

Summary

Economic data included the April employment situation report coming in more strongly than expected, in addition to improvements in new home sales. On the other hand, ISM services and JOLTS job openings fell back, and consumer sentiment continued to deteriorate to very low levels.

Equities gained globally, along with hopes for easing Middle East tensions and strong technology earnings. Bonds were flattish with minimal change in yields across the curve. Commodities were mixed, with metals up, but energy fell back.

Economic Notes

(0) The **ISM services/non-manufacturing index** declined by -0.4 of a point to 53.6 for April, just under the 53.7 level expected, but remaining solidly in expansion. By sector 14 of the 18 groups saw growth, which was slightly better than the ratio in March. The other components were mixed, with new orders down sharply, by -7 points to 53.5, although new export orders rose. Business activity gained a few points further into expansion (at 56) as did employment to 48, just below neutral. Supplier deliveries also rose by nearly a point to 57, the highest level in nearly four years, showing slower delivery response. Prices paid were unchanged at just under 71, continuing to point to extremely high cost pressures. Anecdotally, the report noted several respondents mentioning that “they have yet to see petroleum price increases impacting petroleum-related products,” so expect prices paid to stay high for months “due to these costs working their ways through global supply chains.” Iran and the Middle East were only mentioned 4 times (compared to 14 the prior month), and tariffs were only mentioned once (relative to 6 in March). No doubt, services remain robust, with less direct pressures from higher oil costs compared to ISM manufacturing, but the indirect costs have worked their way in.

(+) **New home sales**, in another combined report held up by the government shutdown late last year, saw a rise of 8.9% in Feb. and 7.4% in March to a seasonally-adjusted annualized rate to 682k units, above the 652k expected. The Northeast region saw the sharpest recovery gain, up 80%, reversing weather-related declines in Jan. and Feb., followed by the South, while the Midwest and West saw slight declines. Over the past year, national new home sales rose by 3.3%. The months’ supply of new homes declined a bit to 8.5. The median new home sales price came in at \$387,400 for March, down over -6% from a year ago. From the peak in Oct. 2022, prices have also fallen -16% from the peak, in keeping with a -10% drop in home size square footage from Q3-2022 to Q4-2025. New homes are in a slightly better position than existing homes, with greater, more affordable inventory and lack of headwind from homeowners not wanting to exit low fixed-rate mortgages. However, more homebuilding is still needed to move conditions into a better balance.

(+/-) **Construction spending**, in another combined report, declined by -0.2% in February but rose 0.6% in March, above the 0.3% gain expected. These included revisions for prior months, of an additional 1.0% for Dec. (to 1.8%) and Jan. of -1.6% (to -1.9%), largely in the private home improvement segment. For

March, private residential spending rose 2%, while declines were seen in private non-residential, as well as public spending. As construction costs rose 0.5% for March, real spending rose by only 0.1%.

(0) **JOLTs** job openings for March fell by -56k (-0.8%) to 6.866 mil., but still above the median forecast calling for 6.850 mil., although that included an upward revision of 40k for Feb. By segment, openings gained the most in financial services (101k) and private education/health (106k), but saw the strongest declines in professional/business services (-318k). The job openings rate fell by -0.1% to 4.1%, while the hiring rate moved up 0.4% to 3.5% (the highest in nearly two years). On the departure side, the layoff rate rose by a tenth to 1.2% as did the quits rate to 2.0%. The layoff rate was most pronounced in information services, reaching a five-year high.

(-) The preliminary **Univ. of Michigan consumer sentiment index** for May fell by -1.6 points (-3.2%) to 48.2. If this persists through the final report, this would be the lowest level in history (back to 1960), with the next closest being 2022 and 1980. May data was led by assessments of current economic conditions falling -9%, which offset a 1% rise in expectations for the future. Over the past year, the overall index fell by -8%, which included a -19% drop in current conditions, although future expectations actually rose 1% over that span. Inflation expectations for the coming year fell by -0.2% to 4.5%, while those for the next 5-10 years fell by a tenth to 3.4%. Qualitative content included the general comment that “About one-third of consumers spontaneously mentioned gasoline prices” with a slightly lower number mentioning tariffs. Combined, consumers “continue to feel buffeted by cost pressures,” which has led to the negativity. This was in addition to Middle East developments that were “unlikely to meaningfully boost sentiment” as long as supply disruptions and high energy prices are in place. In another periodic release, confidence in financial institutions has fallen, particularly with insurance companies (along with rising premium costs no doubt) and the Federal Reserve (particularly among Democrats and independents), while credit unions have reemerged as the only group with positive ratings (which is aligned with more populist views in some circles).

(0) **Initial jobless claims** for the May 2 ending week rose by 10k to 200k, just below the median forecast of 205k. Continuing claims for the Apr. 25 week fell by -10k to 1.766 mil., well below the 1.800 mil. expected. Claims in NY fell sharply, which again seemed to be due to seasonal adjustment issues around spring break, with other states seeing less dramatic change. Claims continue to show few signs of deterioration in labor markets, such as layoffs or other concerning data.

(+) The April employment situation report surprised on the upside relative to expectations, with the net effect of likely reducing or removing the Fed’s more dovish bias, with labor having been a concern earlier in the year, but less so lately. **Nonfarm payrolls** rose by 115k for April, far exceeding the 65k expected. Revisions included a downward move of -23k for Feb. (to -156k) but up 7k for Mar. (to 185k). For April, per the BLS, job gains were strongest in health care/social assistance (54k), transportation/warehousing (30k), and retail trade (22k). The declining side was led by information (-13k), finance (-11k), and federal government (-9k). The **unemployment rate** was unchanged at 4.3%, within the 4.0-4.5% range it’s been in for the past two years, while the U-6 underemployment rate ticked up 0.2% to 8.2%. The labor force

participation rate was little changed. **Average hourly earnings** rose by 0.2%, bringing the year-over-year increase to 3.6%. The **average workweek length** ticked up 0.1 of an hour to 34.3 hours.

Some questions have come up about how to interpret slower employment growth, with the current thinking being that the ‘breakeven’ job growth number (the number of new jobs needed to keep the unemployment rate from rising) has fallen, perhaps to the 0-75k range. The low end of that range is in fact zero for some economist estimates that assume net immigration outflows through voluntary departures that would shrink the size the labor force.

In an earlier report, **unit labor costs** rose by an annualized pace of 2.3% for Q1, down from the 4.6% rate of the prior quarter. The year-over-year rate decelerated by over a percent to 1.2%. **Nonfarm productivity** rose 0.8% in Q1 on a quarter-over-quarter annualized rate, just above the 0.6% expected but short of the 1.6% of Q4-2025. The year-over-year rate of change accelerated upward by 0.4% to 2.9%. Since the last pre-pandemic quarter of Q4-2019, productivity has grown at a 2.1% pace. Productivity has been the dominant component of GDP growth, relative to the contribution of labor force growth, due to low birthrates and immigration, although capex spending has also ramped up in recent years with the AI push. Otherwise, productivity remains just a ‘residual’ of what isn’t accounted for in measurable metrics.

Market Notes

Period ending 5/8/2026	1 Week %	YTD %
DJIA	0.25	3.75
S&P 500	2.36	8.52
NASDAQ	4.52	13.14
Russell 2000	1.73	15.70
MSCI-EAFE	1.05	7.59
MSCI-EM	6.90	22.51
Bloomberg U.S. Aggregate	0.26	0.44

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
5/1/2026	3.68	3.88	4.02	4.39	4.97
5/8/2026	3.69	3.90	4.02	4.38	4.95

U.S. stocks fared positively, for the sixth straight week, with continued strength in U.S. stock earnings results (especially technology), decent economic data (including jobs), and a continued ceasefire in the Middle East and renewed talks. By Thu., the Court of International Trade decided that the U.S. administration’s blanket 10% tariffs under IEEPA imposed under Sec. 122 two months ago were illegal, although the ruling is subject to appeal. It’s assumed that if the tariffs remain in effect during that process, the administration will have time to replace them with tariffs under Sec. 301 (unfair trade) and Sec. 232 (national security), although that process is also uncertain, as is the timeline for tariff refunds.

By sector, technology led with a gain of 7%, offsetting declines in energy of -5% and utilities of -4%, with most other sectors little-changed on net. Tech was helped by continued optimism for strong AI demand and infrastructure spending trends, with Intel up in the double-digits along with speculation about a partnership with Apple to produce chips. Real estate was little-changed for the week. Earnings season is winding down, with 89% of S&P 500 firms now having reported, per FactSet, and Q1 year-over-year growth now at 27.7%, which would be the highest rate since late 2021, and 84% of firms surprising on the upside (compared to the 10-year average of 75%). As was expected, leadership was in technology (with 51% EPS growth), communications (49%), materials (43%), and consumer discretionary (40%); health care has been the only negative group at -3%.

Foreign stocks were mixed, with gains in Japan and emerging markets outpacing those in the U.S., while developed Europe were in line with domestic markets. The EM component was led by a dramatic gain in South Korea, which was tied in with general technology optimism, followed by Taiwan, as well as South Africa and Mexico, the latter being more associated with strength in real assets. European sentiment was a bit weaker with announced U.S. tariffs on European autos and a drawdown in military personnel from Germany.

Bond prices appeared little-changed last week, with minimal change in the U.S. Treasury yield curve, with coupon and spread changes providing a small boost to credit over governments. Foreign bonds fared positively, along with a drop in the value of the U.S. dollar.

Commodities weakened overall last week, with declines in energy prices offsetting small rises in precious and industrial metals. West Texas crude oil spot prices fell back by -7% last week to under \$95/barrel, along with the continued hoped-for easing of tensions in the Middle East.

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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