THE WEEK AHEAD

August 3 - 7, 2026

Answering one of Warsh's unanswered questions

by **Avery Shenfeld** avery.shenfeld@cibc.com

Kevin Warsh's press conference provided so few insights that one reporter dared to ask the Fed Chairman, who promised to restrict such media events to when there was news to make, what the news actually was. So as a guide to the perplexed, we'll take a stab at one of the unanswered queries from that presser.

We see the merits in a central bank that doesn't provide a specific rate forecast, but explaining the decision that the FOMC just took isn't forward guidance, it's market education. The Chairman simply didn't address the factors that the majority relied on to keep rates unchanged, other than to deny that one tamer core CPI reading played much of role, and to say they aren't doing "watchful waiting", but rather, "watchful thinking", whatever you make of that. Fortunately, we won't be waiting too long for other FOMC voters to explain their own thinking in opting to keep rates unchanged.

Warsh did say that the bond market is an important source of information. But just what message was he gleaning from it, other than that output is "solid"? Does he see the climb in long yields since he took office as leaning against growth and as a substitute for raising short rates? As a worrying sign on inflation? As a recommendation that the Fed ought to be tightening? That was asked, but not answered.

Here's our take. The relatively steady path for 5-year and 10-year breakeven inflation in the TIPS market suggests that escalating long rates since the June meeting are not, as some media reports claimed, tied to fears that the Fed won't do what it takes to keep inflation at bay. Investors are likely assuming that we'll eventually resolve the war-related pressures on fuel prices, and that AI will turn from an upward driver of inflation during the current capital buildup, to a restraint on prices from subsequent productivity gains.

But the market doesn't believe that these forces, or the "other tools" that Warsh vaguely alluded to, will do the job on their own. Futures markets imply strong odds that the next few quarters will see two quarter point hikes. Of course, such expectations can be wrongfooted, particularly when there is heightened uncertainty over oil prices and other shocks. Remember that not so long ago, market participants had been similarly convinced that rate cuts were coming in 2026.

Are higher long rates a sign that an economy is "solid"? Not always. We've seen yield curves steepen sharply in other countries when growth was weak, but government deficits were ballooning. Part of the climb in long Treasury yields emanates from a flood of fiscal red ink that will likely increase auction sizes next year, hitting the market alongside a new major source of corporate debt, AI capital spending. Defense spending hikes could add to that tally.

The rise in yields is putting downward pressure on some sources of growth, most notably for housing. But higher long rates aren't netting out as an overall drag on growth, and thereby substituting for Fed rate hikes if inflation stays hot, because they aren't due to weak demand for bonds, but rather heavy supply, with the funds raised plowing back into the economy. By holding tax rates down, while ramping up defense spending, fiscal deficits are boosting overall growth, as is the rush of spending on data centres and power plants.

So if the Fed wants to learn something from the bond market, it's that investors still expect them to do what it takes to contain inflation, including some modest rate hikes. Growth is being fueled by spending from debt-funded governments, tech sector projects, and consumers reaping equity wealth gains, and the economy could therefore tolerate higher interest rates for now if the Fed pulls the trigger on a modest tightening.

But none of those messages from the bond market should have been decisive in what the Fed did this month, or didn't do. Inflation expectations are still contained, buying the Fed some time, as did the most recent tamer core inflation print.

Should energy prices continue to climb, keeping inflation expectations under wraps would likely require meeting market expectations for a couple of hikes. But war-related pressures on inflation could ease off sharply if things go right in the Persian Gulf, giving the Fed some further breathing room for "watchful thinking". Further out, there are elements of core inflation, including rents, that seem likely to ease off, as will the one-time lift to prices from tariffs. Growth and inflation could get less of a push from AI if capital spending grows at a slower rate than the surge we saw this year. So we'll critique the Chairman for not explaining his decision, but not yet for the actual policy outcome.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, August 3	-	Markets Closed (Civic Holiday)	-	-	-	-	-
Tuesday, August 4	8:30 AM	MERCHANDISE TRADE BALANCE	(Jun)	(H)	$1.8B	$3.0B	$4.2B
Wednesday, August 5	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Thursday, August 6	-	AUCTION: 10-YR CANADAS $5B	-	-	-	-	-
Friday, August 7	8:30 AM	EMPLOYMENT CHANGE	(Jul)	(H)	8.0K	15.0K	18.2K
Friday, August 7	8:30 AM	UNEMPLOYMENT RATE	(Jul)	(H)	6.5%	6.5%	6.5%
Friday, August 7	10:00 AM	IVEY PMI	(Jul)	(L)	-	-	56.2

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, August 3	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jul)	(L)	-	-	53.8
Monday, August 3	10:00 AM	ISM - MANUFACTURING	(Jul)	(H)	52.9	54.0	53.3
Monday, August 3	10:00 AM	CONSTRUCTION SPENDING M/M	(Jul)	(M)	-	0.2%	0.1%
Tuesday, August 4	-	AUCTION: 1-YR TREASURIES $52B	-	-	-	-	-
Tuesday, August 4	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jun)	(H)	-$72.5B	-$73.0B	-$77.6B
Tuesday, August 4	10:00 AM	FACTORY ORDERS M/M	(Jun)	(M)	-0.5%	0.4%	-1.3%
Tuesday, August 4	10:00 AM	JOLTS Job Openings	(Jun)	-	-	7250K	7594K
Tuesday, August 4	10:00 AM	DURABLE GOODS ORDERS M/M	(Jun)	(H)	-	-	0.3%
Tuesday, August 4	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jun)	(H)	-	-	0.6%
Wednesday, August 5	7:00 AM	MBA-APPLICATIONS	(Jul 31)	(L)	-	-	-6.4%
Wednesday, August 5	8:15 AM	ADP EMPLOYMENT CHANGE	(Jul)	(M)	-	75K	98K
Wednesday, August 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jul)	(L)	-	-	53.6
Wednesday, August 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jul)	(L)	-	-	53.6
Wednesday, August 5	10:00 AM	ISM - SERVICES	(Jul)	(M)	53.8	54.3	54.0
Wednesday, August 5	4:05 PM	Lisa D. Cook (Governor) (Voter)	-	-	-	-	-
Thursday, August 6	8:30 AM	INITIAL CLAIMS	(Aug 1)	(M)	-	-	197K
Thursday, August 6	8:30 AM	CONTINUING CLAIMS	(July 25)	(L)	-	-	1782K
Thursday, August 6	8:30 AM	NON-FARM PRODUCTIVITY	(2Q P)	(M)	0.5%	0.7%	0.3%
Thursday, August 6	10:00 AM	WHOLESALE INVENTORIES M/M	(Jun)	(L)	-	-	0.3%
Thursday, August 6	5:30 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Friday, August 7	8:30 AM	NON-FARM PAYROLLS	(Jul)	(H)	75K	88K	57K
Friday, August 7	8:30 AM	UNEMPLOYMENT RATE	(Jul)	(H)	4.3%	4.2%	4.2%
Friday, August 7	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jul)	(H)	0.3%	0.3%	0.3%
Friday, August 7	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jul)	(H)	-	34.3	34.3
Friday, August 7	8:30 AM	MANUFACTURING PAYROLLS	(Jul)	(H)	-	2K	3K
Friday, August 7	3:00 PM	CONSUMER CREDIT	(Jun)	(L)	-	$12.0B	-$0.2B
Friday, August 7	10:00 AM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're only a touch below consensus for the payrolls count, but expect the jobless rate to move up a tick on a reversal of some of the prior month's drop in the household survey's participation rate estimate. That said, a 4.3% jobless rate would still be roughly in line with full employment, and not of concern to the Fed. With the Chair providing almost no analysis of the FOMC's July decision, speeches of other members will be of greater importance. We have three on the schedule for the week ahead, one of whom, Lisa Cook, was a voter at the meeting and therefore in a position to explain why she was on the side of a pause.

In **Canada**, a holiday shortened trading week will save its most important economic news for Friday's jobs report. With a sluggish trend for population growth, the bar isn't that high for what we need to see to keep the jobless rate hold steady at 6.5%. Even if we shed some temporary jobs tied to the World Cup, there should be enough hiring in July to meet that mark, given that we're coming out of a firmer quarter for economic growth. Tuesday's trade data could see a sharp reduction in the surplus, on weaker prices and volumes in some key export sectors.

Week Ahead's key Canadian number: Labour force survey—July

(Friday, 8:30 am)

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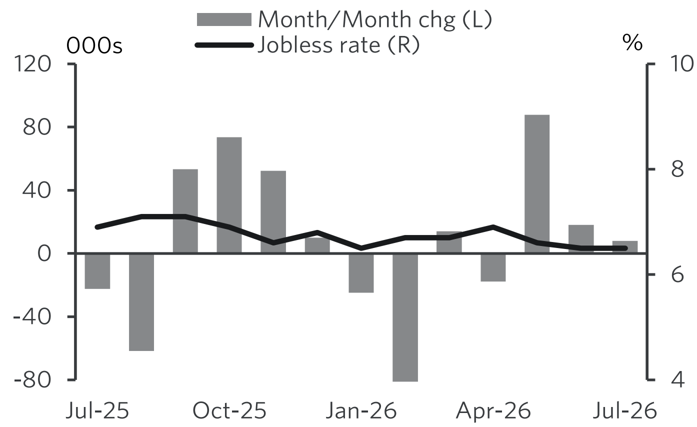
Variable	CIBC	Mkt	Prior
Employment (m/m)	8.0K	15.0K	18.2K
Unemployment rate	6.5%	6.5%	6.5%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment growth is expected to slow further in July, albeit without fully stalling. With Canada hosting its final FIFA World Cup game early in the month, temporary jobs linked to that may have reversed by the time of the survey week. However, that is not expected to fully offset hiring in other sectors, with retailing one area that could see a further pick up given recent indications of solid consumer spending towards the end of Q2. The 8K gain in jobs that we forecast would be broadly in line with the pace of labour force growth, seeing the unemployment rate hold steady at 6.5%.

Forecast implications — The threat of new US tariffs may make firms a little more reluctant to hire again for a few months, particularly in the manufacturing sector. However, investment and hiring plans over the longer term have improved, with companies getting used to having to deal with a more uncertain environment. As those plans play out, and as population growth remains sluggish, we see a renewed decline in the jobless rate starting late this year and continuing through 2027.

Other Canadian releases: Merchandise trade balance—June

(Tuesday, 8:30 am)

Lower prices for key commodities including oil and gold, combined with evidence of a lower volume of oil and auto exports to the US, suggest that Canada's goods trade surplus could slim noticeably in June. We forecast a surplus of $1.8bn, which would be less than half the $4.2bn recorded in the previous month.

Week Ahead's key US number: Employment situation—July

(Friday, 8:30 am)

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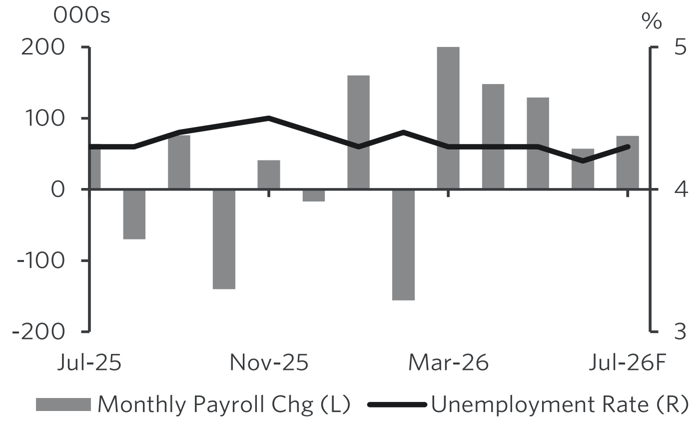
Variable	CIBC	Mkt	Prior
Employment (m/m)	75K	88K	57K
Unemployment rate	4.3%	4.2%	4.2%
Avg hourly earnings	0.3%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

US hiring is expected to remain modest in July, albeit slightly stronger than in the prior month. The 75K gain expected in payrolls would be broadly consistent with a labour market seeing little hiring but also little firing as well. Having drifted up a little in the prior month, initial jobless claims fell back again in July.

The separate household survey is expected to show a rebound in employment following a prior month decline, but potentially an even larger rebound in the size of the labour force due to increased participation. While the national participation rate will drift down over time due to aging demographics, the prior month's sharp drop in prime aged participation looked suspiciously large and could partially rebound. Higher participation could see the jobless rate tick up slightly to 4.3%.

Forecast implications — While we expect only modest employment growth and a tick back up in the unemployment rate, those results would still be consistent with a labour market that is broadly in balance.

Market impact — The employment data will likely have to miss consensus forecasts by more than we expect to bring a market reaction, with investors and the Fed more concerned about inflationary pressures rather than the labour market at the moment.

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