Summary

Economic data last week included recent month improvements in consumer and producer inflation, as well as consumer sentiment, tempered results in industrial production and retail sales, and a mixed bag of housing data. Based on flare-ups in the Middle East, a variety of economic data points have been prone to sharp back and forth reversals by month.

Equities fell back globally last week, with a flare-up in Middle East tensions and easing in AI-related sentiment. Bonds were little-changed, along with minimal yield movements. Commodities were driven higher by another double-digit spike in crude oil prices.

Economic Notes

(+/0) The **Consumer Price Index** declined by -0.4% in June on a headline level, the largest 1-month decline in 6 years, while core CPI dropped by a few hundredths, rounding to roughly unchanged. Obviously, the driver for the month was a -6% drop in energy prices broadly, and -10% in energy commodities, following three straight months of sizable gains. As core CPI was flattish in the month, price rises in recreation (0.5%), household furnishings/operations (0.2%), and personal care (0.2%) were offset by declines in hotels (-3%, in some World Cup reversal from the prior month), auto insurance (-2.0%), communication (-1.5%, including a -3% drop in wireless services), apparel (-0.6%), medical care, and used cars/trucks. Signs of infrastructure buildout demand were seen as well, in areas such as computer software/accessories (2.2%). In short, considering the continued high volatility in the Middle East, the single month inflation report might be too good to be true.

Year-over-year, headline CPI decelerated to 3.5% (from 4.2%), as did core CPI to 2.6% (from 2.9%). Over the 12 months, energy commodity prices being up 27% stand out as the most dramatic, with food prices up only 3%. Services less energy gained a more benign 3.2%, while a favorite core of core measure of “all items less food, shelter, and energy” rose a mere 2.1% for the year.

Central bankers, politicians, and the general public remain obviously unhappy with current inflation conditions, particularly in a mid-term election year with high prices being one of the most-discussed ‘town hall’ concerns. Of course, CPI reports describe the ‘rate of change’ in prices, which had been improving (pre-Iran war), but still ran at a pace unacceptable to those anchored to the 2.0% Federal Reserve ideal. The public has tended to see inflation more in the context of 'price level,' as we've experienced roughly a decade's worth of inflation impact in just a few years starting during the pandemic, but the negative feeling is the same, particularly with everyday items such as groceries and gasoline more recently.

(+/0) The **Producer Price Index** declined in June as well, by -0.3% on a headline level, but rose by 0.2% on a core basis, after removing food and energy. As with consumer prices, the reversal in energy and transportation costs pulled down monthly prices in a variety of categories, mostly in goods, with some price gains in capital equipment, which hints at AI demand as a subtle inflationary influence as of late. Year-over-year, headline PPI rose 5.5%, which included final demand goods up 7.9% (energy 23%), final demand services up 4.6%, and core PPI ex-food and energy up 4.7%.

(0) **Industrial production** rose by 0.1% in June, just below the median forecast of 0.2%. The manufacturing production segment was unchanged, even though auto production and high-tech equipment rose. The other two groups, mining (including petroleum extraction) and utilities production each increased by 0.4%. Year-over-year, the total index has risen only by 1%, although individual segments have diverged far wider from that. Oil/gas drilling activity has obviously picked up in response to Middle East activity, up at an annualized 12% over the past three months. AI demand has continued to make an impact as well, with high-tech equipment up 11% over the year, along with a strong gain in business equipment, and moderate rise in auto assemblies. **Capacity utilization** was unchanged for the month at 76.1%.

(+/0) **Retail sales** rose 0.2% in June, matching consensus expectations, but a far slower pace than the 1.0% of the prior month after revisions. However, the negative move in CPI boosted that by a few tenths in 'real' terms, which was good news. The results were mixed by component, with auto sales up nearly 2%, which was offset by a -5% drop in gasoline station sales, mirroring an ease in petroleum prices. This left core retail sales up 0.4%, after excluding the volatile pieces of autos, building materials, and gasoline, being led by non-store/internet retail and sporting goods, while health/personal care fell back a bit. On a year-over-year basis, headline retail sales grew 6.7%, with core having gained 5.8%, the differential largely masking the 20% rise in gasoline prices over that 12-month stretch.

(+) **Housing starts** rose a sharp 19.0% in June to a seasonally-adjusted annualized rate of 1.427 mil. units, which surpassed the 1.310 mil. units expected and reversed the -15% drop of the prior month. As is often the case, the more extreme results were due to a move in multi-family, with a 76% gain reversing the prior -40% drop, with single-family ticked down a few a tenths of a percent. Every U.S. region experienced a rise, led by the Midwest and West at 33% and 22%, respectively. Over the past 12 months, starts were up over 3.5% in total (mostly in the Midwest), driven by multi-family up 17%, while single-family starts declined by -3%. **Building permits** fell by -3.0% in the month to a seasonally-adjusted annualized rate of 1.367 mil. units, below expectations of a small gain, as multi-family permits fell just slightly more than single-family. Over the past year, total permit activity saw a drop of -2%, mostly led by multi-family falling off. Naturally, summer is a prime building period, seasonal adjustments aside, with continued high affordable housing needs in certain regions.

(-) The **NAHB/Wells Fargo Housing Market Index** for July fell a further -2 points to 34, significantly negative relative to the 50 'neutral' sentiment level. It's fallen below 40 for nearly a year and a half, the longest such stretch since 2012. Current sales conditions fell a point, while future sales expectations and prospective buyer traffic each fell by -2 points. Builders continue to cut prices at rising degrees over the past several months. Despite passage of the 21st Century ROAD to Housing Act the prior week, which could help ease several hot button issues like land use/zoning and regulatory reform, the NAHB noted "these reforms will take time to implement," and more policy change also needed at a state/local level. Otherwise, financing rates remain a primary home affordability hurdle, and with no broad fix on a legislative front.

(+) The preliminary **Univ. of Michigan index of consumer sentiment** for July rose by 4.9 points (or 9.9%) to 54.4, exceeding the 51.0 level expected by consensus. That was primarily driven by a 15% rise in assessments of current conditions, while expectations for the future also increased by over 6%. Though, overall sentiment remains down -12% from levels of a year ago. Inflation expectations for the coming 1 year eased by -0.4% to 4.2%, while those for the next 5 years were unchanged at 3.3%, albeit down from a peak of almost 4% a few months ago. No doubt, the recent conflict in the Middle East has pushed sentiment back and forth over the past few months, as lower-income respondents have always tended to be especially sensitive to gasoline prices. The survey sponsor noted that the recent improvement in sentiment "may prove difficult to sustain" if gas prices continue to inch higher again, with over two-thirds of interviews for the July survey having occurred prior to the renewed U.S. strikes on Iran starting Jul. 7. and "subsequent increase in gas prices." From an overall standpoint, sentiment remains poor, with higher-than-trend inflation continuing to weigh on the consumer mood (even if they don't stop buying outright), as well as the more polarized political environment, with happy/unhappy results often split by party. There have been a few questions about negativity-bias in responses through the newer web-based methodology, as opposed to the legacy phone-based system. After digging deeper into the question, the survey sponsor concluded that the divergence in answers between the two methods remained statistically unimportant, as they had been using web vs. phone testing data for years prior to the full web rollout. Political party differences, though, do appear consistent.

(+) **Initial jobless claims** for the Jul. 11 ending week declined by -8k to 208k, below expectations of a rise to 217k. Continuing claims for the Jul. 4 week fell by -16k to 1.805 mil., below the expected lesser drop to 1.818 mil. Claims were again mixed by state, with gains in MI offset by declines in MO and CA, with several states seeing reversals of the prior Jul. 4 holiday week, pointing to seasonality as a primary driver as of late. Otherwise, claims continue to run within a fairly tight range, not pointing to signs of any troublesome layoff activity on a broader level.

Market Notes

Period ending 7/17/2026	**1 Week %**	**YTD %**
DJIA	-0.93	9.43
S&P 500	-1.55	9.64
NASDAQ	-2.90	10.15
Russell 2000	-0.51	20.09
MSCI-EAFE	-0.81	8.89
MSCI-EM	-4.10	16.71
Bloomberg U.S. Aggregate	0.13	0.16

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
7/10/2026	3.85	4.21	4.30	4.56	5.06
7/17/2026	3.85	4.18	4.28	4.55	5.06

U.S. stocks fell for the week along with renewed tensions in the Middle East, as military strikes resumed and the U.S. administration vowing to reinstate a Strait of Hormuz blockade, including a 20% surcharge on 'all cargo.' This was coupled with Fed official comments surrounding potential hawkishness in future policy, although cooler CPI may have helped for the time being, as well as some pullback in the exuberance around AI and/or profit-taking leading to a pullback in the broad group globally. By sector, the sizable -4% decline in technology dominated the week (related to TSMC's planned further capital spend, and not helped by IBM being down over -25% after disappointing contract/consulting results), followed by consumer discretionary. From the peak around Jun. 22, semiconductor stocks have corrected by over -20%, although the year-to-date gains remain substantial. Partially offsetting these for the week were gains in energy of 5%, along with another reversal upward in oil prices, as well as positivity in consumer staples and financials, with the latter showing strong loan results in recent earnings results. Real estate also rose a few percent.

Earnings season for Q2 started last week, with only 10% of S&P 500 companies having reported so far, but year-over-year growth expectations lie at a rate of 24.7%, per FactSet. That would be down from the 29% earned in Q1, but remains ebullient, nonetheless. By sector, energy is now expected to lead, at a growth rate of 125% (!), thanks to the tailwind of this year's oil price spike, followed by technology (63%, half of which being in semiconductors, due to strong AI chip and memory demand) and materials (35%). Bringing up the rear is health care, with expectations of a -18% earnings decline, highlighted by several notable downward revisions for Merck and Eli Lilly. In parsing out the estimates further, FactSet noted that the Magnificent 7 company earnings were expected to grow by 31%, with the 'other 493' at 23%. Beyond that, removing expected top index contributors Micron Technology and Nvidia from the index would pull the growth rate down to 17%. That would be still quite robust but further reminds us of the high levels of today's current concentration in fundamentals and leaves little room for potential company-specific disappointment.

Foreign stocks were down on net, with a small gain in the U.K. offset by declines around -4% in Japan and emerging markets. Japanese stocks were affected by weaker technology sentiment, with the added challenges of Middle East oil import supply concerns having ramped up again, as well as the challenges of a weaker yen and multi-decade high 10-year bond yields that have started to close the gap with rates in other developed markets. In EM, while a variety of larger nations saw minimal change for the week, the overall index was brought down by AI- and semiconductor-focused South Korea and Taiwan falling 5-10%, with the former also raising interest rates by a quarter-percent in response to recent strong economic growth, and experiencing concerns about market speculation and retail margin account stress.

Bonds were mixed for the week, with little change in the underlying U.S. Treasury yield curve, and governments and floating rate bank loans outperforming corporates. After rising early in the week, yields fell back along with the CPI report coming in quite a bit softer than expected, removing some hawkish Fed fears for now. Foreign bonds generally fell back, despite a weaker U.S. dollar.

Commodities rose broadly last week, led by a double-digit gain in energy, while precious metals fell a few percent. The headline news was dominated by crude oil prices spiking again by 15% from recent trough-like levels of $71 up to $82/barrel, with a renewal of military actions, and threats of Hormuz closure, clawing back some of the recent decline as a hoped-for peace deal appears to be on the rocks.

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.

professionals know enough about the investor's individual circumstances to make an investment decision.

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