



MACROMATRIX



Resilient Dollar

Late-Cycle Divergence:
Inflation Persistence, Demand
Compression & Dollar-Driven
Global Liquidity Tightening



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Executive Overview

Late-cycle US economy shows PMI divergence, softening labor demand, weakening consumption, and strong dollar tightening global liquidity, reshaping capital markets, valuation dynamics, and investment banking activity.

The late March 2026 macroeconomic data reflects a late-cycle transition in the U.S. economy characterized by divergence across growth, labor, consumption, and currency dynamics. Manufacturing activity remains expansionary with PMI at 52.4, supported by supply-side resilience, while services moderation to 51.1 signals demand softening.

Labor market indicators show early-stage cooling, with jobless claims rising to 210,000, indicating reduced hiring intensity without systemic stress. Consumer sentiment declined to 53.3, accompanied by a sharp contraction in new home sales to 587,000 units, highlighting elevated interest rate sensitivity and weakening household demand.

Simultaneously, the U.S. Dollar Index strengthening to 100 reflects tighter financial conditions and global capital reallocation toward USD assets. Collectively, these data points indicate a macro environment defined by persistent inflationary pressures, constrained consumption, and tightening liquidity conditions.

This evolving backdrop has direct implications for capital markets, including delayed monetary easing, increased cost of capital, sectoral divergence, and heightened volatility in investment banking, private equity, and cross-border transaction activity.

Manufacturing Expands, Services Weakens

March 2026 PMI divergence signals inflation-led expansion with weakening services demand momentum across sectors.

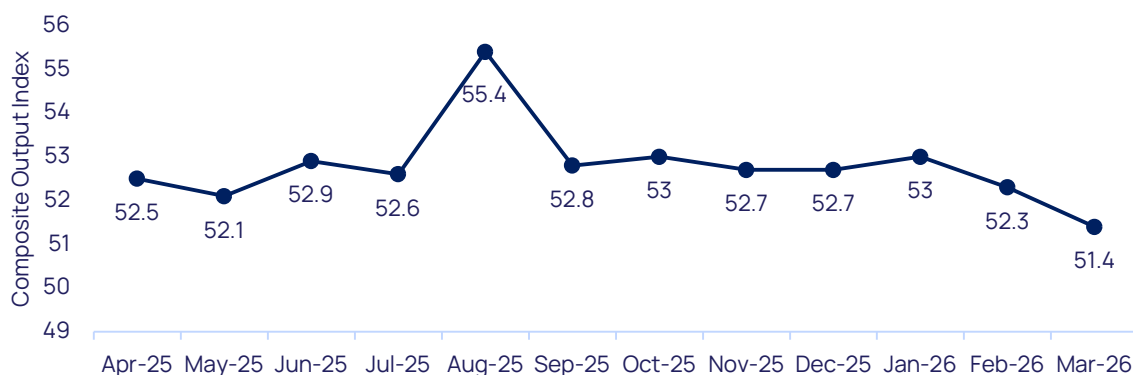
As of March 24, 2026, the S&P Global US Manufacturing PMI increased to 52.4 from 51.6, indicating continued expansion above the 50 threshold, while the S&P Global US Services PMI declined to 51.1 from 51.7, reflecting a measurable deceleration in the dominant services sector.

The composite PMI moderated to 51.4, marking its lowest level in 11 months, with input cost inflation accelerating at the fastest pace since mid-2023. Manufacturing output gains were driven by inventory rebuilding and export resilience; however, new orders growth slowed, reflecting demand-side constraints linked to elevated borrowing costs and energy price pass-through.

Services activity showed weaker new business inflows and declining employment indices below 50, signaling contraction in hiring. Input price indices rose sharply, with firms explicitly citing higher energy and logistics costs linked to geopolitical disruptions.

The divergence between manufacturing resilience and services softening indicates a late-cycle economic transition, where supply-side factors sustain production while demand elasticity weakens. This dynamic is critical for capital markets, as it implies margin compression risks alongside sustained inflationary pressure across industrial and consumer-facing sectors.

Figure 1: S&P Global US Composite PMI



Source: S&P Global

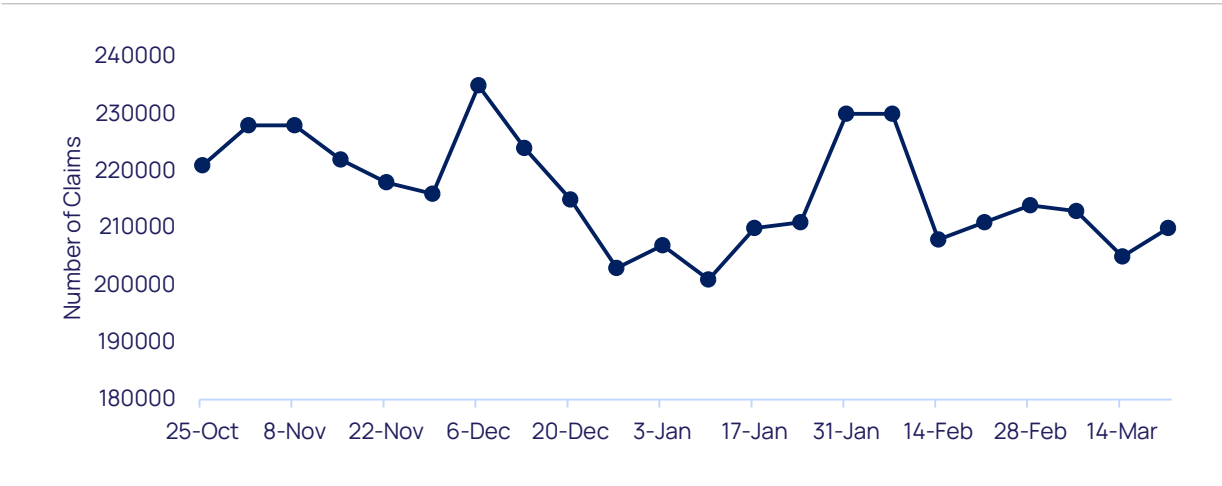
Jobless Claims Gradually Rising

Initial jobless claims rising trend indicates early labor market softening without broad-based unemployment deterioration yet.

For the week ending March 22, 2026, US Initial Jobless Claims increased to 210,000 from 205,000, marking a sequential rise while remaining within historically low ranges. The four-week moving average increased to approximately 208,500, indicating a gradual upward trend in layoffs. Continuing claims also edged higher to 1.84 million, reflecting longer job search durations.

Despite unemployment remaining near 4.4%, the incremental rise in claims signals a transition toward a “low-hiring, low-firing” labor environment. Sectoral data suggests layoffs are concentrated in technology, logistics, and interest rate-sensitive industries such as housing-linked services. Wage growth moderation is becoming evident, with employers reducing hiring intensity rather than executing large-scale layoffs.

Figure 2: Initial Jobless Claims



Source: U.S. Employment and Training Administration

This labor market recalibration aligns with tighter financial conditions, where elevated interest rates are constraining corporate expansion and hiring plans. From a macro perspective, the data suggests early-stage demand softening without triggering recessionary labor stress. From a micro perspective, rising claims elevate credit risk exposure in consumer lending portfolios while moderating wage-driven consumption, directly impacting retail, housing, and discretionary sectors.

Sentiment Weakens Housing Contracts

Consumer sentiment decline coupled with housing slowdown signals weakening consumption.

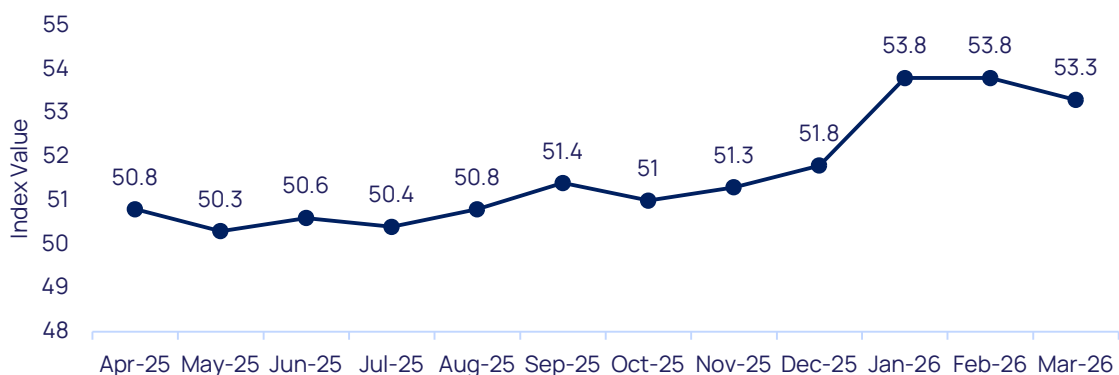
In March 2026, the Consumer Sentiment Index declined by 0.5 points to 53.3, reflecting weakening consumer confidence amid persistent inflation and elevated borrowing costs. Concurrently, US New Home Sales dropped sharply to 587,000 units from 712,000 units, representing a 17.6% month-on-month decline, highlighting acute sensitivity of housing demand to mortgage rates exceeding 6.8%.

The decline in sentiment is driven by reduced purchasing power, higher gasoline prices exceeding USD 3.80 per gallon, and elevated debt servicing costs. Forward-looking expectations indices weakened further, indicating cautious household spending behavior in upcoming quarters.

The contraction in new home sales reflects both affordability constraints and tighter credit availability, with inventory levels rising to approximately 8.4 months of supply, the highest since 2022. This dual pressure on sentiment and housing directly impacts consumption-driven GDP components, which account for nearly 68% of U.S. economic activity.

At the micro level, discretionary retail, home improvement, and durable goods sectors face demand compression, while financial institutions experience reduced mortgage origination volumes and rising delinquency risks in lower-income borrower segments.

Figure 3: U.S. Consumer Sentiment Index



Source: IPSOS

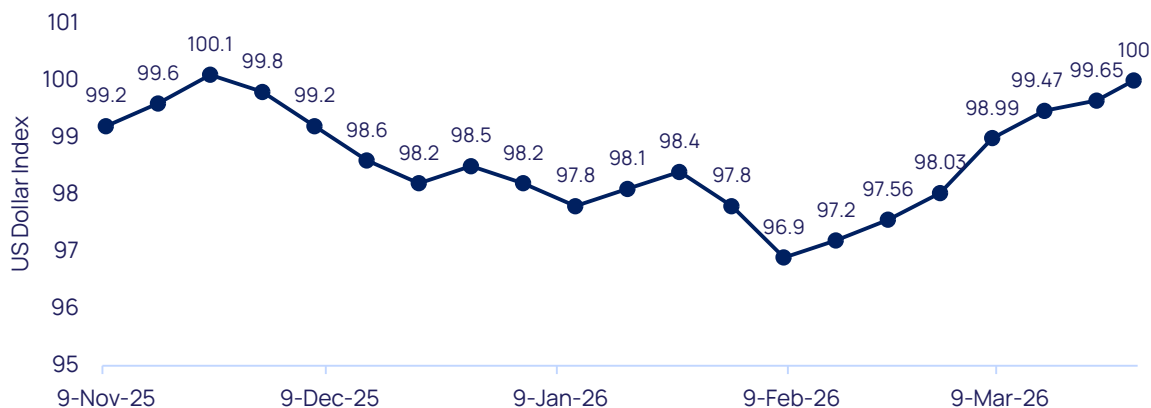
Dollar Strengthens vs. Other Global Asset Classes

Rising US Dollar Index tightens global liquidity conditions and amplifies capital flow imbalances across emerging markets.

As of March 26, 2026, the US Dollar Index (DXY) strengthened above 100, reflecting appreciation against major currencies including the Euro, Yen, and Pound. The broad dollar index (DTWEXBGS) also recorded sustained gains, supported by higher-for-longer U.S. interest rate expectations and safe-haven demand amid geopolitical tensions. Yield differentials remain a primary driver, with U.S. 10-year Treasury yields holding near 4.35%, attracting global capital inflows into USD-denominated assets.

The stronger dollar exerts downward pressure on commodity prices in non-USD terms while increasing import costs for emerging markets with USD liabilities. For the U.S., dollar appreciation reduces export competitiveness, particularly in manufacturing and technology hardware sectors, while benefiting importers through lower relative costs excluding tariff impacts.

Figure 4: U.S. Dollar Index



Source: FactSet

From a macro perspective, dollar strength tightens global financial conditions, reduces cross-border liquidity, and increases refinancing risks for USD-denominated debt globally, estimated at over USD 13 trillion outstanding. From a capital markets standpoint, sustained dollar strength impacts M&A valuations, cross-border deal structuring, and private equity exit timing, particularly in emerging markets exposed to currency depreciation and capital outflows.

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