

Summary

Economic data included mixed results for manufacturing and services PMI surveys, coupled with a drop in housing starts and further declines in consumer sentiment.

Equities saw gains around the world, with hopes for progress in the Middle East conflict, as well as eventually lower prices for energy. Bonds fared positively as yields pulled back. Commodities were mostly lower, led by a sharp drop in crude oil prices.

Economic Notes

(+) The preliminary **S&P Global US manufacturing PMI index** for May rose by 0.8 of a point to 55.3, above the 53.8 expected. The composition was mixed, with gains in output (up over a point to 63) and employment (up 4 points back into expansion at 53), but new orders declined (by -2 point to 55). Input and output prices each rose again, back to their highest levels since mid-2022. Future output ticked up a tenth to a very strong 72 level.

(0) The preliminary **S&P Global US services PMI index** for May, on the other hand, fell by -0.1 of a point to 50.9, just under the 51.2 level expected. Although it weakened a bit, it remained in expansionary territory. In services, new business improved (up 2 points back into expansion at over 51), while employment fell back (by -2 points back into contraction at 48). As with manufacturing, input and output prices each rose slightly, staying expansionary around the 60 area. Future output fell by -2 points but remained strong at 60. Anecdotal commentary from S&P described business activity growth as “modest,” as demand “was again squeezed by a further spike in prices,” and job cuts as firms “worried over rising costs and the economic outlook.” They also noted that order book growth over the past three months has slowed to “its weakest for two years,” after the precautionary stock building boom due to concerns over expected price hikes and delays. As with a variety of other metrics, eventual resolution of the Middle East tensions would likely be welcomed by businesses in their assessments of price inflation and supply disruptions.

(-/0) **Housing starts** declined by -2.8% in April to a seasonally-adjusted annualized rate of 1.465 mil. units, a bit better than the -5.3% decline expected by consensus, but reversed the 12% gain of the prior month. Under the hood, single-family starts fell by -9% while multi-family rose by 10%. Regionally, the Northeast saw a gain of 16%, while starts in the South fell by -11%. Nationally, starts rose 4.6% over the past year, led by a 20% gain in multi-family, while single-family declined by -2%. **Building permits** rose 5.8% to a rate of 1.442 mil. units, stronger than the 2.5% gain expected, but a fraction of the prior month's pace. This pattern was similar, with single-family down -3%, while multi-family up 22%. Overall permits were flat over the past year, with a drop of -5% for single-family offset by a 9% rise for multi-family, so the bifurcation between the two segments has continued, driven by affordability considerations. As has been noted by a variety of commentators, housing activity this weak would have normally been accompanied by a weaker economy and falling prices, but the inventory deficit has created a different environment this time.

(0/-) The **NAHB homebuilder survey** rose 3 points to 37 in May, remaining well in the sub-50 negative territory. Under the hood, current sales conditions rose 3 points to 40, expectations for the next six months rose 3 points to 45, while prospective buyer traffic also rose 3 points to 25, remaining quite low. Another 32% of builders cut prices during the month, with an average reduction of 6%, with sales incentive use up 61% for the month—these were all largely in line with the prior month. Per the headline figure, homebuilder sentiment remains unsurprisingly poor, as it has for a few years, with high mortgage rates and materials costs continuing to weigh on industry sentiment.

(-) The final **Univ. of Michigan consumer sentiment index** for May showed a revision down, with a net effect of a -3.4 point decline for the month, or -10.0%, to 44.8, below the median forecast of 48.2. That ended up as the lowest sentiment result in the survey's history (back to the early 1950s). Assessments of current conditions fell -13% for the month, while expectations for the future declined -8%. Year-over-year, total sentiment remains down -14%, led by poor assessments of current conditions. Inflation expectations for the coming year rose 0.3% from the prior month to 4.8%, while those for the next 5-10 years rose 0.5% to 3.9%, all no doubt affected by recent Middle East-driven oil prices and impacts on other consumer items. Anecdotal comments from the survey sponsor noted that the living costs continue to be "a first-order concern," with 57% of consumers noting that high prices were "eroding their personal finances." Also, consumers were "worried" that inflation will continue to increase, beyond fuel prices over the long haul. The worst sentiment readings came from the lowest income cohort, most heavily affected by high gasoline and grocery prices. Politically, while Democrats were little-changed, independents and Republicans saw sentiment declines to the lowest levels of the current administration.

(0) **Initial jobless claims** for the May 16 ending week fell by -3k to 209k, just below expectations of 210k. Continuing claims for the May 9 week rose by 6k to 1.782 mil., but below the 1.786 mil. expected. Claims differences by state were minor, with a rise in MA and drop in FL, but nationally remained well-contained and showed no labor market stress from this perspective.

(0) The **FOMC minutes** from the April meeting, Chair Jerome Powell's last in the role, showed "almost all" members noted that, even post-conflict, prices of oil and other commodities might remain elevated longer than expected. Consequently, the "vast majority" noted higher risks of inflation taking longer than they had previously expected to get back to 2%. In that case, a "majority" felt that some "policy firming" could become appropriate if inflation stayed sticky. "Most" participants also felt that recent labor data was stable, but still skewed to the downside. The inflation concerns largely explained the desire to remove the "easing bias" in the formal statement, being no longer appropriate. Again, no surprises, but recent CME Fed Funds probabilities have reflected the sentiment, as odds of rate cuts have evaporated and odds of at least one hike have appeared for the coming year.

Market Notes

Period ending 5/22/2026	1 Week %	YTD %
DJIA	2.18	5.89
S&P 500	0.91	9.69
NASDAQ	0.48	13.62
Russell 2000	2.75	16.10
MSCI-EAFE	2.17	8.22
MSCI-EM	1.11	20.83
Bloomberg U.S. Aggregate	0.26	-0.45

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
5/15/2026	3.69	4.09	4.26	4.59	5.12
5/22/2026	3.68	4.13	4.27	4.56	5.07

U.S. stocks continued to see gains, with the S&P 500 now up for eight straight weeks, the longest stretch in three years. Cyclical value and small caps outperformed large cap for the week, helped by rising hopes for more fruitful U.S.-Iran negotiations (being in perhaps the “final stages”) as well as continued positive sentiment around AI. By sector, gains were led by more defensive groups utilities and health care (Merck and Lilly), each up over 3%, followed by more tempered gains for consumer discretionary, financials, and technology, while communications services fell back by -2% for the week (Alphabet). Most other segments ended relatively flattish for the week. Real estate also gained several percent with interest rates coming back down. Closely-watched financial results for Nvidia outperformed on a revenue and earnings standpoint, but stock results didn’t reflect the fundamental positivity.

Foreign stocks were led by gains of several percent in Europe and the U.K., with hopes for Middle East resolution being the primary market driver in either direction in recent weeks. Emerging markets were also positive, with strong gains in Taiwan and South Korea continuing to be driven by semiconductor chip demand related to AI, offset by weakness in China, with markets disappointed about economic activity. Indonesian stocks sold off sharply, along with a 0.50% central bank rate hike, to help stabilize the currency, along with enhanced export controls for several key global commodities.

Bonds fared more positively last week, as yields stabilized across the U.S. Treasury curve, helping investment-grade debt in the U.S., while floating rate bank loans fell back a bit. International bonds were up strongly in developed markets, outperforming emerging markets slightly.

Bonds have sold off decently in recent weeks due to a number of factors, especially the longer-term variety not only in the U.S. but also in Europe. These include a more sustained than expected inflation impact from the U.S.-Iran conflict (keeping chances for higher policy rates higher), as well as continued

expansionary government fiscal policies as revenues are challenged (from lower taxes, and, ironically, by the potential reversal in some tariff policies) relative to spending (which remains high).

Commodities fell back as a whole last week, as gains in industrial metals and agriculture were more than offset by a substantial drop in energy. West Texas crude oil corrected by -9% last week to \$96/barrel, with Brent crude falling back by over -5%, along with hopes for productive U.S.-Iran negotiations and a normalization of the region's commodity shipping traffic.

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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