Weekly Economic Roundup

PNC Economics

Headlines

- **The Treasury announced last week that it would be doubling the pace of its buyback program,** from $2 billion to "at least" $4 billion per operation. The increase is spread across the 11- to 30-year part of the curve and should total $64 billion per year in additional buybacks, if sustained. This is against roughly $445 billion in normal issuance in this section of the curve.

- **What are buybacks?** Through buybacks the Treasury effectively reduces the supply of longer-dated Treasuries on the market, replacing them with shorter-dated instruments (e.g. bills). It does not add to the overall level of debt, but it does alter the composition. All else equal, lower supply of longer-term debt raises the price of those bounds, lowering the interest rate.

- **Why is the Treasury increasing buybacks?** The stated explanation is to improve liquidity in the longer-dated Treasury market. That is one legitimate use case, but the market did not suddenly become two times more "illiquid" since the last buyback plan issued three months ago. What has changed is that long-term rates have steadily risen, and the market should read this as a signal the Treasury finds that uncomfortable.

- **Did it work?** Yields fell after Secretary Bessent's announcement but have largely retraced that move since. The more meaningful impact is the signal that the Treasury plans to do whatever it takes to keep long-end yields from rising further, which may ultimately include reducing nominal issuance sizes if the buybacks themselves don't do the trick.

- This week the focus will be on the Fed's Jackson Hole symposium, though we do not expect to learn much new about the Fed's reaction function, and on July's personal income, spending, and core PCE inflation data. We forecast all three to rise 0.2% m/m.

Gus Faucher
augustine.faucher@pnc.com

Jay Hawkins
jay.hawkins@pnc.com

Ershang Liang
ershang.liang@pnc.com

Brian LeBlanc
brian.leblanc@pnc.com

Rayhan Momin
rayhan.momin@pnc.com

Isfar Munir
isfar.munir@pnc.com

Kurt Rankin
kurt.rankin@pnc.com

Rafael Shifren
rafael.shifren@pnc.com

Treasury "at least" doubling its long-end buyback program

The Treasury announced last week that it would be doubling the pace of its buyback program in the long-end of the Treasury curve, from $2 billion to "at least" $4 billion per operation. At the normal cadence of 32 operations per year, this should translate to $64 billion in additional buybacks evenly split between maturity buckets of 10yr-20yr and 20yr-30yr, if sustained. This is against roughly $445 billion in normal annual issuance in this section of the curve.

The Treasury conducts buybacks over 7 maturity buckets for nominal Treasuries, which taken together cover the entirety of the yield curve. The increase in the buyback program announced to date covers specifically the long-dated Treasury sector. While buybacks could be done closer to the 10yr point (there is a 7yr-10yr bucket), the greatest "bang for buck" is in the longer-end of the curve, given the lower level of issuance.

Figure 1: Additional buybacks as a % of issuance

Tenor	Theoretical Buybacks	Annual Issuance	% of Issuance
20YR	$32 bn	$168 bn	19%
30YR	$32 bn	$276 bn	12%

Table above shows what the buybacks would amount to on an annual basis if spread equally across tenors in each of the two buckets the Treasury targets for buybacks (10-20-year bucket and 20-30-year bucket)

What are buybacks?

Buybacks are operations the Treasury conducts to effectively reduce the supply of longer-dated Treasuries on the market, replacing them with shorter-dated instruments (e.g. T-Bills). It does not add to the overall level of debt, but it does alter the composition of the debt. The operation effectively reduces the duration, or overall interest rate sensitivity, held by the private sector. More basically, by reducing the supply of longer-term debt on the market, you are effectively raising the price (and lowering the yields).

Buybacks were implemented in 2024 to improve liquidity across the Treasury market and to manage the TGA cash balance. To understand the former, market demand for off-the-runs is meaningfully lower than it is for on-the-runs, meaning that once off-the-runs end up on dealer balance sheets, they can stay there for a very long time.

Liquidity buyback operations at all maturity buckets target these off-the-run issues. By removing them from dealer sheets, dealers can warehouse other Treasury securities and facilitate more market making activity. Liquidity buybacks do take out interest rate risk from the market, but the relatively small sizes of purchases in each bucket have made the operations very clearly a technical operation as opposed to a tool to manage overall interest rate risk held by the market.

Cash management buybacks specifically target coupons with under 2.5 years to maturity – these buybacks are used to manage the TGA cash balance. When the TGA balance rises above what Treasury is targeting, they can use the excess cash to buy-back short duration debt. These buybacks are explicitly *not* aimed to meaningfully alter the interest rate risk held by the market.

Why is the Treasury increasing buybacks?

The stated explanation from the Treasury is that the increase *"reflects Treasury's desire to provide greater liquidity support"* in parts of the market where there is little demand, for example certain off-the-run 20-year Treasuries.

Though liquidity management is certainly one legitimate use case for buybacks, the Treasury market did not suddenly become two times more illiquid since the Treasury issued the last buyback plan three months ago. If anything, most market participants have indicated that liquidity buybacks at sizes already implemented have worked in improving Treasury market liquidity and functioning.

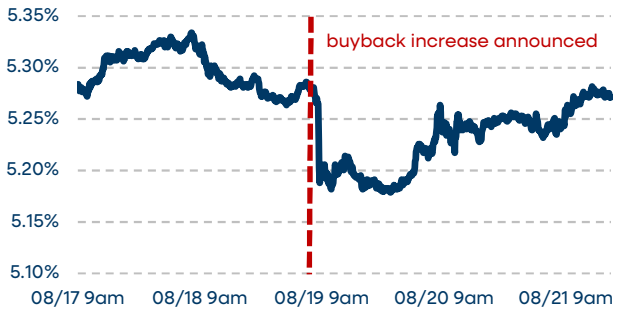
What has changed is that longer-term yields have steadily risen, even as some of the Fed's rate hikes have been priced out, and the market should read this as a signal that the Treasury finds this uncomfortable. While Treasury has not explicitly said that the increase in long-end buybacks is intended to help lower long-

end yields, it appears to us that this is the motivation for the move.

Did it work?

30yr Treasury yields did decline upon the initial announcement that long-end buyback sizes would be increased. However, most of that move has since been retraced, and the 30yr yield is only slightly lower now compared to pre-announcement.

Figure 2: 30-year Treasury yield around the buyback announcement



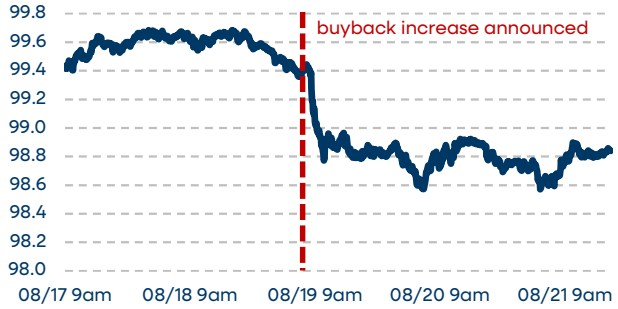
Sources: Bloomberg, PNC

Importantly, an additional $2bn in additional buyback per operation probably should not have a significant impact on the outright level of yields. If Treasury conducts the buybacks as they historically have (targeted at illiquid, off-the-run bonds), it limits the impact the already small upsize in program could have on benchmark long-end yields.

A larger repricing in yields is contingent on the market interpreting the buyback announcement as Treasury signaling they will take much more aggressive action down the road. This could take the form of a much bigger long-end buyback program, or perhaps from lowering the new issuance sizes at the long-end of the curve. Treasury Secretary Bessent indicated that further announcements would be made on "fiscal consolidation" measures this upcoming week, so the market may be looking for that guidance before fully pricing in the impact of Treasury's measures.

While Treasury yields have ultimately retraced much of their initial reaction to the buyback announcement, the U.S. dollar (USD) has not. The USD has weakened about 0.5% since Treasury's announcement. This is consistent with the market interpreting Treasury's move as a step in the direction of financial repression (i.e. artificially engineering lower interest rates). It's a small move in the broader context of the USD, but it could give Treasury a reason to pause, given that the weaker dollar has not been come alongside lower yields.

Figure 3: Dollar index (DXY) around the buyback announcement

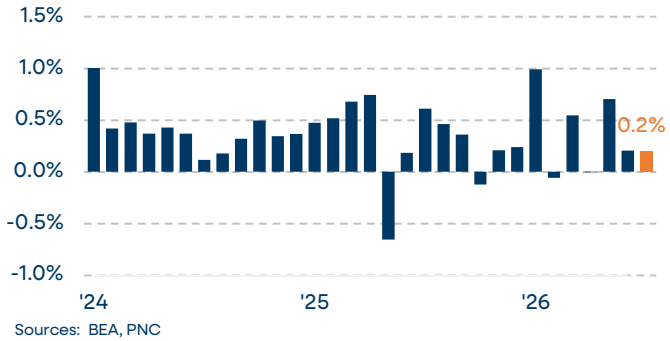


Sources: Bloomberg, PNC

Slower income growth weighs on July consumer spending

Nominal personal income growth has been volatile thus far in 2026, ranging from unchanged in February to a robust 0.7% in May when growth was boosted by payments from the Farmer Bridge Assistance Program. On a three-month moving average basis, however, month-over-month growth year-to-date through June has averaged a solid 0.3%, unchanged from 2025. Growth of 0.2% is expected in July, unchanged from June.

Figure 4: Disposable personal income (% chg., m/m)

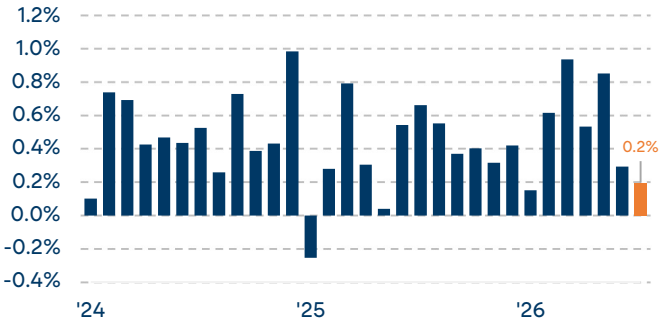


Sources: BEA, PNC

Job gains have decelerated for four consecutive months after reaching a robust 214k in March, with the three-month moving average a weak 20k in July when

employers shed 23,000 jobs. Monthly growth of that magnitude would push the y/y growth rate down to 3.4% from 3.9% in June, the slowest pace since April 2026 (2.7%). The relatively weak personal income growth expected in July will pressure personal spending. Consequently, monthly spending growth will slow to 0.2% in July from 0.3% in June, matching January's gain for the slowest pace of this year.

Figure 5: Consumer spending (% chg., m/m)



Sources: BEA, PNC

Core PCE inflation at 0.2% m/m should support patience at the Fed

We expect July core PCE inflation to rise 0.2% m/m, following well-behaved CPI and PPI reports, with the latter surprising modestly to the downside.

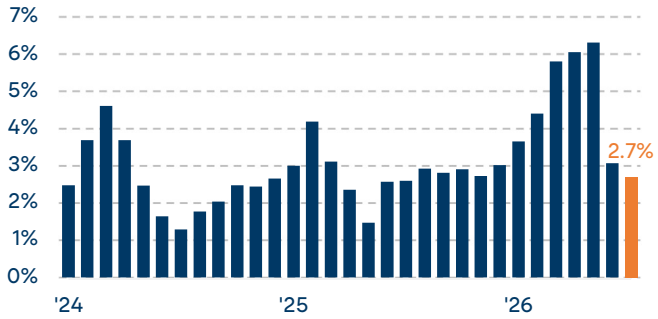
Goods inflation remains manageable despite a broader-based pickup across core goods categories in the CPI report. Tariffs have contributed to higher prices over the past year, but we believe the bulk of the pass-through from existing measures has already occurred. The effective tariff rate has also settled below levels feared earlier in the year. Still, trade policy remains an upside risk, as illustrated by the recent U.S.-Canada tariff dispute and planned retaliation.

Persistently elevated core inflation has been a rallying cry for FOMC hawks. However, much of the recent firmness has come from sticky core services and other imputed categories. At the same time, softer job creation and slowing earnings growth argue against a reacceleration in aggregate demand that would put further upward pressure on services inflation.

The July report will strengthen the case for FOMC doves who argue that progress on inflation has resumed and could accelerate as the effects of the oil-price shock earlier this year continue to fade. They will also be helped by the BEA's upcoming methodology revisions, which are expected to lower previously reported year-over-year core PCE inflation by roughly 20 to 30 basis points.

All of this supports our view that the Fed will remain on hold in September, although the decision is far from settled. We'll receive another round of employment and inflation data before the meeting, and while markets have pushed back the timing of a rate hike to December, this is subject to rapid reassessments as the data come in, especially given the absence of forward guidance.

Figure 6: Core PCE inflation (% chg., 3M ann.)



Sources: BEA, PNC

Next up: Jackson Hole Symposium

Fed Chair Warsh will speak at the annual Jackson Hole Economic Policy Symposium on Friday. While prior Chairs have used the venue to set-up the decision making for the second half of the year, we expect the usual anti-forward guidance from Warsh. Warsh has, until now, not elected to make public comments outside of Congressional testimony and post-meeting press conferences. Based on his prior comments about the Chair only needing to speak when there's something important to say, we expect him to avoid saying too much on his colleagues' behalf during an intermeeting period. Instead, he could provide an update on the task forces, although we don't expect much detail on the progress nor the timeline. Thus far, his communication strategy has been inconsistent, so we could be surprised if there are some insights into his reaction function.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Chicago Fed Nat Activity Index	Mon 8/24	8:30 am	Jul	--	-0.09	-0.08*
ADP Weekly Employment Change	Tue 8/25	8:15 am	Sat 8/8	--	--	9.500k
Philadelphia Fed Non-Manufacturing Activity	Tue 8/25	8:30 am	Aug	--	--	7.4
FHFA House Price Index M/M	Tue 8/25	9:00 am	Jun	--	0.2%	0.3%
S&P Cotality CS 20-City M/M SA	Tue 8/25	9:00 am	Jun	--	0.10%	0.15%
Richmond Fed Manufact. Index	Tue 8/25	10:00 am	Aug	--	7.0	5.0
Richmond Fed Business Conditions	Tue 8/25	10:00 am	Aug	--	--	-5.0
New Home Sales	Tue 8/25	10:00 am	Jul	647k	620k	628k
Conf. Board Consumer Confidence	Tue 8/25	10:00 am	Aug	90.5	90.2	90.8
MBA Mortgage Applications	Wed 8/26	7:00 am	Fri 8/21	--	--	-0.40%
Personal Income	Wed 8/26	8:30 am	Jul	0.20%	0.20%	0.20%
Personal Spending	Wed 8/26	8:30 am	Jul	0.20%	0.10%	0.30%
Personal Consumption	Wed 8/26	8:30 am	2Q S	--	3.20%	3.20%
PCE Price Index M/M	Wed 8/26	8:30 am	Jul	--	0.1%	-0.1%
Core PCE Price Index M/M	Wed 8/26	8:30 am	Jul	--	0.2%	0.1%
Durable Goods Orders	Wed 8/26	8:30 am	Jul P	-0.5%	0.5%	0.5%
Durables Ex Transportation	Wed 8/26	8:30 am	Jul P	--	0.6%	0.7%
GDP Annualized Q/Q	Wed 8/26	8:30 am	2Q S	1.5%	1.5%	1.5%
Cap Goods Orders Nondef Ex Air	Wed 8/26	8:30 am	Jul P	--	0.7%	1.2%
Advance Goods Trade Balance	Thu 8/27	8:30 am	Jul	-$94.7b	-$100.0b	-$101.5b
Advance Goods Imports M/M SA	Thu 8/27	8:30 am	Jul	--	--	-2.6%
Advance Goods Exports M/M SA	Thu 8/27	8:30 am	Jul	--	--	-1.8%
Retail Inventories M/M	Thu 8/27	8:30 am	Jul	--	0.0%	0.0%
Wholesale Inventories M/M	Thu 8/27	8:30 am	Jul P	--	0.2%	0.2%
Initial Jobless Claims	Thu 8/27	8:30 am	Sat 8/22	209k	209k	206k
Continuing Claims	Thu 8/27	8:30 am	Sat 8/15	--	1800k	1799k

Sources: Bloomberg, PNC
*Released prior to publication

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Kansas City Fed Manf. Activity	Thu 8/27	11:00 am	Aug	--	10.0	9.0
MNI Chicago PMI	Fri 8/28	9:45 am	Aug	--	57.9	57.6
Prelim. Benchmark Payrolls Revision	Fri 8/28	10:00 am	2026	--	185k	-911k
U. of Mich. Sentiment	Fri 8/28	10:00 am	Aug F	50.8	51.0	51.0
U. of Mich. 1 Yr Inflation	Fri 8/28	10:00 am	Aug F	--	--	4.3%
Kansas City Fed Services Activity	Fri 8/28	11:00 am	Aug	--	--	14.0

Sources: Bloomberg, PNC

New Home Sales

- 647k. New home sales are forecast to bounce back in July from two consecutive weak months but remain below late 2025 when rates were closer to 6%.

Conf. Board Consumer Confidence

- 90.5. Consumer confidence is expected to drop in August amid the ongoing conflict in the Middle East and slowing job growth.

Personal Income

- 0.2%. Personal income growth is projected to remain weak in July on slowing job growth.

Personal Spending

- 0.2%. Consumer spending growth is expected to moderate in July on weak income growth.

Durable Goods Orders

- -0.5%. Durable goods orders are expected to decline in July amid a sharp drop in Boeing aircraft orders to 38 from 121 in June, a decline of nearly 70%.

GDP Annualized Q/Q

- 1.5%. Second quarter GDP is forecast to remain 1.5% annualized in the second estimate.

Advance Goods Trade Balance

- -$94.7b. The advance trade deficit is forecast to continue narrowing after a surge in May caused by crude oil volatility.

Initial Jobless Claims

- 209k. Initial jobless claims are projected to inch up but remain in a fairly tight range.

U. of Mich. Sentiment

- 50.8. Consumer sentiment is expected to weaken somewhat in the final August reading with no resolution to the Middle East conflict and slowing job growth.

Disclosures

The material presented and the views expressed herein are of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation of any particular securities, financial instruments, strategies or banking services. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your needs. To the extent that these materials reference PNC data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial condition or performance of PNC.

Forward-looking statements are necessarily subject to numerous assumptions, risks and uncertainties, which change over time. Future events or circumstances may change our outlook and may also affect the nature of the assumptions, risks and uncertainties to which our forward-looking statements are subject. Forward-looking statements speak only as of the date made. We do not assume any duty and do not undertake any obligation to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance. As a result, we caution against placing undue reliance on any forward-looking statements.

"PNC" is a registered mark of The PNC Financial Services Group, Inc.

© 2026 The PNC Financial Services Group, Inc. All rights reserved.