

Weekly Macro and Markets View

6 July 2026



Highlights and View

Growth in US payrolls slows and the participation rate falls markedly

A weaker employment situation significantly reduces the risk of tighter monetary policy in the near term.

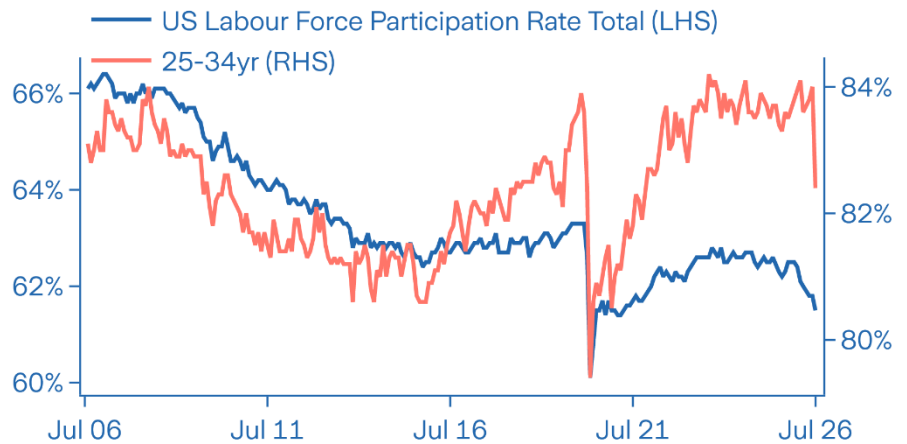
June Eurozone inflation eased from 3.2% YoY to 2.8% as energy prices eased

With oil at current levels, we have likely seen the peak pace of inflation this year.

Japan unveils its biggest-ever investment plan, worth over 50% of GDP through 2040

While it aims to strengthen Japan's strategic positioning, the lack of funding details continues to unsettle investors given Japan's already elevated debt.

US labour force participation falls, particularly among the young



Source: Bloomberg

Payroll growth slowed to 57'000 in June. In addition, the number of new nonfarm payrolls was revised down by 74'000 for the two prior months. The unemployment rate ticked down from 4.3% to 4.2%, but at the same time the participation rate fell markedly to 61.5%, the lowest in more than five years and significantly below pre-Covid levels. The fall was triggered by substantially lower participation amongst younger age groups, which should raise concerns if confirmed in future data releases. Meanwhile, the latest ISM Manufacturing survey shows that manufacturing activity is expanding at a slightly slower pace though new orders remain strong. Prices paid fell back to the lowest level since February, raising hopes that peak price pressure is behind us. Consumer confidence ticked up in June, though less than consensus expected. Expectations improved while perception of the current situation deteriorated. Adding to the picture of a weaker labour market, the labour differential index (jobs plentiful less hard to get) dropped markedly to the lowest since February 2021. The softer employment situation significantly reduces the risk of tighter monetary policy in the near term. We expect the Fed to remain on hold though markets are still pricing in a rate hike by the end of the year.

Eurozone

Hartz V?

The main economic news this week was Eurozone inflation printing at 2.8% YoY in June, down from 3.2% in May. Core inflation fell from 2.6% YoY to 2.4%. Both measures printed below market estimates and were a welcome surprise. The falls from May were broad based across goods, services, and energy prices themselves. Inflation remains above the ECB's 2% target, but this data eases pressure on the central bank. Secondly, the German government announced a reform package comprised of 33 proposals, in addition to a significant

pension system overhaul. Measures range from new barriers to sick pay, to red tape reduction, to income tax changes. The proposed policy changes are welcome and reminiscent of the ambitious Hartz I-IV reforms implemented by Chancellor Schröder in 2002-2004. The greater the emphasis on reducing planning permission complexity and bureaucracy hindering firm expansion, the better. These measures must still be put to the Bundestag, and there are considerable risks that many measures will be diluted or opposed outright.

Japan

A 'generous' 20%

Last week, PM Takaichi unveiled a JPY 370tn investment plan (more than 50% of GDP) spanning 17 strategic sectors through 2040. However, the absence of a clear public-private funding split makes it hard to quantify the impact on growth and the fiscal burden. Paired with energy subsidies, sales tax cuts, and higher defence spending, the fiscal expansion story remains loud and clear, raising the question of how the government will fund it. Higher nominal growth has boosted tax revenues, but with a skyrocketing debt-to-GDP ratio, the setup remains fragile

and investors are watching nervously. Long-term JGB yields have spiked, with the 10yr testing 2.8% again. Meanwhile, the BoJ's slow moves in raising rates, arguably shaped by political considerations, is weighing on the JPY (now at 162, near intervention levels) and fuelling imported inflation. May data show strong retail sales, solid industrial production, and a robust Tankan while Shunto wages continue to reinforce the case for tightening rather sooner than later.

LatAm

USMCA stays alive, but uncertainty lingers

The July 1 original deadline for the USMCA review left the current framework in place but moved the North American trade bloc into a more open-ended negotiation cycle. The US declined to renew the agreement for a new 16-year term, despite Mexico and Canada's preference for an extension. Annual reviews will continue until either a new extension is agreed, or the agreement reaches its 2036 sunset, unless a member withdraws earlier. The muted reaction across Mexican FX and equities suggests this outcome was largely priced in. For Mexico, preferential access to

the US market remains intact, preserving lower effective tariffs than many global manufacturing peers. Still, annual reviews give Washington recurring leverage, likely maintaining pressure on business sentiment. Mexico appears better placed than Canada to reach an early understanding, given more advanced bilateral negotiations and recent willingness to address US concerns. In any case, the next US-Mexico talks during the week of July 20 will be key to assess whether the process delivers some de-risking or simply prolongs uncertainty.

Equities

Lumpy, but enter H2 with a positive vibe

Equities entered the second half of the year in fine fettle. A number of global indices hit record highs while the MSCI World Index posted a 9% price gain in H1. Gains last week were supported by some encouraging inflation prints, and the weaker US jobs data took some pressure off potential Fed tightening. Germany's DAX gained 4.5% to reach a new high, but it was not all smooth sailing. With the semiconductor sector under pressure, Korea's KOSPI slipped 3.8% after having been down 12% mid-week, though it is still up 92% YTD. A key index member,

Samsung, had been off 18%, before recovering around half of those losses. This shows that the semi trade has become more volatile. We see fundamentals as remaining favourable for semiconductors, but the rotation into other sectors is healthy. Indeed, the US S&P 500 Equal Weighted Index is now outperforming the main cap-weighted index, while the S&P 600 small-cap index is up 21% YTD against 9% for the S&P 500. To us, as was the case last year, investors are acting rationally and selectively, which should give legs to the bull run.

Credit

Calm prevails, but lower quality pockets remain vulnerable

Corporate credit spreads tightened despite jitters in technology stocks last week, with US credit, and High Yield (HY) in particular, outperforming Europe. Supply in June was elevated on both sides of the Atlantic, with the US printing a record USD 198bn in gross Investment Grade (IG) corporate issuance. Supply was driven in large part by continued technology sector issuance as AI-related financing maintained its pace. Demand remained supported by what is now the tenth consecutive week of IG fund inflows, and HY also recorded a large weekly

inflow of USD 2.1bn. However, beneath the surface weakness persists at the lower end of the quality spectrum. The issuer-weighted annual default rate within the CCC-rated bucket rose to 31% in May, its highest level since last summer. Larger bankruptcies also picked up in June, with a notable filing from Dish DBS, the satellite TV subsidiary of EchoStar, which entered Chapter 11 bankruptcy. While credit markets remain benign, the risk to current tight spreads in HY is that of bankruptcies spreading from smaller to larger companies.

What to Watch

- In the US, the ISM Services survey will give crucial insights into the current state of the services industry and the stickiness of services price pressures.
- This week we will receive a variety of German data, including trade and industrial production. We will also receive Eurozone producer price inflation data for June.
- China's inflation data and Japan's wages and EcoWatcher Surveys are key to watch.
- June CPI releases will be the key focus across major LatAm economies.

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