A View from the Piedmont

Weekly Commentary on Money, Credit, and Exchange Rates

Too Much of a Good Thing

August 3, 2026 | Mark P. Vitner, Chief Economist | mark.vitner@piedmontcrescentcapital.com

MARKET DASHBOARD

The month ended with the broad equity market close to unchanged, the long end of the Treasury curve at its highest yields since 2007 and Brent crude back above $90 a barrel. The table below shows where the major markets closed on Friday, the moves that produced those levels and the July totals behind them. The rates block is the place to start. The two-year yield rose 14 basis points over the month while the thirty-year added 36, and that gap accounts for most of what we have to say this week. Two things happened after these levels were struck, and both of them cut against the energy complex. The section that follows the summary has the Sunday evening read.

Levels as of Friday’s close, July 31. Final.

Indicator	Level	This Week	July
Fed Funds (target)	3.50–3.75%	Held 9–3; three dissents to hike	—
2-Year Treasury	4.28%	−5 bp	+14 bp
10-Year Treasury	4.75%	+6 bp	+31 bp
30-Year Treasury	5.27%	+11 bp; highest since 2007	+36 bp
2s30s spread	+99 bp	+16 bp	+22 bp
September hike odds	~3 in 5	Faded from 82% on Monday	—
S&P 500	7,489.72	+1.0%	−0.13%
Dow Jones	52,485.03	+1.0%	+0.32%; fourth straight up month
Nasdaq Composite	25,373.85	+1.6%	−3.20%
Russell 2000	2,931.34	flat	−3.08%
US Dollar (DXY)	just under 100	−1.5%	−1.6%
Brent Crude	$90.12	September contract, expired at settle;	+24%; best month since March

Indicator	Level	This Week	July
		October settled $87.93	
WTI Crude	$84.67	September contract	Traded above $86 after the close
Gold	$4,050	−1.3% Friday	+0.5%; first gain since February
Copper	$6.49 / lb	—	+6.0%
Retail Gasoline	$4.10 / gal	—	Up from $3.83 a month ago
Retail Diesel	$5.31 / gal	—	Up 40% from a year ago
30-Year Fixed Mortgage	6.66%	+8 bp	—
VIX	15.99	−6.4% Friday	Spiked to 20.7 on Fed day

SUMMARY

The S&P 500 fell 0.1% in July, its first losing July since 2014 and the end of an eleven-year streak. The Dow rose 0.3% and logged a fourth consecutive winning month. The broad market is fine and the artificial-intelligence complex is being repriced, and that divergence describes the year so far.

We part company with the growing chorus calling for a rate increase. Three officials dissented on Wednesday and the commentary since has been close to unanimous that the Committee is behind. We do not think the July data supported a hike, and we do not think the September data is likely to either. Inflation is lower and job growth has slowed. Both sides of the mandate are moving the Fed's way, and the market has come around. September odds have faded from 82% on Monday to roughly 60% at Friday's close.

Our concern is not the inflation rate. It is the growth rate of private domestic demand with the economy already at full employment. Real final sales to private domestic purchasers rose 3.9% in the second quarter, more than double the first quarter's pace. That is faster than is consistent with getting inflation back to 2% and keeping it there, and it is the first thing we put in front of clients this week.

The price pressure is showing up precisely where that demand is coming from, in the specific sectors driving the acceleration rather than in the aggregate. Electric power capacity, where the PJM Interconnection's capacity auction for 2028-29 cleared at the $325 cap; memory, where conventional contract prices rose 58–63% in the second quarter; gas turbines and grid equipment, where transformer lead times run to four years; hospital and facility-based health care, up 5.5%; air travel, up 26.5%; and restaurants, up 3.4%.

Lazard's nineteenth Levelized Cost of Energy study, published July 13, is the most useful piece of work we have seen on this. It puts the levelized cost of gas-fired generation at a fifteen-year high and expects it to keep rising, and it says plainly that gas turbine supply is constrained in a way that extends development timelines beyond historical norms. Electrification is a capacity-constrained transition now rather than a cheap one, and capacity constraints are inflationary.

Manufacturing, the most cyclical part of the economy, is gathering momentum. Chicago's purchasing managers index printed 57.6 against a 55.0 consensus. Philadelphia's general activity index jumped from 10.3 to 41.4. Empire State shipments hit a four-year high. Core capital goods orders are up 12.5% from a year ago. A cyclical upturn in goods production is how narrow price pressures become broad ones, and it is the mechanism we would watch through the fall.

The 30-year Treasury closed at 5.27%, a new post-2007 high, and the 2s30s spread widened 22 bp during July. We think the steepening has three sources, and the cyclical one is the least discussed of them. Chair Warsh came close to it on Wednesday without joining the dots.

The war changed shape twice over the weekend, and the second turn was the larger one. Late Friday the reporting had the President weighing a multi-day strike campaign against Iranian refineries and power plants. On Saturday evening he said he would cancel it, subject to concluding a deal whose headline terms are the complete reopening of the Strait of Hormuz and an end to Iran's nuclear program. Tehran then spent Sunday denying it. Mehr called the account a new lie, Fars quoted a member of the negotiating team saying that as long as the United States maintains its hostile actions the strait will remain closed, and the acting defense minister called the whole thing psychological warfare. This morning the foreign ministry went further and said there are no talks with the American side at all. Israel, which the President said had joined the commitment, has not confirmed that it has. We would not move a forecast on an announcement any more than we would have moved one on a report, and this one has been publicly repudiated by the counterparty inside twenty-four hours.

OPEC+ met Sunday and approved a 188,000 barrel-a-day increase for September, the sixth consecutive monthly step and the completion of the second of its three cut packages. Delegates say a pause through the fourth quarter follows. The group meets again on September 6. Supply is being added into a market that spent the weekend pricing out a war premium, and the two together are worth more to the inflation outlook than anything on Friday's tape.

Stay short on duration, for the fifth consecutive month.

MONDAY MORNING: BEFORE THE OPEN

The oil market has priced a deal that one of the two parties says does not exist. As of twenty past six this morning Brent was $83.57 and West Texas Intermediate $79.57, down 5.0% and 6.0% respectively. Brent fell as much as 7% in Asian hours before steadying, and both benchmarks have been close to flat since the small hours. One caution on the arithmetic, because it is going to be misreported all day. The September Brent contract expired at Friday's settle of $90.12, so the front month is now October, which settled Friday at $87.93. Measured against the contract that is actually trading, Brent is down $4.36. Measured from the $90.12 headline that everyone has in their notes, it looks like $6.55. The first number is the real one.

The move assumes the Strait of Hormuz reopens, and this morning Tehran said the talks behind it are not happening. Foreign ministry spokesman Esmaeil Baghaei said Iran is not currently holding talks with the American side, that its delegation is staying in the country and is not traveling to negotiate in the coming days, and that the mediator for any American channel is Pakistan working with Qatar rather than Oman. On the Omani corridor talks that are running, he said a deal there would not be sufficient to fully reopen the strait while American aggression continues. That is a harder position than Sunday's rather than a softer one, and it came out while crude was down five percent on the opposite assumption.

Nothing physical has changed either, and that is the part we would put in front of a risk committee. The strait has been effectively closed for 155 days. The most recent hard count we can find, from July 23, puts transits at ten vessels a day against a normal rate near eighty-eight, which is roughly 11% of pre-crisis throughput. War-risk cover is running around eight times its pre-crisis cost, several protection and indemnity clubs have withdrawn cover altogether, and something like seventy tankers are moving with their transponders off. No shipping line has announced a resumption. A June memorandum that partially reopened the strait collapsed inside a month. We are not predicting that this one collapses, and we would note that at least one experienced oil strategist has called the de-escalation hopes most likely totally misplaced. We are pointing out that a five percent move has been paid for with a communique nobody has countersigned and, as of this morning, a negotiation that is not taking place.

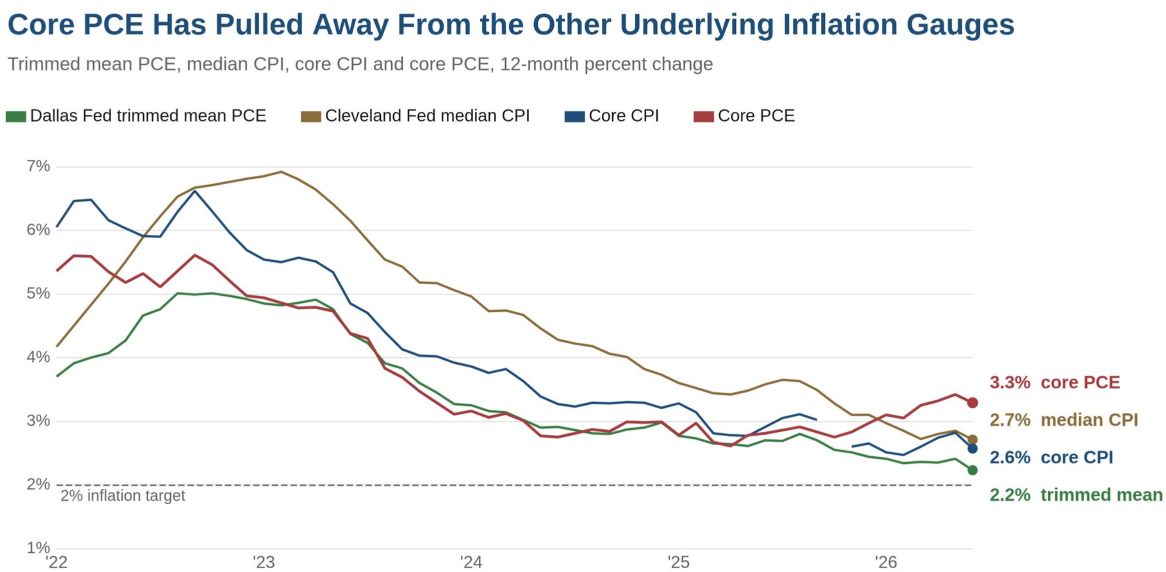
For our purposes the policy conclusion is unchanged and, if anything, easier to hold. Whether crude settles in the high seventies or back above ninety, neither outcome touches private domestic demand growing at close to 4% against a shrinking labor force, and neither is a reason to raise rates in September. An energy move of this size in either direction is precisely the relative price change a central bank is supposed to look through. What it does change is the near-term path of headline inflation, and with it the political temperature around the September meeting. We would expect the hawks to get quieter this week and the underlying problem to be no smaller at the end of it. The thing to watch is the transit count rather than the crude price, and the transit count has not moved.

OUR THESIS

There is a straightforward argument going around that the Federal Reserve is behind the curve and needs to raise rates, and it has gotten louder since Wednesday, when Lorie Logan, Beth Hammack and Neel Kashkari all dissented in favor of a quarter point. We understand the argument. We do not accept it, and our reasoning is easily misread as dovishness when it is nothing of the kind.

The data did not support a rate increase in July, and on present trends it will not support one in September either. On prices, the Dallas Fed's trimmed mean personal consumption expenditures rate fell in June to 2.23%, its lowest since July 2021. The Cleveland Fed's median consumer price index is up 2.7% over the past twelve months, down from 3.6% a year earlier. Core consumer prices are running at 2.6%. Michigan's one-year inflation expectation eased to 4.2% and its five-to-ten-year measure held at 3.3%, both unrevised in Friday's final. On employment, June payrolls came in at 57,000, manufacturing employment is down 38,000 from a year ago, and the employment cost index shows wages decelerating, to 3.1% from 3.3%, with real private-sector wages falling 0.4% over the year. Inflation is lower and job growth has slowed. Those are the two things the Federal Reserve is charged with watching, and both of them argue against tightening right now (Exhibit 1).

EXHIBIT 1



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Dallas Fed and Cleveland Fed via FRED (PCETRIM12M159SFRBDAL, MEDCPIM094SFRBCLE, CPILFESL, PCEPILFE). Through June 2026.
The break in the core CPI line is October 2025, when no consumer price index was published.

Exhibit 1 is the reason we keep four gauges rather than one, and the red line is the interesting part. Core personal consumption expenditures inflation is running 0.7% above core consumer price inflation, inverting the normal relationship. Part of that is shelter weights. A larger part is health care, which the personal consumption index measures by what providers are actually paid regardless of who pays it (the producer price index for hospital services is up 3.6%), while the consumer price index measures health insurance by a retained-earnings method currently printing minus 7.4%. The gauge the Federal Reserve targets is picking up the retiree services boom that Peak 65 is producing, and the gauge the press quotes is not. On our reading that measurement gap, more than the shelter weights, accounts for most of the 0.7 point wedge between the two indexes, and its source is demographic rather than monetary.

Producer prices are the honest counter-argument and we do not wave them off. Final demand is up 5.5% and has run between 5.5% and 6.0% since the spring. But a war-driven energy shock passing through a supply chain is the textbook relative price change, and the textbook answer is to look through it unless it reaches wages or expectations. It has reached neither. The Bank of England reached the same conclusion on Wednesday from a larger energy shock and a smaller economy, holding Bank Rate at 3.75% on a 6-3 vote and recording in its minutes that there had been little evidence of material second-round effects so far, while noting that pass-through lags mean this cannot be read as a strong signal about the future. That is roughly where we are, and it is worth knowing that a second committee facing a worse version of the same problem read it the same way.

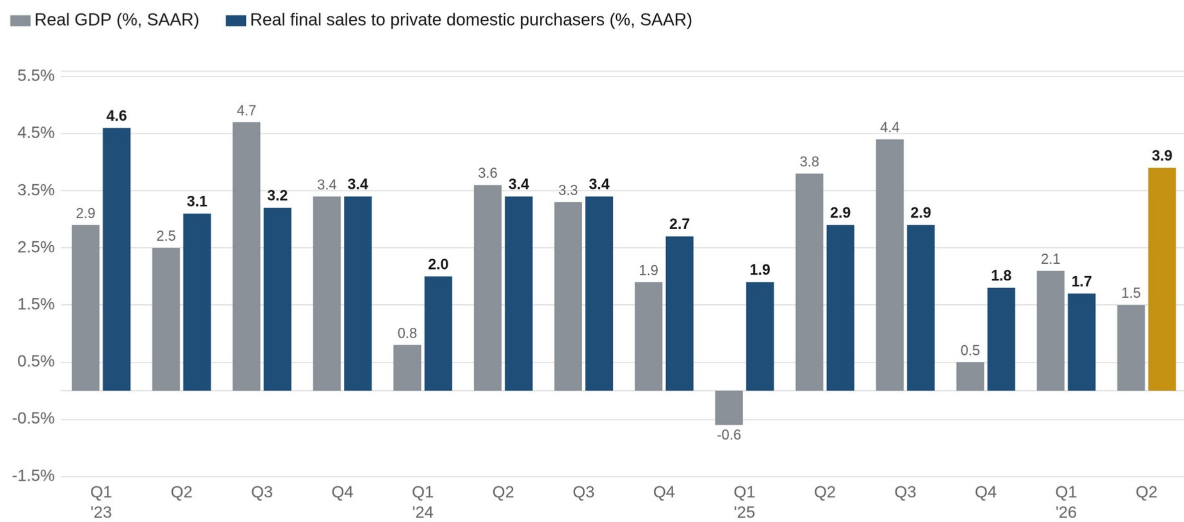
The market has come around to the same view without saying so. September hike odds were 82% on Monday, 72% after the meeting, and roughly 60% by Friday's close. The commentary is more hawkish than the pricing, and the pricing is more hawkish than the data. We would not pay up for such commentary.

What worries us is the growth rate of private final domestic demand, which is running too fast to be consistent with containing inflation. The second quarter's headline real GDP growth rate of 1.5% is a distraction; every part of the shortfall was inventories, imported capital goods, or a federal spending line depressed by petroleum reserve sales. The number that describes the economy is real final sales to private domestic purchasers, and it grew 3.9%, up from 1.7% in the first quarter (Exhibit 2). That is a boom pace rather than a recovery pace, arriving in the middle of a war, with oil having averaged the mid-nineties, against a labor force that has shrunk by roughly a million people over the past twelve months.

EXHIBIT 2

Private Domestic Demand Accelerated While Headline GDP Slowed

Real GDP and real final sales to private domestic purchasers, quarter-over-quarter percent change at an annual rate



Source: U.S. Bureau of Economic Analysis via FRED (A191RL1Q225SBEA, PB0000031Q225SBEA). Seasonally adjusted annual rates.
Latest: second quarter 2026. Gold marks the most recent private domestic demand reading.

An economy cannot grow domestic demand at close to 4%, with no growth at all in available workers, and expect inflation to settle at 2% for long. That arithmetic is why we are uneasy even as we argue against a September hike. The current rate of inflation does not justify tightening; the current rate of demand growth is why we would want the Committee ready to.

The evidence is sectoral and specific rather than aggregate. The demand acceleration is not broad-based consumer exuberance; it is a small number of very large capital and services programs running simultaneously, and each of them is pushing on a supply constraint. Five programs are running at once, the artificial-intelligence buildout, electrification, defense replenishment, the pharmaceutical and life sciences onshoring wave and the demographic bulge we have called Peak 65, and each is pressing on a different physical bottleneck in an economy whose labor force is not growing.

Then there is the cyclical layer on top, and it is broader than the artificial-intelligence line item. Business fixed investment grew 8.4% in the second quarter on top of 10.6% in the first, with equipment up 15.2%, which is a good deal more than data centers. Manufacturing, which is where the economy's cyclical impulse is generated, is clearly turning up. Chicago's index printed 57.6 on Friday against a consensus of 55.0. Philadelphia's general activity index jumped from 10.3 to 41.4 in a single month. Empire State shipments reached a four-year high and its employment index the best since December of 2022. Industrial production rose at a 4.0% annual rate in the second quarter after 1.1% in the first. Core capital goods orders are up 12.5% from a year ago, orders excluding transportation have risen for fifteen consecutive months, and unfilled orders for thirteen. The Federal Reserve's own July Monetary Policy Report says that "output in the manufacturing sector has moved up strongly this year, consistent with the pickup in manufacturing new orders."

A cyclical upturn in goods production is the mechanism by which localized price pressure becomes generalized price pressure. Narrow bottlenecks in memory, turbines and transformers are containable on their own. They are not containable while the whole manufacturing sector is reaccelerating and competing for the same steel, copper, electricians and switchgear, and that is the sequence we would watch into 2027. It is also why we would not want a Federal Reserve that has already spent its ammunition this September, on an energy shock that now looks more likely to unwind than to widen.

THIS WEEK IN THREE OBSERVATIONS

Where the price pressure actually lives. We have been arguing for months that the aggregate indexes are the wrong lens on this cycle, and this week gave us the evidence to be concrete about it. Electric power is the clearest case, and the mechanism is worth spelling out because the number that follows is not a forecast but a price already struck. The PJM Interconnection is the regional transmission organization that coordinates the wholesale power market and the high-voltage grid for more than 67 million people in all or parts of thirteen states and the District of Columbia, from Illinois east to New Jersey and south to North Carolina. Its Base Residual Auction runs roughly three years ahead of the delivery year, and what it buys is not electricity but a promise: generators are paid a fee per megawatt-day to keep capacity available for the year in question, and the clearing price is the price that draws out enough of those promises to meet PJM's own reliability requirement. When bidders cannot supply it at any price inside the cap, the auction clears at the cap and still falls short. That is now what happens routinely. The auction for the 2028-29 delivery year cleared at the price cap of $325 per megawatt-day, the third consecutive auction to hit the cap, at a total cost of $16.4 billion, and the cost lands in retail bills across those thirteen states. It also fell 6,831 megawatts short of its own reliability requirement, the second auction running in which the entire system came up short and the second such shortfall in PJM's history. For scale, the clearing price was $28.92 for the 2024-25 delivery year, an auction held in December of 2022. It is a factor of eleven in less than four years.

Lazard's study, published July 13, sets out why. It puts unsubsidized gas combined-cycle generation at $51–129 a megawatt-hour and gas peaking at $144–276, a fifteen-year high for gas-fired power, and attributes the rise in costs across technologies to "higher capital costs, sustained interest rates, tariff pass-through and supply chain repricing." Its most useful sentence for our purposes is the observation that measured capital costs "have not yet reached the levels of recently observed quotes, suggesting higher-cost projects may still be in the planning" stages. The index is lagging the transactions, and there is more increase in the pipeline than in the data. Storage costs rose this year for the first time in years, reversing the prior decline, on battery tariffs and supply-chain diversification out of China. Solar's levelized cost is up roughly 85% from its 2021 low and onshore wind roughly 70%.

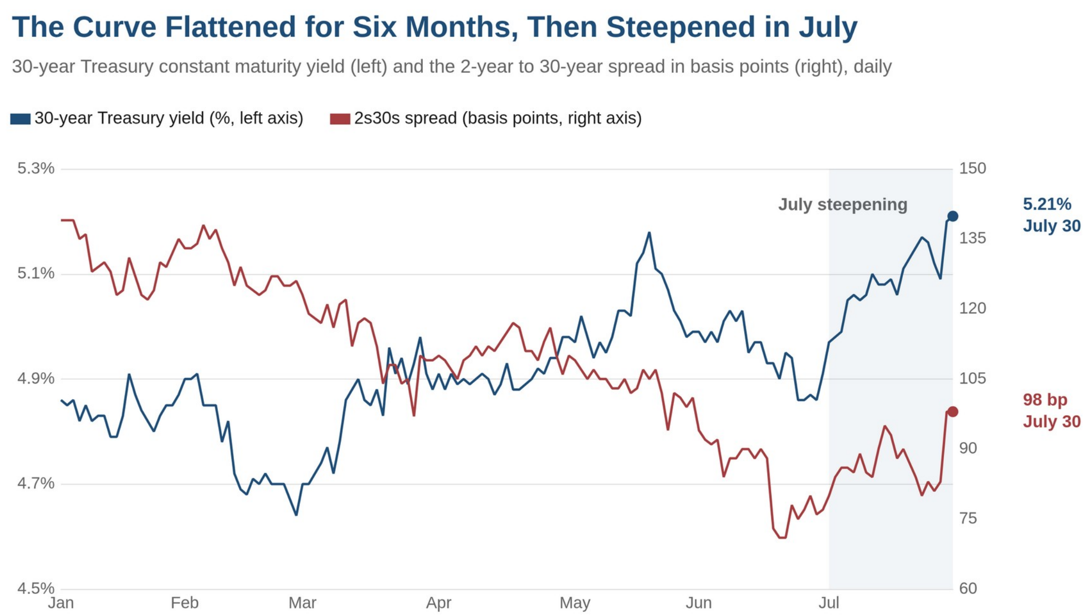
Electrification stopped being a deflationary story some time ago, and most published inflation forecasts still carry electricity as a disinflationary line. One option we expect to be played out further is the extension of already operating coal-fired power plants wherever possible. The equipment corroborates it. GE Vernova’s gas turbine backlog is 116 GW, up from 100 GW a quarter earlier, with customer conversations reaching “2032 and beyond”; Siemens Energy’s backlog is €154 billion on a book-to-bill of 1.72; and industry sources report generator step-up transformer lead times of up to four years with prices up about 80% over five years. The same pattern holds in memory, where conventional contract prices rose 93–98% in the first quarter and another 58–63% in the second, and in facility-based health care, where the hospital services component of the consumer price index is up 5.5% and the producer price index for hospital services 3.6%. Airline fares are up 26.5% from a year ago.

Two of the five programs have not shown up in the price data yet, and that is a warning rather than a reassurance. Defense replenishment and the pharmaceutical onshoring wave are, at this moment, still announcements to a greater extent than actual spending. Projects are moving forward, however, and timetables are being accelerated. The fiscal 2027 request for missiles and munitions is $70.5 billion against $24.4 billion enacted for 2026, an increase of 188%, with requested Tomahawk quantities going from 55 to 785 and THAAD interceptors from 55 to 857. Lockheed Martin’s backlog is $230 billion, an all-time high and up $64 billion from a year ago. On the pharmaceutical side, fourteen major manufacturers have pledged better than $480 billion of United States production across 22 new sites, driven by a Section 232 tariff schedule whose first deadline fell on Friday.

The producer price index for ordnance is up 1.6% over the year, shipbuilding 0.7%, and pharmaceutical preparations 1.1%, while construction spending on manufacturing structures is down 22% from a year ago and has fallen every month of 2026. The level is still more than twice the 2019 average, however, even after falling roughly a third from its 2024 peak. The money has been appropriated and pledged but not yet obligated, poured or paid. Industry has told the Pentagon as much. There is an unusually wide gulf between what the War Department expects annually and what industry can currently produce. The price pressure from these two programs is entirely ahead of us, and it lands into a manufacturing sector that is already reaccelerating and an electrical supply chain that is already at four-year lead times. That is our 2027 problem, and it is a better reason to be uneasy than anything in this past month’s core PCE.

The steepening has three sources and the market is only discussing two. The 30-year closed Friday at 5.27%, a new post-2007 high, and the 2s30s spread widened 22 bp over the month, from 77 bp to 99 bp (Exhibit 3). The two explanations in general circulation are the persistence of enormous federal deficits and the Federal Reserve’s credibility, and both are real. We would add a third. A cyclical reacceleration in the goods economy is a classic long-end story, because it raises the expected path of real growth and the inflation risk premium simultaneously without touching the front end, which is anchored by a Committee that is not moving in the next six weeks. Chair Warsh came close to this on Wednesday without joining the dots. He called the strong growth of business investment the most striking feature of the economy, he noted that nominal and real yields are materially higher across the Treasury curve and that the inter-meeting move ranked among the largest in two decades, and he put that move down to market participants reacting to real data rather than to anything the Committee said. He did not connect the two. We would. The corroborating detail is that this is a real-yield move rather than a breakeven move. The 30-year inflation-protected security reached a real yield of about 2.9% in mid-July, the highest since 30-year TIPS were reintroduced in February 2010. The term premium is rebuilding, and a long-duration capital cycle is what is rebuilding it.

EXHIBIT 3



Source: U.S. Department of the Treasury via FRED (DGS30, DGS2), January 2 through July 30, 2026. FRED publishes the daily H.15 series with a one-business-day lag. The 30-year closed at 5.27% and the 2s30s spread at 99 basis points on Friday, July 31, a new post-2007 high for the 30-year.

Two important qualifications. First, the steepening is roughly four weeks old. Measured over three, six or twelve months the curve has flattened, because the front end repriced from cuts toward hikes faster than the long end moved; the 2-year is up 81 bp year-to-date against 57 bp for the 10-year. The steepener is a July phenomenon and it began the week of the dissents. Second, at least one other house making very nearly our argument about manufacturing and inflation draws the opposite conclusion on the curve and recommends a flattener, on the reasoning that less imported disinflation and a firmer industrial cycle pull the front end up faster. We think they are describing the first move and we are describing the second, but the disagreement is real and clients should be aware that it exists.

BEHIND THE NUMBERS

Start with what closed the month, because the tape said something clear. The S&P 500 fell 0.13% in July, its first negative July since 2014 and the end of an eleven-year streak, and its second consecutive losing month. In the same month the Dow rose 0.32% and recorded its fourth straight winning month. The Nasdaq fell 3.2% and the Russell 3.1%. Set those side by side and the story is a market repricing one very large, very concentrated trade while the rest of the index does fine, rather than a market that is worried about the economy. Friday's session made the point in miniature. Amazon rose 15.3% on cloud results that monetize the spending; Apple fell 7.4% on a September guide. The phrase we used in June, discrimination rather than repudiation, is still holding.

The labor market is why we are comfortable with a hold in September and uneasy about 2027, and both readings come from the same fact. Payroll growth has slowed to

57,000 a month and manufacturing employment is down 38,000 from a year ago. On its face that is a cooling labor market and an argument for patience, and in the near term it is. Even so, breakeven payrolls are close to zero, initial claims printed 197,000 in the week of July 25 with a four-week average of 202,750 that matches the lowest since January 2024, and manufacturing weekly hours have risen half an hour since December while manufacturing average hourly earnings run 3.8% against 3.5% for all private workers. Employers in the cyclical sector are adding hours and paying up rather than hiring, which is exactly what firms do when they believe demand is improving and cannot find people. Slow payroll growth in an economy whose labor force is contracting is a constraint rather than slack, and constraints show up in prices with a lag.

Housing is where the rate regime is doing the visible damage, and the 30-year Treasury at a new 19-year high does not help. New home sales ran at 628,000 units in June, down 5.6% from a year ago, with the median price down 3.3% in a single month and 9.3 months of supply. The Case-Shiller national index was essentially flat in May on a seasonally adjusted monthly basis, which means real home prices are falling across much of the country, with Las Vegas, Seattle, Denver and Tampa negative outright even before adjusting for inflation. The 30-year mortgage is 6.66%. We see no mechanism by which mortgage spreads narrow enough to change this before 2027. There is, however, an awkwardness here for the tightening camp. The one sector that responds cleanly to the funds rate has already absorbed the full weight of it. A September increase would not touch a data center, a turbine order or a hospital bill. It would land on housing again, and housing is not where the demand growth is coming from.

Then the war, which moved twice after Friday's close and finished the weekend in a different place altogether. Friday's reporting had the President weighing a multi-day strike campaign against Iran with oil refineries and power plants under consideration as targets, and West Texas Intermediate traded above $86 after settling at $84.67 on that reading. On Saturday evening he said on Truth Social that the attack would be cancelled, subject to being able to make a deal quickly, and described parameters agreed with regional governments that include the immediate and complete reopening of the Strait of Hormuz and an end to Iran's nuclear threat. He said Israel is party to the commitment; Israel has not confirmed that, and its energy minister said only that the country would strike if Iran restarted its nuclear and missile programs, which is a condition rather than an endorsement. Iran spent Sunday rejecting the whole account. Mehr called it a new lie, Fars quoted a member of the negotiating team saying the strait remains closed as long as American hostile actions continue, and the acting defense minister called the President's comments psychological and cognitive warfare. On Monday morning the foreign ministry spokesman said plainly that no talks with the American side are under way, that Iran's delegation is not traveling, and that any American channel runs through Pakistan and Qatar rather than Oman. Reporting also has the Saudi Crown Prince raising with the President the risk that Iran retaliates against Gulf energy infrastructure.

We would not move a forecast on an announcement, and we said the same thing about the report it replaced. What we would do is note how much the distribution has changed in seventy-two hours. Friday's risk was a campaign against Iranian refining and generation, which is a destruction-of-capacity story rather than a transit story and is asymmetric to the upside on price. Sunday's is a de-escalation Tehran has publicly refused to ratify, whose headline term is the reopening of the strait, and which the market has nonetheless largely priced. Neither is a forecast yet. The honest reading is that the range of outcomes for oil over the next month is wider than it was on Friday and centered lower, that both tails run through Tehran rather than through Washington, and that the tail nobody is positioned for this morning is the one where nothing actually reopens.

The transit data underneath is worse than we reported a week ago. Lloyd's List Intelligence counted 39 transits in the week of July 20 to 26, down from 82 the week before, a fall of 52%, with inbound traffic down more than 90% against pre-strike levels and only seven non-Iranian vessels entering the Gulf against fifteen departing. Roughly 70% of transits now run with transponders off. War-risk premiums are 7.5–10% of hull value, with quotes reported above $10 million for a single very large crude carrier voyage. Qatar cleared its first cargo since the seventh of July on the thirtieth. Every one of those figures describes the week before the weekend's announcement, and every one of them is a candidate to reverse quickly if the strait actually reopens. That is the single most important thing to watch this week, and it will show up in transit counts and war-risk quotes before it shows up in a price.

OPEC+ met Sunday and approved the 188,000 barrel-a-day September increase, a sixth consecutive monthly step that completes the second of the group's three cut packages. The seven countries running voluntary adjustments are Saudi Arabia, Russia, Iraq, Kuwait, Kazakhstan, Algeria and Oman; the United Arab Emirates left the group earlier this year. Delegates say a pause through the fourth quarter follows, though that does not appear in the communique and should be read as sourced rather than announced, and roughly two million barrels a day of cuts stay in place through it. A capacity review is under way to set 2027 baselines and the group meets again on September 6. OPEC has now cut its 2026 demand growth forecast for a third consecutive month, which is the more revealing part of the decision.

BOTTOM LINE

We hold no cut in 2026 and we do not think a hike is required. We are not in the camp calling for a September increase, and we think that camp is reading a headline inflation level that still carries the war's energy pass-through inside it. Inflation is lower, job growth has slowed, and the underlying measures built to separate signal from noise are at or near target. What has changed this week is the location of our concern rather than our policy call. Private domestic demand is growing at close to 4% against a labor force that is smaller than it was a year ago, the price pressure is concentrated exactly in the five programs producing that growth, and the most cyclical part of the economy is now turning up underneath them. That is a 2027 problem rather than a September one. The weekend, if the de-escalation holds, takes the other argument off the table as well: an oil complex that is giving back its war premium pulls headline inflation down through the fall and removes the last thing a September hike could claim to be responding to. That conditional is doing real work, because Tehran rejected the deal on Sunday while the market was pricing it. Either way it does nothing at all to private domestic demand growing at close to 4%. We would rather the Federal Reserve arrive at 2027 with its credibility and its ammunition intact than spend either this fall. Stay short on duration. We would revisit that call if private final domestic demand slows back toward 2% while the long end stabilizes. The longer form of this argument, with the underlying-inflation estimates, the sensitivity analysis and the conditions that would change our mind, is published separately as this week's Piedmont Perspective.

What This Week Changes for Funding, Hedging and Capital Plans

This section is for the people who have to act on the forecast rather than debate it. Everything below follows from the same three facts: the front end is anchored, the long end is repricing, and the binding constraints in this cycle are physical rather than financial.

Do not build a 2027 plan that assumes rate relief. Our base case is no cut in 2026, no hike required in September, and the risk of a hike migrating into 2027 as a demand story rather than an oil story. The funds rate has been at 3.50–3.75% since the spring and we expect it there at year end. Meanwhile the long end added 36 basis points in July alone to close at 5.27%, and the 30-year real yield reached about 2.9% in mid-July, the highest since 30-year inflation-protected securities were reintroduced in 2010. We read that as a structural repricing of real rates rather than an inflation scare, which is another way of saying that waiting for a better entry is unlikely to be rewarded. Wednesday's quarterly refunding announcement is the near-term test of who funds it.

Terming out now costs 99 basis points of curve, and that is the question to put to your board. With no cut in the base case, floating-rate exposure gets no relief this year, so the decision is whether to pay the 2s30s spread to remove 2027 risk. For a borrower whose 2027 risk is a demand-driven tightening rather than a recession, we think that is a reasonable premium. For a borrower who would benefit from a recession, it is not, and that borrower should be honest about which forecast the balance sheet is actually positioned for.

If you are siting load, the schedule is the equipment order, not the capital approval. PJM cleared at the cap for a third consecutive auction and still came up 6,831 megawatts short. Generator step-up transformer lead times run to four years with prices up about 80% over five years. GE Vernova's turbine conversations now reach 2032 and beyond. For a project that needs interconnection or long-lead electrical gear in 2028 or 2029, the queue position and the equipment order set the completion date, and both should be placed before the capital committee meets rather than after it. Budget electricity above the 4.0% consumer price print, which we regard as a floor.

The weekend improved the entry for fuel consumers and did not settle anything. Brent is $83.57 and West Texas Intermediate $79.57 this morning, five and six percent below Friday, on an announcement Tehran rejected on Sunday and on talks its foreign ministry says are not happening. If you buy diesel or jet fuel, that is a better place to add coverage than a week ago, and it is also a place where the distribution is wider in both directions than it was in July. We would layer hedges incrementally rather than in size, and treat the level as an opportunity to extend coverage rather than as a new forecast. Watch Strait of Hormuz transit counts and war-risk quotes, which move well before the price does. Transits were last counted at about a tenth of normal and war-risk cover at roughly eight times pre-crisis, and neither has moved.

Budget benefits well above headline inflation for 2027. The employment cost index shows wages decelerating to 3.1% from 3.3%, which flatters the picture, because the index rotated into benefits and the cost that drives a renewal is medical. Hospital services in the consumer price index are up 5.5% and the producer price index for hospital services 3.6%, and the demographic bulge behind those numbers runs through 2027. On the wage side, manufacturing weekly hours have risen half an hour since December with earnings at 3.8%

against 3.5% for all private workers, which says cyclical employers are buying hours rather than heads. That is the cheaper option only until the hours run out.

Check whether you have repriced since the spring. Producer prices for final demand are up 5.5% and have run between 5.5% and 6.0% since April, against core consumer prices at 2.6%. That gap is unrecovered input cost sitting in somebody's margin. If the energy unwind now pulls headline inflation down through the fall, the window to pass it through narrows rather than widens, because customers will be reading the headline. On the capital side, business fixed investment grew 8.4% in the second quarter with equipment up 15.2%, so competition for the same equipment and the same electricians is what makes projects slip. Manufacturing construction spending is down 22% from a year ago, which means contractor availability is one of the few inputs that has become easier, and it is an argument for pulling structures work forward while equipment lead times run the other way.

THE WEEK AHEAD

Date	Release	Why It Matters
Sun Aug 2	OPEC+ decision (done)	The seven voluntary-adjustment countries approved a 188,000 b/d September increase. Delegates say a pause through Q4 follows; that is sourced, not in the communique. Next meeting September 6.
Sun Aug 2	Iran strike cancelled, then denied	The President says the attack is off subject to a deal reopening the Strait of Hormuz. Tehran rejected the account the same day and says the strait stays closed; Israel has not confirmed joining. Crude sold off anyway. Talks were said to resume Monday.
Mon Aug 3	US-Iran talks: Tehran says there are none	The President said talks would begin Monday afternoon. Iran's foreign ministry said this morning that no talks with the American side are under way and its delegation is not traveling. Transit counts and war-risk premiums are the tell, not the crude price, and neither has moved.
Mon Aug 3	ISM Manufacturing, July	June was 53.3, sixth straight expansionary month; consensus 53.6–54.0. The prices index was 73.0 after 21 consecutive months of increase, and that is the number.
Mon Aug 3	S&P Global final manufacturing PMI; June construction spending	Watch manufacturing structures, down 22% y/y and falling every month this year. The defense and pharma money has to show up here first.

Date	Release	Why It Matters
Wed Aug 5	Treasury quarterly refunding announcement	Coupon sizes into a 30-year at a post-2007 high and a term premium that rebuilt through July. The first real test of who funds the long end.
Wed Aug 5	ISM Services; ADP employment	Services selling-price inflation is near a four-year peak in the flash survey.
Thu Aug 6	Q2 productivity and unit labor costs	The most important release of the week. The employment cost index rotated into benefits; whether that is inflationary depends entirely on productivity.
Thu Aug 6	Initial jobless claims	Whether the 197,000 print was noise or drift will be hard to tell in a month long known for seasonal distortions.
Fri Aug 7	July Employment Situation	June was +57,000 with unemployment at 4.2%. The World Cup lift should still be present in July before reversing in August. Summer data is often volatile and full of surprises. A growing number of businesses report they are adding staff.
Aug 27–29	Jackson Hole; Chair Warsh speaks	Where a September hike gets prepared or walked back.
Sep 6	OPEC+ meets again	Sets October levels and tests whether the fourth-quarter pause delegates describe is real.
Sep 15–16	FOMC	Roughly three-in-five market odds of a hike, faded from 82% on July 27.
Sep 29	Section 232 pharmaceutical tariffs apply to remaining companies	The July 31 Annex III deadline has passed.

US ECONOMIC AND FINANCIAL OUTLOOK

[Forecast table image slots here. Changes to carry through from this edition:

Reverse last week's rate call. Do not move the modal first hike into Q4 2026. Hold the funds rate at 3.50–3.75% through 2026 with no hike in the base case, September not justified by the data, and the risk of a hike migrating into 2027 as the demand story rather than the oil story. This corrects the July 31 draft, which had September live.

Add a private-domestic-final-demand line to the forecast table. Q2 at 3.9% versus 1.7% in Q1 is now the central fact of the outlook and it is invisible in the headline GDP row. Forecast it explicitly for H2 2026 and 2027.

Raise the 10-year year-end base to 4.70–4.80% from 4.60–4.70%, and carry a 30-year line at 5.20–5.40%. The term-premium story has migrated to the long end and the 2s30s widened 22 bp in July alone.

Brent: widen the band, do not simply re-center it. The strike campaign was cancelled Saturday subject to a deal whose headline term is reopening Hormuz, OPEC+ added 188,000 b/d for September on Sunday, Tehran rejected the deal the same day, and on Monday its foreign ministry said no talks are under way. Supply up, war premium out, counterparty in public refusal. Brent October is $83.57 and WTI September $79.57 as of Monday morning. The 55/15/30 split is too heavy in the upside tail and the $80–100 band is too narrow at the bottom. Recommend 45/30/25 across a $70–100 band, a wider distribution rather than a lower one, and revisit on the first hard transit number rather than on the next headline. Note for the table: use the October contract, since September expired at Friday's settle.

Raise the electricity and utilities price track. PJM capacity at the cap three auctions running, a second consecutive RTO-wide shortfall, and Lazard's gas LCOE at a 15-year high with quotes running above the index. CPI electricity at 4.0% should be treated as a floor.

Hold full-year GDP at 2.5% but flag that the composition (soft headline, hot private demand) argues the risks are tilted toward higher inflation in 2027 rather than lower growth in 2026.

Housing stays cooler-for-longer with the 30-year mortgage at 6.66%, the 30-year Treasury at a post-2007 high, and real home prices falling.

Cross-check against the July Compass before publishing.]