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RESEARCH | MACRO

Macro Thoughts

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Caleb Sevian
Chief Macro Strategist
1.303.328.8686
csevian@focuspointlmi.com
focuspointlmi.substack.com

Thought to ponder…

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"Today is a mirror. It reflects us perfectly. It is true and fair, and it portrays not just our face, hair, and clothes but everything about us. It reflects our clarity or confusion. It reflects our confidence or uncertainty. It reflects our kindness or anger. If you were to stand in front of a mirror, what would you see? Who would you see? What does your reflection represent to you?"

Prem Rawat
Hear Yourself

The View from 30,000 feet

Last Week's Macro Events

Market forces illuminating end of war	Markets show little pressure for conflict resolution; key triggers include oil above $120, political approval falling, or equities declining materially
Inflation scare or growth scare?	Energy prices rise first, but prolonged conflict risks spreading inflation and destroying demand sowing the seeds of a slowdown
Labor Market Dashboard	While survey day improved slightly, hard data weakened, with shrinking labor force participation and soft hiring pointing to fading momentum
GDP showing less strength	Shutdown distortions and AI capex are masking weakness, leaving underlying U.S. growth much closer to stall speed
Credit spreads succumb to pressure	High yield CDX is widening faster than equities are falling, signaling credit markets are leading the repricing of risk

What the *Bulls* are saying

- **The cardinal rule of geopolitical turmoil – fade the noise.** While the news from Iran is disheartening, history tells us geopolitical events present buying, not selling opportunities.
- **Private credit risks are not systemic.** News of gating funds and lower leverage make great headlines, but they are not signs of a systemic collapse that roils equity markets.
- **Stay focused on earnings and margins.** The ultimate driver of equity prices is tied to two factors – earnings growth and margins – both of which are showing continued strength.
- **Investor sentiment has reset and hedge funds are over-hedged.** AAII Bullish Sentiment has dipped and short positions are at extremes, setting the stage for a short squeeze.

What the *Bears* are saying

- **The energy prices shock is not being fully discounted.** It's about more than gas prices, higher energy prices will trickle into food and goods, reducing consumption.
- **The economy is at stall speed.** Labor market and GDP data are indicating that apart from the AI capex spend, the economy is contracting.
- **Credit markets are signaling stress.** Credit markets have already begun to price what equity markets are ignoring – larger slowdown leading to earnings deterioration is brewing.
- **Inflation is taking away the rate cutting punchbowl.** A large part of the narrative about improving equity markets was tied to lower rates, which are now off the table.

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Putting it all together

In markets like today's, I spend a lot of time speaking with investors. One question comes up again and again: *How do you invest in times like these?*

It's a fair question. But it's really two questions. *What exactly are "times like these"? And how should investors respond?*

Times Like These

- Today's market environment is unusually complex. Corporate earnings remain strong. S&P 500 earnings growth is running one and a half times historical norms, with improvement beginning to emerge across mid- and small-cap companies. The rally that was once narrowly concentrated in mega-cap technology has broadened across geographies, sectors and industries. Artificial intelligence is simultaneously one of the most powerful productivity tools ever developed and increasingly viewed as a potential existential disruption to the labor market. The economy continues to expand and a recession does not appear imminent. Yet the latest signals from labor markets and GDP suggest the underlying trend rate of growth is slowing. And finally, the United States is now directly engaged in conflict with Iran. The ultimate objectives remain unclear — whether the goal is the destruction of nuclear capabilities, regime change, or the protection of global commerce routes. While the U.S. would prefer a swift resolution, Iran's strategy appears to rely on asymmetric warfare, decentralized forces, and low-cost drone technology designed to stretch Western military resources, prolong the pain and achieve concessions. Taken together, these forces create an environment where the macro backdrop is supportive, but the risks are unusually complex and difficult to handicap.

How Do You Invest?

- One of the key differences between individual and institutional investors is that individuals tend to invest based on headlines, while institutional investors invest based on process. Focus Point is both a research provider and an institutional investor. While investing in markets like today's is hardly routine — it certainly requires more antacids than usual — the way we approach markets is routine. We follow a process. It is the same process that alerted us to the risks surrounding COVID before the market selloff. The same process that identified the inflation surge and 2022 market decline ahead of time. And the same process that helped us navigate the Liberation Day selloff.

We are not perfect, and the future will undoubtedly present environments that challenge our framework. But having a process allows us to navigate uncertainty with discipline rather than emotion. Our objective is simple: Protect capital when risks are rising, and take risk when opportunities are favorable. We believe the same process that has helped us navigate prior market shocks has the potential to help us do the same in today's environment.

In uncertain markets, investors often look for certainty. Our experience suggests the better approach is to rely on discipline and process.

Market forces illuminating end of war

Main takeaway: At Focus Point we are watching three quantifiable variables that likely shape President Trump's reaction function and the probability that the conflict begins to wind down: oil prices, Republican approval of the war, and the behavior of the S&P 500.Three thresholds shaping the reaction function.

Oil – the economic constraint

- Crude briefly surged toward $120 following the initial strikes, after which President Trump remarked that military objectives were "ahead of schedule" and suggested the campaign could conclude sooner than expected. Energy prices remain the fastest transmission channel from the war to voters. Sustained oil above roughly $115–$120 could likely increase political pressure to de-escalate.

Base approval – the political constraint

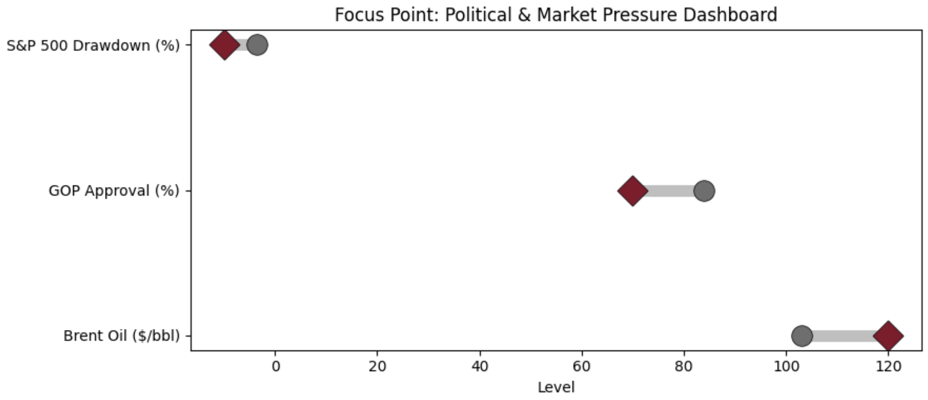
- According to a recent Quinnipiac poll, only 38% of voters overall approve of Trump's handling of Iran, but 84% of Republicans approve while just 11% disapprove. This divide matters: Trump historically optimizes around support from his political base. A meaningful deterioration — for example GOP approval falling below 70% — could signal rising internal political pressure to wind down the conflict.

Equities – the market constraint

- Despite the geopolitical shock, the S&P 500 has declined only 3.6% since the invasion began. Trump has historically reacted to deeper market drawdowns that threaten economic confidence. A correction exceeding 10% could likely intensify pressure to search for an off-ramp.

Bottom line: None of the thresholds we identify as key variables are currently close to being breached, suggesting there is relatively little political or market pressure for the conflict to end in the near term.

PRESSURE THRESHOLD TO END THE WAR:
BRENT CRUDE, BASE APPROVAL RATING, S&P500 SELLOFF



Source: Bloomberg, FocusPointLMI

Inflation scare or growth scare?

Main Takeaway: Oil shocks typically unfold in three phases*: markets initially focus on inflation, but persistent supply shocks eventually evolve into growth risks.*

Phase 1 – Inflation Scare (Market Reaction Today)

- Brent surged as high as $120 per barrel following the Iran conflict
- National gasoline average prices have surged from $2.98 to $3.70 (AAA Avg Price)
- Jet fuel prices have risen 58.4% (IATA monitor)
- Markets have repriced Fed policy — expected 2026 cuts have fallen from 2 to 1
- Near term, the market response is higher inflation risk and fewer rate cuts

Phase 2 – Supply Shock (If the War Persists)

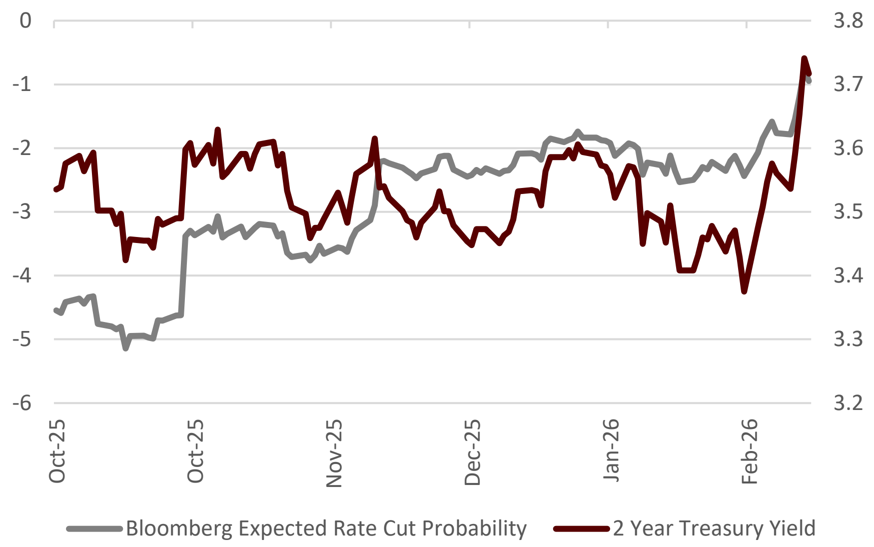
- Hormuz disruptions affect much more than oil
- Urea, an input to fertilizer made from petroleum, has surged 34% this month
- The Gulf supplies about one-third of global helium, a key semiconductor input
- *Over time, higher input costs spread beyond energy into food and industrial prices*

Phase 3 – Growth Scare (Lagged Impact)

- Sustained energy shocks eventually act like a tax on consumption
- Higher energy and food prices squeeze real incomes
- Lower-income households reduce discretionary spending first
- Demand destruction ultimately caps energy prices
- At this stage, the macro narrative typically shifts from inflation risk to growth risk, and the market shifts from inflation concern to recession concern and rate cuts re-enter the discussion

Bottom Line: Markets are currently focused on Phase 1: inflation risk, which is why rate cuts are being priced out. If the conflict persists and supply shocks broaden, the dominant macro risk likely shifts toward Phase 3: a growth scare.

PHASE 1 (IN PROGRESS) – 2 YEAR TREASURY VS BLOOMBERG RATE CUT EXPECTATIONS – MARKETS BRACING FOR INFL



Source: Bloomberg

Labor Market Dashboard

Insights from This Month’s Labor Market Dashboard

Focus Point tracks a broad mosaic of labor market indicators each month. As with our broader process, we believe looking across many signals provides better insight than relying on any single data point.

Several trends stood out this month:

- February’s apparent strength faded quickly. Outside of sentiment surveys, most hard data points weakened relative to the prior month.
- Labor force dynamics are deteriorating. The labor force is now 213k smaller than at the start of 2025, and participation has declined to its lowest level since 2021.
- Employment breadth is narrowing. Several measures of hiring activity and job creation weakened across sectors.
- Survey sentiment improved modestly, likely reflecting optimism following January’s stronger-than-expected employment report.
- Small business hiring plans remain weak, with NFIB hiring intentions falling to the second lowest level since the pandemic.

Bottom Line: The dashboard suggests a labor market that is gradually losing momentum, with underlying hiring conditions weakening even as sentiment temporarily improves.

						Context		
Focus Point Labor Market Dashboard	Last	Last 4 Periods Avg	Current Trend	Last Month	Month before Last	GFC Recession Avg	dotcom Recession Avg	Avg 3m Prior to Recession
Headline Measures								
Unemployment Rate	4.4	4.4	WORSE	BETTER	WORSE	6.7	4.8	4.4
Initial Jobless Claims (4-week moving avg)	212.0	214.4	BETTER	WORSE	BETTER	479	416	340
Change in Nonfarm Payrolls (Establishment Survey)	-92.0	14.5	WORSE	BETTER	BETTER	-383.4	-182.7	85.0
Change in Private Payrolls (Establishment Survey)	-86.0	31.3	WORSE	BETTER	BETTER	-396.1	-229.3	42.7
Average Weekly Hours	34.3	34.3	BETTER	BETTER	WORSE	34.2	34.1	34.4
Unemployed Workers*	7,571.0	7,555.8	WORSE	BETTER	WORSE	10,340	6,843	6,566
Stress and Duration								
Continuing Jobless Claims (4-week moving avg)	1,858.8	1,877.8	BETTER	BETTER	WORSE	4,207	3,123	2,511
%Unemployed Duration of 27 Weeks or Longer*	25.3	25.1	WORSE	BETTER	WORSE	21.3	11.5	14.8
Permanent Job Losers*	2,037.0	1,987.5	WORSE	WORSE	WORSE	34.7	26.3	23.3
Part-Time for Economic Reasons*	4,396.0	5,024.3	WORSE	BETTER	WORSE	6,753	3,747	3,869
% Number of Unemployed Not On Temporary Layoff*	35.4	34.4	WORSE	WORSE	BETTER	43.8	35.4	33.4
Duration of Unemployment Median Weeks*	11.1	10.8	WORSE	WORSE	WORSE	10.6	6.7	7.3
Employment Breadth								
US Total Labor Force*	170,483	170,996	WORSE	BETTER	BETTER	144,009	136,871	141,965
Labor Force Participation Rate*	62.0	62.3	WORSE	BETTER	WORSE	65.9	66.8	66.5
Prime Labor Force Participation Rate (25yr-54yr)*	83.9	83.9	WORSE	BETTER	BETTER	83.0	83.7	83.4
Employment to Population Ratio*	59.3	59.6	WORSE	BETTER	WORSE	61.5	63.6	63.6
Diffusion Index Nonfarm Payrolls (3M avg)	50.6	51.8	WORSE	BETTER	BETTER	20.7	12.0	31.4
Temporary Services	2,447.4	2,454.6	WORSE	BETTER	WORSE	2,200	2,317	2,561
Manufacturing Overtime Hours	3.0	3.0	WORSE	BETTER	BETTER	2.8		3.3
Survey Data								
ISM Manufacturing Employment	48.8	46.5	BETTER	BETTER	WORSE	41.6	37.9	47.2
ISM Services Employment	51.8	50.6	BETTER	BETTER	BETTER	42.1	46.1	52.0
NFIB Hiring Plans	12.0	16.0	WORSE	WORSE	BETTER	1.5	11.6	12.8
NFIB Job Openings Hard to Fill	33.0	32.5	BETTER	WORSE	BETTER	15.5	28.9	27.0
Conference Board - Jobs Plentiful	28.0	26.9	BETTER	WORSE	WORSE	12.2	32.9	36.0
Conference Board - Jobs Hard to Get	20.6	20.2	WORSE	WORSE	WORSE	34.7	16.4	17.4
University of Michigan: Expect More Unemployment	54.0	52.3	WORSE	WORSE	BETTER	57.7	52.1	45.7
New York Fed Job Separation Expectations	13.8	14.4	BETTER	WORSE	BETTER			
Hiring and Firing								
JOLTS (Job Openings)	6,946.0	6,878.0	BETTER	WORSE	WORSE	3,566	4,390	4,886
Job Openings Rate	4.2	4.2	BETTER	WORSE	WORSE			
Indeed New Job Postings (20d avg)	103.9	103.2	BETTER	WORSE	BETTER			
WARN Filings	29,462.0	25,126.8	WORSE	BETTER	BETTER	36,517	44,513	32,185
Challenger US Job Cut Announcements	48,307.0	65,904.0	WORSE	WORSE	BETTER	113,952	172,372	97,607
Job Openings to Unemployed Workers	0.9	0.9	BETTER	WORSE	WORSE			
Quits Rate	2.0	2.0	BETTER	BETTER	BETTER	1.8	2.2	2.2
Hiring Rate	3.3	3.3	BETTER	WORSE	WORSE	3.3	4.0	4.1
Wage Inflation								
Atlanta Fed Wage Growth Tracker	4.0	4.1	WORSE	WORSE	WORSE	3.97	5.20	4.67
Atlanta Fed Job Switcher	4.4	4.3	BETTER	WORSE	WORSE	4.21	5.97	5.40
Atlanta Fed Job Stayer	3.9	4.0	WORSE	WORSE	WORSE	3.74	4.86	4.52
Indeed Wage Growth Tracker	2.0	2.2	WORSE	WORSE	WORSE			
Average Hourly Earnings	3.8	3.8	WORSE	WORSE	WORSE	3.16		3.13
Employment Cost Index	3.4	3.5	WORSE	WORSE	BETTER	2.92	4.05	

Sources: Bureau of Labor Statistics, Department of Labor, NFIB, Institute of Supply Management, Conference Board, University of Michigan, New York Fed, Indeed Grey Challenger, Atlanta Fed, Cleveland Fed, Bloomberg

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GDP showing less strength

Main Takeaway: Last week's revised Q4 2025 GDP data suggest the economy was already close to stall speed before the oil shock. Two key points to consider when evaluating Q4 2025 and Q1 2026 GDP collectively are adjusting for the shutdown and normalizing for the AI capex spend.

Shutdown Distorted Q4 Growth

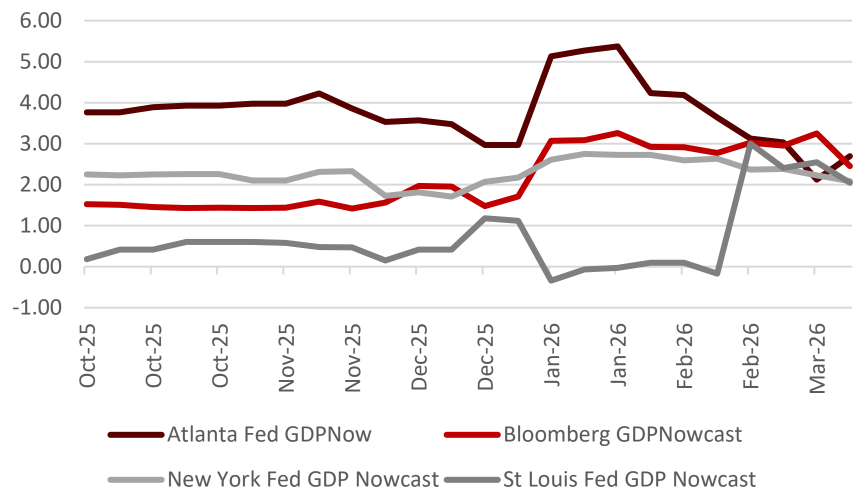
- Last week's Q4 2025 GDP was revised down to 0.7% from 1.4%
- The Federal shutdown is estimated to have subtracted roughly 1.5% from GDP growth
- That lost activity was expected to add to Q1 2026 growth
- Looking at the four measures of GDPNow (Atlanta Fed, New York Fed, St. Louis Fed, Bloomberg), nowcasts suggest a pace of growth for Q1 2026 to be in the range of a little over 2.0%
- Adjusting for the 1.5% shutdown rebound implies underlying Q1 2026 growth closer to 0.5%

AI Investment Masking Broader Weakness

- AI infrastructure investment is estimated to contribute somewhere on the order of 0.5% to 1.0% to GDP growth, depending on the source you follow
- Removing that boost implies outside of the AI Capex Spend, much of the remaining economy is likely contracting
- While the frenetic pace of AI capex is likely to continue in 2026, it's clear that investors are growing weary of ever-increasing capex budgets, suggesting the trend of continually higher capex is reaching its limits.

Bottom Line: Once temporary distortions are stripped out, the U.S. economy appears to have entered the energy shock with growth already near stall speed.

GDP NOWCAST MODELS
ALL ROADS FOR Q1 2026 POINTING TOWARDS 2.0%



Source: Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, Bloomberg

Credit spreads succumb to pressure

Main Takeaway: Credit markets are now showing legitimate stress, with high yield CDX widening sharply and signaling a more aggressive repricing of risk than equities have yet reflected.

A Crack Is Developing

- High yield CDX closed at 371.8, its highest level since May 2025
- Whether driven by private credit concerns, war risk, or both, the message is the same: risk is being repriced
- Credit often weakens before equities fully absorb the change in regime

Focus Point Framework: Level, Velocity, Acceleration

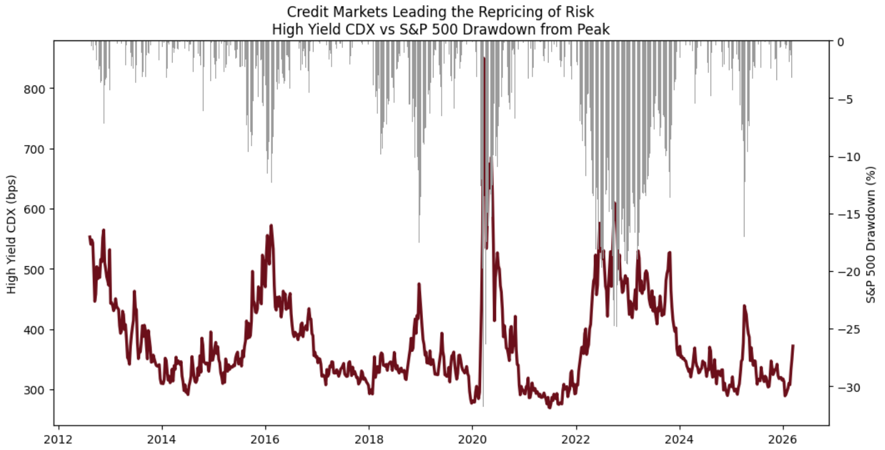
- Level: spreads are now firmly back in a cautionary zone
- Velocity: CDX has widened more than 64 bps in three weeks, a meaningful repricing of credit risk
- Acceleration: the pace of widening remains elevated, suggesting stress is not yet stabilizing
- The combination of level, velocity, and acceleration is what makes this signal increasingly important.

Credit Leading Equities

- High yield CDX is widening faster than equities are falling
- That divergence suggests credit markets are leading the repricing of risk
- If the gap is not closed by tighter spreads, it is often closed by weaker equity prices

Bottom Line: Credit is no longer confirming the equity market's resilience. If spread widening persists, the probability rises that equities still have further downside ahead.

CDX HIGH YIELD SPREAD VS S&P500 DRAWDOWNS
CREDIT MARKET WEAKNESS SIGNALS REPRICING OF RISK



Source: Bloomberg, FocusPointLMI

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