Research @ Citi Markets Edition: Serving Up Ways to Ace Your H2

Recorded: July 13, 2026

Published: July 14, 2026

Host: Dirk Willer, Global Head of Macro Strategy and Asset Allocation, Citi

Guest: Adam Pickett, Head of Global Macro Strategy Team, Citi

Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Dirk Willer (00:03)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes or less. I'm your host, Dirk Willer, Citi's Global Head of Macro, and with me today is Adam Pickett, our London macro head. Welcome to the show, Adam.

Adam Pickett (00:15)

So great to be here, Dirk.

Dirk Willer (00:17)

We are recording this podcast at 9 am on Monday, July 13, 2026.

Markets are still in the World Cup summer lull, but what will be the themes for the second half of the year? We start the discussion with equities. We go into earnings season with quite high expectations. Broadly, we are still constructive equities, and there are two main reasons.

One, earnings revisions are still very strong — which, if you backtest it, actually bodes quite well for forward performance. And secondly, liquidity is still quite strong too. By that, I mean the Fed hasn't even hiked once yet, but it took quite a number of hikes to really put the peak into the S&P the last time, and we're actually still adding to liquidity by buying T-bills.

So the main question to us is: In this more positive context, will we get broadening or not? Now, to get broadening, you really need two factors. You need a positive cyclical outlook, and tech needs to do somewhat less well. And that's what gives you broadening.

Now, we do believe the cyclical context is really quite good, but we would note that when you study past capex cycles, the picks-and-shovels theme really keeps giving for quite long. So, for example, if you look at the 2000 episode during the internet build-out, essentially, the capex payers, meaning the telcos, peaked quite early, well ahead of the overall market peak.

The vacation layer, which is a little bit hard to say what it was because many of these firms only came into existence later … but if you take Amazon, for example, they also peaked quite early relative to the market. While the picks and shovels, meaning the telecom equipment companies as well as the semis, really peaked late and peaked with the market. So back then, it was a case of really the picks-and-shovels theme keeps doing well until the very end.

And the same was actually true for some of these oil capex cycles. So from that point of view, I think it's too early to give up on tech.

Adam Pickett (02:04)

But Dirk, you know, this could take a while to play out and people like me and maybe our listeners have shorter patience. What about the earnings seasons coming up soon? Any insight into that more tactically?

Dirk Willer (02:16)

Yeah, obviously hard to know. Expectations are really very high. And so we have to take that into account.

But if you just look at past performance, the typical pattern is that week one of the earnings season is not particularly impressive for the S&P. The best bit of the earnings season is actually what we call the early part of the season after week one, which is between 100 and 350 names actually report. And then afterwards, it deteriorates again before earnings season is over. And then in the end, the S&P does fine again.

So it is a bit staggered, but the early part is actually the better part of the earnings season. And if you try to forecast earnings surprises, actually we have some models for that too. And you find that the surprises are going to be quite positive, especially in tech. I think it's more a question of how the market will react to those positive surprises, of course, given high expectations. But for what it's worth, we are actually both overweight tech and industrials to capture a bit of broadening given the good cyclical backdrop, but we're not giving up on tech.

But Adam, the other big question for the second half of the year is, What will the Fed do?

Adam Pickett (03:20)

Answers on a postcard, please.

You know, we've certainly got a more hawkish-sounding Fed lately, but also one that is incredibly noncommittal. Now, Citi's official forecast is still for cuts to begin toward the end of the year, the market is pricing something different.

But with respect to maybe putting some more quantitative dynamics around the qualitative shift in the Fed guidance dynamic, we built a model. And it uses natural language processing and our own library of either hawkish or dovish statements or words and phrases – inflation vs. employment dynamics in terms of the focus, as well as more committal vs. more non-committal or hedged statements.

Now, what we observe is the focus on inflation relative to employment is off the charts. The level of noncommittal language is also off the charts. And what we can observe looking at the reaction of two-year interest rates in and around CPI, NFP, FOMC meetings, when the Fed asymmetry has been shifted more toward inflation, is also suggestive that the average moves are much larger when the Fed has this shift in focus.

We think that's a pretty useful dynamic to take away and perhaps suggest a little bit more of a tradeable scenario around core U.S. macro data and events, and maybe a little bit of stickiness in the rate pricing — or at least a slightly higher bar to get back towards the Citi house view in the short term.

Dirk Willer (05:01)

Thanks Adam.

The other big event of course is the midterms. For equities, usually midterm years are not great; we're actually right now ahead of the normal performance. But the interesting point is that if you go into the year with a united government and you come out of the year with a divided government, it becomes better than when the government remains united. So that suggests that this year might be better than the average midterm year.

Bonds also do not grade in midterm years. But the interesting nuance here is that they do quite poorly into the midterms and do better out of them. So that could be justified maybe by a fiscal story as government spending ahead of these elections is usually a bit elevated. But the interesting thing is that the fact that it trades better after the election is actually not in line with the current, maybe consensus, narrative that suggests that if you get a divided government, you have to spend more to paper over the cracks in the budget process.

Empirically, that's not the case. Empirically, rates do better after the midterm election, even if the unified government loses at least the one chamber of Congress. So, from that point of view, it's in line with our relative underweight of U.S. rates, but it also means that around the midterm election one might have to revisit.

Now, Adam, we discussed most of the asset classes. We are still missing the dollar. What are you thinking for the second half of the year?

Adam Pickett (06:24)

Look, the dollar seems stuck when we look at the factors in our Eureka Eurodollar model, which for fans of models with good sharp ratio backtests, it's a nice one. Get in touch if you want the white paper.

But the eurodollar is stuck between terms of trade and relative detrended equities, which is in favor of euro and relative data momentum, and detrended two-year interest rates, which is in favor of the dollar.

Now, if we were to try to forecast which one of those could flip or break the deadlock, I suspect it could be relative equities in favor of the U.S. And so, on the margin, we're biased to buy dollar dips, especially with these occasional run flare-ups, not that it's our base case that it continues.

But in essence, we've seen a lot more FX trading around the carry thematic in EM. And the trade-off there is effectively low cross-asset volatility, suggesting to continue to pile into carry. But we would flag that the positioning in our franchise flows into the carry thematic has grown quite stretched. So we're a little bit more cautious at these levels.

Dirk Willer (07:33)

And Adam, I think the yen is obviously in play right now and yen strength can be seen as a negative for EM. Is that something you worry about, or how do you see the yen?

Adam Pickett (07:41)

It's definitely something we worry about when we backtest strong yen rallies — by which we mean a dollar yen move in excess of 1.5% to the downside in the space of five days — we find consistently poor EM carry performance. Now, that could be because yen is an Asia FX anchor and Asia tends to be the funding leg of a lot of these baskets.

It could also mean that, you know, in the past, we've associated sharp yen rallies with risk off, which yen also doesn't like. It doesn't really matter which way you cut it. It tends to be a bad signal for carry. So even during the intervention periods, for example, it wasn't great.

On the yen itself, when we look at the numbers that GPIF reallocation could bring in terms of yen buying, still in the same ballpark as the yen intervention amounts, which didn't give you a durable yen bid.

So we think it all comes back to, Can the BOJ inject more hawkish credibility into their policy stance? Given where Japanese inflation and survey data like the Tankan is, we do think that yen rates pricing in the very short term, out to about a year, looks a bit too low.

Dirk Willer (09:02)

So in summary: In equities, the key question is how much broadening you will get within a more constructive context. And again, a relevant observation is that picks and shovels usually are quite persistent as a theme, and we therefore remain overweight both tech and cyclicals.

The Fed will be key, obviously, and while Citi is not suggesting a hike, we remain underweight U.S, duration in relative terms against other countries, where oil matters more and AI matters less.

In the U.S. dollar, we still have a long dollar bias, but less pronounced at this stage. Domestic politics will make a comeback, and important to realize that rates usually move higher into the midterms, but come back afterwards.

With that, thank you for joining us for today. This episode was recorded on July 13, 2026, and I'm your host, Dirk Willer. For more details, Citi clients can check out our report on the Citi Velocity plookortal.

Next week's Research at Citi Markets Edition will be hosted by Beata Manthey, Citi's Head of Global Equity Strategy. And be sure to watch out for our Research @ Citi podcasts, which you can find and view on the same channel.

The Macro Strategy Team will be back in two weeks' time. Stay sharp!

Disclaimer (10:06)