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.

May 29, 2026

The US economy continued to expand in April, with overall conditions improving. Our proprietary *Confluence Diffusion Index* remained in expansionary territory for the fifteenth consecutive month, with no indicators entering or exiting contraction, leaving three of 11 signals in warning territory. That said, several areas warrant closer monitoring. Financial conditions point to ample liquidity — particularly within the technology sector — while signals from the real economy remain mixed. Business investment is holding up, but households and firms are increasingly concerned about higher inflation. Meanwhile, labor market momentum has strengthened.

Financial Markets

AI continues to support equities, with related stocks benefiting from sustained capital expenditure by large technology firms. Much of the improved sentiment since April has been driven by strong corporate earnings and expectations of de-escalation in the US-Iran conflict. This rebound in risk appetite comes roughly a year after the “Liberation Day” shock, with markets increasingly confident in their ability to look through geopolitical disruptions. At the same time, rising debt levels and renewed inflation concerns have pushed up both long-term yields and short-term rates, even as fiscal support continues to flow into the economy.

Goods Production & Sentiment

April’s economic data presented a mixed picture, as the war-driven energy shock weighed on both households and firms. Residential construction edged lower but remained resilient, with homebuilders navigating higher energy costs and borrowing rates. New orders strengthened as firms built inventories to get ahead of the potential supply chain disruptions tied to the conflict in Iran. Consumer confidence was the weakest component, easing from the prior month as households increasingly began to anticipate higher inflation for the months ahead.

Labor Market

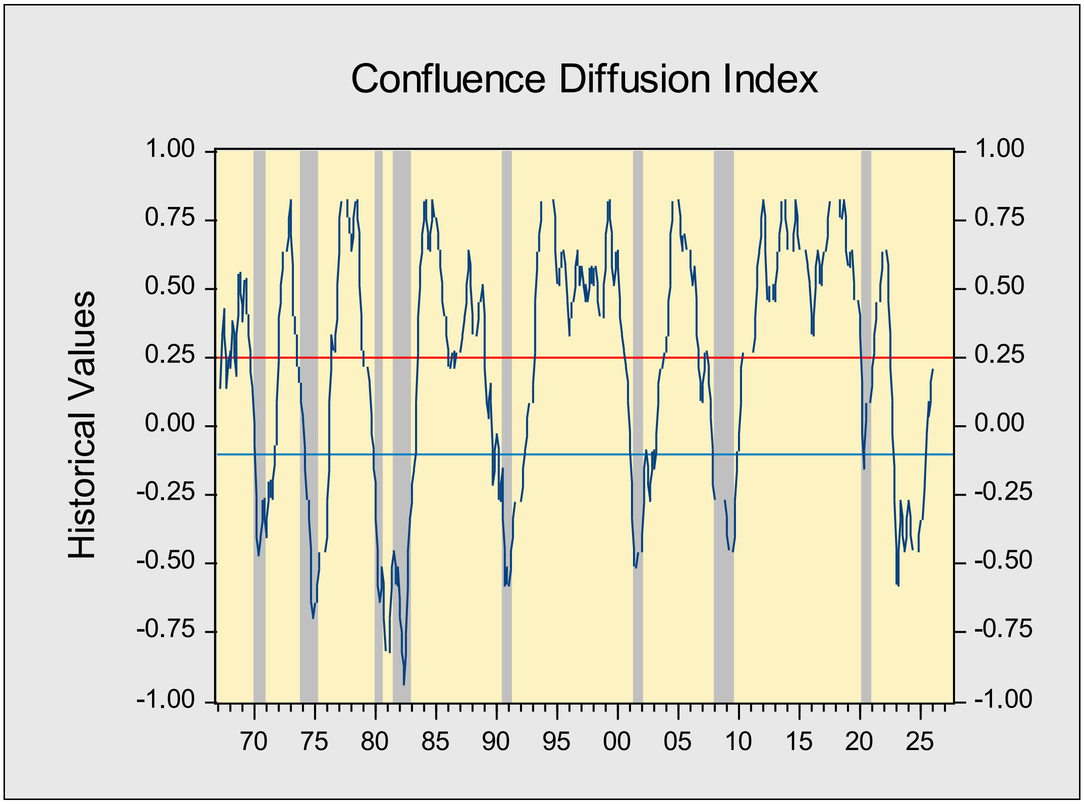
The US labor market showed further signs of improvement, with hiring picking up modestly. Nonfarm payroll growth has resumed at a moderate pace, led by continued strength in healthcare, while transportation and warehousing are also gaining momentum. The unemployment rate edged higher and remains above levels seen two years ago. However, layoffs are still relatively contained, with initial jobless claims only slightly higher than the previous month.

Outlook & Risks

The economy remains on solid footing, supported by strong underlying fundamentals that were in place before the conflict in Iran escalated. We continue to expect the AI investment boom to support both growth and asset prices, as sustained capital spending underpins economic activity. However, we are increasingly concerned about the direction of monetary policy. The Federal Reserve has turned more hawkish in recent weeks, raising the risk of tighter credit conditions. This shift could become a headwind, particularly as firms and households grow more reliant on credit to finance investment and consumption. Still, the near-term outlook remains firm, while the medium- to longer-term trajectory is more cautiously optimistic.

The Confluence Diffusion Index for May, which provides a composite view of the economy based on 11 benchmarks, remains in expansionary territory according to April data. The index's value was unchanged at +0.2121, well above the recovery signal threshold of -0.1000. The index shows that while the overall economic outlook is solid, we have not seen the full impact from the conflict in Iran. This is further evidenced by the fact that only three of the 11 benchmarks are in contraction, unchanged from last month.

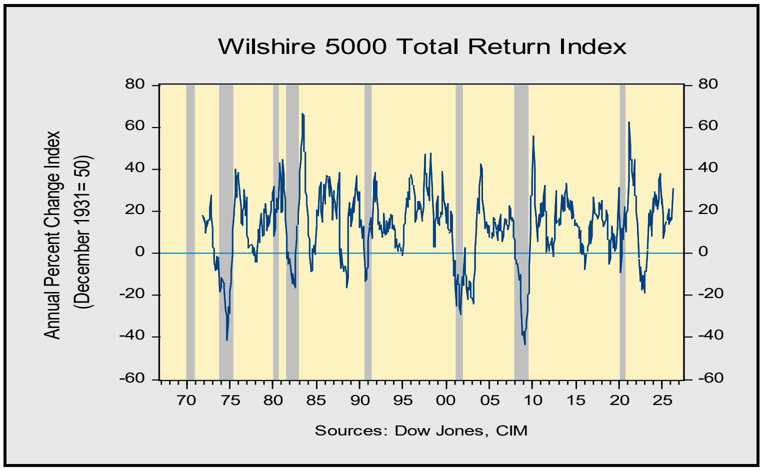
- Rising inflation fears have led to a steeper yield curve.
- Consumer sentiment is being weighed down by inflation concerns.
- The labor market appears to be gaining momentum.



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

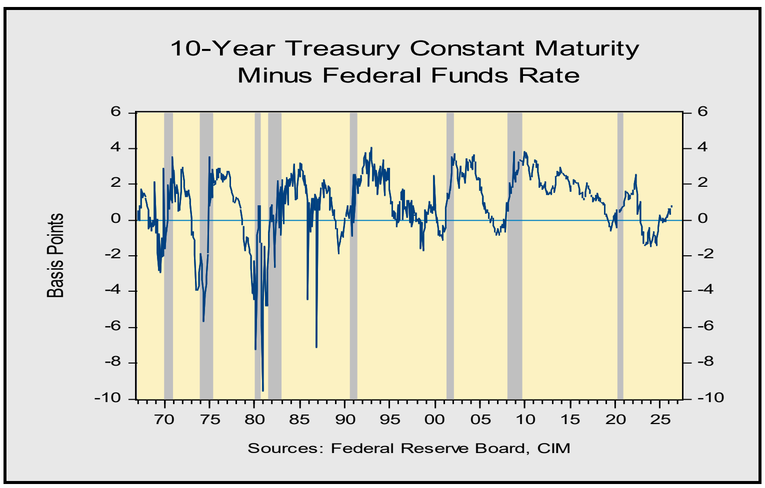
Wilshire 5000 Index



The Wilshire 5000 Total Return Index for April rose 31.4% from the prior year.

- Top-performing sectors: Information Technology, Materials, Industrials.
- Bottom-performing sectors: Consumer Staples, Energy, and Communication Services.
- 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, increased from +0.66 to +0.76.

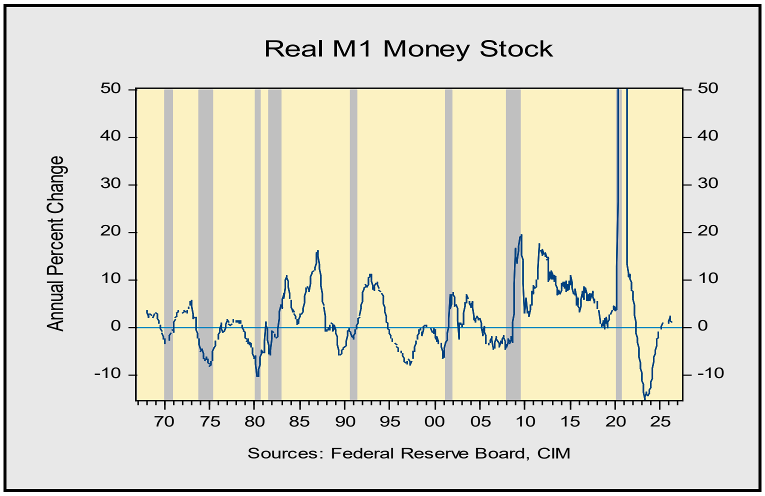
- The effective fed funds rate was unchanged at 3.64%.
- The 10-year Treasury rose from 4.30% to 4.40%.
- Indicates recession when the level falls below zero.

10-Year Treasury Minus Three-Year Treasury

The term spread between the 10-year and three-year was unchanged at +0.49.

- The 10-year Treasury yield rose from 4.30% to 4.40%.
- The three-year Treasury yield inreased from 3.81% to 3.91%.
- Indicates recession when the level falls below zero.

Real M1 Money Stock

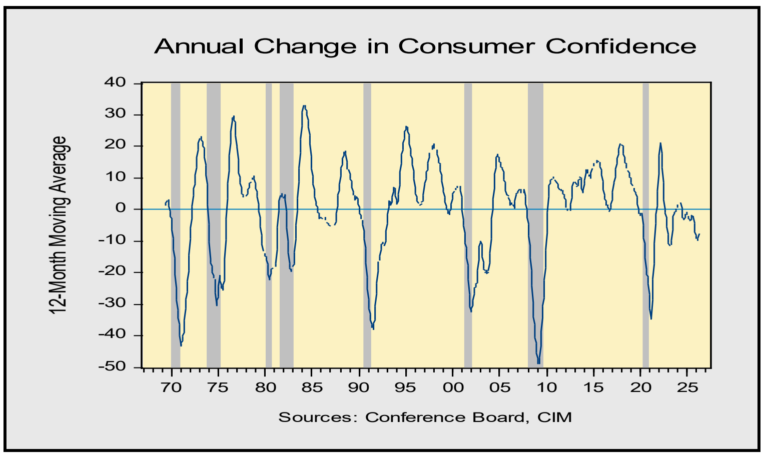


Real M1 money stock rose 1.1% from the prior year.

- Headline CPI rose 3.8% from the prior year.
- M1 money stock rose 4.9% from the prior year.
- Indicates recession when the level falls below zero.

Goods Production & Sentiment

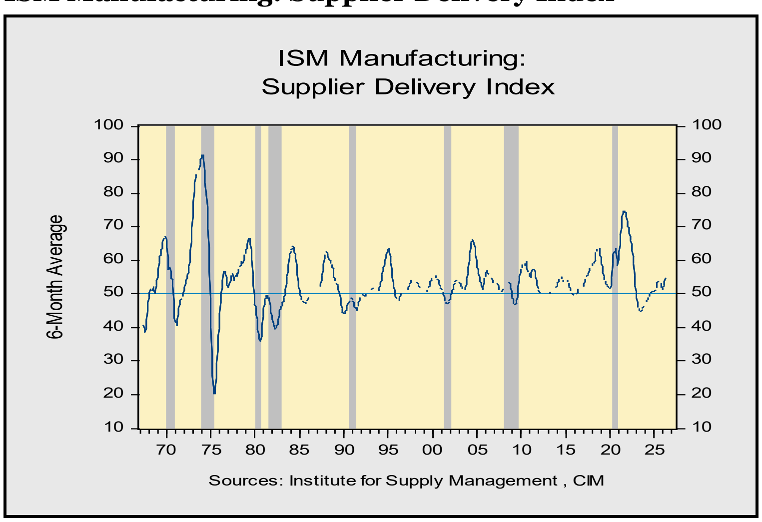
Consumer Confidence



In April, the 12-month moving average of the annual change in consumer confidence improved from a -9.0 to -7.4.

- Consumer confidence came in at 92.8, up from 85.7 in April 2025.
- The sub-index for the current situation came in at 123.8, down from 131.1 last year.
- Meanwhile, the sub-index for future expectations increased from 55.4 to 72.2 in the same period.
- Indicates recession when the level falls below zero.

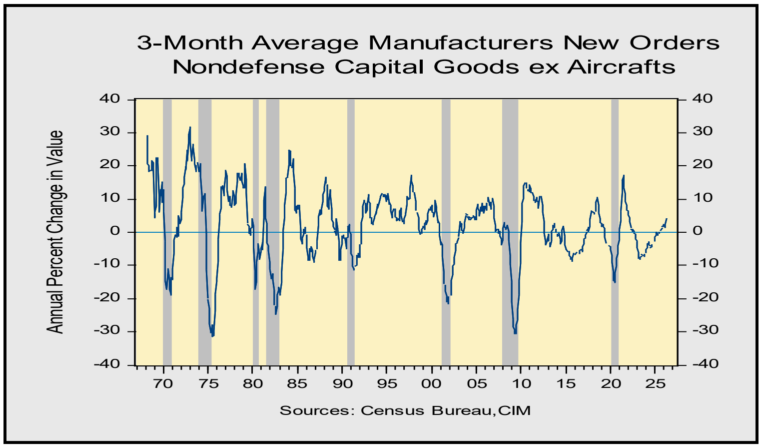
ISM Manufacturing: Supplier Delivery Index



The six-month moving average of the Supplier Delivery Index rose from 53.8 to 54.9.

- The overall index was unchanged at 52.7.
- The Supplier Delivery Index increased from 58.9 to 60.6.
- Indicates recession when the level falls below 50.

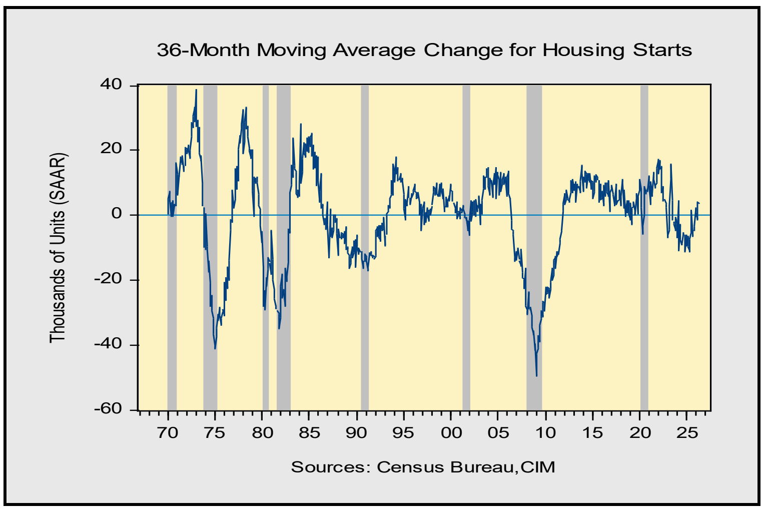
Three-Month Average Manufacturers' New Orders Nondefense Capital Goods excluding Aircraft



The three-month moving average of the annual change in new orders for nondefense capital goods rose 4.4% from the prior year.

- In April, new orders were down 1.4% from the prior month but rose 5.8% from 2025 levels.
- Indicates recession when the level falls below zero.

36-Month Moving Average Change for Housing Starts

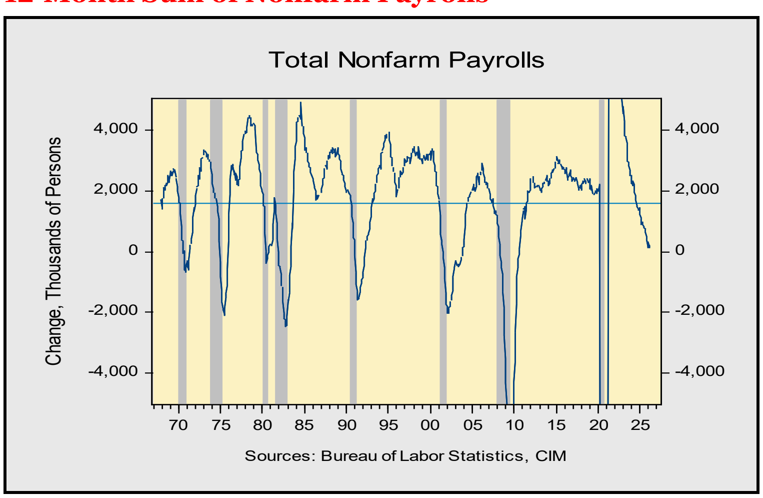


The 36-month moving average change for housing starts dropped from +3.92 to +3.39.

- Housing starts expanded at an annualized rate of 1,465k, below the previous month's revised pace of 1,507k.
- Single-family starts fell from 1,020k to 930k. Multi-family dwellings rose from 463k to 529k.
- Indicates recession when the level falls below zero.

Labor Market

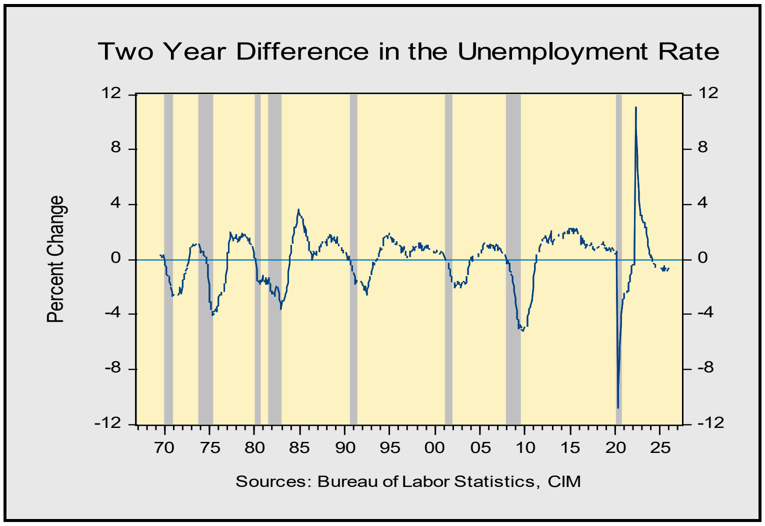
12-Month Sum of Nonfarm Payrolls



The 12-month moving sum increased from a revised 244k to 251k.

- Nonfarm payrolls showed that the economy added 115k jobs in April.
- Service-Providing industries added 113k jobs. The Goods-Producing sector added 10k jobs from the previous month, while the Government sector lost 8k jobs.
- Indicates recession when the level falls below 1,500k.

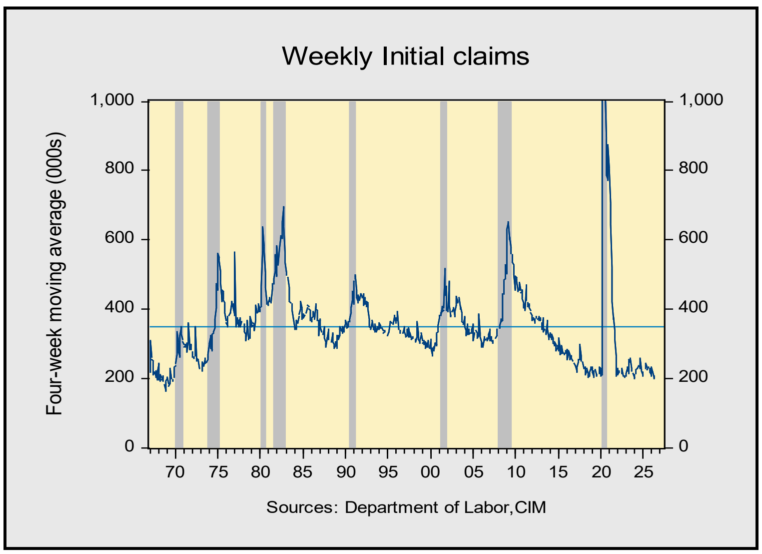
Two-Year Difference in the Unemployment Rate



The two-year difference in the unemployment rate was unchanged at -0.4.

- The unemployment rate was unchanged at 4.3%.
- The number of unemployed rose 1.9% from the prior month.
- Indicates recession when the level falls below zero.

Weekly Initial Claims



Average weekly claims for April rose from 199k to 209k.

- Indicates recession when the level rises above 350k.

Thomas Wash, CBE
May 29, 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.