

Weekly CIO Letter

03 AUG
2026

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The Headline Is Weaker Than the Economy Beneath It

Private demand accelerated even as household financial buffers narrowed and monetary-policy risk became increasingly two-sided.

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Executive Summary

The U.S. economy expanded at an annualized rate of 1.5% in the second quarter, down from 2.1% in the first quarter. Taken alone, the figure suggests a meaningful loss of momentum. The composition of growth tells a more resilient story.

Consumer spending and business investment made positive contributions to growth, while higher imports and lower government spending reduced the headline rate. More importantly, real final sales to private domestic purchasers—a measure combining consumer spending and private fixed investment—grew at an annualized rate of 3.9%, up from 1.7% in the first quarter.

Household spending also remained firm in June. Real personal consumption expenditures increased 0.4%, even as disposable personal

income rose by only 0.2% in current dollars and the personal saving rate declined to 2.7%.

At the same time, labor-cost data show a less comfortable picture for household purchasing power. Private-sector wages increased 3.1% over twelve months, but declined 0.4% after adjusting for inflation. Benefit costs rose faster than wages, including a 6.0% increase in health-benefit costs.

Economic demand remains stronger than headline GDP implies. Its durability, however, increasingly depends on households continuing to spend despite limited savings and weak real wage gains.

1. Headline GDP Understates Private Demand

Real GDP growth slowed to 1.5% in the second quarter, but the slowdown did not originate primarily from a collapse in household or corporate demand.

Consumer spending was the largest positive contributor to second-quarter growth. Investment and exports

also contributed positively. Government spending declined, while rising imports mechanically reduced GDP because imports are subtracted in the national accounts.

The distinction matters because imports can increase when domestic businesses and consumers are pur-

chasing more foreign capital goods, equipment and consumer products. The BEA reported that the increase in imports was led partly by capital goods, including telecommunications equipment, semiconductors and industrial equipment.

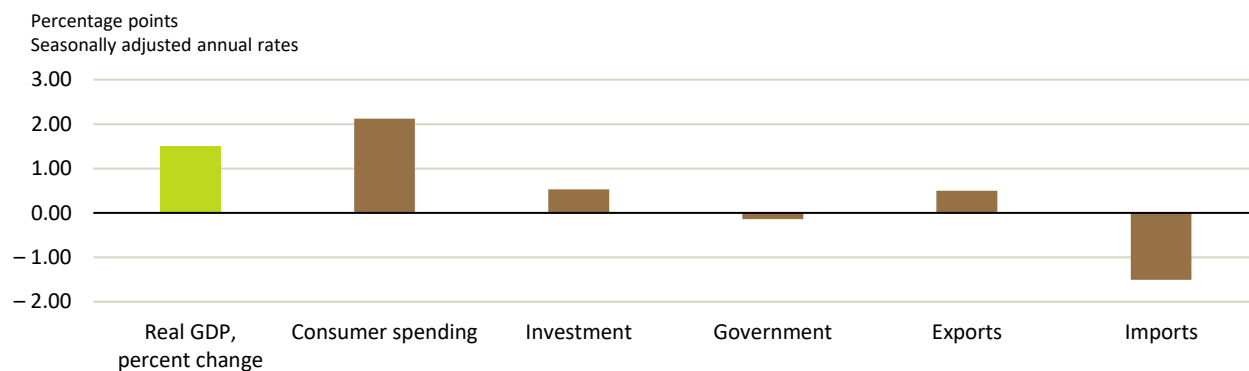
Private investment also remained constructive. Equipment spending increased across industrial, transpor-

tation and information-processing categories, while investment in software and research and development also contributed positively.

The economy's internal demand engine was stronger than the 1.5% headline suggests. Part of the apparent weakness reflects accounting composition rather than broad private-sector contraction.

Contributions to the Percent Change in Real GDP, 2026:Q2

Real GDP increased 1.5 percent



Source: U.S. Bureau of Economic Analysis

2. Spending Is Resilient, but the Household Buffer Is Thin

Household spending continued to rise in June.

Current-dollar personal consumption expenditures increased by US\$65.2 billion, or 0.3%, while real consumption increased 0.4%. Most of the nominal increase came from services, which accounted for US\$58.2 billion of the monthly rise.

Income grew more slowly. Personal income and disposable personal income each increased by 0.2%, while total personal outlays rose by US\$70.0 billion. Personal saving declined to US\$646.1 billion, equivalent to 2.7% of disposable income.

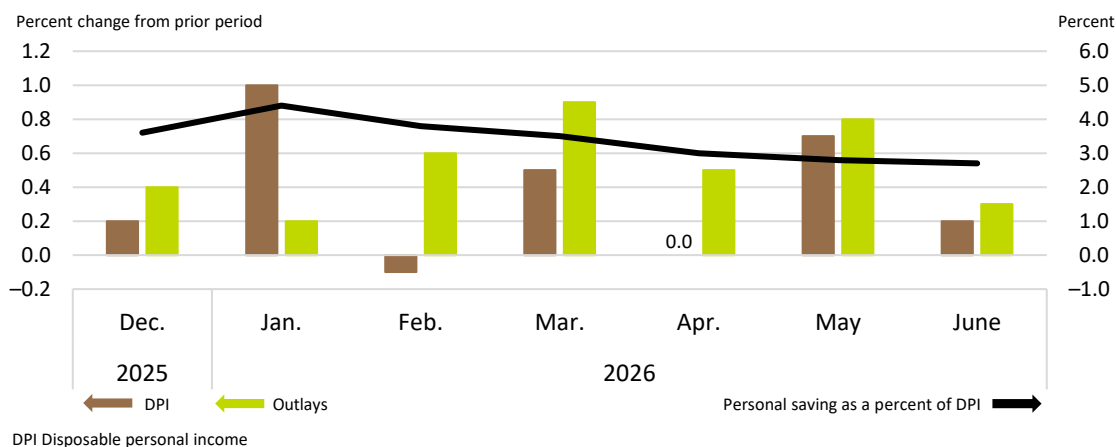
The data do not establish immediate household stress. Consumers are still spending, and real consumption accelerated during the month. The more relevant issue is the margin of safety.

When spending grows faster than income and the saving rate is already low, households have less capacity to absorb a renewed increase in energy costs, unemploy-

ment, interest expense or other essential expenditures.

This vulnerability is unlikely to affect all households equally. Higher-income households may continue benefiting from interest, dividend and asset income, while households more dependent on wages and credit remain more exposed to increases in recurring expenses.

Disposable Personal Income, Outlays, and Saving



Source: U.S. Bureau of Economic Analysis

3. Nominal Wage Growth Is No Longer the Same as Purchasing-Power Growth

The Employment Cost Index shows continued moderation in labor costs, but the improvement is less favorable when measured in real terms.

Compensation costs for civilian workers increased 0.9% during the second quarter and 3.4% over twelve months. Private-sector wages and salaries rose 3.1% year over year, while private benefit costs increased 3.8%.

After adjusting for inflation, private-sector wages declined 0.4% over the year. Real benefit costs increased by only 0.2%.

Health-benefit costs rose 6.0%, materially faster than total wages. This is

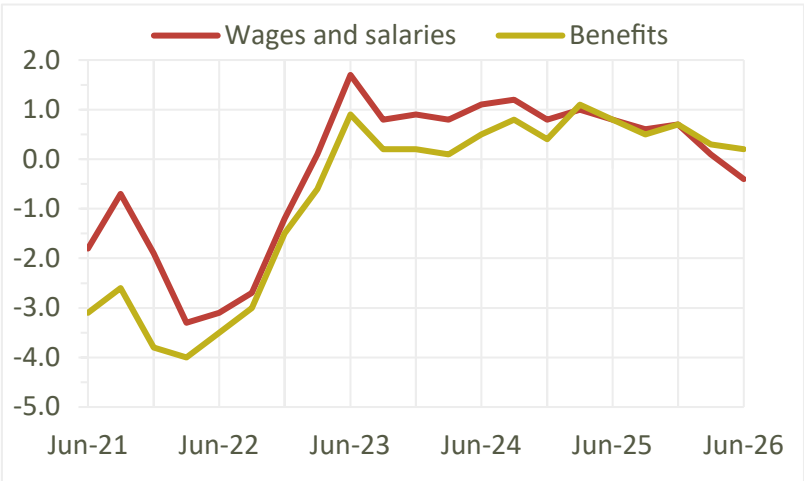
important for companies because employee compensation includes costs that workers may not fully perceive as current income but which employers must still finance.

Employers are experiencing labor-cost pressure that is not translating proportionally into higher

household purchasing power.

For companies, the result is a potential margin constraint. For households, it means nominal wage increases may not provide sufficient protection against the broader cost of living.

Twelve-month percent change, constant dollar, private industry workers



Source: U.S. Bureau of Labor Statistics

Implications for Markets and Portfolios

Public Equities

The GDP composition supports companies exposed to private domestic demand more than the headline growth number initially suggests.

Businesses facing elevated labor, health-benefit and financing costs may struggle to convert stable demand into stronger profits.

However, resilient revenue does not guarantee resilient margins. Busi-

It does increase the importance of:

- companies with pricing power and operating leverage;
- companies dependent on volume growth but facing persistent cost pressure;
- businesses able to fund investment internally;
- businesses that require continuous access to external capital.

Fixed Income

The Federal Reserve maintained the federal-funds target range at 3.50%–3.75% on 29 July. The decision passed by a 9–3 vote, with three members preferring a 25-basis-point rate increase.

Monetary-policy risk has become more clearly two-sided. Markets should not assume that the only possible next step is an interest-rate reduction.

Strong private domestic demand supports patience from the Federal Reserve, while weak real wage gains and low household savings argue against assuming that the economy

can absorb indefinitely tighter financial conditions.

A balanced duration profile remains more defensible than a portfolio concentrated around one precise policy forecast.

Consumer-Exposed Assets

Low savings do not automatically imply imminent consumption weakness.

They do imply that consumer resilience depends more heavily on continued employment, access to credit and stable essential costs.

discretionary spending supported by wealthier households and spending categories more dependent on wage income and revolving credit.

Exposure to consumer demand should therefore distinguish between

Global Portfolios

Stronger-than-headline U.S. domestic demand may continue supporting U.S. yields, corporate revenue and capital inflows.

Projects with weak local demand, high construction financing costs or limited pricing flexibility are more exposed. Well-located assets with

conservative leverage and durable rental demand may prove considerably more resilient.

Wealth Preservation

The combination of firm demand and low household savings is not a direct portfolio signal. It is a reminder that macroeconomic resilience can coexist with limited financial buffers.

Liquidity, income generation and controlled leverage remain relevant even when recession risk is not the central scenario.

Risks to the Central Thesis

The first risk is statistical revision. The second-quarter GDP figure is an advance estimate and may change materially when more complete source data become available. The next estimate is scheduled for 26 August.

The second risk is that strong private domestic demand proves temporary. Consumer spending may have been supported by one-off purchases, energy-price relief or reduced saving rather than durable income growth.

The third risk is that the low saving

rate overstates household vulnerability. Asset income, accumulated wealth and uneven income distribution mean that aggregate saving does not describe every consumer equally.

The fourth risk is that labor-cost moderation accelerates. A further slowdown in compensation growth could support corporate margins and reduce inflation pressure, although it could also weaken household income.

The principal downside risk is that low savings and negative real wage growth eventually cause consumer demand to weaken more abruptly than the current data suggest.

The economy is not currently displaying broad demand failure. Its capacity to withstand another shock may nevertheless be smaller than headline consumption data imply.

Our Perspective

At Astro Wallenius, we believe aggregate economic numbers are most useful when their internal composition is understood.

A 1.5% GDP growth rate appears weak when viewed in isolation. It becomes more constructive when we observe that private domestic demand expanded at 3.9%, consumer spending accelerated and business investment remained positive. The same data also contain a warning.

Households continued to spend while income grew more slowly. The saving rate declined to 2.7%, and private-sector wages lost purchasing power over the preceding twelve months.

This is not a recessionary picture. It is a picture of continued demand supported by a narrowing financial cushion.

The U.S. economy is stronger beneath the headline, but less protected beneath the consumer.

For investors, the implication is not to dismiss growth or assume an imminent contraction. It is to distinguish between economic momentum and financial resilience.

Momentum describes what the economy is doing now.

Resilience determines how well it can absorb what happens next.

Final Thoughts

Headline GDP slowed.

Private demand accelerated.

Consumers kept spending.

Savings declined.

Wages rose in nominal terms but weakened after inflation.

The apparent contradictions are not errors in the data. They describe an economy whose activity remains firm while its margin of safety becomes thinner.

The correct response is neither excessive optimism nor premature defensiveness.

It is to look beneath the headline.

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