

Basis Points | June 15, 2026

Earning the rally

1. A hiccup – not a halt

The risk of higher rates and uncertainty around artificial intelligence briefly interrupted one of the strongest eight-week stock market rallies on record, taking stocks off their highs but still up by a healthy margin year to date. It was only after the S&P 500 shed 4% and mega-cap tech stocks dropped 9% that a wave of commentary emerged urging investors to take profits, a reaction we view as both premature and unhelpful. That modest drawdown was likely driven by sentiment and positioning, not fundamentals. But this year's rally is about earnings growth, not multiple expansion, as upward earnings revisions have kept valuations in check. In fact, the price-to-forward earnings ratio for the 10 biggest stocks has retreated basically to where it was at the late-March market trough, despite prices now sitting about 14% higher. That said, risks do remain: expectations are very high, and investors will be watching extremely closely whether big-tech firms are on track to deliver.

2. Hawkish energy

Hawkish members of the European Central Bank (ECB) swayed the Governing Council to hike rates this month, and markets now expect two more rate increases in Europe by year end. We are skeptical the same pattern will play out in the United States, even as the chorus of analysts, commentators, and policymakers calling for the Federal Reserve to hike rates grows louder. Inflation has reaccelerated from an already above-target pace largely, but not entirely, driven by the global energy-price shock and surging costs for computer equipment owing to the AI infrastructure buildout. High inflation for 5-plus years is pernicious, particularly for small business owners and workers. But in our view, rate hikes are poorly suited to address inflation born of supply shocks: the Fed cannot resolve energy shortages, and a few quarter-point hikes may do little to change the course of trillion-dollar investments in artificial intelligence. Market pricing reflects this tension, showing only a slight hiking bias over the next 12-18 months as investors see the pressure but perhaps doubt the follow-through. At this week's Fed meeting – Chairman Warsh's first – investors may learn whether policymakers are willing to look through supply-driven inflation or if they judge the credibility cost of a sixth year of above-target inflation as too high to leave unaddressed.

3. Encouraging on the margin

The jobs data for May was relatively encouraging, as the Bureau of Labor Statistics (BLS) reported healthy job growth after a couple of years of lackluster gains. Some analysts saw the report and moved on from the “low-hire, low-fire” narrative that has dominated for the last several months to argue that the labor market is back on solid footing. The latest numbers are a step in the right direction, but we think it's too soon to fully change tune on the labor market. Wage growth is moderate in nominal terms, but after adjusting for inflation, wages are little changed or even down compared to a year ago. At a sector level, some of the trends are

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less favorable: job gains are still overwhelmingly concentrated in the healthcare and hospitality sectors, and jobs are still disappearing faster than they are being replaced in professional services. Response rates to the BLS surveys have plunged to 65% - down from about 80% in 2020 and 90% in 2010. And after the official jobs data were revised lower by nearly 1 million jobs last year, we think it is important to cast a wider net in the labor data we analyze. These alternative metrics suggest the labor market is probably improving but not as rapidly as this month's jobs numbers might suggest.

4. Higher for longer

Many investors ask when interest rates will come back down. Our response is often, "back down to where?" We increasingly think the low-rate environment of the 2010s and early 2020s was likely the anomaly – not the 4-5% rates of today. Nominal growth is running hotter, inflation risks linger, AI is generating enormous investment demand, and governments continue to run large fiscal deficits. None of these forces seem likely to fade soon. The 10-year Treasury yield has held in a narrow channel near 4.25% for a few years now. While this leaves borrowing costs for businesses, households, homeowners – and governments – above the 2010s trends, rates are still comfortably within longer-term averages. Absent another severe shock to markets and the economy, the question may not be when rates return to normal but instead whether they already have.

Source for all data: Bloomberg. Data as of 6/12/2026.



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