Summary

Economic data included mixed results for PMI data, with manufacturing down and services up, gains in industrial production, and a decline in housing starts.

Equities lost ground globally last week, with the continued Middle East conflict and some volatility in government interest rates. As yields rose, bonds were mixed, with foreign bonds helped by a weaker dollar. Commodities saw gains, including another rise in energy, along with the ongoing U.S.-Iran tensions.

Economic Notes

(+/0) The preliminary **S&P Global Manufacturing PMI** for August declined by -0.7 of a point to 53.2, below the expectations for an unchanged reading of 53.9, but remained in solid expansion. By segment, new orders and output fell slightly, but remained in expansion, while employment rose a bit further into expansion at 51. Input and output prices fell slightly, but remained strong and expanding in the 59-66 range. The future output index rose by two points to 68, also showing solid expansion.

(+) The preliminary **S&P Global Service PMI** for August rose by 2.2 points to 56.8, surpassing the expected decline to 54.0, and moved further into expansion. New business and employment each rose by 1-2 points, further into expansion. Input and output prices each fell by at least -3 points, but remained in expansion in the range of 55-59 for both. Future output ticked up slightly to 64, also solidly expansionary. Comments from S&P were cautiously optimistic, noting that job growth experienced a “welcome revival” in the month, with higher employment confidence “as concerns fade” about the negative economic inputs from tariffs and the Middle East conflict. However, even “while fading,” price pressures “remain elevated” and “prone to renewed upward pressures” if energy prices move higher.

(0) **Industrial production** rose 0.2% in July, just below the 0.3% rise expected. Manufacturing production rose 0.2% as well, in line with consensus, in addition to an upward revision of three-tenths for the prior month. That segment was led by high-tech production (up 2% for the month, including communications equipment, semiconductors, etc.), which offset a drop in motor vehicle assemblies of nearly -3%. Mining/petroleum activity also rose 0.2%, while utilities production rose 0.5%, which tends to be weather-based in summer, but also seeing rising draws for data centers. Over the past year, total industrial production rose only 1.1%, with business equipment having gained 7% and high-tech equipment leading the way, up nearly 12%, along with AI infrastructure spending that’s sustaining the rest of the production economy. **Capacity utilization** ticked up a tenth to 76.3%.

(-) **Housing starts** fell by -12.4% in July to a seasonally-adjusted annualized rate of 1.239 mil. units, below the median forecast of a -5.9% decline, and a sharp reversal of the gain the prior month. Single-family starts fell by -10% (to the lowest levels in nearly four years), while multi-family declined by -17%. Regionally, a rise in Northeast starts was offset by double-digit declines elsewhere, notably in the Midwest. Year-over-year, total starts declined by -13.5%, led by the -16% decline in multi-family. **Building**

permits, on the other hand, rose 5.0% to the seasonally-adjusted pace of 1,443 mil., beyond the 0.6% rise expected.

(-/0) The **NAHB/Wells Fargo housing market index** for August saw an improvement of a point to 35, and representing the 16th straight month of below-40 readings (with 50 being neutral, neither positive nor negative). As was the case in prior recent months, about 35% of builders cut sales prices during the month. Under the hood, current sales conditions rose 2 points to 39, while future sales expectations and prospective buyer traffic were unchanged, at 43 and 23, respectively. The NAHB continued to note "signs of weakness" in the home building market, although custom home builders saw "stronger" market conditions than spec builders, which reflected better conditions on the higher-priced end. Also, "less dense" markets have been outperforming larger metro areas. As has been the case for some time, while a lack of homes would normally provide a tailwind to the building industry, high interest rates continue to exhibit negative pressure on homebuying conditions.

Also interestingly, the Federal Reserve Bank of Minneapolis published a study recently casting a bit of a shadow on the often-assumed U.S. **homeownership rate** of around ~65%, a ratio quoted frequently in political circles. Looking at more nuanced definitions, that common measure captures the share of total housing units that happen to be owner-occupied. The Minneapolis Fed study proposes a person-based alternative using a homeowners-to-population ratio (HPOP), measuring the share of U.S. adults who actually own the home in which they live—which turns out to be just over 53%. Differences between the two ratios reflect family living dynamics in some cases, but also tended to follow affordability, with the most expensive states (such as HI and CA) seeing the widest gaps between the ratios, while narrower gaps (such as ND) fell in line with more affordable housing stock, as might be expected.

(0) **Initial jobless claims** for the Aug. 15 ending week fell by -6k to 206k, below the 210k median forecast. Continuing claims for the Aug. 8 week, on the other hand, rose by 18k to 1.799 mil., a bit above the 1.788 mil. expected. Aside from small rises in MI, NY, and TX, the report showed little change nationally, continuing to point to minimal layoff activity. The insured unemployment rate remained stable at 1.2%, where it's been for the last few weeks, and a tenth lower than a year ago. In the case of claims, 'boring' is good.

(0) The **FOMC** meeting minutes from the July meeting reiterated that "most" participants supported a no change in policy, but "several" favored a hike (seen in the voting dissents). The rationale for a hike was seen as likely helping "forestall the need" for "steeper and potentially more costly" hikes later. At the same time, "most" members expected inflation to decline for the rest of this year, as tariff and energy impacts fade, but stayed aware of upside risks from a prolonged Middle East war. Also "various" participants felt that financial conditions have tightened since the prior meeting, reflecting "market expectations" over possible committee action, which did some of the Fed's job for it (noted by Warsh in his post-meeting press conference). Labor markets were seen as "stable," with "some" noting that moderate wage growth was consistent with inflation goals. Being the second meeting for Chair Warsh, the format continued to evolve it seemed, as he also suggested reducing the frequency of meetings from 8 to 6 per year, which could give the FOMC more time to evaluate trends in data from meeting to meeting.

(+/0) The Conference Board's **Index of Leading Economic Indicators** for July rose by 0.2%, following a revised -0.1% dip in June. For the single month, the leading indicator was led by the positive influences of low jobless claims, stronger building permits, and the positive yield curve (10yr minus Fed funds), while consumer sentiment remained the primary negative. The coincident and lagging indicators each moved up by 0.2% as well. The 6-month growth rate turned positive for the first time in four years, at 0.2%, a reversal from the contractionary -1.3% for the prior 6-month period from Aug. 2025 to Jan. 2026. Poor consumer sentiment was a dramatic negative contributor, but was offset by positive results in the other 9 indicators, including the yield curve, manufacturing new orders, and gains in the S&P 500. Per sponsor, the recent positive results point to an economic environment of "moderate growth ahead," forecasting real GDP of 1.9% for both 2026 and 2027, which falls right around trend.

Market Notes

Period ending 8/21/2026	**1 Week %**	**YTD %**
DJIA	-0.78	11.96
S&P 500	-1.39	12.95
NASDAQ	-2.02	13.07
Russell 2000	-1.60	22.48
MSCI-EAFE	-0.54	14.14
MSCI-EM	1.24	24.22
Bloomberg U.S. Aggregate	-0.10	-0.34

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
8/14/2026	3.86	4.17	4.36	4.68	5.25
8/21/2026	3.88	4.24	4.43	4.74	5.27

U.S. stocks fell back last week, with Middle East tensions continuing, along with higher oil prices and yields, as well as a pullback in semiconductor sentiment. Early in the week, the 50% tariff on Canadian goods (including culturally-relevant items like hockey sticks) set to go at midnight Tue. (later postponed to the weekend) which lowered sentiment as investors hoped the contentious tariff days were over. The U.S.-Iran tensions remained high, as comments from the U.S. administration towards Oman and the Strait of Hormuz generally alluded to a more drawn-out conflict.

By sector, health care led the way, up over 4% for the week, followed by energy and materials. Laggards included declines in utilities, industrials, and technology (semiconductor-related). Real estate also declined slightly. In the healthcare space, shares of Moderna more than doubled along with successful clinical trials for a melanoma vaccine, as well as partner Merck. This, coupled with delayed hopes for AI-related healthcare productivity gains raised hopes for not only that product but a class of personalized cancer vaccines with far shorter development times.

Foreign stocks were mixed, with gains in the U.K. and emerging markets, coupled with declines in Europe and especially Japan. For the latter, a consumption tax cut, rising yields, slowing economic growth, and a weak yen continued to weigh on sentiment. Within EM, weakness in Taiwan, correlated with U.S. tech was offset by other segments, such as South Africa and Mexico, seen as benefitting most from higher commodity prices.

Bonds fell back only slightly on net, despite yields rising throughout the U.S. Treasury curve. Floating rate bank loans outperformed traditional bonds, as might be expected. while unhedged foreign bonds fared best, due to a falling U.S. dollar. The 30-year U.S. Treasury bond reached 5.3%, another high point for the last 20 years, in keeping with record highs for Japanese and U.K. bonds for the same stretch. Concerns appear to be focused on government fiscal debt and deficits, as well as larger funding pressures from AI-related corporates (causing government yields to creep higher to compete).

By Wed., the U.S. Treasury Dept. announced it will double the size of liquidity support buybacks (although from levels of very small to less small, especially relative to larger past bond programs such as quantitative easing (QE)), mentioning the 10-20 year and 20-30 year segments specifically. It's assumed that the recent rise in long-end Treasury yields was the more immediate catalyst for action (as buying demand can bring down yields most directly). However, yields fell by less than -0.10% upon the announcement. Markets had become used to the Fed's buying/selling, in QE or QT functions, but Chair Warsh favoring a smaller Fed balance sheet ultimately left the door open for the Treasury to again take a more proactive role. However, by Thur., markets had already had reversed themselves a bit, with yields/term premiums rising due to the perception the government was concerned enough to perform a market action, but the size may not be sufficient. The underlying fiscal deficit/debt issues that have weighed on long-term bond prices don't have an end in sight, although the U.S. dollar remained weak as 'dollar debasement' fears again were heard. In fact, U.S. debt passed the level of $40 tril. last week, beyond 100% of U.S. GDP, seen as a signal by some economists of being a load large enough to begin to weigh on economic growth.

Commodities gained broadly by several percent last week, led by energy, precious metals, and agriculture, all based on different drivers. Gold has become popular again, reversing course from weakness in the first half of the year, with the weaker dollar taking center stage as debt levels continue to creep higher. Crude oil prices rose another 5% last week to $87/barrel, as Middle East tensions persisted with more rhetoric and threats of further U.S. economic sanctions on Iran, but no resolution in sight.

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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What caused the market to move this week?

Market movement is often driven by a combination of economic data, interest rate expectations, corporate earnings, investor sentiment, and geopolitical developments. A single week's movement should usually be viewed in the context of longer-term trends rather than as a stand-alone signal.

Why do interest rates affect stock and bond prices?

Interest rates influence borrowing costs, consumer spending, corporate profits, and the relative attractiveness of different investments. When rates move meaningfully, both stocks and bonds can reprice as investors reassess risk, income, and future growth expectations.

How does inflation impact investment portfolios?

Inflation can reduce purchasing power and influence interest rate policy, bond yields, consumer behavior, and company margins. Investors should evaluate inflation in relation to their income needs, time horizon, and overall asset allocation.

Why do bond yields matter to investors?

Bond yields can affect income expectations, borrowing costs, and how investors compare the value of stocks, bonds, and cash. Changes in yields may also influence the price of existing bonds and broader market sentiment.

What does economic data mean for investors?

Economic reports can influence expectations for growth, inflation, employment, and interest rates. Investors should consider economic data as one input in a broader planning and investment process rather than a reason to make reactive decisions.

Why does the Federal Reserve matter to the markets?

The Federal Reserve influences short-term interest rates and monetary policy. Markets often respond to Fed commentary because it can affect borrowing costs, inflation expectations, and investor assumptions about future economic growth.

Should investors react to short-term market news?

Short-term news can be important, but it should not automatically drive major portfolio decisions. Investors are generally better served by reviewing market developments within the context of their goals, risk tolerance, liquidity needs, and time horizon.

How can investors stay disciplined during market volatility?

A written investment plan can help investors avoid making emotional decisions during volatile periods. Discipline often comes from understanding why a portfolio is positioned the way it is and how it supports long-term objectives.

Why is diversification important during uncertain markets?

Diversification helps spread risk across different asset classes, sectors, and investment types. It does not eliminate risk or guarantee results, but it can help reduce overreliance on any single area of the market.

Should investors change their strategy based on one week of market news?

In most cases, one week of market movement is not enough information to justify a major strategy change. Any adjustment should be considered in light of the investor's broader financial plan, risk tolerance, and long-term objectives.

What should investors take away from this week's market update?

The key takeaway is to evaluate short-term market movement through the lens of long-term planning. Market updates can provide context, but individual decisions should be grounded in a disciplined plan.