By Thomas Wash

The business cycle has a major impact on financial markets; equity bear markets usually accompany recessions. The intention of this report is to keep our readers apprised of the potential for a recession, updated on a monthly basis. Although it isn't the final word on our views about recession, it is part of our process in signaling the potential for a downturn.

July 30, 2026

The US economy expanded further in June, continuing to demonstrate resilience. Our proprietary *Confluence Diffusion Index* held in expansionary territory for the seventeenth consecutive month. While the broader economy continues to be in good shape, we are closely watching a few key areas. Market sentiment is losing momentum, weighed down by geopolitical uncertainty and stretched valuations. Additionally, investment spending remains concentrated in just a few sectors where demand is high, while hiring appears poised to slow in the coming months.

Financial Markets

Markets reduced duration exposure amid ongoing geopolitical tensions in the Middle East and growing concerns over the sustainability of AI-related investments. The yield curve flattened as investors began recalibrating their expectations around interest rate hikes, driven by fears that escalating regional uncertainty could stoke inflation and prompt a response from the Federal Reserve. At the same time, rising capital expenditure among major tech companies has fueled worries that these firms may struggle to return capital to shareholders. In response, investors have rotated toward more undervalued sectors. However, given the market’s heavy tech weighting, this rotation has tempered the broader index gains, resulting in a more subdued rise in overall stock prices.

Goods Production & Sentiment

Overall production remains solid, though sentiment among both households and firms is subdued. Housing starts picked up, and spending on capital goods continued at elevated levels. This uptick in activity may partly reflect renewed optimism following a cooling of US-Iran tensions in June. Still, a sense of uncertainty persisted. While factory deliveries improved, overall manufacturing sentiment declined, weighed down by ongoing concerns over persistently high prices. Consumer sentiment edged up from the previous month but still sits below year-ago levels, suggesting that households remain cautious, likely due to worries about inflation. Despite this, spending continues to hold up well.

Labor Market

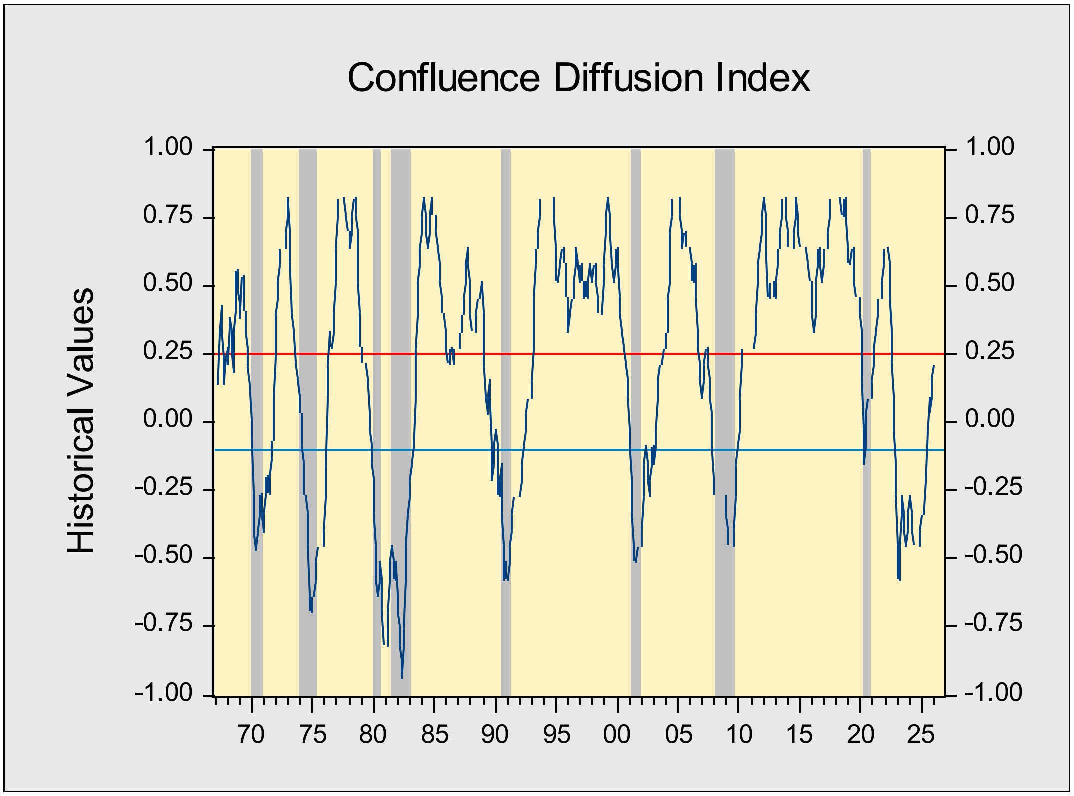
The job market continues to signal a low-hire, low-fire environment. June employment data came in well below expectations at 57,000 jobs added compared with the consensus forecast of 115,000. The subdued pace of job growth comes as hiring remains fairly concentrated in healthcare services. That said, the unemployment rate edged down slightly from 4.3% to 4.2%, while overall jobless claims continue to trend lower, suggesting that firms are satisfied with current employment levels.

Outlook & Risks

This month's economic data suggests that the economy is still relatively stable, given the ongoing uncertainty surrounding the Middle East and AI. The resilience appears to be driven by strong demand, supported by a still-tight labor market and a robust push to build out infrastructure to meet growing AI-related needs. While we believe that inflation remains a risk, we continue to expect the economy to expand, likely at a moderate pace over the next 12 months.

The Confluence Diffusion Index for July, which provides a composite view of the economy based on 11 benchmarks, stayed in expansionary territory based on June data. The index's value was unchanged at +0.2121, well above the recovery signal threshold of −0.1000. The index shows that the economy remains resilient in the face of geopolitical shocks. Only three of the 11 benchmarks are in contraction, up one from last month.

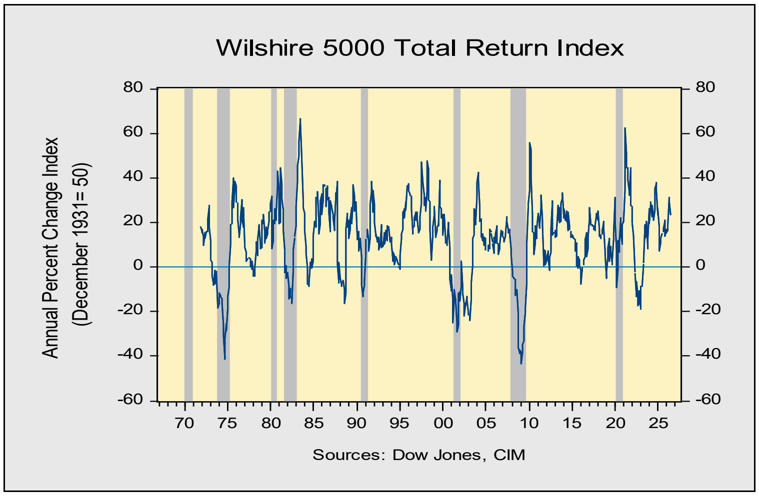
- Equities cooled amid rising uncertainty over the Middle East and AI-related headwinds.
- Inflation fears eased, supported by progress toward resolving the conflict in Iran.
- The labor market continues to be tight, though demand appears to be gradually fading.



The chart above shows the Confluence Diffusion Index. It uses a three-month moving average of 11 leading indicators to track the state of the business cycle. The red line signals when the business cycle is headed toward a contraction, while the blue line signals when the business cycle is in recovery. The diffusion index currently provides about six months of lead time for a contraction and five months of lead time for recovery. Continue reading for an in-depth understanding of how the indicators are performing. At the end of the report, the *Glossary of Charts* describes each chart and its measures. A chart title listed in red indicates that the index is signaling recession.

Financial Markets

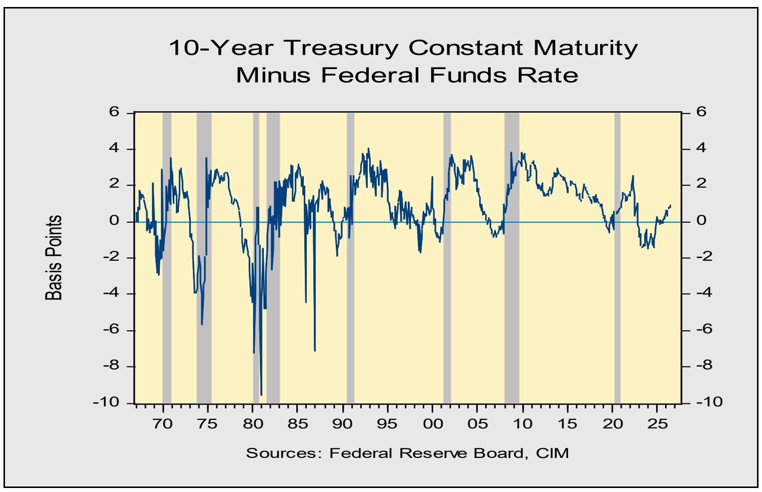
Wilshire 5000 Index



The Wilshire 5000 Total Return Index for June rose 23.0% from the prior year.

- Top-performing sectors: Industrials, Health Care, Financial Services.
- Bottom-performing sectors: Communication Services, Energy, Consumer Discretionary.
- Indicates recession when the level falls below zero.

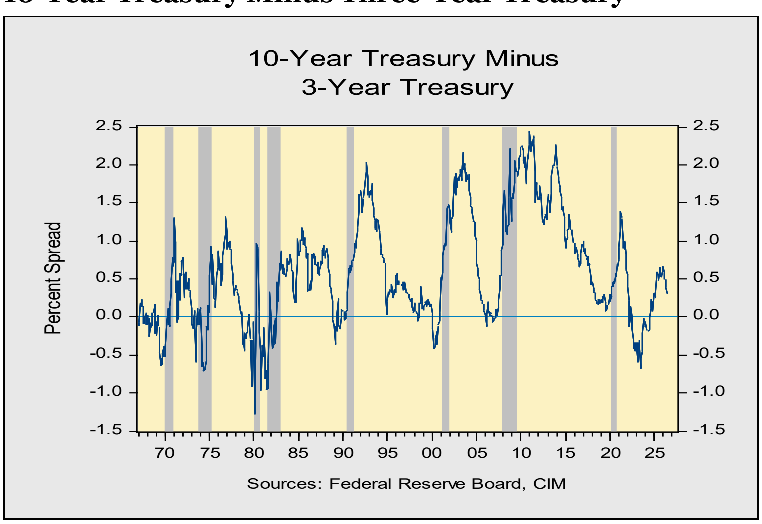
10-Year Treasury Constant Maturity Minus Federal Funds Rate



The financial spread, which is the 10-year Treasury yield minus the effective fed funds rate, decreased from +0.83 to +0.81.

- The effective fed funds rate was unchanged at 3.64%.
- The 10-year Treasury fell from 4.45% to 4.44%.
- Indicates recession when the level falls below zero.

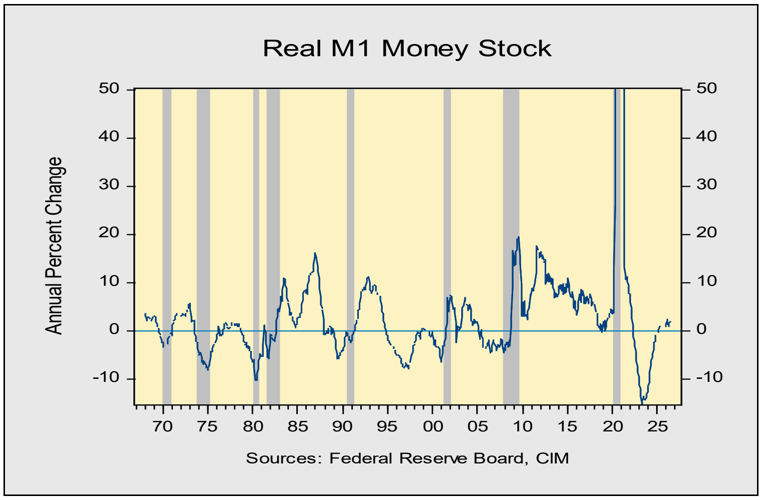
10-Year Treasury Minus Three-Year Treasury



The term spread between the 10-year and three-year fell from +0.39 to +0.29.

- The 10-year Treasury yield fell from 4.45% to 4.44%.
- The three-year Treasury yield increased from 4.06% to 4.15%.
- Indicates recession when the level falls below zero.

Real M1 Money Stock

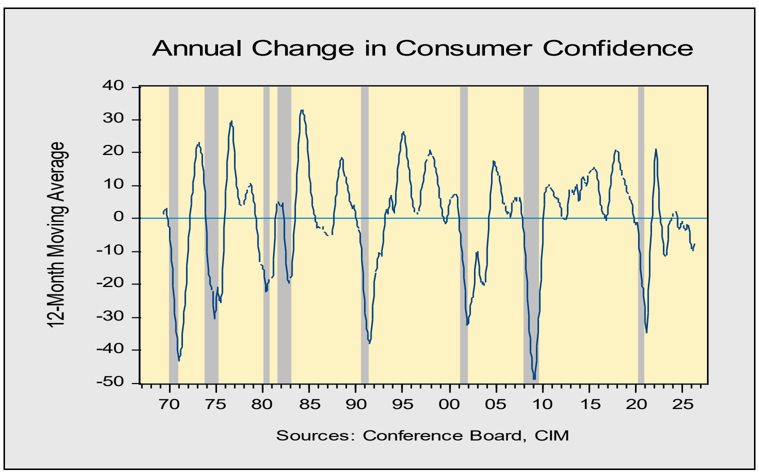


Real M1 money stock rose 2.3% from the prior year.

- Headline CPI rose 3.5% from the prior year.
- M1 money stock rose 5.8% from the prior year.
- Indicates recession when the level falls below zero.

Goods Production & Sentiment

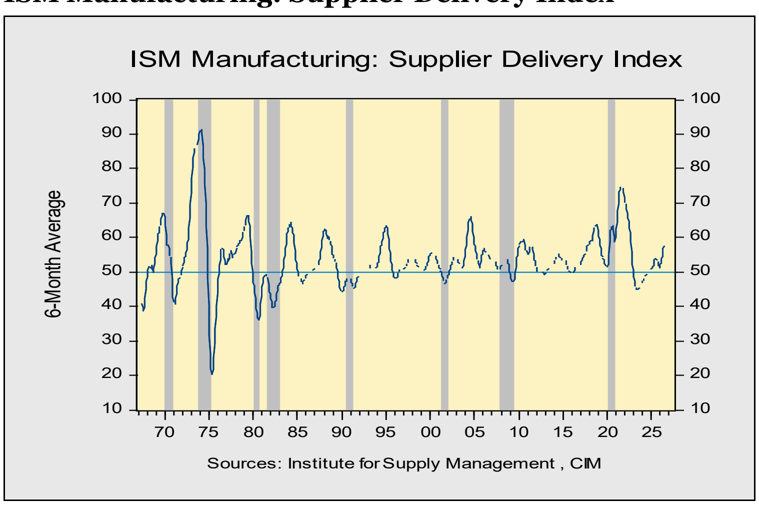
Consumer Confidence



In June, the 12-month moving average of the annual change in consumer confidence was unchanged at -7.8.

- Consumer confidence came in at 91.2, down from 95.2 in June 2025.
- The sub-index for the current situation came in at 116.4, down from 133.3 last year.
- Meanwhile, the sub-index for future expectations increased from 69.9 to 74.4 in the same period.
- Indicates recession when the level falls below zero.

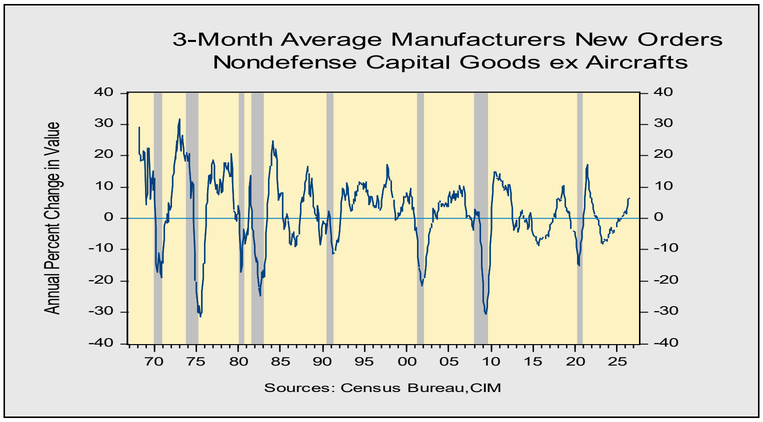
ISM Manufacturing: Supplier Delivery Index



The six-month moving average of the Supplier Delivery Index rose from 56.7 to 57.8.

- The overall index fell from 54.0 to 53.3.
- The Supplier Delivery Index fell from 60.6 to 57.4.
- Indicates recession when the level falls below 50.

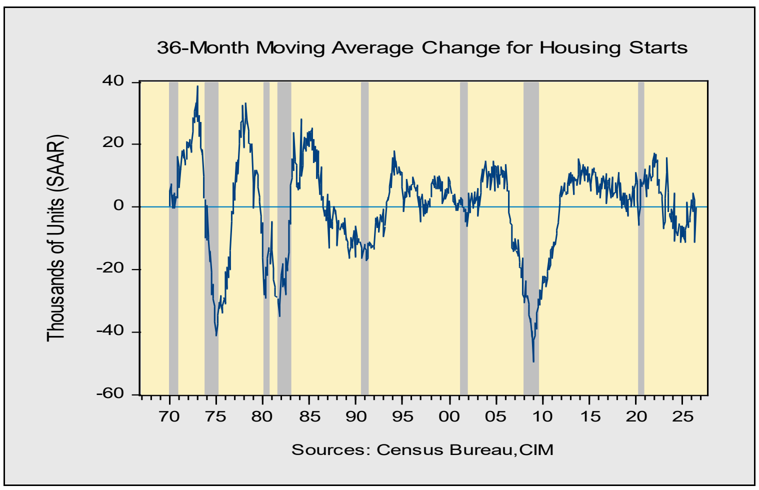
Three-Month Average Manufacturers' New Orders Nondefense Capital Goods excluding Aircraft



The three-month moving average of the annual change in new orders for nondefense capital goods rose 6.7% from the prior year.

- In June, new orders were down 0.1% from the prior month and rose 7.1% from 2025 levels.
- Indicates recession when the level falls below zero.

36-Month Moving Average Change for Housing Starts

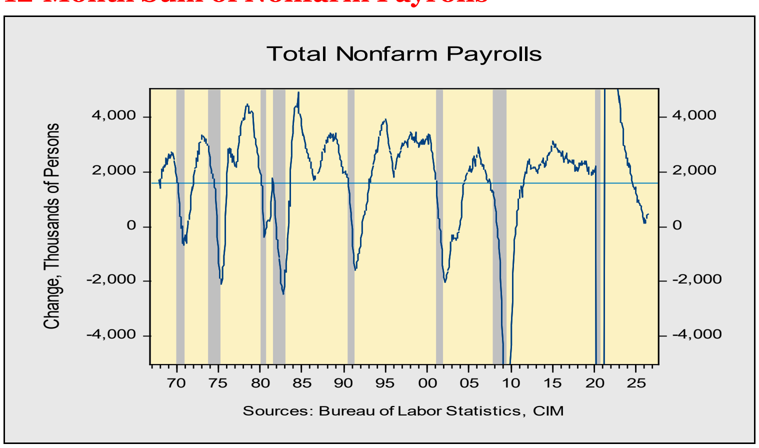


The 36-month moving average change for housing starts increased from -11.30 to +0.19.

- Housing starts expanded at an annualized rate of 1,427k, above the previous month's revised pace of 1,199k.
- Single-family starts fell from 897k to 895k. Multi-family dwellings rose from 291k to 513k.
- Indicates recession when the level falls below zero.

Labor Market

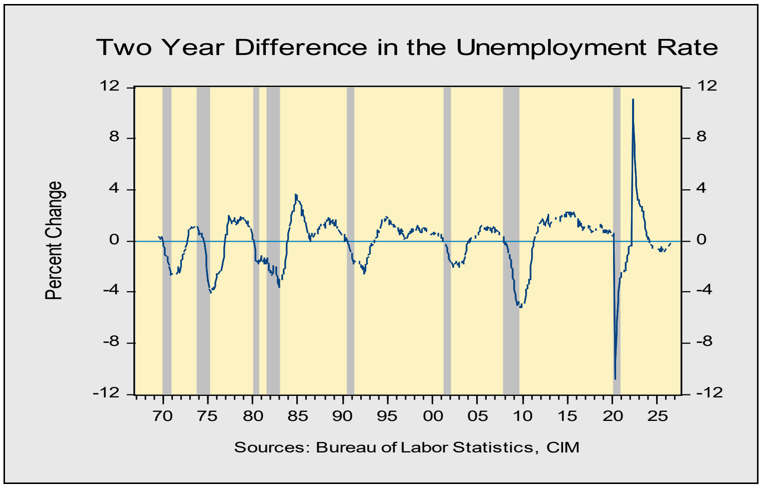
12-Month Sum of Nonfarm Payrolls



The 12-month moving sum increased from a revised 429k to 506k.

- Nonfarm payrolls showed that the economy added 57k jobs in June.
- Service-Providing industries added 39k jobs. The Goods-Producing sector added 10k jobs from the previous month, while the Government sector added 8k jobs.
- Indicates recession when the level falls below 1,500k.

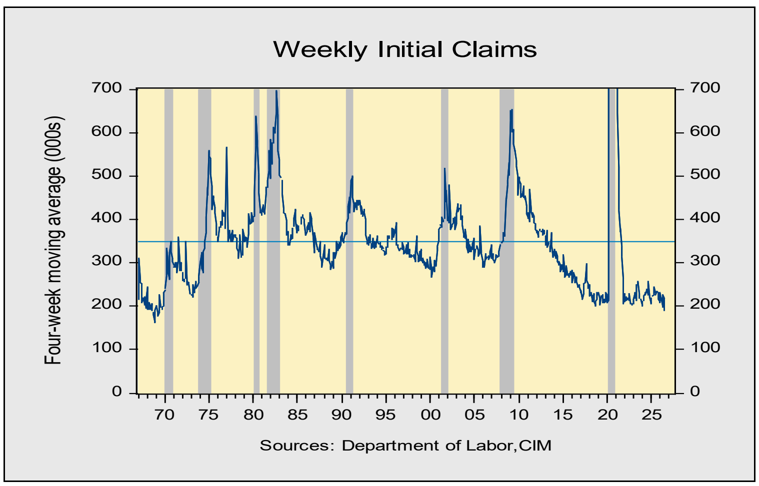
Two-Year Difference in the Unemployment Rate



The two-year difference in the unemployment rate improved from -0.4 to -0.1.

- The unemployment rate fell from 4.3% to 4.2%.
- The number of unemployed fell 2.9% from the prior month.
- Indicates recession when the level falls below zero.

Weekly Initial Claims



Average weekly claims for June fell from 217k to 187k.

- Indicates recession when the level rises above 350k.

Thomas Wash, CBE
July 30, 2026

Glossary of Charts

Consumer Confidence: The Consumer Confidence Index is an economic indicator that measures the level of consumer optimism about the overall state of the economy and consumers' personal financial situations. This chart shows the 12-month moving average of the annual change of the index.

Wilshire 5000 Index: This chart shows the annual change in the Wilshire 5000 Total Return Index, which is the broadest US equity index. The index contains 3,500 stocks and is designed to track the overall performance of the US stock market. It is an important indicator because steep equity pullbacks have often coincided with economic contractions.

Three-Month Average Manufacturers New Orders Nondefense Capital Goods excluding Aircraft: This chart shows the annual change in the value of core capital goods orders. This indicator gives insight into the amount of business investment spending. A positive report suggests that manufacturers are optimistic about future demand.

10-Year Treasury Constant Maturity Minus Federal Funds Rate: This chart shows the spread between the 10-year maturity and the fed funds rate. It reflects the market sentiment of the future state of the economy. Generally speaking, a negative spread suggests a contraction is likely to occur within 24 months.

36-Month Moving Average Change for Housing Starts: This chart shows the 36-month moving average of the annual change in housing starts. This is an important indicator because it provides a gauge of future construction activity. If housing starts are strong, it implies that builders are optimistic about future demand.

ISM Manufacturing (Six-Month Average): The ISM Manufacturing Index is a report that monitors employment, production, inventories, new orders, and supplier deliveries. This index specifically focuses on the six-month moving average of supplier deliveries section in ISM, which we believe is a good gauge of future levels of manufacturing activity. A reading above 50 signals that manufacturing activity is expected to expand, while a reading below 50 signals that manufacturing activity is expected to contract.

Total Nonfarm Payrolls: This chart shows the 12-month moving sum of total nonfarm payrolls. This report represents the total number of workers added to the workforce, excluding proprietors, private household employees, unpaid volunteers, farm employees and incorporated self-employed. It is a significant indicator of the strength of the labor market. A moving sum that exceeds 1,600 suggests the demand for labor is intense.

Real M1 Money Stock: The Real M1 Money Stock report measures the annual change in the money supply minus inflation. M1 is the measure of currency in circulation and represents the amount of money being held for transaction purposes, therefore it can act as a proxy for economic activity.

10-Year Treasury Minus Three-Year Treasury: This chart shows the spread between the 10-year and three-year Treasury and gauges investor sentiment. A widening spread suggests investors are optimistic about the state of the economy, whereas a negative spread suggests pessimism. This indicator is less sensitive than the financial spread as it is less affected by the Fed's decisions.

Two-Year Difference in the Unemployment Rate: The two-year difference in the unemployment rate measures the amount of slack in the labor market. When the difference of the two-year unemployment rate falls below zero, it indicates the labor market is becoming less tight.

Weekly Initial Claims: This chart shows the four-week moving average of initial jobless claims. A rising initial claims number means the demand for labor is weakening, likely due to a worsening business environment. If the four-week moving average rises above 350K, it signals the economy April be headed toward a contraction.