Summary

Economic data for the week included the U.S. Federal Reserve keeping interest rates on hold, U.S. GDP for Q2 growing at a pace slightly below trend, as well as moderate gains in personal income and spending, durable goods orders, and home prices. Consumer sentiment remained mixed.

Equities saw gains globally, with decent earnings and lack of Middle East escalation. Bonds were mixed, as yields rose. Commodities fell along with oil prices, coupled with a fading in Middle East tensions early in the week.

Economic Notes

(0) The **FOMC** kept rates on hold at 3.50-3.75%, although 3 dissenting voters wanting a rate hike. The lack of change in the short post-meeting statement wording left little for investors to digest. Perhaps most poignantly, the concluding comment that “The Committee will deliver price stability,” points to an entity wanting to reiterate the strength of its goal to the public after several years of frustratingly high inflation.

At the post-meeting press conference, Chair Warsh was positive about the U.S. economy broadly, especially business investment and output, and “steady” employment. He noted a lack of forward policy guidance continues to seem “prudent” in such uncertain times. When asked about the lack of guidance, he reiterated his aim of seeking a direct, “unfiltered message” from markets, and acknowledged any lack of Fed action on the short-end has been offset by market action on the long-end, as “markets are learning to play the ball, not the referee,” as he put it, in attempting to separate Fed views from the raw economic data he believes markets should be focusing on. In terms of the impact on interest rates, markets have “made decisions” about where nominal rates should be across the curve, which the Fed is “observing.” That was taken a bit dovishly by markets, where it’s been assumed markets have taken care of some of the tightening function themselves, rather than the Fed needing to do it, although such comments were not dissimilar to those of former Chair Powell in the past at times.

In regard to the dissents, Warsh asked for a “family fight” and he “got one” through an “active, robust” discussion, with a lot of “commonality” on the issues, with differences in implementation actions. He repeatedly focused on the Fed’s goal being price stability as a north star, as the Fed will be ultimately judged on “how we perform” (in successfully handing inflation). At the same time, he noted that financial market “surprises” are not part of their objective, which also implies informal Fed member comments over coming weeks could add color about the odds of policy actions for future meetings. (Futures market probabilities for September point to a hike in the base case, although predictions by private economists continue to vary more than normal, due to the sparce guidance.) Perhaps even more dramatically, Warsh has discussed the possibility of eliminating press conferences altogether, which would be a throwback to the opaque way the Fed operated before the early 1990s, and continued somewhat during the Greenspan era when information was shared, but in a more cryptic manner. A new low-communication regime could be an adjustment challenge for markets, having grown used to a high level of transparency and guidance, even if that guidance hasn't ended up resulting in eventual action in every case, pointing to the very problem Warsh is trying to tackle.

(0/-) The first estimate of **U.S. GDP growth** for the 2nd quarter came in at an annualized 1.5%, down from the expected 2.0% pace, and below Q1's 2.1%. Inflation, measured by the GDP deflator rising an annualized 6.2%, played a major role as nominal GDP rose by an annualized 7.9%. Contributors to real GDP included gains in personal consumption (3.2% growth, mostly in goods over services, contributing 2.1% to the total) and private investment (up 3.0%, mostly due to a strong 15% gain in equipment, contributing 0.5%). Housing investment also grew for the first time in a year and a half, by 1.5%. These were partially offset by declines in net exports (trimming -1.0% off of GDP as growth in imports was double that of exports, some of which was no doubt tech-equipment related) and government spending (down -0.8%, detracting -0.1% from the total, mostly in non-defense areas, including drawdowns from the U.S. Strategic Petroleum Reserve (SPR) to stabilize oil prices, which falls in that category). Personal consumption appeared to be helped by tax refunds and other fiscal policy, as well as World Cup activity. Early forecasts from private economists for Q3 have been running in a similar range of 1.5-2.5% thus far, although early.

(0/+) **Personal income** rose by 0.2% in June, just short of the 0.3% expected, and reflected a drop-off from the prior month's government farmer assistance payouts. **Personal spending** rose 0.3%, also a tenth short of expectations, focused on services such as health care and insurance, as opposed to goods. The personal saving rate fell by a tenth to 2.7%, which was one of the lowest reported rates since 1960, with notable exceptions being the pandemic and Global Financial Crisis periods. Over the past year, personal income has risen by 3.9%, with spending up 6.3%, led by durable goods growing at a slightly faster rate than other segments. **PCE inflation** declined by -0.1% for the month, the first drop in four years, while Core PCE excluding food and energy rose by 0.1%. Over the trailing 12 months, headline PCE decelerated to 3.7% (from 4.1%), as did Core PCE by a tenth to 3.3%. The PCE report featured some methodological changes to inflation calculations, including an attempt to fix mismeasurement of AI and other effects in the areas of software, financial services, and legal services. These were expected to cut about 0.2% off of the 12-month inflation number, which was not insignificant.

(0/+) **Durable goods orders** rose 0.3% in June, well below the expected 1.8%, but an improvement on the sharp decline of the prior month. Removing transportation boosted the gain to 0.6% (as defense aircraft orders fell), with core capital goods orders rising 0.9%. In other segments, gains in new orders for computers and electronics were offset by declines in motor vehicles and fabricated metals. Core capital goods shipments rose 1.9%, far above the 0.6% expected, and were the strongest single month of shipments in five years. Over the past year, total durable goods orders rose 7.4%, and 11.0% after removing transportation. The capital investment for data centers continues to be a main driver in a variety of reports, obviously seen here by the strength in computer-related goods (up 17% year-over-year, in second place to primary metals).

(0) The **FHFA house price index** rose a seasonally-adjusted 0.3% in May, exceeding the 0.1% rise expected, as well as the -0.1% decline of the prior month. By region, East South Central (KY/TN/AL/MS)

rose 1.4%, while the Pacific states saw a decline of -0.6%. Over the past year, national home prices rose 2.2%, led by a 4.5% rise in the Middle Atlantic division (NJ/NY/PA), while a -0.3% decline in Pacific fared worst. What's most notable about this broad national index is the deceleration of growth to below the pace of inflation, unusual historically, and running in contrast to the pandemic period, where growth ran at a higher-than-average level.

(0) The **S&P/Case-Shiller 20-city house price index** rose 0.2% on a seasonally-adjusted basis in May, and 0.9% on an unadjusted basis, the latter reflecting a normally more robust spring selling season. For the month, Boston and Chicago fared best, with gains of over a half-percent each, while Las Vegas and San Diego prices declined by similar amounts in the opposite direction. Over the past 12 months, the national 20-city index reaccelerated a bit to 1.6%, from 1.2% the prior month. Chicago continued to see the strongest yearly results, up 6.9%, followed by New York and Cleveland in the 3-4% range, while Las Vegas fared weakest, down -1.9%. S&P reiterated the current status of conditions, with "affordability" being a "significant headwind" for buyers, especially as the 30-year fixed mortgage rate having ticked back up, along with long-term U.S. Treasury yields.

(0/-) The **Conference Board consumer confidence** index for July declined by -1.4 points to 90.8, below the small expected gain to 92.4. That was driven by assessments of the present situation, declining by nearly 4 points, although expected business conditions remained positive, while expectations for the future were unchanged. The labor market differential fell by nearly a percent but also remained positive, with fewer respondents claiming jobs were "plentiful," while the "hard to get" responses were little-changed. After an intermediate-term peak in late 2021, confidence has been on a "general downward sloping trajectory" as it was put by the survey sponsor. By demographic segment, confidence was highest for those under age 35, with high incomes, and a Republican party affiliation. Consumer expectations didn't fall off a cliff in July, but did ease relative to the prior month in a variety of areas, including business conditions and household finances. While negative comments about the war, geopolitics, and gasoline prices abated, mentions of high food and grocery prices rose, which weigh on lower-income households.

(+) The final June **Univ. of Michigan index of consumer sentiment** came in a 55.2, a gain of 5.7 points (11.5%) over the prior month, and led by a rise of 15% in assessments of current conditions and 9% in expectations for the future. Year-over-year, the overall index remained down -11%, mostly led by the -20% drop in the current component. Inflation expectations for the coming year fell by -0.4% to 4.2%, while those for the next 5-10 years were unchanged at 3.3%, both remaining elevated. The sponsor noted that improvements were seen broadly from a demographic standpoint, with 5-year expected business conditions reaching a 12-month high, though still below the long-term average. However, inflation/price levels and political and military developments continued to weigh on the mood.

(0) **Initial jobless claims** for the Jul. 25 ending week rose by 9k to 197k, just below the 200k expected by consensus. Continuing claims for the Jul. 18 week fell by -7k to 1.782 mil., below the median forecast of 1.795 mil. Recent changes included a small gain in TX offset by a decline in MI, but remain otherwise minimal around the country, which point to a reasonably balanced labor market.

Market Notes

Period ending 7/31/2026	**1 Week %**	**YTD %**
DJIA	1.04	10.17
S&P 500	1.06	10.14
NASDAQ	1.60	9.53
Russell 2000	0.05	18.85
MSCI-EAFE	2.02	11.59
MSCI-EM	2.36	20.04
Bloomberg U.S. Aggregate	-0.12	-0.69

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
7/24/2026	3.96	4.33	4.43	4.69	5.16
7/31/2026	3.83	4.28	4.45	4.75	5.27

U.S. stocks rose for the week, with a continued focus on the Middle East, artificial intelligence investment, as well as the outcome and tone of the second Fed meeting under Kevin Warsh. The Nasdaq 100 had declined to just beyond the -10% correction territory, from a high point in early June, with the positive semiconductor momentum having reversed rather sharply, although the index recovered a bit later in the week.

By sector, gains were led by consumer discretionary up 6% (led by Amazon's 17% rise), followed by communications (driven by Alphabet/Google and Comcast), financials, and consumer staples. On the other hand, utilities saw a decline of -4% for the week. Real estate also lost a few percent in keeping with rising interest rates.

The highest-profile week of earnings season was highlighted by closely-watched reports from hyperscalers and Mag 7 members Amazon, Apple, Meta, and Microsoft, each with divergent results. Meta fell sharply upon lower free cash flow and higher capex spending, while Microsoft was celebrated (up 17%) for cutting capex spending expectations but also robust growth from the Azure cloud business. Apple was punished by investors, despite decent results, following comments of higher memory costs accompanying weaker global inventories. While high demand for compute continues, there still remains a good deal of uncertainty about how much continued capex is appropriate or desirable when dipping that deeply into free cash flow.

With over 60% of S&P 500 firms now having reported Q2 earnings, per FactSet, blended year-over-year earnings growth lies at an eye-popping 47.4%, well above initial expectations for the mid-20s. Revenue growth remains markedly strong as well, at 14.1%. Leadership has come from energy, communications, and consumer discretionary, with the top 5 contributors to index results being Micron Technology, Alphabet, Chevron, Amazon, and Nvidia. After removing the 'other income' from equity investments, such as for Alphabet, Amazon and Microsoft, growth is still pegged at around 26%, with growth for the median S&P stock at 12%.

Foreign stocks saw gains of a few percent last week, in both developed and emerging markets, helped by a weaker U.S. dollar. Helpful were stronger-than-expected European earnings and GDP growth coming in a bit better than expected (quoted at 0.4% quarter over quarter, which annualizes to just above the U.S. GDP reading last week when measured on comparable terms). The Bank of England and Bank of Japan both met last week, and kept rates unchanged, although there some hints of later hikes if inflation pressures persist. This has moved key central banks more towards consensus, as all are battling inflation expectations, as opposed to less similar economic growth conditions. In EM, Chinese stocks gained as a 'national team' of state-sponsored investors added buying support in the midst of recent struggles and goals to enhance tech investment broadly. South Korea and Taiwan sold off sharply due to some apparent deleveraging and profit-taking following a sharply strong recent run, with some possible concerns over Chinese competition in the chip space.

Bonds ended mixed, with little-change for U.S. governments and investment-grade corporates in intermediate maturities, although long-term U.S. Treasuries sold off upon seeing their highest yields in two decades (e.g., 5.3% for the 30-year). Unhedged foreign bonds fared positively, with a selloff in the U.S. dollar.

Commodities fell back for the week, led by energy and precious metals, which offset a small gain in industrial metals. Crude oil fell by nearly -7% on net last week to $85/barrel, with an early drop on Monday with U.S.-Iran hostilities being paused continued through mid-week, after which prices inched back up a bit again.

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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FAQ:

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.