

Summary

Economic news for the week included the U.S. Federal Reserve keeping interest rates on hold, as expected. Producer prices rose more than expected, pointing to further inflation, while industrial production rose slightly, and housing data remained weak, although these were at least partially tied to weather conditions.

Equities fell back globally with the escalating conflict in the Middle East weighing on future prospects for inflation and economic growth, primarily due to the sharp rise in energy prices. Bonds also fell back as yields rose, for the same reasons. Commodities were mixed, with metals down, but oil prices higher, particularly for overseas contracts as opposed to U.S.

Economic Notes

(0) The **FOMC** meeting ended with no change, and with just one dissent as opposed to the two from January. The Middle East conflict was noted in their comments, but implications for inflation and growth remain too unclear to drive a policy action yet, although the 'dot plot' pointed to just one cut this year and another in 2027, in keeping with futures market estimates, although economic growth and inflation expectations were both raised.

The post-meeting press conference featured Chair Powell addressing the uncertainty of the path ahead and mentioning four times that the FOMC will have to "wait and see." He noted that several members commented that if there was any meeting to skip a review of the dot plots, this one would be it, due to the uncertain impact of the Middle East situation and impact on oil prices. Importantly, he described the risks to employment and inflation being on somewhat equal terms, and he'd be "hard-pressed to say" that one is "more at risk than the other." Powell also noted that he would carry on as chairman pro tem after his term ends in May, as well as remain on the FOMC as long as the government prosecution is pending, after which he would reevaluate.

There has been some chatter about the ultimate possibility of rate hikes, as opposed to cuts. Markets in Europe and the U.K. are already seeing slightly higher probabilities of this, although central bank action could be premature.

(-) The **Producer Price Index** for February rose by 0.7%, more than double the 0.3% expected by consensus, while core PPI ex-food and energy rose 0.5%, with the latter decelerating from the prior month. Energy and food prices each rose over 2% in the month, contributing to the result. Final demand goods prices (30% of the total) rose 1.1% for the month, while final demand services (the remaining 70%) were up 5%. Year-over-year, headline PPI increased at a robust 3.4% and core gained 3.9%. Of that total annual number, goods prices rose 2.5% while services prices gained a far more robust 3.8%.

(0) **Industrial production** rose 0.2% in February, exceeding expectations of a 0.1% increase. As a sub-component, manufacturing rose by 0.2% as well, in addition to an upward revision of similar amount for

January. Within that segment, business equipment rose 0.2%, while auto production rose 1.6%. Utilities production fell by -0.6% for the month, as activity reverted to normal after more extreme winter weather in earlier months. This was offset somewhat by mining production up 0.8%, related to a rise in oil/gas production, which seems a likely area to see ramped-up activity looking ahead due to higher prices from geopolitical stress in the Persian Gulf. **Capacity utilization** was unchanged for the month at 76.3%. Year-over-year, total industrial production rose by a tempered 1.5%, with areas like business equipment up 6% (high tech equipment up 8%), offset by flattish results in other manufacturing areas.

(-) **New home sales** fell by a sharp -17.6% in January to a seasonally-adjusted pace of 587k units, beyond the -2.7% drop expected by consensus. This was no doubt due to the negative impact of winter storm Fern that occurred during the month. Sales fell in all four regions, with the Northeast (-45%) and Midwest (-34%) faring the worst, reflecting that winter weather influence. Over the past year, total new home sales fell by -11%. New home inventory came in at 9.7 months' supply, 21% higher than the prior month, and 8% above the level of a year ago. The median new home sales price fell by -4.5% for the month and -6.8% over the past year to \$400,500.

(0/-) The **NAHB/Wells Fargo housing market index** rose 1 point in March to 38, still well below the 50 level considered a neutral not-good-nor-bad environment. Current sales rose a point to 42, expectations rose 2 points to 49, while prospective buyer traffic rose 3 points to a still-poor 25. Per the survey sponsor, 37% of builders cut prices in the month, with an average price reduction of 6%. For perspective's sake, the last over-50 reading for the broad index was two years ago. Per a special questionnaire distributed earlier in the year, builders continued to describe their biggest problems as high interest rates generally, that buyers are waiting for rates and/or prices to fall before moving forward with homebuying plans, concern about the economic/jobs environment, cost/availability of labor, as well as the cost/availability of developed lots. The last factor is a more local and nuanced longstanding issue. It's related to a continued lack of buildable land due to tight zoning and environmental considerations in a variety of urban areas, particularly in coastal markets, which have continued to drive land prices higher.

(0) **Initial jobless claims** for the Mar. 14 ending week fell by -8k to 205k, below the expected increase to 215k, with no outliers by state. Continuing claims for the Mar. 7 week rose by 10k to 1.857 mil., above the median forecast of 1.852 mil. Jobless claims continue to run at low levels, despite some mixed data on employment in other reports, pointing to little layoff activity. The annual revision to claims seasonal adjustment factors was released as well, and lowered both initial and continuing claims by about 2-4k/week for the first part of 2025, which was not overly significant.

Market Notes

Period ending 3/20/2026	1 Week %	YTD %
DJIA	-2.09	-4.79
S&P 500	-1.87	-4.68
NASDAQ	-2.06	-6.73
Russell 2000	-1.65	-1.52
MSCI-EAFE	-2.06	-1.46
MSCI-EM	-0.35	4.48
Bloomberg U.S. Aggregate	-0.51	-0.68

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
3/13/2026	3.72	3.73	3.87	4.28	4.90
3/20/2026	3.74	3.88	4.01	4.39	4.96

U.S. stocks started the week decently, until mid-week, when stronger-than-expected producer price inflation was taken negatively. Middle East news included a lack of NATO participation, continued attacks from Iran on oil and gas infrastructure and tankers, the death of the Iranian security chief, and Israel escalating attacks towards Iranian oil-gas assets (which had previously been avoided). By sector, energy stocks led the way again, up around 3% with the gains in oil prices. Laggards included the mixed group of utilities, materials, and consumer staples, all down over -4% based on unique assumed exposures to economic and inflation risks.

The oil-gas infrastructure attacks are significant, as they mark a departure away from a 'no go' target (to avoid even further disruptions to global petroleum prices), towards direct aiming at the Iranian economic engine. No doubt, the balance between those two factors will continue to be carefully watched as the risk/rewards change. Financial markets appear to be viewing the Middle East conflict through several potential stages. The first is the impact on inflation, which rises the longer that high oil prices persist, including the rising potential for physical shortages in some regions, which would only magnify the price problem. From this, a second order effect would be the impact from high energy costs on economic growth. This doesn't seem to have come to the forefront yet, but no doubt could even have a more negative effect on sentiment if odds of a recession rise higher.

Foreign stocks behaved similarly to domestic in developed markets, with the same Middle East inflation and growth repercussions remaining top of mind, but a bit more so due to a higher sensitivity to oil from the region. Emerging markets fared better on net, from exposure to higher commodity prices as well as tech hardware-related South Korea. While the ECB kept interest rates on hold, they raised their 2026 inflation estimates sharply from 1.9% to 2.6%, which was taken negatively. The Bank of England also kept policy unchanged, but shared similar inflation warnings. The Bank of Australia raised rates by 0.25% to 4.10%, due to stronger inflation expectations and otherwise decent conditions, while the Central Bank of

Brazil cut rates by -0.25% to 14.75%, as the economy showed cooling. No doubt, geopolitical conditions have served to magnify differing opinions of impacts on regional economic and inflation dynamics.

Bonds continued to pull back as interest rates moved higher across the yield curve, due to concerns about sustained oil price spikes morphing into higher inflation readings over the coming weeks and months. Corporate credit fared best, along with higher yields, while floating rate bank loans fared best along with their inherent variable rate component. Foreign bonds fell back due to rising rates, in both developed and emerging markets, due to the same inflation-based factors.

Commodities were mixed last week, with additional gains in energy offset by declines in industrial metals and precious metals. Global oil markets oddly diverged dramatically last week, with West Texas intermediate crude prices (U.S. benchmark) actually falling -1% to \$98/barrel, while Brent crude prices (European and ex-U.S. index) gained another 9% to over \$112/barrel. There has always been a minor pricing difference, based on distinctions in oil quality from different locations and shipping costs, but the Middle East conflict has highlighted the sensitivity of supplies in Europe and Asia, while the U.S. has remained self-sufficient to a large extent (although not completely). Distillate prices also continued to see price rises. Gold prices fell back again as higher interest rates weighed on technicals.

Have a good week.

Ryan M. Long, CFA
Palouse Capital Management

Pending close, the FocusPoint Solutions investment division is being rebranded under the affiliated registered investment advisor Advisory Solutions Group, DBA Palouse Capital Management, as part of the merger with Wealth Enhancement Group. The decades-long investment philosophy, process, and strategies remain unchanged.

Sources: Palouse Capital Management, American Association for Individual Investors (AII), 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.

The information presented is for informational purposes and is intended for financial professionals only. This should not be distributed beyond its intended audience. All information has been obtained from sources considered reliable, but no representation is made as to its completeness, accuracy, or timeliness. This information should not be relied upon as investment advice, research, or a recommendation by Palouse Capital Management regarding the use or suitability of the model portfolio or any security or asset class in particular. The information provided is not intended to be and should not be construed as investment, legal or tax advice. Only the investor and their financial professionals know enough about the investor's individual circumstances to make an investment decision.

Information and opinions expressed are subject to change without notice. Any forecasts, opinions or statements of financial market trends expressed are those of Palouse Capital Management and are subject to change without notice.

Past performance is not a guarantee of future results. Palouse Capital Management is a registered investment advisor.



Kevin Canterbury – Managing Director

kevin@redstonecapitalmanagement.com Direct: 480 685 2931