

Summary

On a holiday-shortened week, economic data included U.S. GDP growth being downgraded slightly for Q1, stronger durable goods orders, mixed housing metrics, along with continued weak consumer spending.

Equities experienced gains globally for the most part last week, as hopes for Middle East resolution and a reopening of supply lines was cautiously cheered by markets. Bonds fared well also, as inflation fears were reduced, pulling down yields. Commodity prices fell back for energy and agriculture, largely for the same reasons.

Economic Notes

(0/-) The 2nd estimate of **U.S. GDP** for the 1st quarter was revised down from 2.0% to 1.6%, still exceeding the prior quarter's 0.5% increase in Q4-2025. The primary revision items included slight downward revisions for business fixed investment (-0.4% to 10.1%) and consumer spending (by -0.2% to 1.4%, much of which was due to adjustments in healthcare), while the decline in housing was revised up a bit. Overall, the drivers for GDP growth included exports, investment, consumer spending, and government spending. However, imports increased, which is a subtraction in the GDP calculation (a decent number of inputs for AI-related capex spending is imported, although data center construction and related expenses are considered domestic).

The Atlanta Fed **GDPNow** estimate for Q2 has remained far more robust, at 3.8%. This includes consumer spending of 1.8%, non-residential fixed investment of 0.8% (still highlighted by tech infrastructure and AI/data center buildout), inventories at 0.9%, and a few tenths of government spending, and little change elsewhere.

(0/-) **Personal income** was unchanged in April, led by a drop in farm proprietors' income returning to normal after payments in March. **Personal spending** rose by 0.5%, with a quarter of the gain driven by gasoline prices alone, followed by household utilities. The personal saving rate fell by -0.6% to 2.6%, the lowest rate in four years. Over the past year, personal income experienced a rise of 2.5%, while spending gained 5.9% (also energy-driven). **PCE inflation** rose 0.4% on a headline level for April, and 0.2% on a core basis, excluding food and energy. For the trailing year, headline PCE was up 3.8%, with core PCE up 3.3%. The obvious factor for the Fed is core PCE running 1.3% above the 2.0% target level, which has FOMC committee members more focused on 'not easing' than they were earlier this year.

(+) **Durable goods orders** for April rose by 7.9%, well above the small gain of the prior month and the 4.0% expected. However, removing the dramatic transportation orders (up 21%, led by non-defense aircraft/parts up 166%), as other orders were only up 1.1%, but still more than twice the level expected, even though that included a pullback the strong computer equipment segment. Shipments rose by 0.5%, with little impact from transportation. Over the past year, total orders were up 17%, and by 9% after

removing transportation, with most of the core gains being in primary metals as well as computer/communications equipment, which gets back to the AI/data center boom activity.

(0) The **FHFA House Price Index** rose 0.1% in March, and 0.5% for Q1 as a whole. For the trailing 12 months, house prices rose 1.7%. For the full year period, results were led by East North Central (Great Lakes area, 4.4%), while West South Central lagged (OK/AR/TX/LA, -0.7%). By state, the leaders for the year were IL (7%), AK (6%), and VT (5%), with CO faring worst with a -2% decline. This government report is comprehensive and data-heavy with minimal narrative, but the underlying trend continues to show a deceleration in home price gains, but also the ongoing shift of momentum from the 'Sun Belt' of a few years ago toward the 'Rust Belt,' perhaps due to affordability advantages.

(0) The **S&P/Case-Shiller 20-city house price index** for March declined by -0.2% on a seasonally-adjusted basis, but rose by 1.0% without adjustment. With seasonal adjustment, Chicago was up 1% for the month, followed by half-percent gains in Boston and Miami, with Seattle and Tampa faring weakest. Year-over-year, the 20-city index rose by 0.8%, a tenth lower than the pace of the prior month. By city, Chicago was the strongest market (up 6.1%), followed by New York and Cleveland, while Seattle declined by -2.5%, displacing Denver from the prior month. S&P noted the broadening and deepening of the housing slowdown, with roughly half of major U.S. cities reporting price declines, and also a wider local divergence between the strongest and weakest cities by price. Home value growth is weaker in real/after-inflation terms particularly, as inflation has again strengthened, and 30-year mortgage rates rose by another half-percent in the month.

(-) **New home sales** for April declined by -6.2% to a seasonally-adjusted annualized rate of 622k units, beyond the -3.2% decline expected by consensus, along with a revision downward for the prior month. Sales fell in every region, being weakest in the Midwest (-25%) and West (-19%). New home sales are down -11.3% over the past year. Months' supply widened to 9.4, due to the slower pace of sales. The median sales price experienced a 2% gain over the past year to \$422,500, but remained down -8% from the peak in fall 2022. A meaningful trend has been a lower price/square foot as builders have pushed to both complete and move completed homes. New home sales have essentially bounced around between 600-800k units a month for the past five years, a level far lower than what's needed in the U.S. based on scrappage and growth needs. However, movement remains obviously hampered by financing rates.

(0) The **Conference Board consumer confidence** index fell by -0.7 of a point in May to 93.1, but stayed above the 92.0 level expected by consensus. By segment, assessments of present conditions fell by -3 points, while expectations for the future improved by 1 point. The labor differential fell back by a fraction of a point, as those saying jobs were plentiful declined a bit more than those that felt jobs were 'hard to get.' Inflation expectations for the coming year were unchanged at a high rate of 6.2%, which have no doubt been pushed up by tariff concerns first, now coupled with the Middle East oil shock. Per the Conference Board, consumer responses "continued to skew towards pessimism" in the month as "references to prices and oil and gas increased in frequency" like the prior month, and "mentions of war, geopolitics, and conflict remained elevated," which signaled underlying "concerns about the inflationary impacts of the war in the Middle East on their wallets." However, on the bright side, there were modest

improvements in expectations for business and labor conditions six months from now, which appear to echo market expectations of an eventual resolution to the conflict.

(-) **Initial jobless claims** for the May 23 ending week ticked up by 5k to 215k, above the median forecast calling for 211k. Continuing claims for the May 16 week rose by 15k to 1.786 mil., above the expected decline to 1.771 mil. Claims rose by a few thousand in CA and IL, but declined in MI, with few nationwide trends pointing to any labor market deterioration.

Market Notes

Period ending 5/29/2026	1 Week %	YTD %
DJIA	0.91	6.86
S&P 500	1.44	11.27
NASDAQ	2.39	16.33
Russell 2000	1.77	18.15
MSCI-EAFE	1.07	9.37
MSCI-EM	3.96	25.61
Bloomberg U.S. Aggregate	0.83	0.38

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
5/22/2026	3.68	4.13	4.27	4.56	5.07
5/29/2026	3.69	3.98	4.13	4.45	4.99

U.S. stocks saw gains again last week, as sentiment was helped by the higher chances of a Middle East peace deal, or at least a 60-day ceasefire extension and reopening of Strait of Hormuz shipping traffic. Markets had taken a step back by Thurs., as U.S. airstrikes again appeared to raise the temperature in the region and pushed out hopes for resolution. Sentiment continues to be dominated by the Middle East on a week-to-week, or even day-to-day basis, coinciding with the most recent media reports, coupled with strong demand for AI hardware that has sharply rewarded specific industry groups and world regions. By sector, technology, consumer discretionary, and materials stocks fared positively; on the negative side were energy (as oil prices corrected sharply), as well as defensive consumer staples and utilities. Real estate also fell back slightly, despite a drop in yields.

Foreign stocks in developed market performed largely in line with U.S. equities, although emerging markets outperformed sharply. The latter were led by continued strength in South Korea and Taiwan, offsetting declines in China and Brazil. Korea and Taiwan have become close bellwethers for technology and AI sentiment, having benefited from the surge in semiconductor chip demand, having gained 240% and 98% over the past year, respectively.

Bonds fared positively as U.S. Treasury yields fell across the curve, in keeping with the cascade of lower future inflation expectations if a U.S.-Iran deal is reached. Investment-grade corporate outperformed governments slightly, along with their coupon advantage, while floating rate bank loans ended flattish for the week. International bonds were boosted by a weaker U.S. dollar.

Commodities largely fell back for the week, led by energy and agriculture, while metals were little-changed. Crude oil prices declined by -9% last week to \$88/barrel, as hopes for Middle East conflict resolution led to similar hopes for a Strait of Hormuz reopening, and potentially ending the supply shortage fears.

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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