

Summary

Economic data included gains in industrial production and retail sales, while consumer and producer price inflation moved higher along with recent higher oil prices.

Equities ended flattish to lower in the U.S., and negative in international markets, along with little progress in U.S.-Iran and U.S.-China talks. Bonds fell in line with high inflation readings, raising yields. Commodities saw gains, led by another rise higher for crude oil.

Economic Notes

(+) **Industrial production** rose by 0.7% in April, exceeding the 0.3% median forecast, and reversing the -0.3% decline of the prior month. Manufacturing production rose by 0.6%, led by business equipment rising 1.5%, related to continued infrastructure buildout in the economy, as well as motor vehicle assemblies rising by 4%. Mining output fell by a tenth, while utilities output rose 1.9% for the month, a segment that has tended to be weather-related historically, but has also begun to see the impact of stronger data center usage in recent years. Over the past year, total industrial production rose by 1.4%, which doesn't look as promising on the surface. Though, leadership was apparent in certain notable segments in line with a renewed U.S. manufacturing/AI focus (high tech equipment up 9% and business equipment up 6%). **Capacity utilization** ticked up by 0.4% to 76.1%

(+) The **Empire manufacturing index** rose by 8.6 points to 19.6, exceeding the expected decline to 7.2, and moving further into expansion. By component, new orders rose by 3 points to a solid 23 level, while shipments and employment each fell by over point, but remained solidly expansionary. Prices received ticked higher to levels in the 40-60 range, showing extreme expansion. Also on the positive side, 6-months-ahead business conditions rose by 14 points to over 33.

(0/+) **Retail sales** rose 0.5% in April, largely on par with expectations, but a fraction of the March gain of 1.6%. Core sales were little-changed upon removing the more volatile elements of autos, building materials, and gasoline (up 3%), also rising 0.5%. Under the hood, gains were highest for non-store/internet retail (up 1%), while clothing and furniture store sales fell by a few percent each, with discretionary income perhaps being eaten up by gasoline fill-ups. Over the past year, total retail sales rose 4.9%, with core up a similar 5.1%, both pointing to net real gains after inflation, which was a positive, although real sales haven't really grown in the last four years.

(0) **Existing home sales** rose 0.2% in April to a seasonally-adjusted annualized rate of 4.02 mil. units, below the 2.0% increase expected by consensus, but featured a revision upward of 30k units for March. April sales were flattish for single-family, but rose 3% for the far smaller condo/co-op category. Regionally, The Midwest saw sales gains of 2% to lead the way, while the West saw a decline of -3%. Year-over-year, national existing home sales rose 0.9%. The existing home sales price has risen 0.9% over the past year to \$417,700. The months' supply of existing homes rose by 5% in April to 4.4, which remains the highest inventory of homes available for sale over the past 10 years. Per the NAR, sales were "modestly

boosted by the continued improvement in housing affordability,” including that “days on market are lengthening on average,” which implies that potential buyers are “taking their time,” although, on the positive side, “mortgage rates are lower from a year ago” (average April Freddie Mac 30-year rate of 6.33% vs. 6.73%) and income growth has been outpacing home price gains.

(-) The **Consumer Price Index** for April rose 0.6% on a headline level and 0.4% for core, after food and energy impacts were removed. The month was unsurprisingly led by a 4% surge in energy prices related to the Middle East oil shock, and accounted for about 40% of the April rise. On the core side, housing rents and owners’ equivalent rent rose by 0.5%, although those reflected some delayed adjustments that had been paused for six months since the government shutdown in late 2025. Other contributors included household operations (5%, also not updated each month), airfares (3%), lodging (2%), and computer prices (1%). These were offset by car rental prices (-4%), internet services (-1%), and new cars.

Year-over-year, headline CPI re-accelerated to 3.8% (from 3.3% in March), as did core CPI to 2.8% (from 2.6%). The most dramatic driver was energy prices rising 18% over the past year, and an annualized 80% over the past 3 months. Interestingly, the pared-down core category of “All items less food, shelter, and energy” grew only 2.3%. The expectation of policymakers is that any Middle East progress in coming weeks/months will cause petroleum prices to correct lower quickly, reversing the impact, although prices could remain stickier on the downside than they were prior to the conflict, if historical tendencies hold true, with a new risk premium being embedded.

(-) The **Producer Price Index** rose 1.4% in April, exceeding the 0.5% expected, double the pace of the previous two months, and the fastest rate in over four years. Core PPI removing food and energy increased 1.0%, with energy costs up 8% accounting for the differential. Year-over-year, headline PPI was up 6.0%, the strongest pace in over three years, with core PPI up 5.2%. Goods prices rose 7.4%, while those for services were up 5.5%. Energy prices obviously played a large direct role, but in indirect one as well, but in addition to other factors like tariffs, and higher prices for metals and chemicals, with segments like unprocessed goods ex-food/energy up 17% for the trailing year. The continuing assumption is that these prices will normalize by later 2026, but that’s hinged on the Middle East conflict, as well as movements in commodities generally.

(0) **Initial jobless claims** for the May 9 ending week rose by 12k to 211k, exceeding the 205k expected. Continuing claims for the May 2 week rose by 24k to 1.782 mil., just above the 1.780 mil. level expected. Other than a slight movement upward in NY, which had fallen off a bit in prior weeks, claims were mixed by state and didn’t point to strong activity in either direction.

Market Notes

Period ending 5/15/2026	1 Week %	YTD %
DJIA	-0.11	3.63
S&P 500	0.17	8.70
NASDAQ	-0.06	13.07
Russell 2000	-2.34	12.99
MSCI-EAFE	-1.56	5.92
MSCI-EM	-2.45	19.51
Bloomberg U.S. Aggregate	-1.14	-0.71

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
5/8/2026	3.69	3.90	4.02	4.38	4.95
5/15/2026	3.69	4.09	4.26	4.59	5.12

U.S. stocks ended generally flat on the week, with growth slightly outperforming value. Sentiment was driven by especially strong consumer and producer price inflation reports, led by Middle East-conflict driven oil price spikes. Despite hopes for conflict resolution, proposals from the Iran the prior weekend were dismissed as “totally unacceptable.” The U.S.-Iran negotiations have come down to U.S. demands for full opening of the Strait of Hormuz and full end to the Iranian nuclear program, while the Iranians are asking for war reparations, full sovereignty over the Strait, and release of seized assets. By Friday, markets fell back over a lack of results from the U.S.-China talks that led to fears of further inflation. At some points, after a strong positive run, markets just need an excuse to take a breather. However, generally positive momentum has been sustained in recent weeks from very strong S&P earnings growth and continued exuberance over the potential benefits of artificial intelligence.

By sector, gains were led by energy, up 7% along with higher oil prices, followed by defensive consumer staples and technology, with AI positivity continuing. Most other groups ended up in the negative, led by consumer discretionary and materials, each down by a few percent. Real estate also fell back by over -2% with interest rates moving higher.

Foreign stocks suffered worse than U.S., with stronger effects in Europe and Asia from the continued Middle East oil supply closures and high prices, which outweighed the mixed economic results around the regions. Emerging markets fared worse than developed, especially affected by a stronger U.S. dollar for the week.

Bonds fell across the board, as yields rose in line with prospects for potentially higher-for-longer inflation readings. The 30-year U.S. Treasury bond yield rose to its highest level in almost 20 years, at 5.12%, with inflation pressures highlighting the week. Markets weren't enthused by comments from Chicago Fed President Goolsbee, who noted that the U.S. has an “inflation problem,” with prices going the “wrong

way,” and not just in “oil-related” and “tariff-related” things, which hinted at a tighter policy for longer potentially. Internationally, a stronger dollar especially punished unhedged developed market debt, while emerging market bonds fell along with weaker risk sentiment.

Commodities experienced gains on net last week, with strength in energy outpacing declines in agriculture and precious metals. West Texas crude oil rose another 11% last week to \$106/barrel, due to the U.S.-Iran stalemate noted earlier.

Have a good week.

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