Summary

Economic data included increases in ISM manufacturing and services indexes. The monthly employment situation report disappointed, with far slower growth than expected, although the unemployment rate also declined.

Equities rose globally last week, helped by decent economic data and better news from the Middle East. Bonds gained as yields fell back globally. Commodities were mixed, with gains in precious metals offset by a decline in energy.

Economic Notes

(+) The **ISM manufacturing index** rose by 2.3 points to 55.6 in July, exceeding the 53.9 level expected by consensus. That pushed the index further into expansion and the highest level in over four years. Gains were seen in several areas, pointing to broader strength, including new orders up a point to 57, production up 6 points to 59, and employment up 3 points back into expansion at 53. Prices paid fell by -2 points, but remained solidly in expansion at 71. The AI infrastructure buildout was mentioned a few times by respondents, including semiconductors and other connectivity components, which remains a significant contributor to economic output. Other growth areas have included domestic reshoring efforts and near-term defense production and re-stocking due to the U.S.-Iran war. Among the anecdotal responses, some bordering on sarcastic, one offered the opinion that the current uncertain environment made them “yearn” for the pandemic, which was “more manageable” in relative terms. Another described one of the pauses in the Iran war was “terrific” in regard to the drop in fuel prices. The final **S&P Global US manufacturing PMI** ended July at 53.9, also showing decent expansion. Output and new orders were both revised higher, further into expansion, with input and output prices remaining high in the 60s.

(+/0) The **ISM services/non-manufacturing index** rose by a tenth of a point to 54.1 in July, not quite to the 54.5 level forecast by consensus, but remained in solid expansion. By segment, business activity rose by 4 points to 59, and new orders rose 2 points to 57, both further into expansion. However, employment declined by -3 points to 47, back into contraction. Prices paid rose by nearly 3 points to 70, further into expansion. The report described services activity as “resilient” with an acknowledgment that World Cup spending contributed to gains in the month. While tariffs continue to be mentioned in the survey, as was the Iran war, concern has waned with time, although that concern has been replaced with the uncertain impact of high energy prices. Overall, comments pointed to a generally consistent environment. The final **S&P Global US services PMI** ended July at 54.6, a point higher than the prior month, and shows a similar expansionary track as the ISM survey.

(-) **Construction spending** declined -0.1% in June on a nominal level, falling short of the 0.2% increase expected, although the prior two months were revised downward sharply, notably -1.8% for April. However, as construction costs fell by over a percent in June, spending on an after-inflation real basis gained by just over a percent. Over the past year, nominal spending has declined by over -3%.

(-) The **JOLTS** job openings survey for June fell by -178k to 7.359 mil., on a seasonally-adjusted basis, below the 7.454 mil. median expectation. The decline was driven primarily by health care/social assistance (-147k), after a hiring jump a few months prior, as well as leisure/hospitality (-86k), while transportation rose (97k). The job openings rate fell a tenth to 4.4%, while the hiring rate rose by a tenth to 3.4%. On the departure side, the quits rate and layoff rate were unchanged, at 2.0% and 1.1%, respectively.

(-/0) **Initial jobless claims** for the Aug. 1 ending week rose by 1k to 199k, but below the median forecast calling for 205k. Continuing claims for the Jul. 25 week rose by 24k to 1.801 mil., above the 1.789 mil. expected. With minimal outliers in the data, conditions continue to point to minimal layoff activity. The insured unemployment rate, at 1.2%, has continued to bounce around between around 1.1-1.5% for much of the past five years, after spiking temporarily during the pandemic, and now hovering at a trough level common during the 2016-2020 period and not often reached in prior decades, even during full employment.

(-) The employment situation report for July surprised a bit on the downside. **Nonfarm payrolls** fell by -23k, well below the expected 80k increase, as well as the average monthly gain of 34k over the past year, including revisions. The report also included several downward revisions totaling -103k for the prior months of June (-37k, from 57k to 20k) and May (-66k, from 129k to 63k). For July, employment fell in local government education (-50k, no doubt tied to summer break), retail (-40k, more than half of which were in food/drinking places, alluding to some World Cup reversal effect), and financial activities (-14k, mostly in credit intermediation and insurance). On the positive side, gains were seen in health care (22k) and construction (22k). At first glance, there appear to be a few areas not fully handled by normal seasonal adjustments. The U-3 official **unemployment rate** declined a tenth of a percent to 4.1%, while the U-6 underemployment rate was unchanged at 7.9%. The unusual drop in the unemployment rate while job growth also fell was due to a continued decline in the size of the labor force (-264k), down -0.7% since January), as a result of immigration changes, new entrants, and retirements. **Average hourly earnings** rose a rounded 0.1%, and 3.2% over the past 12 months. The **average workweek length** was also unchanged at 34.3. Interestingly, a report from the firm Payscale noted that just over a third of employers have given out ‘peanut butter raises’ (i.e., spread out evenly to everyone, regardless of merit), which has appeared to negatively affect morale in some industries. Related data showed that 25% of firms mentioned losing talent due to insufficient wage increases. Overall, it appears some hesitancy in hiring has been offset by the smaller labor pool, neutralizing some job market concerns.

In an earlier report, the preliminary Q2 nonfarm **productivity** measure rose by 1.4% on a quarter-over-quarter annualized basis, exceeding expectations of 0.6% and the prior quarter’s 0.8% annualized gain. For the past year, productivity decelerated by -0.7% from Q1 to 2.2%. Since the pre-pandemic measuring point of Q4-2019, productivity has risen by an annualized 2.1% pace, which is well above the 1.3% growth rate of the decade before that. General estimates are for continued above-2% productivity growth over the coming years, especially due to the expected strong impact of artificial intelligence.

Unit labor costs increased by an annualized pace of 1.3% for Q2, below the 2.1% expected, but matching the pace of the prior quarter. Year-over-year, costs accelerated by a percent to 1.4%. Per hour compensation moved up more than a half-percent in Q2 to an annualized 2.7%, with the full-year gain rising to 3.7%, competitive with inflation for the most part, but not overly so.

Market Notes

Period ending 8/7/2026	**1 Week %**	**YTD %**
DJIA	2.96	13.43
S&P 500	3.59	14.09
NASDAQ	5.19	15.22
Russell 2000	3.54	23.06
MSCI-EAFE	2.25	14.10
MSCI-EM	-0.43	19.53
Bloomberg U.S. Aggregate	0.60	-0.09

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
7/31/2026	3.83	4.28	4.45	4.75	5.27
8/7/2026	3.87	4.19	4.35	4.65	5.19

U.S. stocks rose strongly all week, with renewed signs of Middle East de-escalation and Hormuz reopening, sentiment improving again for AI, decent economic data and earnings reports, as well as Friday's jobs report. The latter showed negative payroll growth, implying a lower probability of more hawkish Fed policy, in another example of a negative turned into a positive. By sector, a strong rebound in technology (7%, across a variety of firms but largely Palantir, up 40%) led the way, followed by materials (6%), industrials, and consumer discretionary, while energy lagged (down -3%) along with a pullback in energy prices. Real estate was little-changed for the week.

Per FactSet, 88% of S&P 500 firms have now reported Q2 earnings, 86% of which represented a positive earnings surprise, and 76% a positive revenue surprise. The blended earnings growth rate year-over-year has reached 50.4%, roughly double the growth rate expected as recently as June 30. Revenue growth has also reached 15.0%, well above the 10-year growth rate of 6.6%. Of course, the earnings growth pace has been driven by Alphabet and Amazon, without which, the rate would be 32.0%, still impressive by any standard. While early yet, Q3 earnings growth is expected to remain robust, at 27.4%, led by energy, communications, and technology.

Foreign stocks fared positively as well last week, with Japan outperforming the U.S. and leading all regions, followed by Europe and emerging markets. European economic data exceeded expectations, while, in Japan, more information has come out about the substantial intervention to strengthen the yen the prior week. That was strongest action since the 2011 Fukushima disaster, and done by both Japanese officials, as well as the U.S., which was unique in itself but also being done in a manner of not involving the dollar but selling euro in favor of yen. In EM, technology-related gains in Taiwan and China were only eclipsed by South Africa, up 10% in line with gold mining sentiment. The South Korean market in particular has experienced an exceptional bout of volatility, down -35% from highs on Jun. 22 through Jul. 29, before rebounding in the double-digits again since. Those stocks are obviously tech-heavy, driven by perceived supply shortages in light of changing expectations from AI token usage and demand. The Korean market has been notoriously volatile in recent decades, not unrelated to its concentration, 50% of which is tied to memory companies, which is a volatile and cyclical sub-sector in its own right, and prone to sharp changes in sentiment toward supply/demand balances. Competition from open-source Chinese AI models is the latest potential threat to the need for compute, which is the most recent wrinkle adding uncertainty to the length of the trend.

Bonds gained across the board, as U.S. Treasury yields fell, with hopes for an ease of inflation and a weaker jobs report keeping the Fed on hold, with corporates outperforming governments slightly. Foreign bonds saw higher gains, helped on the unhedged side by a slightly weaker U.S. dollar.

Commodities were mixed last week, with sharp gains in precious metals as gold saw an uptick in demand, followed by positive returns in agriculture and industrial metals, offset by a sharp drop in energy. Crude oil prices declined by -9% last week to $77/barrel, along with the easing of Middle East tensions, and serving as a continuation of the recent news-driven trading range of roughly $70-100.

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, Fortune, Goldman Sachs, Invesco, JPMorgan Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, Payscale, 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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- 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.

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