

Summary

Economic data included a revision upward for Q1 U.S. GDP growth, continued gains in personal income and spending, strength in manufacturing and services PMI data, and a reversal upward in consumer sentiment. However, durable goods orders and new home sales fell back.

Equities fell back globally, primarily in the recently-ebullient technology sector. Bonds fared better as yields fell across the yield curve, with hopes for slowing inflation. Commodities pulled back as the U.S.-Iran truce has held, with easier supply conditions for oil and metals.

Economic Notes

(+) The third final release of **U.S. GDP growth** for Q1 was revised up again, from 1.6% to 2.1%, exceeding the meager 0.5% gain in Q4-2025. The third update was largely driven by a downward revision to imports, which offset a downward revision to consumer spending (by -0.9% to 0.5%, primarily in travel and financial services). By industry group, information, federal government, and professional/scientific/technical services contributed the most to growth in the quarter; on the other hand, retail and wholesale trade declined, and detracted from growth, and pointed to some potential hidden stress on the consumer side. The PCE price index was revised up a tenth to 4.6%, but remained constant at a core level at 4.4%, while the GDP price index was revised up by a tenth to an annualized 3.6% pace. Nominal GDP growth was consequently revised up by a half-percent to 5.8%, but remains over a percent above the 10-year U.S. Treasury note yield, with the two often seen as anchors of each other, and likely implying the broad market assumption that current inflation won't be persistent.

The Atlanta Fed **GDPNow** estimate for Q2 has fallen a bit from the prior week, from 3.1% to 2.5%, with consumer spending having fallen about -0.5% from the prior estimate to 1.4% of the contribution, while that of non-residential fixed investment (data centers/AI) has remained steady at 1.1%. With Q2 about wrapped up, that pace would be a bit above the 2% trend, so not problematic from an overall standpoint, although some of the consumer data has weakened in favor of continued strength in fixed investment and physical technology spend.

(+) **Personal income** rose 0.7% in May, almost twice the 0.4% expected and far stronger than the prior month's flat result. Income was boosted by the second round of payments from the bridge assistance program for U.S. farmers that suffered natural disaster-related losses from a few years ago. **Personal spending** rose by the same 0.7%, a tenth stronger than expected. After revisions, the personal saving rate was unchanged at 3.0%. Over the past year, personal income has risen by 4%, with spending up over 6%, with after-inflation real growth positive for the latter but less so the former.

PCE inflation rose by 0.4% in May on a headline level, while **core PCE** ex-food and energy rose 0.3%; both were similar to expectations as well as readings from the prior month. Year-over-year, headline PCE reaccelerated from April by 0.3% to 4.1%, while core PCE rose a tenth to 3.4%. It would be expected to see some downward adjustment over the coming months due to the recent fall in oil prices, although the

magnitude of how changes in PCE vs. CPI will differ, due to a different composition and methodology. The Dallas Fed's trimmed mean PCE (removing the extremes) registered 2.4% for the month, which might not be truly representative, either, but shows a more optimistic picture than headline PCE.

(+) The preliminary **S&P Global US manufacturing PMI** for June rose by 0.6 of a point to 55.7, above the forecasted decline to 54.6. This remained solidly in expansion, in fact to the highest level in four years if reflected in the later final reading. Input and output rose by 1-2 points, as did new orders by over 2 points, all further into expansion at 58. However, employment fell by -5 points back into contraction at 47 (and lowest level since late 2009). Input and output prices each fell back by several points but remained expansionary in the 60-70 range, reflecting some easing after oil price declines recently. The index of future output rose by a point to 70, also very expansionary.

(0/+) The preliminary **S&P Global US services PMI** for June also rose by 0.6, to 51.3, just above the 51.1 expected, and a bit further into expansion. New business rose by almost a point to over 51, as did employment by 2 points but remained just below 50, still in contraction. Input and output prices rose slightly to around the 60 range, with less direct petroleum impacts as manufacturing would see. The future output index rose by 4 points to 63, solidly in expansion as well. Anecdotal commentary from S&P noted that "brighter news" from the Middle East helped business confidence, although economic growth remains a bit lower than pre-conflict. The drop in manufacturing employment was perhaps "most worrying" of all the data, at least for the current month.

(-/0) **Durable goods orders** declined by -4.5% in May, just ahead of the -5.0% median forecast, and partially reversed the large gain of the prior month. However, removing transportation boosted the result to a gain of 1.3%, as the series normalized after a strong commercial aircraft rise in April. (Such transportation orders tend to be lumpy throughout the year.) Leading segments included metals and industrial machinery, while extending to the past few months also featured computers/electronic products, all of which have been tied to continued strength in the AI/data center building boom. In fact, the pace of growth for the electronics group was at the fastest semiannual pace in the last two decades. Core capital goods orders rose 1.6%, a percent more than expected. Capital goods shipments rose by 0.3%. Over the past year, total durable goods orders remained down by over -3% including transportation, while orders ex-transportation were up by 10%.

(-) **New home sales** declined by -7.3% in May to a seasonally-adjusted annualized rate of 580k units, in contrast to the 3.2% rise expected. Sales declines were most pronounced in the West, at nearly -30%, while they rose in the Midwest by over 15%. Nationally, over the past year, sales fell by -6.8%, with a double-digit gain in the Northeast offsetting a similar magnitude of decline in the West. The median new home sales price rose by 2.0% in the month to \$424,900, which was barely up from the median price of a year ago (rounding to zero). Months' supply rose by 11% in the month from 9.3 to 10.3, with slower sales and a rise in inventories, and was up 6% over the trailing 12 months. The average rate for a 30-year fixed mortgage has hovered around 6.5% for about a month, after rising from a trough of 6.0% in late Feb., at the cusp of the looming U.S.-Iran conflict. The higher financing rate has not done buyers any favors, as the median new home sales price has bounced around within a range of \$400,000-430,000 for much of

the past three years, with higher inventory and builder incentives helping pricing to a somewhat larger degree than for existing homes, which are still dominated by the low mortgage rate ‘lock in’ effect of years ago.

(+) The final **Univ. of Michigan index of consumer sentiment** for June showed a gain of 4.7 points (or 10.5%) to 49.5. This was led consumer expectations rising 15% for the month, while assessments of present conditions rose 4%. Over the past year, the overall index remains down -19%, with current conditions having fallen -26% and future expectations down -13%. Consumer inflation expectations for the coming year declined by -0.2% to 4.6%, while those for the next 5 years fell by -0.6% to 3.3%, around where they were pre-Iran war, and closely tied to feelings around gasoline prices. As noted by the sponsor, sentiment improved “across income, wealth, and political affiliation” and inflation fears eased “as gas prices moderate.” Expected business conditions for the next 5 years “surged” 16%, since “long-term consequences of the Iran conflict appear to be easing.” However, at the same time, the “cost of living” remains key in consumers’ minds, and “over half” noting that high prices were “weighing down their personal finances.”

(0) **Initial jobless claims** for the Jun. 20 ending week fell by -12k to 215k, below the 225k expected. Continuing claims for the Jun. 13 week rose by 21k to 1.821 mil., above the 1.802 mil. median forecast. Claims rose in NY but fell a bit in MI, but changes remained small and not significant in terms of broader apparent changes in national labor markets, which appear to remain in a decent range.

Market Notes

Period ending 6/26/2026	1 Week %	YTD %
DJIA	0.60	8.82
S&P 500	-1.94	8.06
NASDAQ	-4.59	9.18
Russell 2000	1.03	21.94
MSCI-EAFE	-1.29	8.31
MSCI-EM	-4.44	22.61
Bloomberg U.S. Aggregate	0.49	0.98

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
6/19/2026	3.83	4.19	4.23	4.46	4.90
6/26/2026	3.83	4.07	4.12	4.38	4.87

U.S. stocks were mixed last week, with the value and small cap groups seeing gains, but growth (including the Nasdaq) falling back. By sector, the defensive groups of health care, utilities, and consumer staples led. Technology lagged with a drop of over -5%, as investors again debated the pros and cons of AI infrastructure spending versus revenue, including announced price hikes for several Apple

and Microsoft products due to higher chip costs, and speculation concerns overseas. Real estate also increased by 4% with an easing in interest rates during the week.

Stock index-related headline news is rare, but last week included the annual FTSE Russell index reconstitution at the market close on Friday. This affects over \$12 trillion of asset benchmarked to the indexes, including the common Russell 1000, Russell 2000, and several sub-indexes tied to the series. Generally, it's expected that the R1000 Growth index will see an increase in semiconductor exposure (as their higher growth rates have outweighed their lower multiples in keeping with their traditional cyclicity), and R1000 Value may see a rise in software firms and other cyclicals (with lower multiples relative to firms in the growth index). These relative weights tend to change every year, though the R1000 Growth remains about two-thirds technology plus communications, and half of the R1000 Value is still focused on energy/financials/industrials/materials/utilities (although over a quarter is in the tech+communications segment as well).

Foreign stocks also saw declines, not helped by the negative impact of a stronger U.S. dollar, with developed markets faring slightly better than emerging markets. U.K. spirits were boosted with the resignation of pressured prime minister Starmer, and an impending replacement. For EM, it came down to the increasingly concentrated technology and AI-related stocks in South Korea (where Samsung and SK Hynix dominate at over half of the country's market cap). Last week, SK Hynix didn't have any formal company announcements, but did mention that it was shifting focus towards the "general-purpose DRAM market," a potentially less profitable area, so some investors appeared concerned that the recent AI-fueled boom times might not persist forever. Regulators also considered potential limits on popular leveraged products, after strong retail exuberance and higher margin debt. After a strong stretch of exceptional performance, the margin of error for such news has become a bit thinner.

Bonds were mixed last week, with U.S. Treasuries and investment-grade corporates seeing gains, along with falling yields across the curve, although high yield and floating rate bank loans fell back a bit. International bonds were similarly mixed, with the headwind of a stronger dollar holding back local/unhedged debt in both developed and emerging markets.

Commodities fell back broadly last week, along with price declines in energy, industrial metals, and precious metals. A key component was crude oil prices declining another -9% last week to \$70/barrel, as the preliminary U.S.-Iran agreement has led to ships exiting the Strait of Hormuz, further reducing intermediate-term supply concerns. Earlier in the week, Iraq warned that it might quit OPEC if it didn't get a quota hike (like UAE), in another sign of individual nations wanting to control their own petroleum revenue streams in an uncertain price environment.

Have a good week.

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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.

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