

## Patience, Not Pivot

The macro backdrop continues to confirm that investors are operating in a structurally different environment than the ultra-low-rate era that defined the post-2008 cycle. The familiar playbook of abundant liquidity suppressed volatility, and reliably falling rates has given way to something messier — and more demanding.

Inflation reaccelerated in April. CPI rose 3.8% year-over-year, nearly double the Fed's 2% target, while Producer Price Inflation surged to 6.0%, its highest reading in roughly four years. The 220-basis-point gap between PPI and CPI suggests upstream cost pressures have yet to fully pass through to consumers. Gasoline prices climbed more than 28% year-over-year, a pace that has historically curtailed discretionary spending within two to three quarters. Beneath these headline numbers, however, disinflationary forces persist: shelter inflation continues to normalize, wage growth has moderated, and consumer demand outside energy-sensitive categories is no longer accelerating. The inflation story is neither resolved nor spiraling — it is frustratingly uneven.

Thursday's retail sales report reinforced the picture of an economy slowing but not breaking. April retail sales rose 0.5%, largely flattered by higher gasoline prices; strip out energy, and core consumer activity is considerably more subdued. Adjusted for inflation, real spending growth was modest at best. Weekly jobless claims remain contained, suggesting labor conditions are softening at the margins without broader deterioration.

This leaves the Federal Reserve, now under Chairman Kevin Warsh, in a genuinely difficult position. Monetary policy cannot offset supply-side inflation shocks; raising rates cannot produce more oil. The Fed is therefore likely to remain cautious about easing prematurely while inflation stays above target and fiscal deficits continue expanding. Patience, not pivot, remains the operative word.

The Treasury market is pricing this reality. The 10-year yield, trading near 4.5%, sits roughly 240–250 basis points above its post-2008 average — a recalibration that has fundamentally altered the discount rate on long-duration assets. The 30-year above 5%, having held that level for an extended period, suggests the market now views elevated long-term rates as a structural feature, not a cyclical aberration — reflecting persistent inflation uncertainty, growing fiscal borrowing needs, and elevated Treasury supply.

Equity markets have recovered, but the internal dynamics warrant scrutiny. On a trailing one-year basis, the Magnificent Seven have returned approximately 48% versus roughly 29% for the S&P 500, meaning the other 493 companies contributed only modestly to index returns over that period. Yet 2026 has told a more complicated story: through February, the Magnificent Seven were down roughly 7% while the S&P 493 was up approximately 4% — the first meaningful leadership reversal since 2022.

More concerning is the narrowing within the group itself. Strip out Nvidia, and Magnificent Seven Q1 2026 earnings growth falls from 22.8% to just 6.4% — actually trailing the rest of the index. One company is carrying the cohort's earnings narrative. The recovery since April's lows has seen the Magnificent Seven gain roughly 20% versus approximately 8% for the equal-weighted S&P 500, but this rebound reflects momentum and multiple expansion as much as fundamental reacceleration. Seven companies representing roughly a third of the S&P 500, with one name sustaining the group's earnings story, is a breadth condition historically associated with fragility, not durability.

The most probable near-term path remains slower growth rather than recession. But higher-for-longer rates, elevated fiscal borrowing, and tighter liquidity suggest volatility across both bonds and equities will remain structurally elevated relative to the prior decade.

In that environment, discipline and selectivity are not optional — they are the strategy. Higher-quality fixed income offers meaningful income and genuine diversification. Equity allocations should remain anchored in liquidity, balance sheet strength, and valuation discipline, rather than extending exposure to a momentum trade increasingly dependent on a single name to sustain its narrative.

This publication reflects the views of Smith Affiliated Capital Corp. (“SAC”) as of the date noted and is for informational purposes only. Opinions are subject to change without notice and should not be considered investment advice or a recommendation regarding any security or strategy. Information is obtained from sources believed reliable but is not guaranteed. Past performance is not indicative of future results. Investors should consult their own advisors before making investment decisions. No part of this publication may be reproduced or distributed without the express written consent of SAC. **Sources:** Bloomberg and other market data providers.