.9	2.6	2.6	3.3
Core PCE Inflation	2.8	2.7	2.9	2.9	3.1	2.9	2.8	2.5	2.9	2.8	2.9
Brent Crude Spot Price (Average, $)	75.81	68.01	68.97	63.63	80.21	103.28	75.00	73.00	79.86	68.19	82.87
Rates											
Fed Funds (%, Upper Bound, Period End)	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	4.50	4.25	3.75
Mortage Rates (30-year Fixed, Period End)	6.79	6.77	6.39	6.27	6.56	6.53	6.50	6.45	6.49	6.60	6.51

Source: LPL Research, Federal Reserve Bank of Philadelphia, Bloomberg 07/15/26

Disclosures: Past performance is no guarantee of future results. Forecasts may not materialize as predicted and are subject to change. Shaded areas are forecasts and are subject to change as additional data is published.

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All index data from FactSet.

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