

Summary

On a holiday-shortened week, economic data included the Federal Reserve holding interest rates steady, gains in retail sales and industrial production, while housing starts and homebuilder sentiment deteriorated.

Equities rose globally in response to the U.S.-Iran preliminary peace deal. Bonds were little-changed, along with a flattish yield curve. Commodities fell back with a strong correction in crude oil prices globally, along with the noted peace deal.

Economic Notes

(0) The June **FOMC** meeting's biggest initial surprise was the immediate change to a more minimalist communication style seen in the official statement, and removal of the future leanings that have characterized the post-GFC Fed communications. However, financial markets reacted negatively as committee expectations of another hike this year outweighed any other news, as member dot plots pointed to the average projected year-end rate moving from 3.35% to 3.83%.

The first press conference featuring Kevin Warsh as Chair further described some immediate changes. He brought up the opportunity to bring in "new thinking" as well as "rigorous debate" yet keeping a focus on the "best of the Fed's traditions," but also "getting monetary policy right as a North Star." There was mention of keeping "ample reserves" in the banking system, likely in response to his prior comments about shrinking the balance sheet at some point. He reminded that the committee is "unambiguous" and "unanimous" in their goal of bringing price stability. At the same time, he mentioned that it's a good time to review practices and bring improvements. The removal of forward guidance was touched on as predictions were "not well suited" to current conditions, but he also noted a clearer desire for financial markets to focus on economic data as it's released, as opposed to a focus on how the Fed would view given data.

He also announced five new independent task forces in key areas viewed as "timely" and "consequential": (1) Fed communications (form and function, including the use of forward guidance, as well as the SEP and dot plots), (2) Fed balance sheet (and 'ample reserves' approach), (3) use and reliance on existing data sources (including more real time info), (4) productivity and jobs in an era of transformation (new general purpose technologies, such as AI, which feature both "opportunities" and "risks"), and (5) inflation frameworks (drivers of inflation and a rethinking of approaching it in a changing economy, although the current 2% target is not currently in flux). Considering Warsh's prior views, none of these areas are surprising, but the projects have a relatively tight year-end timeline. He also mentioned that policy appears somewhat "restrictive" and "uneven" due the differing transmission mechanisms of interest rates and the balance sheet. In terms of the dot plot pointing to a median rate hike, it was noted the conviction wasn't high and done in "pencil," due to the fast-changing environment.

Perhaps one of the more controversial press conference comments was a reiteration of Warsh's earlier comments that "inflation is a choice," which points to a Milton Friedman-like monetary definition of inflation that continues to be debated in academic circles. The "family fight" metaphor was also mentioned several times, alluding to a desired robust dialogue in committee that the new Chair appears to favor.

(0) **Industrial production** rose 0.1% in May, short of the 0.3% gain expected, and well below the revised gain of 0.9% for April. Manufacturing production was unchanged in the month, as gains of 0.6% in business equipment and 1.8% in high-tech equipment were offset by a decline in consumer goods. Utilities declined by -0.4%, which was likely driven by weather normalization in Spring, while mining/petroleum extraction rose 1.3% along with higher oil prices. Year-over-year, total industrial production rose 1.6%, which continued to be led by strong gains in business equipment (6%), and high-tech equipment (13%), due to the ongoing AI infrastructure boom. **Capacity utilization** ticked up a tenth to 76.2%.

(+) **Retail sales** rose 0.9% in May, exceeding the 0.6% median forecast, and over double the revised 0.4% gain of the prior month. After removing the more volatile components of autos, building materials, and gasoline (up 3.4% for the month), core retail sales remained robust at 0.7%, with contributions from misc. retail (2.3%), non-store/internet (1.5%), and furniture (1.0%), while electronics and restaurants lost some ground. It's surmised that larger tax refunds this year might help account for the boost in retail sales. Year-over-year, retail sales were up 7% over the past year (including a 25% rise in gasoline sales), and 6% on a core level, each of which represent several percent of real growth after inflation is considered. However, the overall retail sales level is still down from the peak in Spring 2022.

(+) **Housing starts** fell by -15.4% in May to a seasonally-adjusted annualized rate of 1.177 mil. units, well short of the -2.0% median forecast and the revised prior month drop of -8.5%. However, this was driven by a -40% drop in multi-family starts, which overwhelmed the -2% drop in single-family. Regionally, starts rose in the Midwest by 4%, but fell elsewhere, being the worst in the Northeast, down -27%. Over the past year, starts were down -9% nationally, mostly due to the multi-family side. **Building permits** declined by -0.7% to 1.413 mil. seasonally-adjusted annualized units, slightly better than the -0.7% median forecast. There, multi-family permits fell by -3%, while single-family permits rose by a half-percent. Over the trailing 12 months, national building permits were little-changed, with offsets of single-family down -2% and multi-family up just over 2%.

(-) The **NAHB homebuilder survey** for June fell by -2 points to 35, further into negative territory (with 50 being neutral, being neither optimistic nor pessimistic). By segment, current sales conditions fell by -2 points to 38, future sales were unchanged at 45, while prospective buyer traffic was flat at a very low 25. The Northeast U.S. held up a bit better than the rest of the country, seeing a 2-point gain to 44, while the West fell a point to 27 on the low end. In fact, the overall national index has been under 40 for over a year, which was noted by NAHB as a streak not having been seen since the 2010-11 foreclosure crisis, albeit with today's conditions being quite different. In their monthly report, the NAHB noted that the U.S. is "short about 1.2 million homes" and "builder sentiment will remain soft until barriers are eased and

conditions improve for home building.” Some of these barriers were described as legislation to address “inefficient” regulatory policy and bottlenecks, zoning, labor shortages, and bans on the use of natural gas in new homes in certain states and localities. All of these are seen as raising costs for new homes in a significant way, weighing on activity. Many structural housing issues lie in local fixes rather than national, which adds complexity and time to the existing problem.

(-/0) **Initial jobless claims** for the Jun. 13 ending week fell by -4k to 226k, near the 225k expected. Continuing claims for the Jun. 6 week rose by 24k to 1.810 mil., above the 1.789 mil. median consensus expectation. Little was changed on net, with some higher claims in CA and PA, while they fell in OH and IL. These continue to remain in a fairly consistent range, not pointing to any layoff or other negative labor market activity.

Market Notes

Period ending 6/19/2026	1 Week %	YTD %
DJIA	0.75	8.16
S&P 500	0.96	10.20
NASDAQ	2.44	14.43
Russell 2000	1.24	20.70
MSCI-EAFE	0.76	9.73
MSCI-EM	4.15	28.32
Bloomberg U.S. Aggregate	0.14	0.49

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2025	3.67	3.47	3.73	4.18	4.84
6/12/2026	3.78	4.09	4.21	4.48	4.97
6/19/2026	3.83	4.19	4.23	4.46	4.90

U.S. stocks experienced gains for the week as the prior Sunday included a ‘memorandum of understanding’ between the U.S. and Iran, which was seen as a roadmap to end military hostilities. (While it appeared to be threatened by continued action in Lebanon, a ceasefire between Israel and Hezbollah eased some concern by Friday, when domestic markets were closed for Juneteenth.) Most importantly in the near-term, the agreement includes a re-opening of the Strait of Hormuz, with both blockades being lifted. That news overwhelmed the bit of a negative reaction mid-week when the FOMC statement under new Fed Chair Warsh was seen as a bit more hawkish than anticipated. By sector, technology and industrials saw gains of around 3% each. Laggards included energy, down over -6% along with a pullback in oil prices, as well as defensive health care and consumer staples, as investors took on risk again. Real estate also fell by several percent for the week, with some volatility in interest rates.

Foreign stocks saw gains for the same reasons, with Asia particularly benefiting, being the destination for most Middle East oil. However, a rise of about a percent in the value of the U.S. dollar put a bit of a

damper on net returns for U.S. investors. The Bank of England kept rates steady at 3.75% (in a 7-2 vote), while the Bank of Japan hiked their policy interest rate by a quarter-percent to 1.00% (the first time it's been at that level in 30 years). A key catalyst there was the weakness in the yen, more so than inflation concerns. Emerging markets were mixed, with continued gains in technology-oriented South Korea and Taiwan, while Brazil and China pulled back a bit, with the former cutting policy rates by a quarter-percent in stimulate the economy further, while the latter saw a mix of stronger industrial data but continued weakness in domestic demand and real estate.

Bonds were little-changed last week, along with minimal changes in yields across the U.S. Treasury curve. International bonds were mixed, with unhedged developed market debt down solely due to the rise in the U.S. dollar.

Commodities fell back, along with extreme easing in energy markets along with a stronger dollar. Otherwise, a small gain in agriculture offset a drop in industrial metals. West Texas crude oil prices fell by -10% last week to \$77/barrel, along with Brent crude falling -9% to \$79/barrel. Such a correction was in line with a Middle East peace deal being in the works, although the pace of further price normalization remains under debate. While it may take a bit more time to reach the \$55-65 range of late 2025 and early 2026, current levels are certainly a lot closer than they were from April through early June. The ride since December has been extreme to say the least, with prices up 104% from a Dec. 16 low of \$55 to \$113 on Apr. 7, and now back down -32% from that peak.

Have a good week.

Ryan M. Long, CFA
Palouse Capital Management

Sources: Palouse Capital Management, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

The information presented is for informational purposes and is intended for financial professionals only. This should not be distributed beyond its intended audience. All information has been obtained from sources considered reliable, but no representation is made as to its completeness, accuracy, or

timeliness. This information should not be relied upon as investment advice, research, or a recommendation by Palouse Capital Management regarding the use or suitability of the model portfolio or any security or asset class in particular. The information provided is not intended to be and should not be construed as investment, legal or tax advice. Only the investor and their financial professionals know enough about the investor's individual circumstances to make an investment decision.

Information and opinions expressed are subject to change without notice. Any forecasts, opinions or statements of financial market trends expressed are those of Palouse Capital Management and are subject to change without notice.

Past performance is not a guarantee of future results. Advisory Solutions Group, LLC, is a registered investment advisor.



Kevin Canterbury – Managing Director

kevin@redstonecapitalmanagement.com Direct: 480 685 2931