Summary

In a light week for economic data, S&P services PMI continued to increase, while manufacturing data flattened out, although both remained plagued by higher inflation. New home sales reversed course and rose, although to a minimal degree.

Equities were mixed, with declines in the U.S. and minimal gains internationally, with offsetting views about AI and inflation implications of the Middle East war. Bonds fell back globally along with higher inflation expectations and movements in the dollar. Commodities rose broadly, led by another spike in oil prices.

Economic Notes

(0) The initial **S&P Global US manufacturing index** for July fell by -0.1 of a point to 52.8, below the 54.4 reading expected. The report's composition showed a rise in employment, back into expansion; however, new orders and output each fell 1-2 points but remained in expansion. On the inflation side, input and output prices eased slightly, but remained solidly high in a 60-70 range. Future output fell by about a half-point, but remained solidly expansionary at over 66. Manufacturing has remained buoyant, and although that index represents only about 10-15% of the U.S. economy, it's been an important signal of cyclical change. Over the past year, AI infrastructure buildout has been a key driver of physical growth, although supply stockpiling around the start of the Middle East conflict contributed as well. This far, these signals don't show much that would warn of recession ahead.

(+) The initial **S&P Global US services index** for July rose by 2.4 points to 53.6, exceeding the 51.5 level expected, and further into expansion. The composition of various underlying components was generally positive, shown by gains in new business and employment, up several points further into expansion. The inflation-focused input and output prices, however, also inched up a few points to around the 60 range. Future output rose by over 2 points to a solidly-expansionary 65 level. In reference to both reports in general, S&P noted that the month saw an "encouraging return to hiring" for the first time in several months, although it could be "short-lived" due to being "boosted" by FIFA World Cup and USA 250 anniversary events. Price pressures were described as "concerning" as related to supply chain delays, which could play a role in "constraining growth and subduing demand."

(0) **New home sales** rose by 1.6% in June to a seasonally-adjusted annualized rate of 628k units, reversing several negative months, and included a prior month revision upward, but lagged the 4.8% gain expected. By region, the South gained 10%, while the West lagged, down -22%. Year-over-year, total new home sales were down -5.6%, as a double-digit decline in the West offset a sharp rise in the Northeast. In terms of inventory, months' supply fell about a percent to 9.3, although that's about 3% higher than a year ago. The median sales price declined by -3.3% for the month to $398,300, also down -2.7% from the price a year ago. New home sales figures have been plugging along within a fairly tight range of 600-700k over the majority of the past ten years. For the sake of context, the peak of about 1,400k was reached summer 2005, in the housing buildup just before the financial crisis, before troughing at under 300k in late 2010,

before recovering. We're roughly at levels last seen in the mid-1990s, although the U.S. population has grown by roughly 30% since then, reducing the impact of today's sales even further from that perspective.

(+) **Initial jobless claims** for the Jul. 18 ending week fell by -22k to 187k, well below the 210k expected. Continuing claims for the Jul. 11 week fell by -2k to 1.796 mil., below the 1.809 mil. level expected. In fact, the report represented the lowest level of initial claims since 1969, although seasonality has been a strong factor during early summer for the past several years, so the especially low levels may be a bit of an anomaly.

Market Notes

Period ending 7/24/2026	**1 Week %**	**YTD %**
DJIA	-0.35	9.05
S&P 500	-0.60	8.98
NASDAQ	-2.13	7.80
Russell 2000	-1.08	18.79
MSCI-EAFE	0.45	9.38
MSCI-EM	0.48	17.27
Bloomberg U.S. Aggregate	-0.74	-0.57

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
7/17/2026	3.85	4.18	4.28	4.55	5.06
7/24/2026	3.96	4.33	4.43	4.69	5.16

U.S. stocks fell back last week, with minimal economic news, but some concern over AI spending as well as a ramp-up in military actions between U.S.-Iran, which caused oil prices to again spike, raising distress about the impact on future inflation reports. The U.S. administration announced tariffs of up to 50% on Canada in retaliation on tariffs for several imported goods, and, as other 10% temporary tariffs under Section 122 (international balance of payments issues) expired on Friday, new global tariffs were imposed under Section 301 (unfair trade practices, and seen as more likely to survive legal challenges).

However, the net tariff changes appeared too minor for markets to react as they did in 2025, and the assumption by markets that a ramp-up in tariffs and resulting higher costs could continue to weigh negatively in front of mid-term election season ramping up over the next three months. For perspective's sake over the last 50 years, equity results have been flattish yet prone to volatility in the months prior to mid-terms, but have turned more positive than average afterward. Elections have tended to provide relief/finality to policy uncertainty seen in their run-up, regardless of outcome, although a split Congress has been received better than one might expect, due to the assumption of minimal drastic action.

By sector, gains were led by energy, utilities, and industrials, while the communications (Alphabet/Google and Meta) and consumer discretionary (mostly Tesla) sectors each declined by -6% for the week. Earnings season for Q2 pressed on, with 27% of S&P 500 firms now having reported, and the blended year-over-year growth rate having risen to 37.9%, which would be the strongest quarter in five years if it holds. Leadership continues to be driven by earnings gains in energy, communications services, and technology. Although, there have been some signs of additional scrutiny at the margins, with Alphabet/Google beating earnings expectations last week on extremely strong cloud revenue gains (over 80% year-over-year), but worries over a continued rise in AI infrastructure spend resulted in a price drop of -10%. A few ongoing key questions include: is all of the AI spend needed, when will it be too much, and when will the capex more dramatically translate to actual earnings? A few strategists have pointed out the echoes of 1999, and the internet/telecom overbuild, as a more cautionary comparative, although today's fundamentals, revenue, and profitability remain far stronger than the general case at that time.

Foreign stocks offered slightly positive returns on net, outperforming domestic and despite a stronger dollar, and led by gains in the U.K. and Japan. The ECB left policy interest rates on hold, keeping a data-dependent view with the duration of oil price impacts remaining uncertain. Emerging market stocks were barbelled by gains in Taiwan, Brazil, and China, offset by declines in India, as higher oil prices raised import inflation concerns, and South Africa, as the central bank surprised by leaving rates unchanged in a weaker growth environment.

Bonds fell back by a strong fraction of a percent across the board, as higher oil prices again threatened near-term inflation reports, and raising the chance of a Federal Reserve hike at their meeting on Wednesday (with odds wavering between 15-35% last week). Floating rate bank loans fared better, with small positive returns. Foreign bonds generally fell back along with similar rate impacts in addition to a stronger dollar. It was hoped that the new U.K. prime minister, Andy Burnham, would instill some confidence in the nation's fiscal affairs, as long-term gilt yields had continued to tick higher, trading at the widest spread in years versus higher-quality European debt.

Commodities rose across the board last week, led by energy, but precious metals and agriculture also saw gains of a few percent. West Texas crude oil prices spiked nearly 10% to $90/barrel, upon the U.S.-Iran tensions and rhetoric heating up again. That continued a back-and-forth news-driven chart since March, with prices bouncing around within a wide range of $65 to $110. Interestingly, it's been reported that more oil tankers have been moving through the Strait of Hormuz with their transponders turned off to avoid detection, so outward flows could be higher than reported and/or subject to revision. The most recent concerns have been focused on the Bab-el-Mandeb Strait at the southern end of the neighboring Red Sea, which has been prone to strikes by Iran-affiliated Houthi groups in Yemen. Aside from oil traffic, that also remains a critical byway for general container shipping between Europe and Asia, with potential disruptions also being a negative for the global economy should these escalate further. (Continuing the back-and-forth movement, oil futures were down as much as -7% this morning as military strikes paused for several days in a row over the weekend, upon hopes for further talks.)

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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