Investment Roundup

21 July 2026

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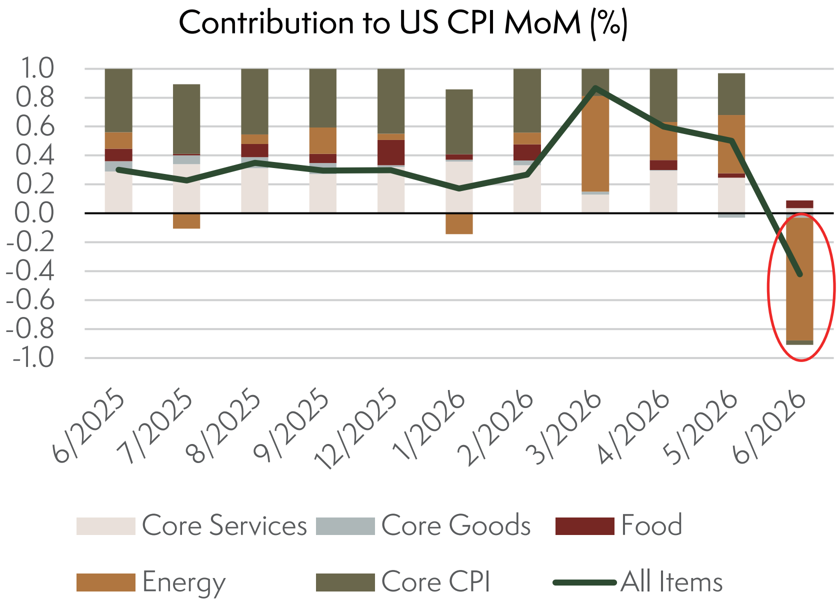
The urgency for near-term Federal Reserve rate hikes has eased following last week's softer-than-expected US CPI print. While this provides a welcome tailwind for risk assets, we are not out of the woods yet. A single data print does not paint the whole story, and the continued compression of the Equity Risk Premium demands highly disciplined capital deployment for the second half of 2026. While the macroeconomic environment supports a constructive view on equities, strict selectivity is required as we observe structural fatigue beneath headline US data.

Disinflation Gains Traction



Source: Bloomberg L.P., as of 16 July

A breakdown of the latest US CPI print reveals that the headline number decreased by 0.4% month-over-month. This was primarily driven by a 5.7% decrease in the energy constituent, which, despite the backdrop of the US-Iran conflict, dragged aggregate inflation into negative territory. While encouraging, we do not believe this single print dictates an immediate pivot to rate cuts. Rather, this deflationary stickiness is likely to keep the Fed firmly sidelined and neutral for the remainder of the year.

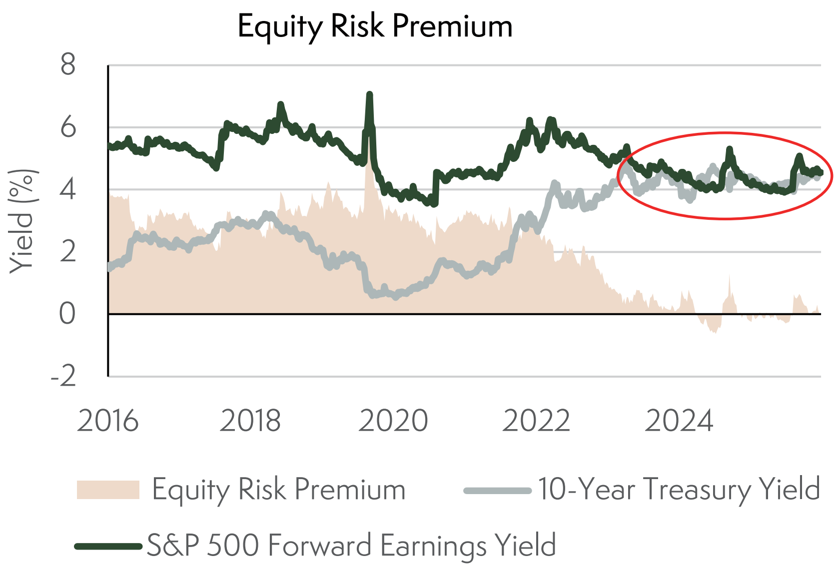
Shrinking Labour Force

Source: Bloomberg L.P., as of 16 July

The Federal Reserve often points to a "strong labor market" to justify keeping rates restrictive, but a look beneath the headline data reveals a different angle. While the headline unemployment rate ticked up only slightly to 4.2%, the Labor Force Participation Rate has collapsed to 61.5%. Outside of the 2020 pandemic, we have not seen a labor force this hollowed out in 50 years.

Because individuals must be actively seeking work to be counted as "unemployed," the departure of millions from the labor pool is artificially suppressing the unemployment rate. Furthermore, JOLTS data confirms that private-sector hiring in core economic engines (tech and manufacturing) has flatlined, with recent job growth hiding almost entirely in non-cyclical, taxpayer-funded sectors like government and healthcare. This suggests the US labor market may be fundamentally weaker than the headline data portrays.

Remain Constructive on US Equities



Source: Bloomberg L.P., as of 16 July

Despite this supportive macro backdrop, current valuations leave no room for error. The gap between the S&P 500 earnings yield and the 10-Year Treasury yield remains fully converged. Because equities are priced for near perfection, they remain highly vulnerable to any sudden inflation shocks—a primary wildcard for 2H 2026. Any upward surprise in bond yields will likely create immediate downward pressure on equity multiples.

The combination of recent deflationary prints and a weakening underlying labor market allows the Fed to remain safely neutral, providing a runway for selective equity participation. However, the compression of the Equity Risk Premium demands active management of sector concentration—particularly within US Tech, where earnings visibility remains the strongest—and a strict bias toward high-quality names remains critical to navigating the rest of the year.