OBSERVATIONS

- Markets traded higher last week with the S&P 500 and small caps gaining 0.4% and 1.2%, respectively. The yield on the 10-year Treasury was little changed, gaining 5 basis points to end the week at 4.69%.[1]
- The Small Business Optimism Index rose by 2.4 points in July to reach 99.8, above its long-run average of 98, as eight of the ten subcomponents improved. Of note, hiring expectations improved the most.[1]
- Existing home sales fell by 1.7% month-over-month (MoM) in July to 4.06 million (annualized rate) from June's 4.09 million with declines in home sales in both the Midwest and South.[1]
- Inflation eased slightly in July with the headline CPI falling to 3.4% year-over-year (YoY), down from June's 3.5% YoY figure. Core CPI, which removes the volatile food and energy categories, eased to 2.5% YoY, lower than June's 2.6% YoY figure.[1]
- Prices at the wholesale level also eased in July. PPI fell to 4.7% YoY, down from June's 5.5% YoY rate. Core PPI—removing food and energy—also fell in July to 4.2% YoY from June's 4.7% YoY figure.[1]
- Initial unemployment claims increased by 10k last week to 209k. Claims remain very low and were over 12k fewer than in the same week last year.[1]
- Retail sales disappointed in July, with the headline figure declining 0.6% MoM—analysts had been expecting modest gains—while retail sales excluding the volatile autos and gas categories also declined in July by 0.2% MoM. Consumers pulled back particularly on eCommerce platform purchases.[1]
- The Univ. of Michigan Consumer Sentiment Index fell over 4 points to 51.0, ending two consecutive months of improvement, as lower-income and older consumers became less positive on the economy.[1]

EXPECTATIONS

- Congress has recessed for August, and both the House and Senate passed similar (but not identical) funding bills to keep the Federal Government funded until early December-2026. The two bills will need to be reconciled and passed before 30-September to avoid a government shutdown. Many in Congress, House members in particular, would prefer to focus on their campaigns in the coming months. A compromise is likely to be struck to avoid any shutdown-induced disruption in government services in the weeks preceding the November mid-term elections.[1]
- Q2 earnings season is nearly complete, with over 88% of S&P 500 constituents having reported. Roughly 86% of firms have delivered a positive earnings surprise, above the 5-year (78%) and 10-year (76%) averages. Overall, Q2 earnings are tracking towards 50.4% YoY growth.[2]

ONE MORE THOUGHT: Macro Data Still Largely Suggesting a Stable US Economy[1]

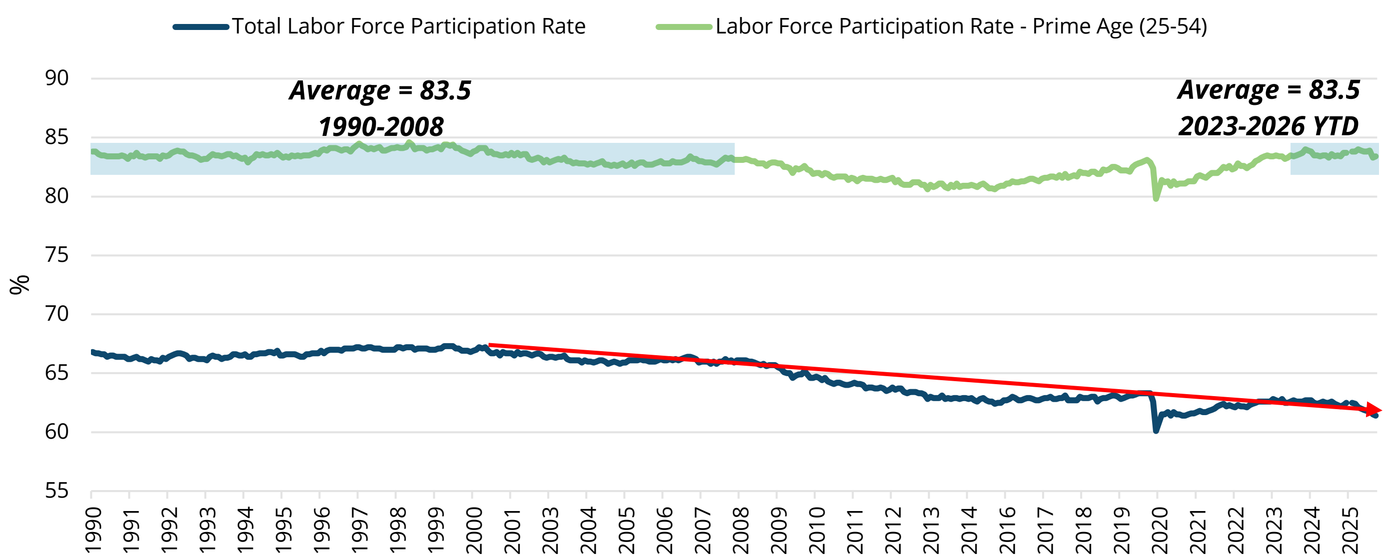
In recent weeks, we have received a slew of economic data that paint a picture of a stable economy. Early in the month, the July employment report showed the economy lost 23k jobs, while employment growth for both May and June was revised lower. The July report also showed that labor force participation declined, and average hourly earnings failed to keep pace with inflation. While the report was weaker than anticipated, there is nuance that bears consideration. First, as we have highlighted in previous notes (see RC 13-Oct-2025), a lack of immigration and slow growth in our labor force have reduced the breakeven jobs threshold—the number of new jobs needed to keep the unemployment rate stable—to about 50k. So far this year, the economy has averaged about 60k new jobs per

[1] *Bloomberg LP, 8/14/2026*
[2] *FactSet Earnings Insight 8/7/2026*

month. Similarly, the falling labor force participation rate is largely a function of an aging of the US population. The participation rate of prime age workers (ages 25 to 54) sits at 83.4%, just below its 83.5% average since 2023 (see Chart of the Week). Recent retail sales numbers missed expectations in July, which was surprising given the recent World Cup tournament. However, through the first seven months of 2026, retail sales have increased by more than 5% YoY. While wage growth statistics have been lackluster, they are also nuanced. Wage growth for the lowest cohort—those paid at or around minimum wage—is close to 5% YoY, whereas middle and upper-tier wage earners have experienced weaker wage growth. In totality, this does not suggest labor market weakness. Low initial unemployment claims also support this view, running 6% lower through the first 32 weeks of 2026 compared to last year. Finally, the boom in AI-ecosystem spending remains a tailwind for the economy. Initial estimates for Q3 growth from the Atlanta Fed's GDPNow model project over 4% real growth for the quarter. We expect this number to moderate in the coming months, as the net trade data will likely lower the estimate, but current model projections suggest an economy in expansion. Overall, while recent headlines have not been overly positive, a deeper examination of the data suggests a healthy labor market, a resilient consumer, and a stable economy—a positive backdrop for risk assets as we close out the summer.

CHART OF THE WEEK

Labor Force Participation Rates



Source: Clearstead, St. Louis Fed, 8/14/2026

Aneet Deshpande, CFA
Chief Investment Officer

Dan Meges
Chief Economist/Global Equity

Jessamyn Norton, CFA, CMT
Senior Managing Director