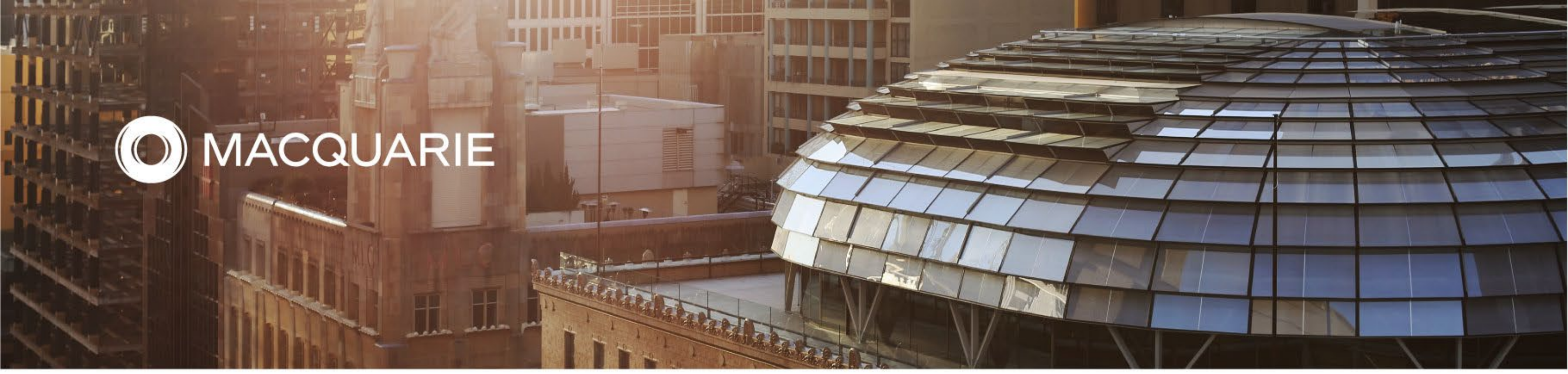


Investment Strategy Insights

Another test for the US consumer

- The US consumer has been the bedrock of the economic expansion since the COVID recession. It survived the post-pandemic inflation shock, the surge in trade tariffs and the first few months of the Strait of Hormuz's closure. News of a deal between the US and Iran has come at a crucial time when oil inventories are declining rapidly, threatening another oil price surge.

- Investors are hoping the deal is sealed and the Strait is once again open to free trade. The risk of another oil price surge lurking in the background is occurring as real US household income is already falling. This can't continue for too long without slowing or pulling down spending and the broader economy, although the recent US payrolls report in May eased immediate fears.

- Despite the volatility in oil prices due to the war, there are several key supports for the consumer that seem unlikely to fade: 1) financial conditions are supportive, 2) tax cuts are flowing through, and 3) many households are not as sensitive to rising bond yields as they were before the pandemic. These foundations seem likely to remain in place at least until year-end and should help protect the consumer from another lift in the price of oil.

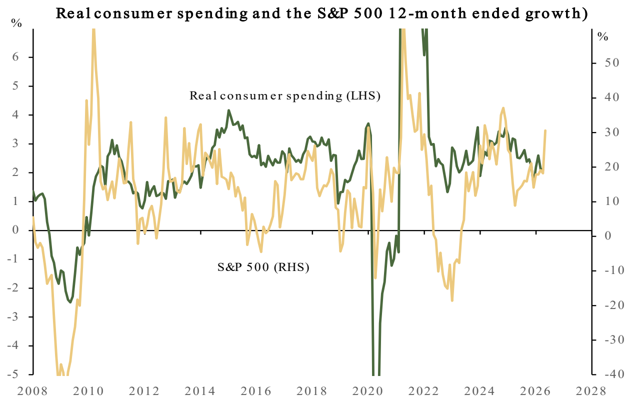
The consumer needs to keep spending

The main risk to the global economy over the past 12 months has shifted from a once-in-a-generation lift in trade tariffs to the largest global oil shock in history. Neither reflects imbalances in the global economy nor excesses in previous cycles that normally lead to recessions. Each of these events is self-inflicted and home-grown in Washington. The White House will argue that both were necessary, with the costs of each decision small compared to the benefits they provide. Still, regardless of the economic rationale, both policies are testing the resilience of the US consumer.

The US consumer makes up around 70% of US GDP, which in turn is around 26% of global GDP, so the world feels every movement in US consumer spending. Consumer spending also has a close link to asset prices such as US stocks, which are the engine of the global equity market.

It is understandable that many investors are swept up in the hype about the outlook for AI; whether it's a bubble or whether it's the beginning of a structural uplift in global productivity growth that is likely to reach well into the decades ahead. Some argue that it's both.

The link between the stock market and US consumer is solid



Source: LSEG, MWM Research, June 2026

But the AI boom would likely come to an end if the US consumer were to eventually buckle. The dependency also works in the opposite direction. For instance, if the AI boom were to come to an end, then wealth effects from an equity drawdown could easily derail consumer spending. It seems the tariff increases have been absorbed, but they add to the cost base of many US firms, and it's still too early to tell whether the oil price shock is over, despite the good news of a deal being struck.

Time is ticking

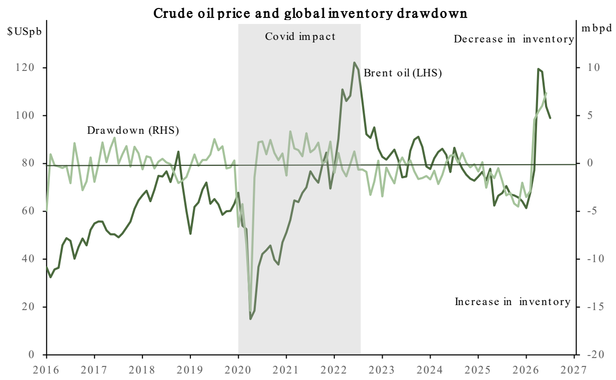
The good news is that a peace deal appears to have been reached between the US and Iran to end the war. There are not many details at this stage, but it appears both sides will sign it on June 19 in Switzerland, according to latest news sources. Oil prices have dipped in response.

Provided the Strait reopens to free and open trade then oil should continue to trade lower. The deal has come at a crucial time because a cliff has been rapidly approaching.

The closure of the Strait of Hormuz removed 20 million barrels per day (mbpd) of global supply, but this was offset with oil from the Emirates and Saudi pipelines to the Red Sea, the release of sanctioned oil and strategic reserves, and the use of spare capacity in oil producing countries. The net result of these factors on supply has been a drawdown of around 5 mbpd, which would have only increased as these temporary supply measures became exhausted.

World Bank research indicates a 1% decline in global crude oil production due to a geopolitical event leads to a peak 11% increase in the price in the first two months of the event that fades to around 7% over 12 months. The closure of the Strait would have increased the price of oil to around $US200pb without the government initiatives to release more supply.

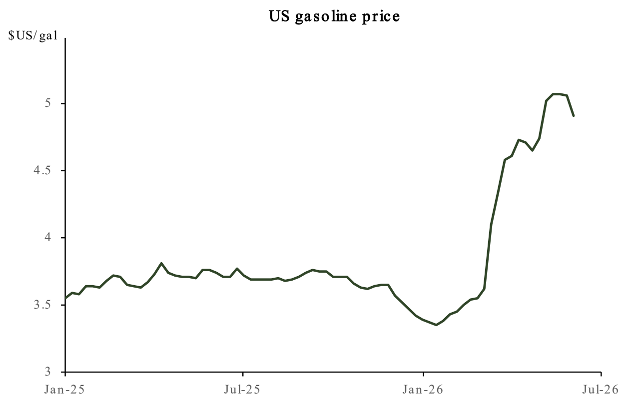
All levers have been pulled to increase supply



Source: LSEG, MWM Research, June 2026

Despite the emergency efforts of governments and the US being the world's largest oil producer, the price of gasoline in the US remains 45% higher than it was prior to the beginning of the war and this is putting stress on the US consumer.

The gasoline price remains high



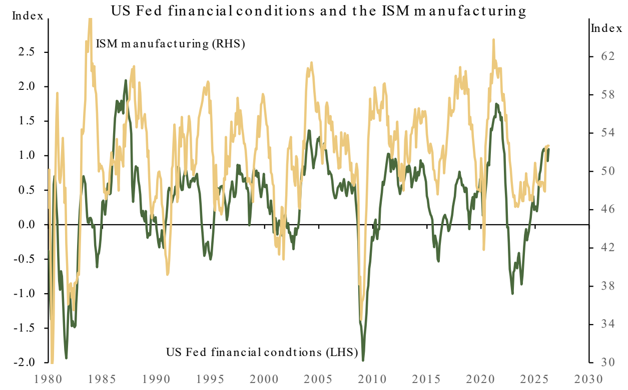
Source: LSEG, MWM Research, June 2026

Another surge in the price of oil would have surely tested consumer resilience. But it's also worth looking at the foundation this resilience on to better understand how it might cope if oil prices the deal were to collapse and the price of oil was to rise significantly from current levels. We can identify at least several reasons why the US consumer has remained resilient thus far.

1) Financial conditions are supportive.

Broad measures of US financial conditions indicate that current conditions support growth. For example, the US Fed Board of Governors measure includes housing prices, equities, the mortgage rate, 10-year government bond yield and the US dollar and the BBB corporate bond yield. It has a reasonably close relationship with indicators of US growth such as the manufacturing PMI.

US financial conditions are supportive



Source: LSEG, MWM Research, June 2026

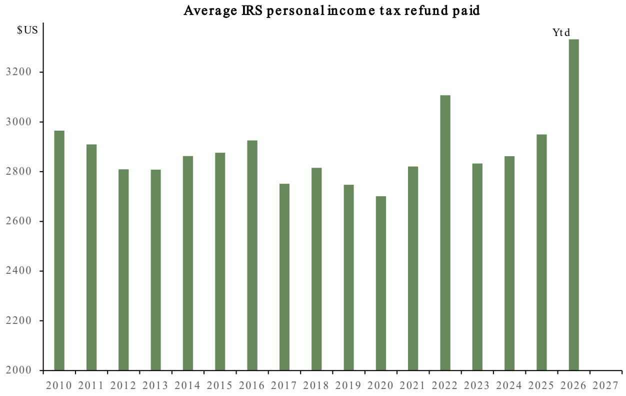
2) Tax cuts are flowing through.

Tax cuts from 2017 made by the first Trump administration have been mostly carried through until the end of 2028 under the One Big Beautiful Bill Act.

- The Child Tax Credit is increased to $US2,200. A $US6,000 deduction for seniors has been provided to offset income tax on their Social Security benefits.
- Income of a maximum of $US25,000 in tips and up to $US12,500 in overtime income will be tax-free under certain income thresholds.
- The standard deduction was raised to $US15,750 for one income and $US31,500 for joint income.
- A maximum of $US10,000 p.a. in interest on auto loans for cars assembled in the US can be deducted for a household with two income earners earning a combined maximum gross income of $US200,000 p.a.

The net result of these tax cuts has been to help lift refunds from averaging $US2,900 in 2025 to $US3,300 in 2026 year-to-date in 2026.

Cash is coming back



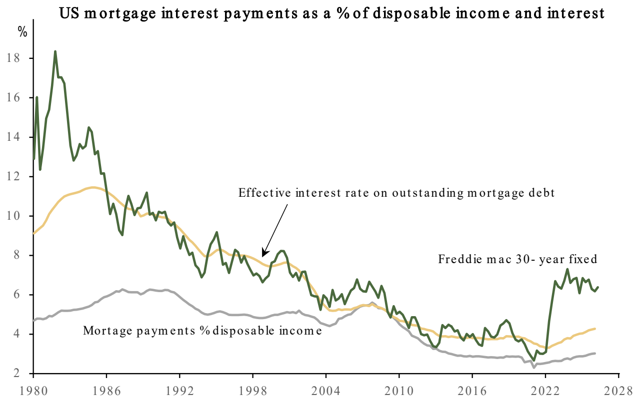
Source: LSEG, MWM Research, June 2026

The cash refunds were booked by the IRS as being paid out in January but didn't hit accounts until the February to April period. This means the decline in real household income during this period was likely a little overstated on a cash basis.

3) Low mortgage rates are locked in.

Many US households made the decision to refinance their mortgage when the Fed cut the Fed funds rate to 0.25% in 2020 and held it at that level until March 2022. This provided a buffer to the policy tightening in 2022 and 2023 as the Fed responded to rising inflationary pressures. The last time US mortgage rates were at the current level, mortgage payments as a percentage of disposable income were around 6%. However, the latest data shows the figure is only around 3%.

Low mortgage rates were locked in during the pandemic



Source: LSEG, MWM Research, June 2026

Mortgage rates locked in at low level means households are less sensitive to rising bond yields, but it also means housing turnover is lower and house prices are soft.

Supportive financial conditions, tax cuts and less direct interest rate sensitivity lay a solid platform for growth in consumer spending, but it also needs to manifest into enough job creation to sustain income growth and spending.

Hiring needs to continue

The good news for the Fed that the labour market is back in balance, with the number of jobs being created broadly equal to the number of job seekers. The unemployment rate has been in a tight 4.3% to 4.5% range since July 2025.

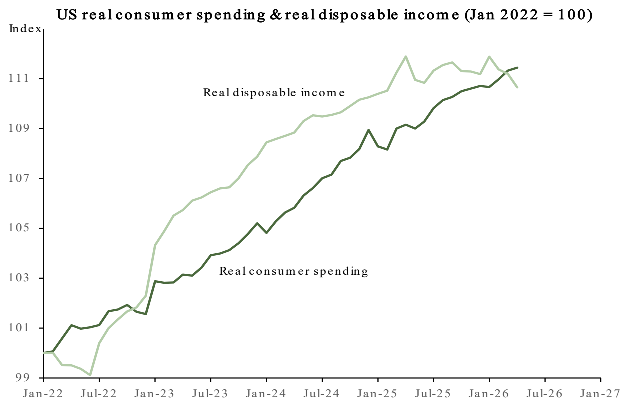
The labour market is back in balance

Source: LSEG, MWM Research, June 2026

Average hourly earnings growth has been slowly easing since the end of 2025 and is now 3.6%. This is consistent with the Fed's 2% inflation target provided trend labour productivity growth is also around 2%, according to Fed Governor Jerome Powell.

However, the positive in the labour market data must be reconciled with some concern about recent data on real income. Weaker employment growth in the first three months of the year and higher inflation is delivering falling real income, which risks pulling down real consumer spending.

Slow employment growth and rising inflation lower real income



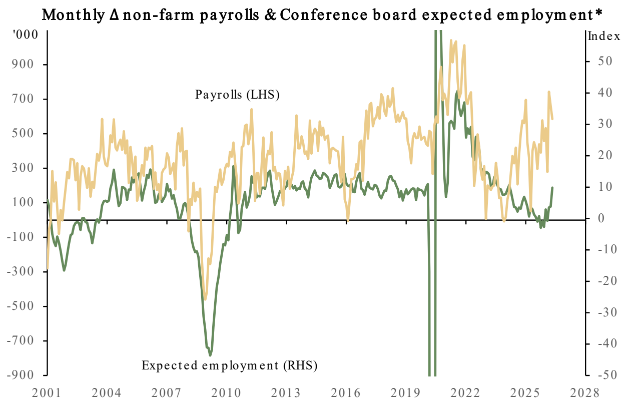
Source: LSEG, MWM Research, June 2026

A similar period of falling real income occurred in early 2022 when inflation was also rising. After the lockdowns, there were twice as many job openings as unemployed, the unemployment rate was falling, but wages growth and core inflation were nearly double the pace that they are today.

Real income growth depends on the number of jobs increasing and inflation easing. But at the same time, the Fed needs the labour market to remain in balance with average hourly earnings rising at around 3.6%.

The good news last week was that the pace of hiring has picked up after revisions to March and April payrolls (total 93k) and 172k jobs were created in May. The job gains occurred in leisure and hospitality, local government, and health care. The losses were mainly in finance.

Job creation has picked up after the revisions



Source: LSEG, MWM Research, June 2026. *An aggregate of 8 different leading labour market indicators.

Investment in AI infrastructure is surging and providing a timely source of growth as the world adjusts to higher oil prices. But investors should not forget that even though AI is providing a big delta to global growth it would likely become unstuck if the US consumer were to buckle. Time is ticking in oil markets and the pain already being inflicted will get worse unless oil is allowed to flow freely out of the Middle East once again.

The news of a deal to open the Strait is both timely and positive for economic growth and risk assets. Even if the deal didn't occur, it's difficult to know exactly the price tipping point or for how long prices can be sustained at current levels with the Strait of Hormuz remaining closed. The price tipping point is likely well below the maximum price determined by the economics of past shocks. We also know that the time to get to that point is weeks, possibly months, but not years.

Macquarie WM Investment Strategy Team

This Report was finalised on 15 June 2026.

Recommendation definitions (Macquarie Australia/New Zealand): Outperform – return >10% in excess of benchmark return Neutral – return within 10% of benchmark return Underperform – return >10% below benchmark return.

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