AUGUST 2026

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We've been suggesting that the nominal GDP growth rate this year could be around 6%. Note the nominal portion of this indicator, which includes real GDP growth and inflation pressure. We've broken those measures down, as we expect to see real GDP growth this year of 2.5% to 3% and inflation to remain sticky at around 3%. Add both indicators together, and we come up with "nominal" GDP coming in around 6%. Last year, economic nominal growth was 5%.[1]

Now, according to the Bureau of Economic Analysis (BEA), nominal GDP growth has averaged 4.6% from 2000 to 2025. So, we're calling for a stronger-than-normal nominal GDP growth rate this year. Regarding déjà vu, this suggests that we've seen this level of growth in the past, but we've come through a long period when nominal GDP growth was, on balance, lower than 6%.

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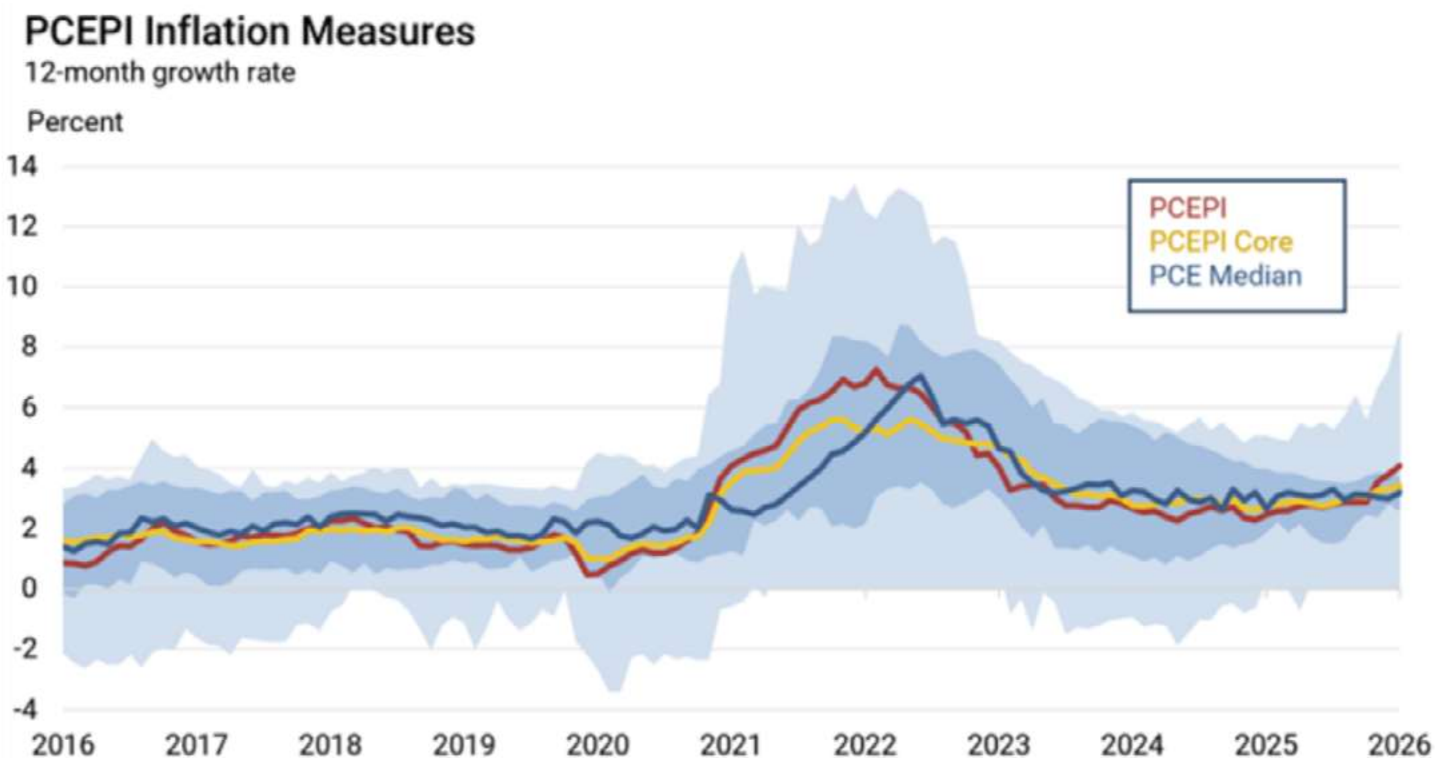

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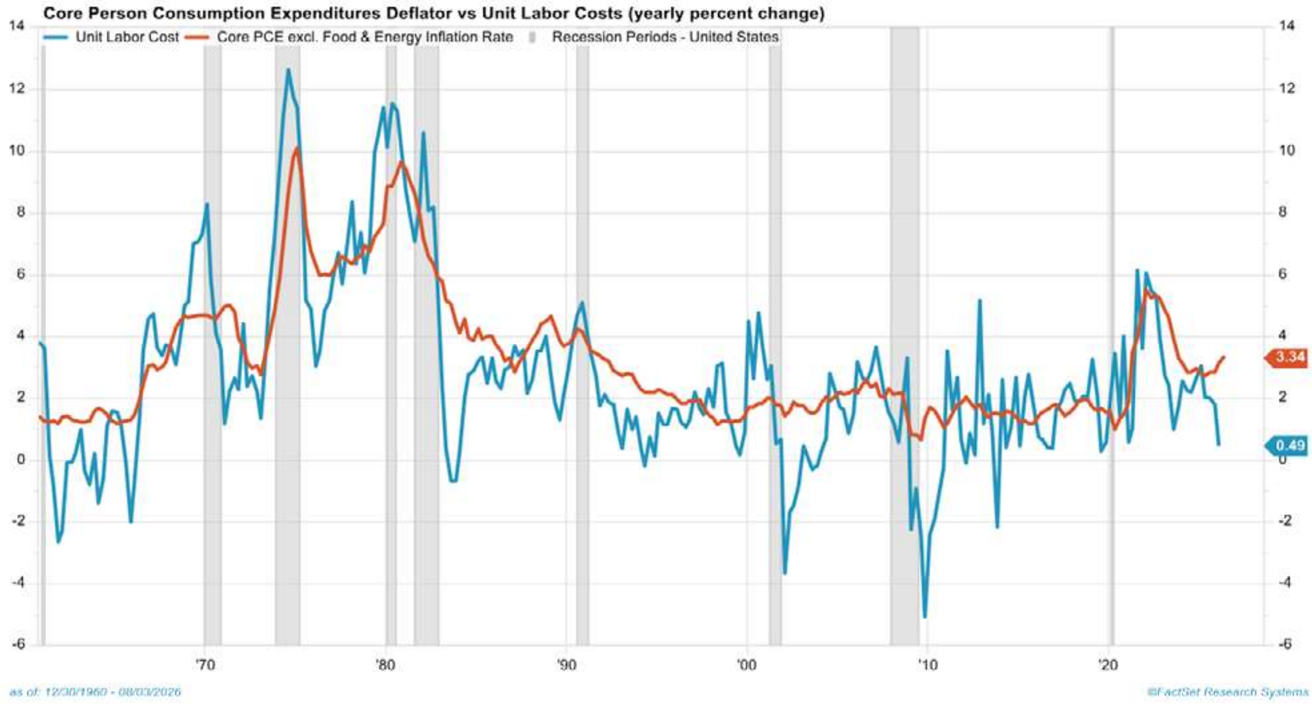

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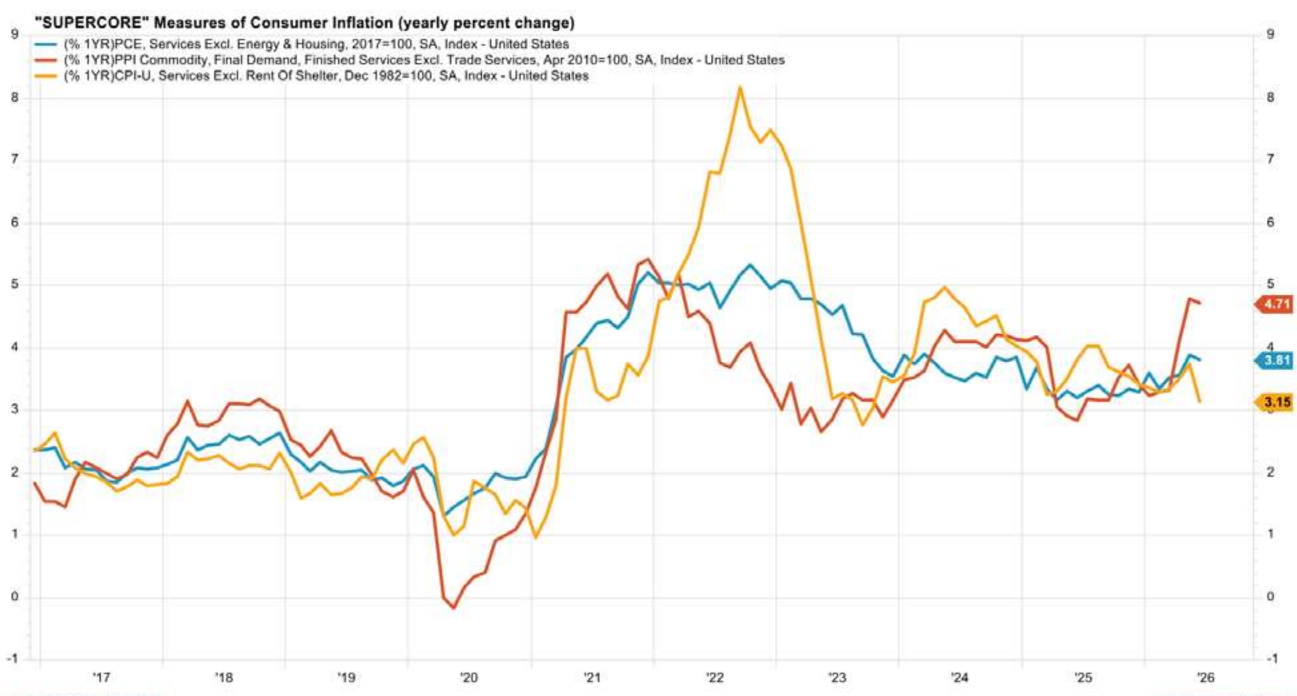

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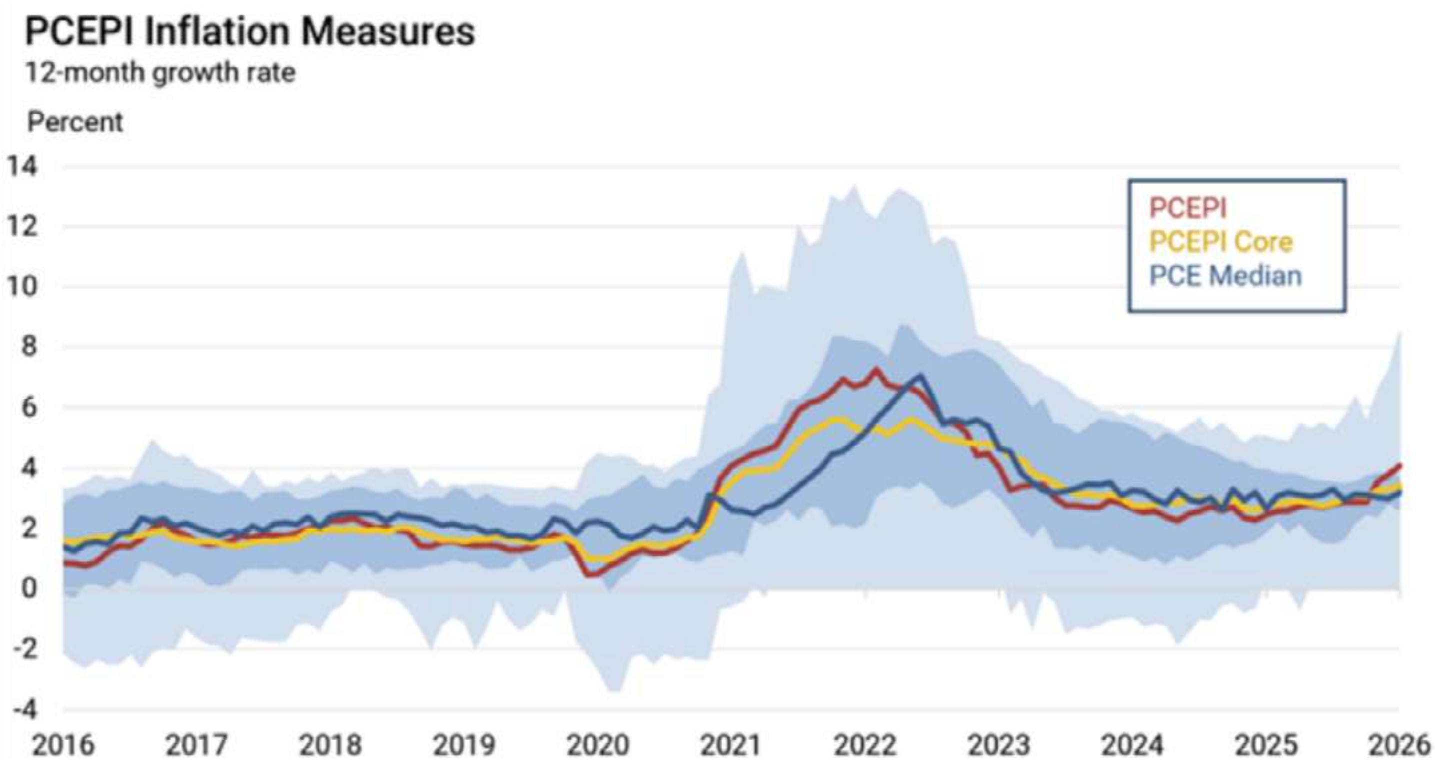

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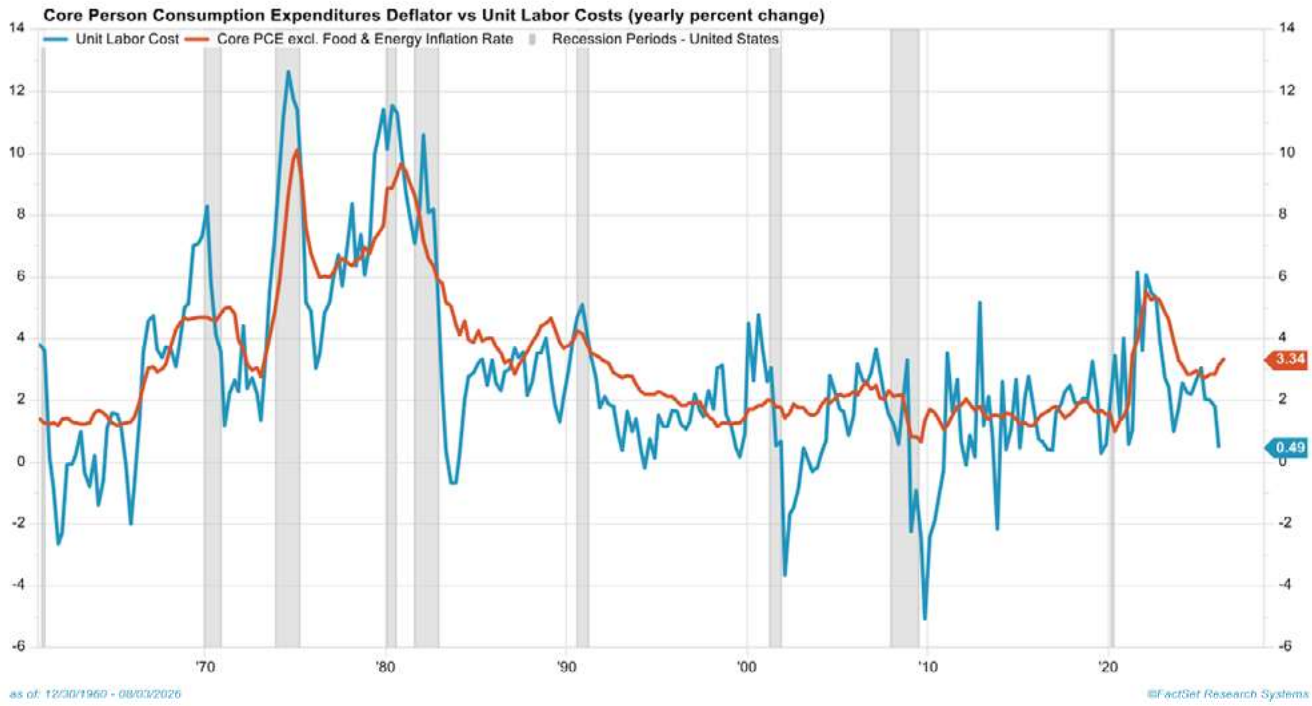

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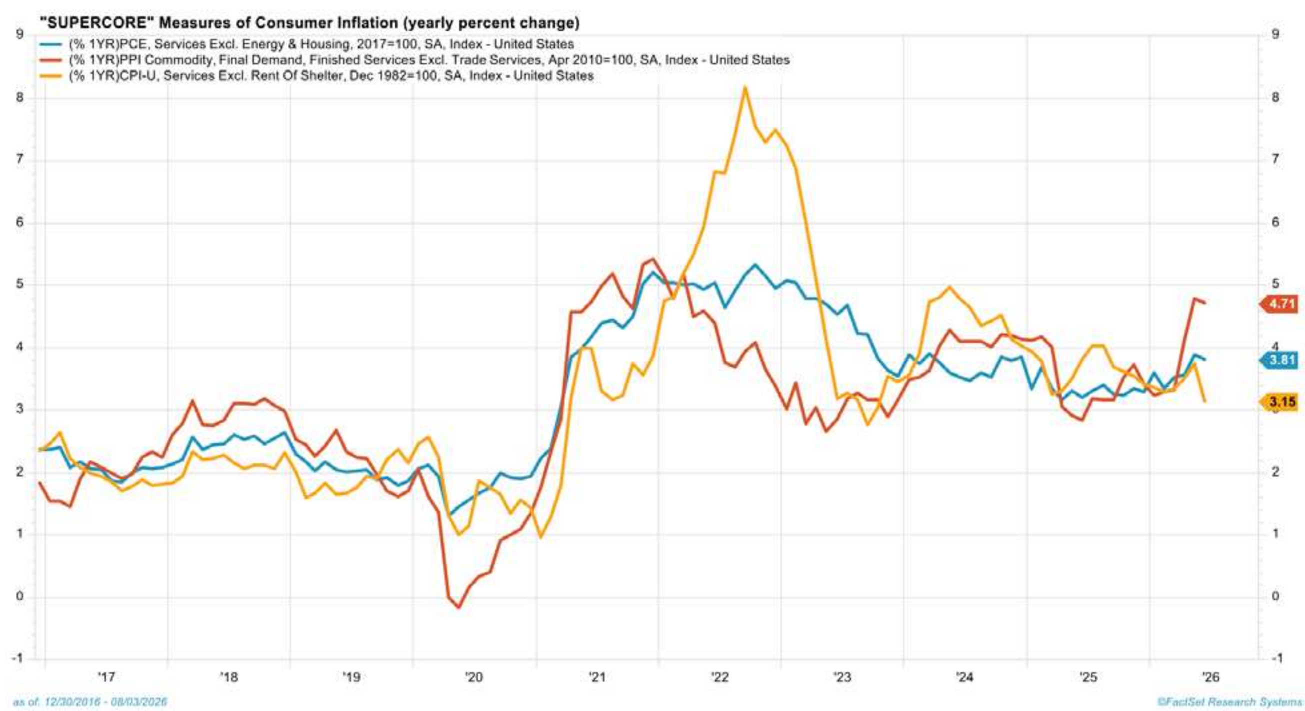

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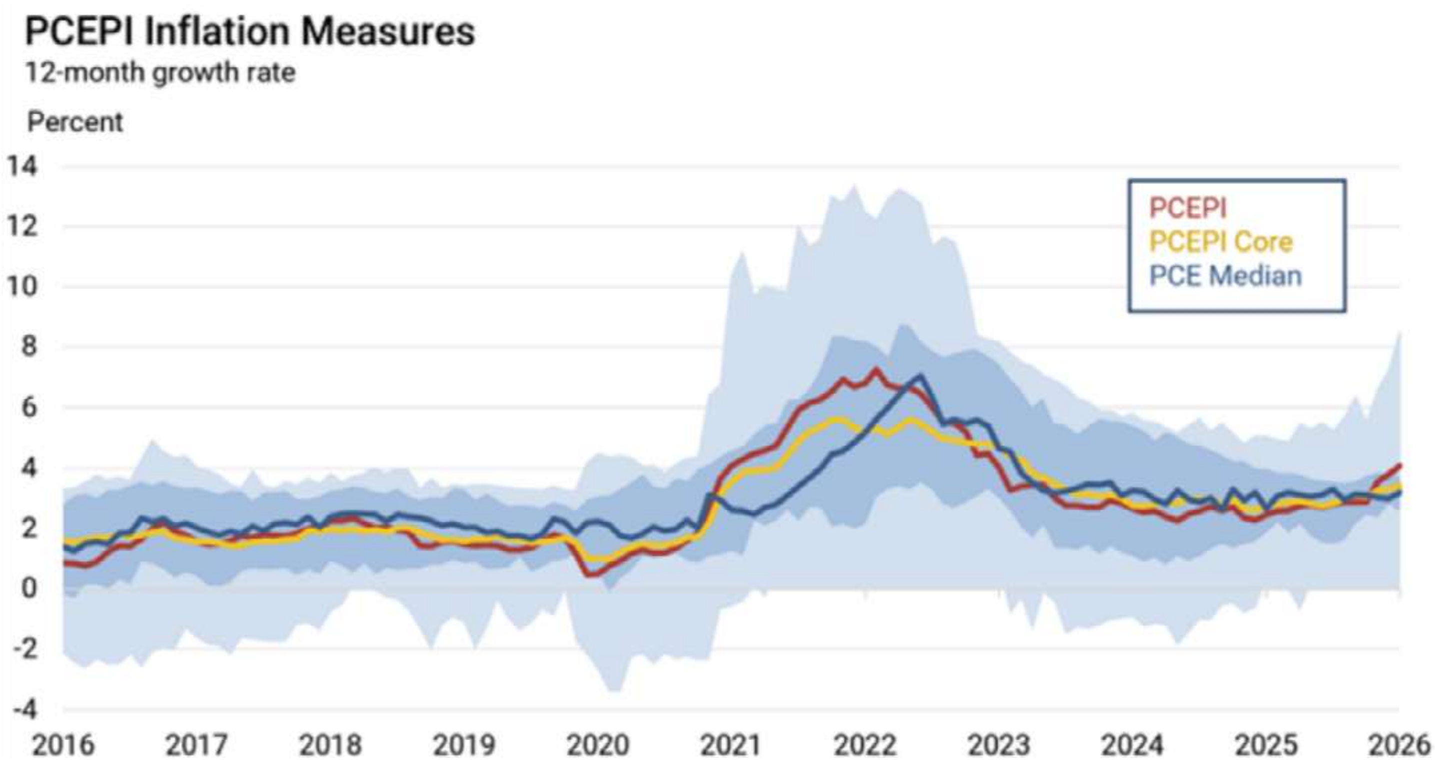

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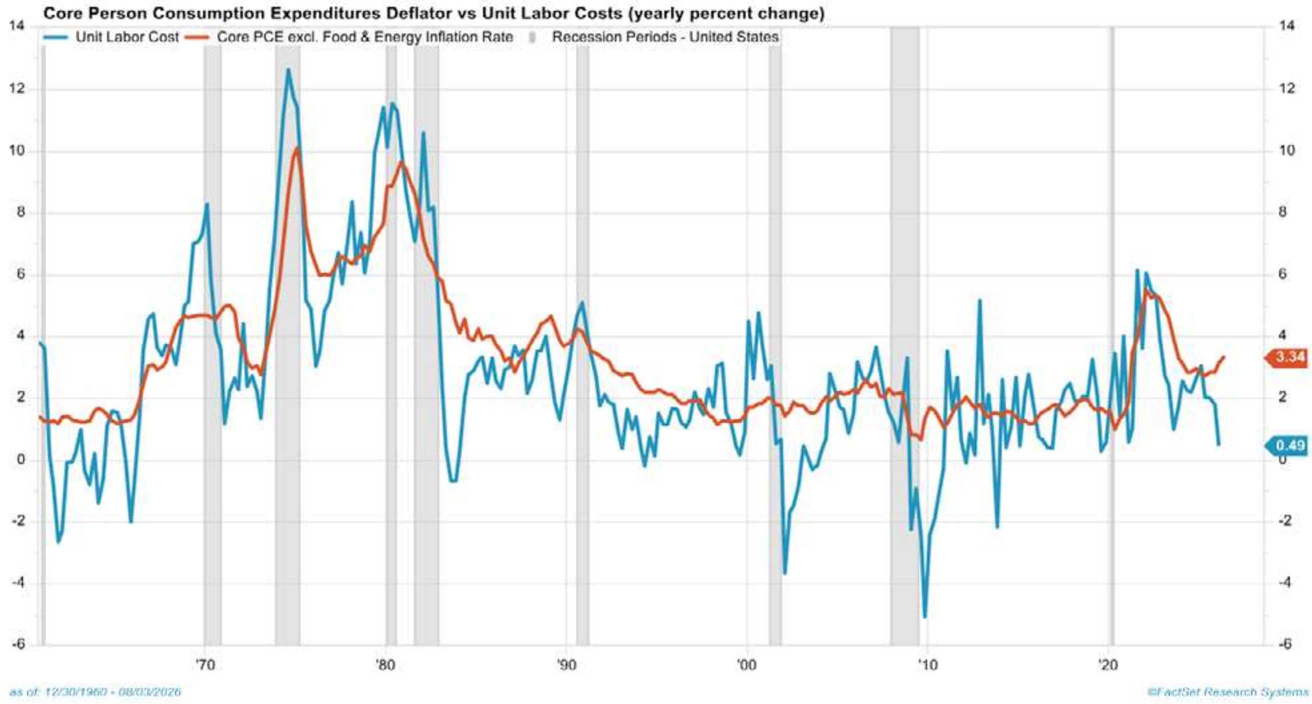

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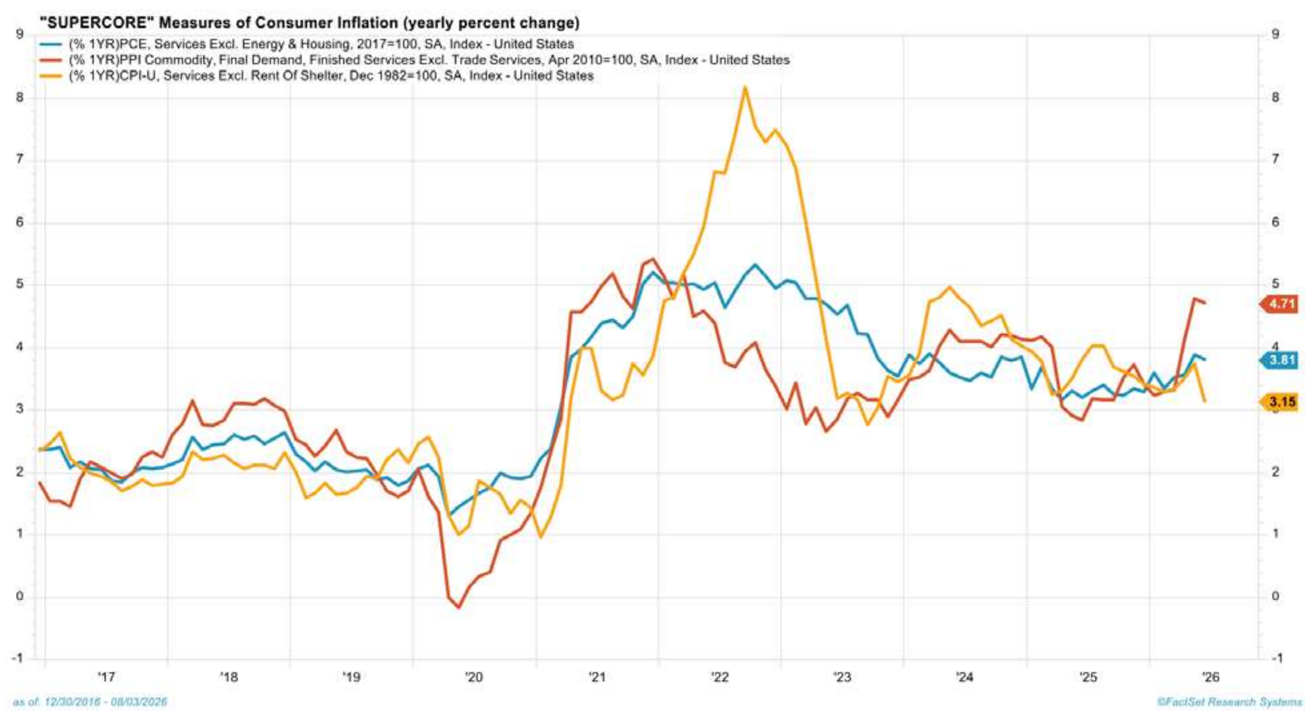

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Kevin Warsh in the dock

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[1] Source: Bureau of Economic Analysis

[2] Source: U.S. Bureau of Labor Statistics

AUGUST 2026

Déjà vu on track

If there are two economic measures which reflect economic macro trends better than others, they have to be GDP growth and inflation.

These two economic measures contain data which drives job creation, the cost of living, interest rates and corporate profits. GDP growth rates and inflation are the two variables I forecast annually and have for more than 20 years. They reflect the grist of the economy and are significant drivers of returns in the capital markets.

William Greiner, CFA
Chief Economist, Mariner

We've labeled our "core" economic theme for 2026 "Déjà vu." We wish to conjure up in your mind's eye a vision which you have seen before but don't know exactly when and where. We all experience déjà vu at times. We think that feeling may encapsulate our expectation of an acceleration in nominal GDP growth this year, as compared to the previous 25-year average nominal GDP growth rate.

We've been suggesting that the nominal GDP growth rate this year could be around 6%. Note the nominal portion of this indicator, which includes real GDP growth and inflation pressure. We've broken those measures down, as we expect to see real GDP growth this year of 2.5% to 3% and inflation to remain sticky at around 3%. Add both indicators together, and we come up with "nominal" GDP coming in around 6%. Last year, economic nominal growth was 5%.[1]

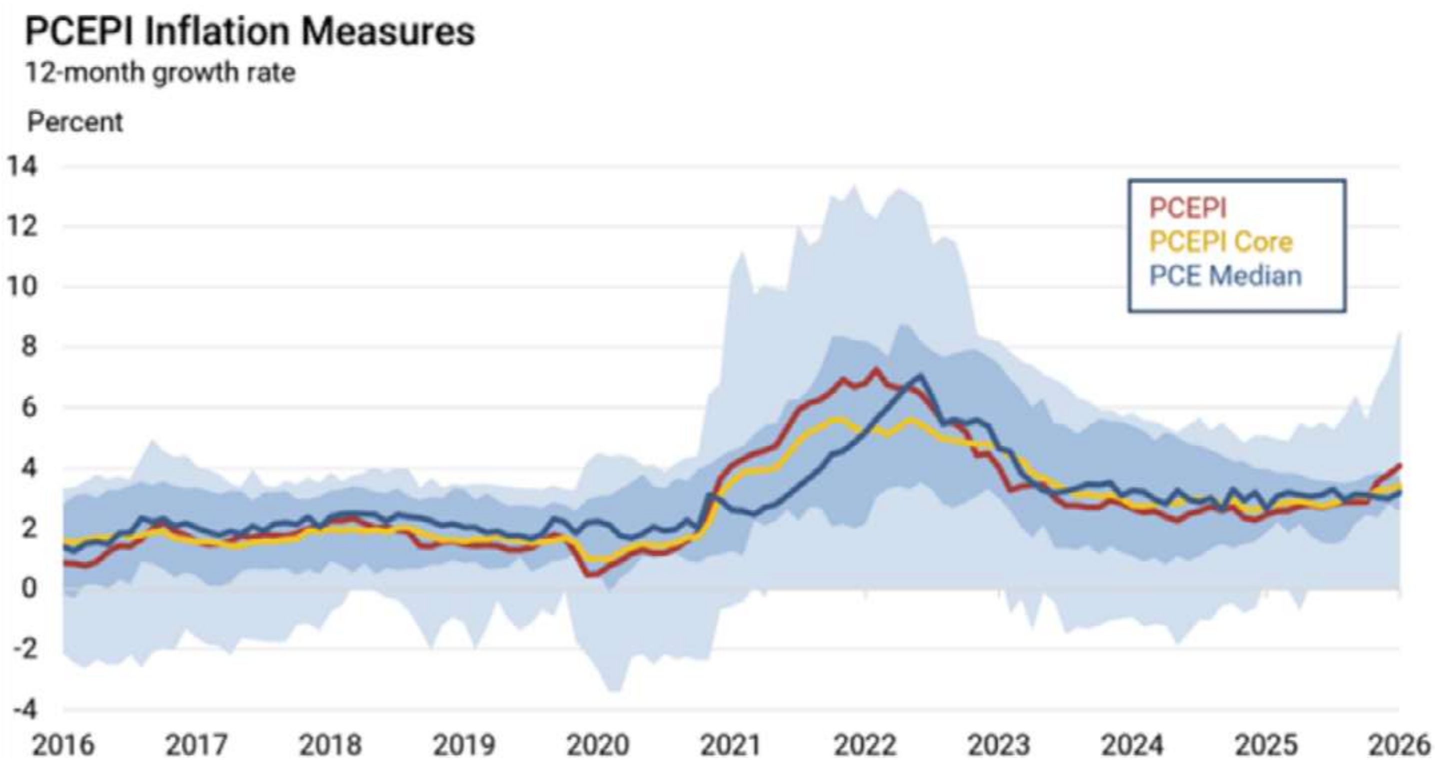
Now, according to the Bureau of Economic Analysis (BEA), nominal GDP growth has averaged 4.6% from 2000 to 2025. So, we're calling for a stronger-than-normal nominal GDP growth rate this year. Regarding déjà vu, this suggests that we've seen this level of growth in the past, but we've come through a long period when nominal GDP growth was, on balance, lower than 6%.

Let's get an update on our view—and see what has been happening to GDP growth and inflation so far this year.

Chairman Warsh and inflation: An update

Two widely used measures of inflation are the Consumer Price Index (CPI), including both core and headline CPI, and the Personal Consumption Expenditures (PCE) price index, as reported by the BEA. The chart below is from the San Francisco Fed, which shows the PCE data along with dispersion data from the BEA database. This chart is useful because it shows whether inflation is being primarily driven by one factor or if the rate changes are more broad-based. As shown, we're currently seeing a broadening in the dispersion of data, which leads to other questions. More on this later.

So how does the Fed measure and use inflation data? Well, we all know the Fed's preference has been to use the BEA's



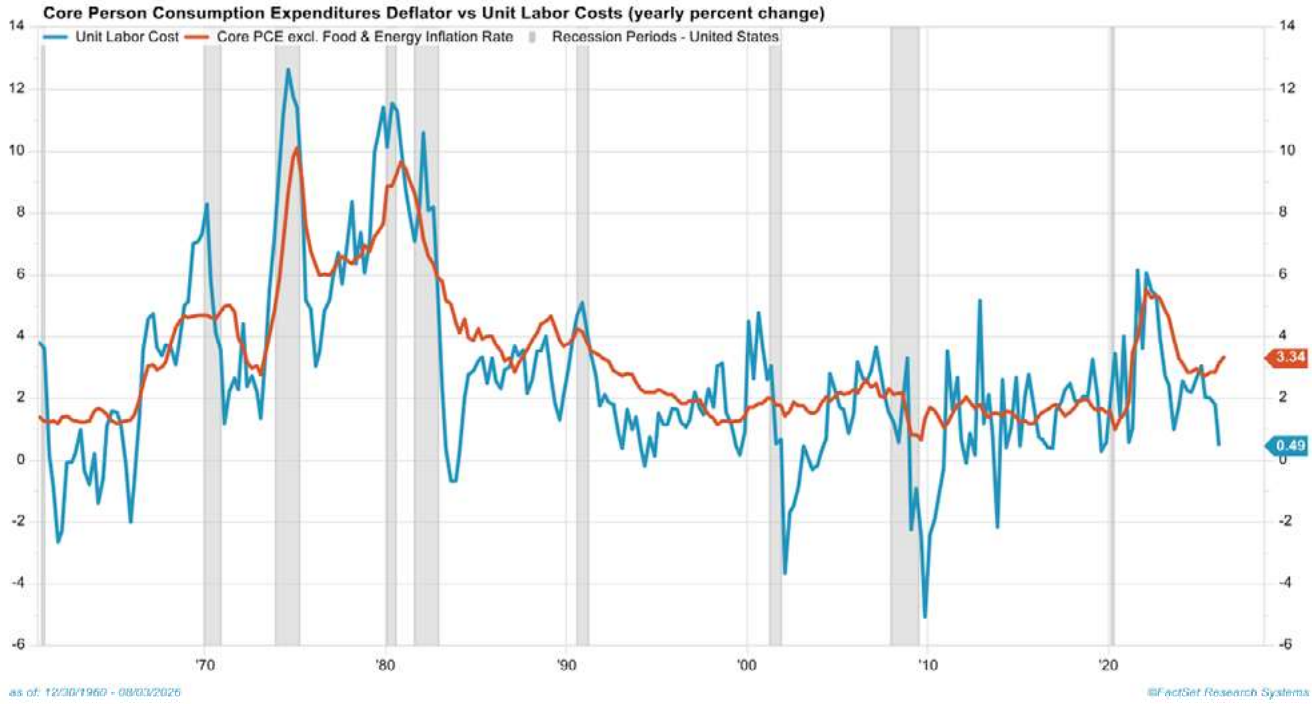
Source: Bureau of Economic Analysis and FRBSF

Core PCE deflator index as their go-to inflation rate. There are reasons behind this preference; for example, health care insurance costs aren't included in the CPI data, while that important data stream is picked up by the PCE. CPI measures prices of a market-basket of consumer goods while the PCE measures how much money people spend.

Chairman Warsh, the new Fed chair, doesn't rely solely on the PCE inflation rate which has been the favored inflation gauge of previous Federal Open Market Committee (FOMC) boards. Recently, Warsh has been talking about underlying inflation—Warsh seems to prefer to look at the underlying variables which feed into the final inflation data, rather than the inflation data itself. He wants to dig down deeper to more fully understand the reasons behind a change in inflation, hoping to uncover the sustainability of inflation pressure.

During his first semi-annual testimony to the Senate Banking Committee, Warsh stated that inflation occurs when a one-time change in prices broadens out and may need to be addressed through monetary policy. That's why I included the chart above—inflationary pressures have recently appeared to be broadening. This is not a good sign as far as Warsh is concerned.

Historically, however, inflation durability tends to rise when gains in wage rates start to accelerate along with inflation, creating a wage-price spiral. Note the chart below which shows that unit labor costs (blue line) increased by a mere 0.5% on an annualized basis as of the end of Q1 this year. By this measure, the current upward push in inflation may not be sustained.

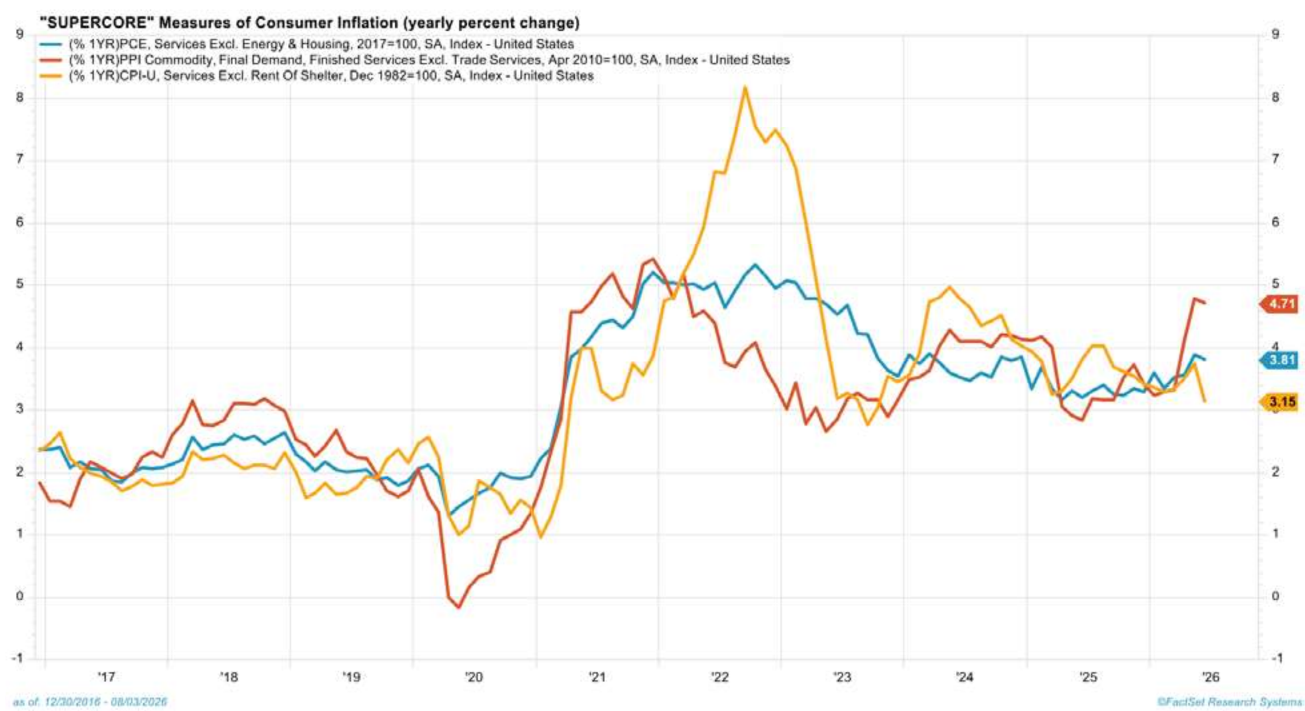


Source: FactSet Research Systems

Underlying inflation

Warsh seems to believe that underlying inflation is more important to measure and understand than a particular inflation report. So, what measure best captures underlying inflation? We don't know how Chairman Warsh would answer this question—one of his appointed task forces will likely provide that information going forward.

In the meantime, let's take an "inside baseball" viewpoint of inflation trends by utilizing various measures. One inflation measure is labeled Supercore inflation; what is Supercore inflation? Price shocks tend to originate in goods prices, and not services, which represent a larger portion of consumer's wallet than goods. If Supercore inflation rates rise and stay high, it may indicate that a



Source: FactSet Research Systems

goods price shock—such as rising gasoline prices—is becoming embedded in a sustained inflation pattern. This is not a good sign.

Supercore inflation pressures are centered in prices of labor-intense services, which is more highly correlated with wage growth than goods prices. Since these prices are more tied to labor costs, the probability of a wage-price spiral initiation is intensified when Supercore inflation remains sticky. Many believe this measure offers one of the best indicators of underlying, building inflation.

As noted in the chart above, the three measures of Supercore inflation have remained elevated over the last year or so. Importantly, the PPI-based measure, shown by the red line, has been rising fairly rapidly (producer prices can front-run consumer pricing pressures).

We've seen two pieces of evidence of underlying inflation pressures (broadening of inflation pressures and a sticky Supercore read), which suggests the FOMC may very well raise rates by the end of the year. On the other hand (one of an economist's favorite phrases), we see that unit labor costs remain tame.

Time will tell, of course. But this is the juggling job Warsh and the Fed are currently facing. A mixed bag, indeed. But from what Chairman Warsh has publicly stated so far, we can surmise that he doesn't rely solely on the PCE inflation rate, which has been the preferred inflation gauge the Fed has been using. We also know he pays attention to underlying inflation rather than the finished number, as this level of questioning leads to a deeper understanding of the sustainability of an inflation shock.

We stand by our Déjà vu expectation of 3% inflation this year.

GDP growth—Don't be deceived

Getting back to the beginning, I noted that the two economic factors I pay attention to each year are inflation trends and GDP growth rates. I've covered an update on inflation pressures; now let's briefly cover some recent thoughts on GDP growth.

Per my long-standing core economic theme this year, I'm looking for an acceleration in GDP growth to the 2.5% to 3% range. Last year, real GDP growth came in at 2.1%, which was just below what has been the longer-term (2000-2025) average real GDP growth of 2.2%.[1] I've been suggesting that the impact from the One Big Beautiful Bill Act (OBBBA) tax package and the upward push in capital spending will lead to an acceleration in real GDP growth this year as compared to the historical norm.

How are we doing so far this year? First quarter GDP growth came in at 2.1%. First release of second quarter GDP came in lower at 1.5%.[1]

I'm suggesting that folks shouldn't be alarmed by this reduction. Why? According to the Atlanta Fed, a poor reading in the Advance Economic Indicator (AEI) data took a full 1.3% growth away from the second quarter report. So, what is the AEI data, and why should we pay little attention to this measure?

The AEI, which is calculated and reported by the Census Bureau, came in at -4.1% for June. The indicator measures import/export (trade) and wholesale/retail trade activity. Recently, the trade balance has ballooned upwards as export growth has slowed and imports have risen, lowering the official GDP growth rate.

The AEI report suggests that recent U.S. economic growth may have accelerated relative to the rest of the world, and has little to do with raw, domestic final demand growth. This means that imports grew (due to rising demand to satisfy U.S. growth needs) and/or exports declined (due to declining final demand from economies outside the U.S.).

Also, the report's inventory data shows inventories are building at both the wholesale and retail levels. This can happen for a number of reasons, but I suggest one reasonable explanation has to do with tariff activity and the pandemic supply chain disruption which has led to businesses carrying higher sustained levels of inventory. So, while the AEI decline is important to monitor, I haven't changed my expectation of an underlying economic growth rate to prevail in 2026.

I'm not surprised to see an initial reported slowdown in second quarter GDP growth.

Jobs market update

So, away from the theoretical and back to the real world.

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