Summary

Economic data highlights last week included a slight decline in ISM services, although the metric stayed in solid expansion, along with a drop in existing home sales. The FOMC meeting minutes continued to show concern over the duration of the recent inflation rise.

Equities were mixed last week, with strength in domestic technology and energy as well as selected emerging markets. Bonds lost ground with inflation fears again rising. Commodities gained broadly, led by crude oil but also agriculture.

Economic Notes

(+/0) The **ISM services/non-manufacturing index** declined by -0.5 of a point to 54.0 in June, which was still a solid pace of expansion, indicated by readings over the 50 neutral level. Within the details, new orders decelerated also, by -2.2 points to 55.1, similar to the trend of general business activity, both of which were still showing decent growth. Employment rose by over 3 points, moving back into expansion at 51. Prices paid continued to improve, falling by nearly -4 points (with some respondents noting lower prices for gasoline and diesel), but remained at a very robust 68 level. As was described in the report, most categories remained “growing” (the overall index having done so for two years), although the rate of change was “slower.” Recent industries showing strength included mining and accommodation/food services, which appeared to include activity related to Middle East war-related supply movement, and seasonal effects, which this year included the World Cup activities. Those types of special events, similar to the Olympics, have tended to provide a near-term boost to economic activity in affected regions, although the long-term impacts have tended to wash out and not prove to be as sticky after the events end.

(-) **Existing home sales** for June reported by the National Association of Realtors fell by -2.4% to a seasonally-adjusted annualized rate of 4.09 mil. units, nearly the opposite of the 1.0% increase expected. Single-family units and condos/co-ops were down by similar magnitudes. Regionally, the Northeast saw a 2% gain, while all others lost ground, with the South faring worst, down -4%. The median existing home sales price rose 2.2% for the month to $440,600, which represented a 1.8% rise over the past year, obviously continuing to run below the pace of inflation, and dragging ‘real’ growth into negative terms. Inventory measured by months’ supply rose to 4.6, still below the 5.0 level the NAR considers ‘normal.’ Nationally, total existing home sales volumes rose 2.8% over the past year, although the sales level of roughly 4 mil. remains well below the over-5 mil. pace of the pre-pandemic period, and just above half the peak of 7 mil. in 2005, resulting in a continued supply deficit. The NAR noted that the “back-and-forth” of monthly activity due to “mild fluctuations” in mortgage interest rates showed how “sensitive” buyers are to affordability. They also lobbied that “without consistent gains in inventory, home prices can accelerate,” and emphasized a critical need to increase more supply to market. Though, ever optimistic, the NAR noted that half a million job gains year-to-date will “continue to provide support” to the market, with better affordability than a year ago due to wage growth outpacing home price growth. As an aside during the weekend, the **21st Century ROAD to Housing Act** (H.R. 6644) became law, and focuses on attempts to address structural barriers to housing supply and other policy modernizations, streamlining of environmental reviews, encourages zoning reforms, assists renters and first-time home buyers, and limits institutional investor single-family home purchases. The rare bipartisan support proved an indicator of the high level of a legislative boost.

(0) **Initial jobless claims** for the Jul. 4 ending week fell by -2k to 215k, below the unchanged 217k expected by consensus. Continuing claims for the Jun. 27 week rose by 8k to 1.814 mil., on par with expectations. Claims continue to plod along within their recent range, which is not a bad situation from a labor market perspective.

(0) The **FOMC minutes** from the June meeting, the first for Chair Kevin Warsh, noted that “all” participants supported keeping the policy rate unchanged at 3.50-3.75%, but “a few” believed there was a “case” to warrant a hike. The difference was due to feelings about inflation persistence, with “almost all” supporting some policy “firming” under scenarios where inflation remained elevated, while “almost all” also felt it would be appropriate to “maintain or eventually lower” rates if inflation headed back towards 2%. The latter “eventually lower” rates part was interesting as it pointed to some dovish bias after isolating the near-term assumed-temporary inflation spike. The committee discussed the tendency of inflation pressures spreading to a broader group of industries, although they remained at the core driven by petroleum prices, and by AI-driven investment demand to a lesser but more persistent degree. Economic growth and labor markets were both described as “solid,” with far less discussion than on inflation scenarios, it appeared. By Friday, CME Fed funds futures continued to price out chances of a late July hike at about 25%, with the highest chance of a hike at the next meeting in Sept., along with one more in early 2027, but obviously much depends on the Middle East situation.

Market Notes

Period ending 7/10/2026	**1 Week %**	**YTD %**
DJIA	-0.48	10.46
S&P 500	1.26	11.36
NASDAQ	1.74	13.44
Russell 2000	-0.60	20.71
MSCI-EAFE	-1.37	9.77
MSCI-EM	-1.74	21.70
Bloomberg U.S. Aggregate	-0.44	0.04

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
7/3/2026	3.82	4.14	4.23	4.49	4.98
7/10/2026	3.85	4.21	4.30	4.56	5.06

U.S. stocks were mixed last week, with few economic data releases, and led by offsetting movement in this year's key two themes, ultimate optimism in artificial intelligence industries offset by a drop in sentiment around a resolution to the U.S.-Iran Middle East conflict (and military strikes continued over the weekend). Volume was perhaps a bit lighter in keeping with normal summer patterns, as well as a lull prior to the start of Q2 earnings season. By sector, gains were led by technology and energy, each up over 3%, followed by communications. Laggards were materials, health care, and industrials, each of which lost up to a few percent. Real estate declined slightly, with yields moving higher for the week. Large caps outperformed small caps, which had been a source of recent strength, although a bit under-the-radar.

Before the open on Wed., speaking from the NATO summit, the President declared the U.S.-Iran ceasefire "over" and talks being "a waste of time" after a series of strikes on commercial shipping. At the same time, there was a reluctance to escalate to the use of U.S. ground forces, which appears to be politically very unpopular, and also puts a natural cap on how deep the conflict can go. Naturally, markets fell sharply in response, with oil prices rising around 6% immediately.
As noted, markets remain hyper-focused on the AI infrastructure environment. On Friday, interest turned to the U.S IPO for South Korean chip leader SK Hynix, raising money in order to ramp up manufacturing capacity to meet demand, and rose 15% in its debut.

Prior to their recent bout of volatility, semiconductor strength had driven the 'momentum' stock market factor sharply higher, but drawdowns in that factor can be quick and sharp. Notably, stocks rated high from the aspect of the 'quality' factor have underperformed in relative terms, including many in the Magnificent 7 group. That trend has been frustrating for a variety of managers, who have tended to overweight such quality stocks due to their inherent desirability from a fundamental standpoint (strong profitability, consistent earnings growth, low debt, etc.), and their long-term strong performance tendencies. But, short-term, factor movements can be fickle.

Foreign stocks were mixed, with gains in Japan offsetting declines in Europe and the U.K. In Japan, a decline earlier in the week was reversed when the finance minister called on domestic pension funds to raise allocations to home assets, which helped the yen stabilize as well. Emerging markets were mixed as well, led by Brazil and China for a change, with the former being helped by higher agricultural prices and latter seeing a boost from domestic AI-driven investment and product development, as AI continues along a dual competitive path between the U.S. and China, among perhaps others. South Korean stocks were down -8% along with some uncertainty around SK Hynix's U.S. Nasdaq debut and a bit of a reversal from recent strong momentum in the space, followed by Taiwan, also down several percent.

Bonds lost ground as yields rose, in keeping with Middle East tensions and oil directly sparking longer-standing inflation fears. As credit spreads widened, U.S. government outperformed investment-grade corporate, with gains in floating rate bank loans. Foreign bonds also fell back due to the interest rate impact and effects of a strengthening U.S. dollar, albeit small.

Commodities largely gained ground across the board last week, led by agriculture (with some drought concerns, affecting anticipated crop sizes) and energy, each up around 5%, while industrial metals rose to a lesser degree. Crude oil prices ended up rising 4% last week to $72/barrel, down a bit from a peak on Wednesday, as the above-mentioned U.S.-Iran conflict flared up again, putting a more sustainable truce at risk.

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, Housingalmanac.com, 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. 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.

REDSTONE
CAPITAL MANAGEMENT

Kevin Canterbury – Managing Director

kevin@redstonecapitalmanagement.com Direct: 480 685 2931