First to Market

June 26, 2026

INSURING AGAINST THE INSURERS

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"Playing safe is probably the most unsafe thing in the world. You cannot stand still. You must go forward." — Robert Collier

Chart of the Day

INFLATION: Core PCE In-Line with Expectations

Core PCE %MoM, %-Point Contribution, and Current Less Prior Month %YoY
Sorted by May '26 Contribution

Core Personal Consumption Expenditures - May 2026

	Expenditure Category	Weight (%)	MoM % Change	CTG MoM % Change	MoM% Chg Prior Month
	PCE Core	100.0	0.32	0.32	0.25
1	Financial services	6.4	1.64	0.10	-0.64
2	Housing	17.6	0.31	0.05	0.53
3	Hospital and nursing home services	10.0	0.40	0.04	0.12
4	Outpatient services	9.0	0.36	0.03	-0.06
5	Public transportation	1.7	1.45	0.03	1.31
6	Food services	6.8	0.28	0.02	0.27
7	Telecommunication services	1.0	1.58	0.02	0.23
8	Other durable goods	1.6	0.82	0.01	1.00
9	Magazines, newspapers, and stationery	0.7	1.86	0.01	-0.08
10	Professional and other services	1.6	0.79	0.01	0.37

Stock market gains drove 33% of the May inflation

30	Glassware, tableware, and household utensils	0.3	-0.58	-0.00	1.35	0.00	-0.01	14.61	14.68	-0.06
31	Personal care products	1.2	-0.22	-0.00	0.40	0.00	-0.01	2.53	2.77	-0.24
32	Motor vehicle parts and accessories	0.7	-0.52	-0.00	-0.10	-0.00	-0.00	2.48	4.23	-1.75
33	Recreational items	1.8	-0.22	-0.00	0.13	0.00	-0.01	2.92	4.06	-1.14
34	New motor vehicles	2.1	-0.27	-0.01	-0.17	-0.00	-0.00	0.21	0.18	0.02
35	Household maintenance	0.7	-1.50	-0.01	1.35	0.01	-0.02	3.31	5.17	-1.85
36	Furniture and furnishings	1.6	-1.17	-0.02	-0.30	-0.00	-0.01	1.13	2.13	-1.00
37	Final consumption expenditures of nonprofit i	3.4	-0.86	-0.03	1.20	0.04	-0.07	0.30	2.16	-1.86
38	Pharmaceutical and other medical products	3.8	-0.88	-0.03	-0.27	-0.01	-0.02	-2.20	-0.83	-1.37
39	Net foreign travel	0.4		n/a		n/a	n/a			
40	Net expenditures abroad by U.S. residents	0.1		n/a		n/a	n/a			

Source: Fundstrat, BEA

Good morning!

Another day, another worrisome news story about private credit. Yesterday, Ares Management disclosed that it was forced to implement its 5% redemption cap at its flagship private credit fund, the Ares Strategic Income Fund, during the second quarter after investors made redemption requests amounting to roughly 14.4% of the vehicle. Morgan Stanley made a similar announcement the day before, and Apollo did the same on Monday.

Sentiment around private credit is apparently flagging, but that's not necessarily a reason for panic. After all, high-yield spreads have contracted this month after widening in the spring. Similarly, the spread between investment-grade yields and comparable Treasury yields remains modest – and in fact is a bit narrower now than it was in the beginning of the year. A growing number of redemption requests is also perhaps not as indicative of panic as one might assume, since some of those requests are likely coming from investors whose previous requests were denied or capped.

However, the reporting around the recent woes of the private-credit industry does have some watching one of the key investors in private-credit products – life-insurance companies. A recent Moody's report asserts that private credit accounts for about 20% of the life-insurance industry's $4 trillion fixed income portfolio. Citing anonymous sources, *Bloomberg News* reported on Wednesday that firms like JPMorgan Chase and Goldman Sachs are seeing interest in hedges or bets against insurance companies like Lincoln National $$LNC, MetLife $$MET, and Berkshire Hathaway $$BRK.B, for instance through credit default swaps.

It's unclear whether those worries are warranted. The standard response from insurance companies when asked about private credit is to note that their allocations are largely comprised of investment-grade or high-quality debt. The counterargument is that the inherent illiquidity of such assets, along with the opacity in valuations and pricing, make the purported investment-grade ratings less meaningful – particularly given that such assessments often come in the form of private-letter ratings that are issued confidentially and away from public scrutiny. It's also worth noting that a significant portion of insurers don't just hold stakes in private-credit funds, they also lend money to them. Thus, the industry's exposure to private credit is perhaps greater than the investment-grade ratings on its holdings might suggest.

As far as we know, nobody is predicting some sort of black swan event in private credit markets at the moment. Yet it might be worth looking at the possible implications if the insurance industry's losses grow to a level that imperils not just their earnings, but also their ability to meet obligations to policyholders.

Such a development could force insurers to sell other liquid assets to raise cash – Treasuries, investment-grade corporate bonds, and agency mortgage-backed securities, for example. If the losses multiply, this could spark an increase in surrender requests from annuity and insurance policyholders, exacerbating the need for even more sales of liquid assets, resulting in a spiral that causes bond prices to plummet – and borrowing costs to spike. That, in turn, has implications for investors in highly leveraged equities (small caps, utilities, and REITs, for instance), regional banks, and the broader stock market.

Economic Data Report: Q1 2026 GDP — Third Estimate -- June 25, 2026

The U.S economy grew at a 2.1% quarterly annualized rate, per the BEA's third and final estimate, revised up 0.5% from their second estimate of 1.6% and coming in stronger than expectations of 1.7%. The revision was primarily driven by a downward revision to imports, which are a subtraction in the calculation of GDP, so when imports go down, it leads to an increase in the overall GDP number.

The story is still about inflation. Core PCE held at 4.4% in Q1, more than double the Fed's 2% target. Headline PCE came in at 4.6%, revised up 0.1 percentage points from the previous estimate. The gross domestic purchases price index came in at 3.6%.

The concerning part is real final sales to private domestic purchasers, giving us a picture of how well private demand is doing, which came in at just 1.7%, revised down 0.7 percentage points from the second estimate.

On the other hand, corporate profits from current production rose $74.4B in Q1, revised up $34 billion. GDI increased 1.2%, bringing the GDP and GDI average to 1.7%. This is a clearer growth picture than the second estimate implied.

The economy is experiencing decent growth, but private demand is down and inflation is nowhere near contained. — *Jaime Lee*

Share your thoughts

Should insurers be allocating so much of their portfolios into private credit? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Does declining interest of foreign scientists studying and working in the U.S. concern you?

A: Yes, the declining interest of foreign scientists in studying and working in the U.S. bothers me Reasons other than those in your article are further disengagement of the US from the world, and attacks by the current administration on academic freedom, science, truth, and individual merit by discrimination against race, gender, and national origin. Other country's universities are actively recruiting top scholars away from leading United States universities, so we are seeing the start of a brain drain away from US universities not only by top foreign students but also by top native US students. For example, Swedish universities are and have been successfully recruiting top scholastic scientific and other research talent from around the world, including away from leading US universities.

Catch up with Fundstrat

May Core PCE was mainly driven by 'financial services' which means stock market gains drove inflation. Ex-financials, core PCE was 0.22%, which is pretty close to the Fed's target, and this explains why yields fell sharply.

Technical

I'm raising my 2026 $SPX target to 8,000 from 7,300 to mirror Tom Lee, as improved price structure, breadth, and momentum off the March lows now have equal-weight $SPX and the $DJIA all within striking distance of new all-time highs alongside $SPX and $QQQ.

Crypto

Yesterday's crypto selloff was broad-based, but BTC appeared to have an additional idiosyncratic supply-driven component. That distinction matters because it makes me hesitant to aggressively buy the dip despite BTC again defending the ~$60k area.

News We're Following

Breaking News

- Nasdaq futures fall as tech-sell off poised to continue Friday CNBC

Markets and economy

- Polymarket annualized revenue surpasses $1 billion six weeks after its U.S. exchange launch CNBC
- Warsh taps two veteran Fed economists as advisers WSJ

Business

- Bayer wins crucial US Supreme Court ruling over Roundup weedkiller FT
- OpenAI leans toward holding up I.P.O. until next year NYT
- Bond traders stunned as losses on SpaceX’s new debt keep growing BBG

Politics/U.S.

- Supreme Court expands Trump’s power over immigration with TPS and southern border decisions NYT
- Newsom, billionaires face costly battle as California wealth tax advances BBG
- GOP lawmakers divided over Hegseth’s ouster of top Army commander HILL

Overseas

- Iran reasserts its right to control shipping in Strait of Hormuz after ship hit near Oman REU
- Sanae Takaichi sets out Japan’s largest-ever investment roadmap FT
- Europe's extreme heat would be impossible without climate change, scientists say AP

Of Interest

- Novak Djokovic joins General Atlantic in his Wall Street debut BBG

Overnight	
S&P Futures	-30 ▼ point(s) (-0.40% ▼)
overnight range:	-66 ▼ to +31 ▲ point(s)

APAC

Nikkei	-4.15% ▼
Topix	-1.32% ▼
China SHCOMP	-2.26% ▼
Hang Seng	-1.76% ▼
Korea	-5.81% ▼
Singapore	-0.52% ▼
Australia	+0.18% ▲
India	+0.14% ▲
Taiwan	-3.64% ▼

Europe

Stoxx	50 -0.81% ▼
Stoxx	600 -0.87% ▼
FTSE	100 -0.71% ▼
DAX	-1.22% ▼
CAC	40 -0.60% ▼
Italy	-1.15% ▼
IBEX	-0.41% ▼
Canada	+0.33% ▲
Mexico	+1.72% ▲
Brazil	+0.87% ▲

FX

Dollar Index (DXY)	-0.24% ▼ to 101.19

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EUR/USD	+0.36% ▲ to 1.1411
GBP/USD	+0.27% ▲ to 1.3228
USD/JPY	+0.15% ▲ to 161.55
USD/CNY	0.00% to 6.7976
USD/CNH	+0.02% ▲ to 6.7999
USD/CHF	+0.31% ▲ to 0.8077
USD/CAD	+0.16% ▲ to 1.4180
AUD/USD	-0.06% ▼ to 0.6906

UST Term Structure

2Y-3M Spread narrowed	-4.4bps ▼ to 30.6bps
10Y-2Y Spread widened	1.7bps to 28.6bps
30Y-10Y Spread widened	1.7bps to 48.2bps

USD HY OaS

All Sectors	+0.5bps ▲ to 301bps
All Sectors ex-Energy	+2.5bps ▲ 303bps
Cons Disc	+3.7bps ▲ to 485bps
Indu	+3.7bps ▲ to 254bps
Tech	+2.5bps ▲ to 235bps
Comm Srvcs	+3.0bps ▲ to 299bps
Materials	+0.7bps ▲ to 252bps
Energy	+0.3bps ▲ to 276bps
Fin Snr	+0.7bps ▲ to 203bps
Fin Sub	+2.1bps ▲ to 308bps

Cons Staples	+7.1bps ▲ to 472bps
Healthcare	+2.2bps ▲ to 320bps
Utes	+0.8bps ▲ to 208bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
6/26	10:00 AM	Jun F UMich 1yr Inf Exp	4.6	4.6
6/26	10:00 AM	Jun F UMich Sentiment	50	48.9
6/30	9:00 AM	Apr S&P Cotality CS 20-City m/m	n/a	-0.16
6/30	10:00 AM	Jun Conf Board Sentiment	94.3	93.1
6/30	10:00 AM	May JOLTS	7275	7618
7/1	9:45 AM	Jun F S&P Manu PMI	n/a	55.7
7/2	8:30 AM	Jun AHE m/m	0.3	0.3
7/2	8:30 AM	Jun Unemployment Rate	4.3	4.3
7/2	8:30 AM	Jun Non-farm Payrolls	115	172
7/2	10:00 AM	May F Durable Gds Orders	n/a	-4.5

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