

## Summary

Economic data from the week included U.S. GDP for Q4 being revised down further, mixed personal income/spending, consumer price inflation rising sharply due to oil prices, and weaker consumer sentiment.

Equities recovered sharply last week, with the Middle East ceasefire raising hopes for a reversal in energy prices and economic damage. Bonds were little changed along with minimal change in yields. Commodities were mixed, with energy prices falling back, while metals moved higher.

## Economic Notes

(-) The third edition of **U.S. GDP** for the fourth quarter of 2025 was revised down by another -0.2% to 0.5%. While personal consumption growth fell by a tenth to 1.9%, the change was largely due to the impact of weaker inventory accumulation, and less robust homebuilding; on the positive side, business investment and government were revised a bit higher. Along with a small adjustment for inflation, nominal GDP was revised down by -0.3% to 4.2%. (With nominal GDP being a historical rule-of-thumb tracker for where the 10-year U.S. Treasury yield should be, it's again quite close.)

The Atlanta Fed's **GDPNow** estimate for Q1-2026 has most recently come in at 1.3%, having steadily fallen from a peak of over 3% just a month ago (which seemed too good to be true). By composition, consumer spending continues to contribute 0.7% to the total (although that's down significantly from the 2.0% contribution from early March). Nonresidential fixed investment has ticked up to 0.9% (such as data center building), residential investment has fallen from roughly unchanged to now a negative -0.3%, inventories have fallen a bit to 0.5%, and net exports have also fallen further into the negative. These pieces all fall in line with the steady ramping up of the Middle East conflict in March, oil price spike, supply disruptions rising, and skeptical consumers.

(0) **Personal income** fell by -0.1% in February, well below the 0.3% growth expected. However, it was mostly driven by a decline in government transfer payments, specifically ACA subsidy payments.

**Personal spending** rose 0.5% for the month, on the other hand, just a tenth short of expectations, much of which was on motor vehicles and health care. Over the past year, personal income rose nearly 4%, while personal spending was up just over 5%, so both were positive in after-inflation 'real' terms. The **PCE price index** rose a rounded 0.4% for February, as did core PCE, after removing food and energy prices. Year-over-year, headline and core PCE rose 2.8% and 3.0%, respectively, a pace that was little-changed from the prior month. While recent PCE has seemingly included some tariff passthrough, it obviously didn't include any recent impacts from the Middle East conflict.

(0/+ ) The **ISM services/non-manufacturing index** fell by -2.1 points to 54.0 in March, below expectations of 54.9. Under the hood, new orders rose by 2 points to over 60, strongly expansionary, while business activity fell by -6 points, remaining in expansion, but employment fell by -6 points back into contraction at 45. Supplier deliveries rose by 2 points to a 56 level, which indicated a slowing of supply response. Prices

paid also rose by 8 points to 71, which was the highest level in over three years. Anecdotally, the press release noted that “tariff impacts were still noted,” but “Iran-related impacts” dominated the March commentary, as would be expected. Companies across a variety of industries reported “higher gas and diesel pricing,” and inventories rose to “withstand” supply chain disruptions or “short-term oil price impacts.” The services index overall remained in expansion, just a bit less so than the prior month. Services continue to be an economic bright spot, with 13 of 18 industries showing expansion, but recent input pressures have eroded conditions a bit here as well, with future months’ results to be determined in no small part by the depth and duration of the Middle East conflict.

(-) The **Consumer Price Index** for March rose by 0.9% on a seasonally-adjusted basis, along with an over-20% increase in energy goods (including gasoline, which accounted for much of the monthly rise). Core CPI rose a less dramatic 0.2%. Within the report, other areas of price increase included software (4%), airfares (3%), apparel (1%), as well as a tick back up for owners’ equivalent rent. On the weaker side were legal services (-4%), home healthcare and insurance (nearly -2%), prescription drug prices (-1.5%), used cars, and recreation, some which included some residual seasonality effects.

Year-over-year, headline CPI re-accelerated to 3.3% (from 2.4% the prior month), while core CPI ticked up just a tenth to 2.6%. For the year, energy commodity prices rose 19%, leading the way, with fuel oil up 44%, all of which fed into areas like transportation. Overall services rose 3.1%, durable goods only rose 0.1%, while non-durable goods were up 4.9%, again reflecting energy. Coming months may well see impacts, based on the duration of the Middle East conflict. Interestingly, the alternative core measure of “All items less food, shelter, and energy” was only up 2.3% for the year, so there were signs of some tempering within the report.

(-) **Durable goods orders** fell by -1.4% in February, for the third straight month, just below the median forecast of -1.2%. Removing transportation, which included the near -30% drop in the very lumpy commercial aircraft category, orders rose by 0.8%, nearly twice that expected. Core capital goods orders rose 0.6%, while core capital goods shipments rose 0.9%, also nearly twice the expected growth. By segment in core, gains in primary/fabricated metals, machinery, and motor vehicles led, offsetting declines in electrical equipment. Over the past year, total orders rose by over 7%, and a close 6% with transportation removed, the latter being the fastest pace in several years. Signs of manufacturing related to AI and onshoring efforts have been highlights, in addition to the impacts of higher metals prices.

(-) The preliminary **Univ. of Michigan consumer sentiment** index fell by -5.7 points (-11%) in April to 47.6, below the expected 51.5. If that early number were to carry through, it would represent the weakest reading in the (over 50 year) history of the survey. Under the hood, assessments of current conditions and expectations for the future fell to similar degrees, although current conditions fell further on a year-over-year basis (-16%) vs. future expectations down -3%, with the overall index down -9%. Inflation expectations for the coming 1 year rose a full 1.0% to 4.8%, while those for the next 5 years ticked up by 0.2% to 3.4%. Per the survey sponsor, in addition to “concerns over high prices and weaker asset values,” respondents “blame the Iran conflict for unfavorable changes to the economy.” As interviews were conducted prior to the Apr. 7 temporary ceasefire, it was assumed the mood would improve afterward.

(0) **Initial jobless claims** for the Apr. 4 ending week rose by 16k, to 219k, above the median forecast calling for 210k. These were also little changed by state, pointing to a continued benign claims environment, with perhaps some spring break effects. Continuing claims for the Mar. 28 week fell by -38k to 1.794 mil., well below the 1.828 mil. expected, and the lowest level in nearly two years.

### **Market Notes**

<b>Period ending 4/10/2026</b>	<b>1 Week %</b>	<b>YTD %</b>
DJIA	3.07	0.15
S&P 500	3.58	-0.07
NASDAQ	4.68	-1.29
Russell 2000	3.99	6.33
MSCI-EAFE	4.42	6.09
MSCI-EM	7.44	10.67
Bloomberg U.S. Aggregate	0.33	0.29

<b>U.S. Treasury Yields</b>	<b>3 Mo.</b>	<b>2 Yr.</b>	<b>5 Yr.</b>	<b>10 Yr.</b>	<b>30 Yr.</b>
12/31/2025	3.67	3.47	3.73	4.18	4.84
4/3/2026	3.70	3.79	3.94	4.31	4.88
4/10/2026	3.69	3.81	3.94	4.31	4.91

U.S. stocks began the week slightly higher as hopes for a ceasefire between the U.S.-Israel and Iran rose, in the midst of threats of escalation on power infrastructure. This came along with an ease in oil supply concerns, as selected rationing taking place for jet fuel in some countries. Escalating U.S. threats of Iranian destruction were toned down by later Tue. with a 2-week ceasefire put into place, which included free passage of vessels through the Strait of Hormuz. The latter was obviously critically important messaging from an energy and materials transportation standpoint, although flipping a switch from off to on for such transports was seen as difficult, coupled with the energy infrastructure damage in the region, which has raised additional supply concerns past the expected timeline of this conflict. The Wed. market response of several percent represented the near-term relief markets had been waiting for, although future actions remained tenuous. Possible 'violations' of the ceasefire led to more back-and-forth later in the week (while the weekend brought a U.S. naval blockade announcement, and unclear prospects for the ceasefire).

By sector, all groups saw positive returns with the exception of energy, which fell back a few percent along with movements lower in oil prices. Gains were strongest in communications, consumer discretionary, technology, and industrials, up 4-6%. Defensives utilities, health care, and consumers staples saw minimal gains, as would be expected, while real estate also rose a few percent, although interest rates changed minimally for the week. Earnings season for Q1 is starting this coming week, with

high expectations for the S&P 500 in the double-digits again, although it remains to be seen if news will outweigh any changes in the Middle East conflict.

Foreign stocks fared especially well, due to their energy supply connection to the Middle East. Europe outpaced the U.K. and Japan slightly, as stagflation worries had been highest in that region, with emerging markets outpacing the developed groups. There, leadership by South Korea and Taiwan resumed, along with improved U.S. technology results, although most major countries ended in the black for the week.

Bonds were flattish, along with minimal changes along the yield curve, although high yield outperformed in the U.S., with a higher yield cushion. Internationally, a weaker dollar boosted unhedged debt, especially in emerging markets.

Commodities fell back last week, led exclusively by a sharp decline in the energy segment, while industrial and precious metals rose several percent. West Texas crude oil spot prices fell over -14% last week to \$96/barrel, led by the Middle East de-escalation, as on Wed. morning alone, prices dropped by nearly -20% (the strongest drop since Covid, and before that, Desert Storm in 1991) in reaction to the ceasefire news. That has just reinforced what markets and economists have been focused on for weeks—the issue is all about petroleum flow. (Accordingly, oil futures prices are back up this morning.)

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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