

Summary

On the shortened Independence Day holiday week, economic data included a disappointing employment situation report for June, while improvements were seen in consumer confidence and job openings, as well as a small drop but continued expansionary pace in ISM manufacturing. Home prices continued to inch along at growth rates below inflation.

Equities were mixed, with net gains in the U.S. and developed markets, while tech-oriented parts of emerging markets fell back. Bonds were mixed as well with yields rising in response to continued inflation concerns. Commodities saw minimal moves in energy, but more volatility elsewhere.

Economic Notes

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The **ISM manufacturing index** declined by -0.7 of a point to 53.3 in June, below the 53.9 level expected by consensus. Under the hood, new orders and production each fell by 1-2 points, but remained solidly in expansion along with the headline index. Employment rose a point to just under the neutral 50 level, while prices paid fell by -9 points to a still-elevated 73 level of extreme expansion. Commentary noted that sentiment among respondents had indeed improved, summed up by the anecdote that core business activity “remains solid” in the midst of “ongoing geopolitical uncertainty.”

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Construction spending rose by 0.1% in May, matching consensus expectations. As construction costs fell by -0.1% in the month, real spending gained 0.2%. The report also featured revisions going back nearly three years, which resulted in higher levels of activity overall, but showing weakness over the past year.

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The **FHFA home price** index declined by -0.1% in April, with the prior month change upgraded from 0.1% to 0.2%. By region, gains were led by New England (CT north to ME, 1.0%), while the Mountain division (AZ/NM north to MT, -0.8%) lagged. Year-over-year, the national price index rose 2.0%, which is now well below the pace of inflation for the same period, and below the 12-month number of 3.3% a year ago, used by FHFA as a comparative. Regional returns were bookended by a strong 4.4% return for East North Central (Great Lakes states) and a mere 0.2% rise in the Pacific division. Following the post-pandemic acceleration in home values, the more recent chart has flattened considerably. As has been the case with other data as well, recent trends show a movement away from the higher-priced Sun Belt areas in favor of more affordable Northern cities. The FHFA database, including millions of home sales back to the mid-1970s, is more comprehensive, including more than 400 U.S. cities.

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The **S&P Case-Shiller 20-city home price** index for April rose slightly but rounded to zero on a seasonally-adjusted basis, while it rose 1.0% on a non-adjusted basis. Per the adjusted data, gains were strongest in Chicago, and weakest in Phoenix, Las Vegas, and Seattle. For the last 12 months, the price gain pace reaccelerated by two-tenths to 1.1%. Over that full year, Chicago led with a 6.5% increase, followed by New York and Cleveland, rising 3-4%. Seattle prices fell -2.3% to lead on the downside. This showed a similar trend to the FHFA data, with Northern urban areas showing continued recovery to the

detriment of Sun Belt cities. S&P also noted that the monthly seasonal data masking “underlying softness,” with the continued affordability struggle remaining “a key headwind,” as well as continued high financing costs over 6%.

(0/+) The **JOLTS** job openings report for May showed a gain of 9k to 7.594 mil., above the median forecast calling for 7.296 mil. Gains were strongest in leisure/hospitality (95k), some of which may have been in advance of World Cup events, and weakest in private education/health care (-119k), which presumably also has some seasonal effects. The hiring rate was unchanged at 3.3%, as was the job openings rate at 4.6%. On the departure side, the quits rate was unchanged at 1.9%, while the layoff rate rose a tenth to 1.1%. The overall JOLTS level is back up to the higher end of the range seen over the past two years.

(0) The Conference Board’s **index of consumer confidence** for June rose by 0.6 of a point to 91.2, below the 94.4 expected. While assessments of present conditions fell by -3 points, expectations for the future rose by 3 points to offset, no doubt helped by “falling oil prices in recent weeks,” along with fewer mentions of the Middle East war, as noted by the survey sponsor. The labor differential fell by nearly -3 points, with a slight rise in respondents noting jobs were “hard to get” (up 3% to over 22%), but the bulk of labor assessments were neutral. Inflation expectations for the coming 12 months fell by -0.2% to a still very strong 6.0%, and the majority of respondents expected higher interest rates over the next year.

(0) **Initial jobless claims** for the Jun. 27 ending week fell by -1k to 215k, below the 218k median forecast. Continuing claims for the Jun. 20 week rose by 2k to 1.814 mil., still below the 1.820 mil. expected. As seen in the tempered results, there has been little change in claims activity as of late, which points to a benign labor market with few signs of widespread stress.

(-) The June employment situation report was a bit of a disappointment, with **nonfarm payrolls** rising by 57k, below the 113k expected. That also included revisions downward for April (-31k to 148k) and May (-43k to 129k). For the month of June, employment rose in professional/business services (36k), social assistance (25k), and health care (22k). However, declines were seen in leisure/hospitality (-61k), which was likely affected by seasonal hiring and normalization from pre-World Cup event hiring in the U.S., with smaller declines in information, retail, and mining. The U-3 **unemployment rate** fell by a tenth to 4.2%, while the U-6 underemployment rate fell by -0.2% to 7.9%. The unemployment rate stat was pulled down by a -0.3% drop in the labor force participation rate, which represented an unusually large drop of -700k workers aged 25-34, and was the largest such drop since the pandemic. At the same time, methodological differences between the surveys and continued substantial changes in demographic data recently make such measurements increasingly difficult. **Average hourly earnings** rose by 0.3%, which represented a 3.5% increase on a year-over-year basis. The **average workweek length** was unchanged at 34.3 hours for the month.

Market Notes

Period ending 7/3/2026	1 Week %	YTD %
DJIA	1.99	10.99
S&P 500	1.78	9.98
NASDAQ	2.12	11.49
Russell 2000	-0.42	21.43
MSCI-EAFE	2.76	11.30
MSCI-EM	1.02	23.86
Bloomberg U.S. Aggregate	-0.50	0.48

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
6/26/2026	3.83	4.07	4.12	4.38	4.87
7/3/2026	3.82	4.14	4.23	4.49	4.98

U.S. stocks were mixed last week as investors digested divergent economic and employment data, with large cap growth outperforming, while small caps fell back a bit. By sector, gains were strongest in communications and financials, followed by consumer discretionary and health care. Energy and utilities fared worst, down a percent each, although technology suffered a drop of several percent in the latter few days of the week. Real estate also lost some ground for the week as interest rates ticked up.

Although the ‘memorandum of understanding’ remains in place between the U.S. and Iran, skirmishes back and forth continue to put the ceasefire at risk, although financial markets have already seemed to still be looking past all that. Monday, the U.S. Supreme Court ruled against the U.S. administration, in allowing Fed Governor Lisa Cook to remain on the Fed Board while the lower courts review the validity of the mortgage fraud case brought against her. The importance of the Fed’s independence was singled out in the court’s majority opinion, which financial markets appeared to interpret as an important message, with the Fed being treated somewhat differently than the membership of other Federal agencies, where more executive branch authority in making leadership changes has been more commonly accepted.

Foreign stocks rose in Europe and Japan, with some help from a weaker U.S. dollar, and perhaps continued normalization in the Middle East and lower oil prices. The Japanese yen has reached its weakest point vs. the U.S. dollar in 40 years, in part due the political desire to keep a weaker currency there (to help exporters) but also continued high debt levels. Emerging markets were mixed for the most part, with gains in Taiwan and China offset by a decline in Brazil, though the broader index was taken down by a sharp drop in South Korea, a large EM index holding. As is well-reported, the Korean index is highly concentrated in chip giants Samsung Electronics and SK Hynix, which suffered strong drawdowns later in the week upon fears of possible AI overexpansion (triggered by Meta’s plan to sell computing power). The debate over the correct AI demand and supply balance continues, but history has shown that

overbuilding has been more common than not in new technologies, at least in the short-term until all capacity is eventually absorbed.

Bonds showed mixed results, with U.S. Treasuries and investment-grade corporates down as yields rose, while high yield and floating rate bank loans gained for the week. International bonds were flattish to higher, in line with exposure to a lower dollar. While at an ECB central bank forum in Portugal, Fed Chair Kevin Warsh continued to hit on inflation being too high, which led markets to assume perhaps a higher for longer regime.

Commodities were mixed as well, with gains in precious metals and agriculture (sugar and wheat) offsetting a decline in industrial metals. Crude oil prices declined another percent last week to \$68/barrel, along with a lack of negative news from the Middle East.

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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