Wealth Management

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The Markets

Reading the economic tea leaves.

The stock market is forward-looking, which means that it reflects investors' expectations for the future. No one knows exactly what will happen in the months ahead, but investors try to gain an edge by interpreting economic information. Last week, we saw information about inflation, consumer spending, and consumer sentiment push the market in different directions. Here's what happened:

Markets rejoiced that inflation slowed

Markets celebrated mid-week when the Consumer Price Index showed price increases slowed slightly in July 2026.

- Headline inflation was 3.4 percent year over year, down from June's 3.5 percent.
- Core inflation, which excludes volatile food and energy prices, was 2.5 percent year over year, down from 2.6 percent in June.

  Even though prices continued to rise faster than the Fed's target of 2 percent, "Back-to-back gains in equities drove the [Standard & Poor's 500 Index] S&P 500 to a record…[the] tame inflation print, paired with last week's softer-than-expected jobs report, will give Fed Chair Kevin Warsh more breathing room, and may just be enough to keep rates on hold," according to a source cited by Rita Nazareth of Bloomberg

Markets lamented slumping retail sales and consumer sentiment

Investor optimism tempered later in the week when the retail sales report suggested consumer spending declined in July. Normally, consumer spending is the fuel that powers the United States economy. The weak sales report in tandem with the previous week's sluggish jobs report raised concerns that the economy could be slowing, reported Anne D'Innocenzio of the AP.

On Friday, investors learned that consumers are not optimistic. The University of Michigan released its preliminary report for August, which showed consumer sentiment falling sharply. Surveys of Consumers Director Joanne Hsu wrote:

"Consumer sentiment fell about 8 percent this August, ending two consecutive months of improvement. While views of personal finances saw only minor declines, expected business conditions sank 11 percent for the short run and 17 percent for the long run. Decreases in sentiment were seen across the political spectrum, with Republicans exhibiting the strongest month-to-month decline in August."

The S&P 500 and Nasdaq Composite Indexes finished the week higher, while the Dow Jones Industrial Average fell. The yield on the 30-year U.S. Treasury bond was 5.25 percent at the end of last week
Last week, major U.S. stock indexes gained. Yields on longer maturities of U.S. Treasuries moved lower after the weaker-then-expected employment report raised "fresh concerns about the labor market while dimming the immediate outlook for higher Fed interest rates," reported Yun Lee, Sean Conlon, and High Leasak of CNBC.

Data as of 8/14/26	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	0.4%	13.7%	20.4%	20.1%	11.7%	13.5%
Dow Jones Global ex-U.S. Index	1.2	15.0	23.9	17.0	6.5	6.8
10-year Treasury Note (yield only)	4.7	N/A	4.3	4.2	1.3	1.6
S&P GSCI Gold Index	0.9	2.2	31.2	31.7	19.9	12.7
Bloomberg Commodity Index	2.8	23.4	35.4	8.8	7.3	4.7

S&P 500, Dow Jones Global ex-US, S&P GSCI Gold Index, Bloomberg Commodity Index returns exclude reinvested dividends. The three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

BOND MARKETS WERE READING THE TEA LEAVES, TOO. Stock investors weren’t the only ones weighing last week's economic news. The bond market was considering the same signals.

Normally, lower inflation would result in lower yields on U.S. Treasuries, and rates did ease briefly. Late in the week, though, the U.S. government issued 30-year bonds with the highest interest rate since 2001, reported Greg Ritchie of Bloomberg.

Bond market seems to be less concerned about this month's inflation data than it is about the level of government debt and the risk of ongoing "supply shocks" that could keep prices elevated for years, according to a source cited by Martin Baccardax of Barron’s.

Growing government debt. The U.S. has a long history of spending more than it takes in. “This year, the United States hit an unfortunate fiscal milestone as the national debt grew larger than the size of the economy. Federal debt held by the public is projected to reach 101 percent of gross domestic product (GDP), the highest level since World War II. Worse, it is projected to reach an all-time high of 120 percent by 2036,” reported the Peter G. Peterson Foundation.

High debt levels mean the government must commit a higher share of revenue to pay interest, which reduces the amounts available for other spending. That can lead to higher deficits and even more debt.

Persistent supply shocks. Supply shocks happen when goods become scarce, pushing prices up and economic growth down. The Bank for International Settlements, an organization owned by the world's central banks, warned that these shocks are arriving more often and hitting harder.

“Those shocks, including the massive surge in semiconductor costs, the power demand linked to rollout of AI-powered data centers, and the spikes in global crude prices tied to the U.S. war with Iran, are all evident in the current market mindset,” reported Baccardax.

That has real consequences for investors. Normally, bonds help cushion a portfolio when stocks fall. When supply shocks dominate, that cushion can weaken, and stocks and bonds may lose ground at the same time, according to the Federal Reserve Bank of San Francisco.

Despite strong earnings, the path ahead may be bumpier for stock and bond markets than most would prefer. Staying disciplined, diversified, and focused on long-term goals is more important than ever.

WEEKLY FOCUS – THINK ABOUT IT
“I haven’t a clue how my story will end, but that’s all right. When you set out on a journey and night covers the road, that’s when you discover the stars.”
— *Nancy Willard, Author*

Best regards,

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