

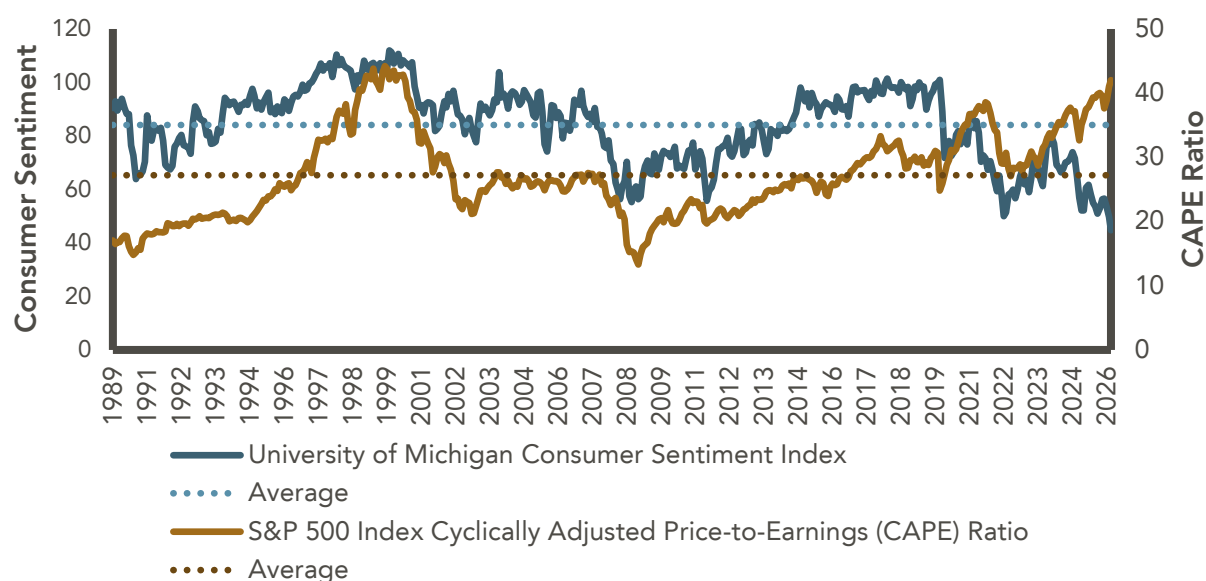
Chart of the Week

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The Best and Worst of Times

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U.S. consumer sentiment is historically weak amid inflation and labor market concerns, while equity markets continue to rally due to investor optimism



Source: Bloomberg, Robert Shiller, University of Michigan, The Wall Street Journal as of May 26, 2026

The classic novel *A Tale of Two Cities* by Charles Dickens begins with the line “It was the best of times, it was the worst of times...” While Dickens was describing the extreme contradictions of the late 18th century leading up to the French Revolution (i.e., comfort for the aristocracy and hardship for the poor), this line could just as easily apply to the current economic environment in the United States, which is marked by a stark divergence between consumer confidence and investor behavior. Specifically, recent University of Michigan consumer sentiment readings have fallen to some of the weakest levels in decades, reflecting persistent frustration on the part of many Americans over inflation, elevated interest rates, high gasoline prices, and job security. Consumers remain particularly sensitive to the cumulative impact of several years of higher prices, even as headline inflation has moderated from its post-pandemic peaks. Surveys from both the University of Michigan and the Conference Board suggest U.S. households are increasingly worried about future economic conditions and weakness in the labor market. At the same time, equity markets have largely shaken off these concerns given enthusiasm surrounding artificial intelligence and expectations for longer-term productivity gains. Indeed, the S&P 500 Index has notched gains of more than 17% in each of the last three full calendar years and has advanced more than 9% in 2026 as of this writing. This strong performance has led to higher equity market valuations. As can

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be seen in this week's chart, the Shiller Cyclically Adjusted Price-to-Earnings (CAPE) Ratio for the S&P 500 Index, which compares prices to average inflation-adjusted earnings over the prior 10 years to smooth out short-term volatility, sits at roughly 42. This figure is well above historical average levels and signals that investors continue to pay a significant premium for future earnings growth despite weaker consumer sentiment. Many have described this dynamic as a "tale of two markets," as investors reward companies with outsized earnings potential and the ability to generate technological disruption even as households cut back on discretionary spending and grow more cautious about the economy.

A major driver of the divergence described above is the way in which financial asset ownership is distributed in the United States. A recent estimate from the Federal Reserve indicates that the top 10% of American households own roughly 90% of all U.S. corporate equities and mutual fund shares, meaning recent market gains have created a wealth effect that continues to support spending among affluent consumers, even as lower- and middle-income households face significant pressures. This divergence also highlights the forward-looking nature of financial markets, as equity investors are often pricing in anticipated earnings growth and future monetary policy as opposed to current economic conditions. Most consumers, on the other hand, respond more directly to present-day realities such as grocery bills, gasoline prices, and the perceived stability of the labor market. Whether this sentiment gap ultimately closes due to consumer confidence that is recalled to life or equity valuations that face the guillotine of market repricing remains one of the key questions facing investors in the near term. ■

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