Financial Markets This Week

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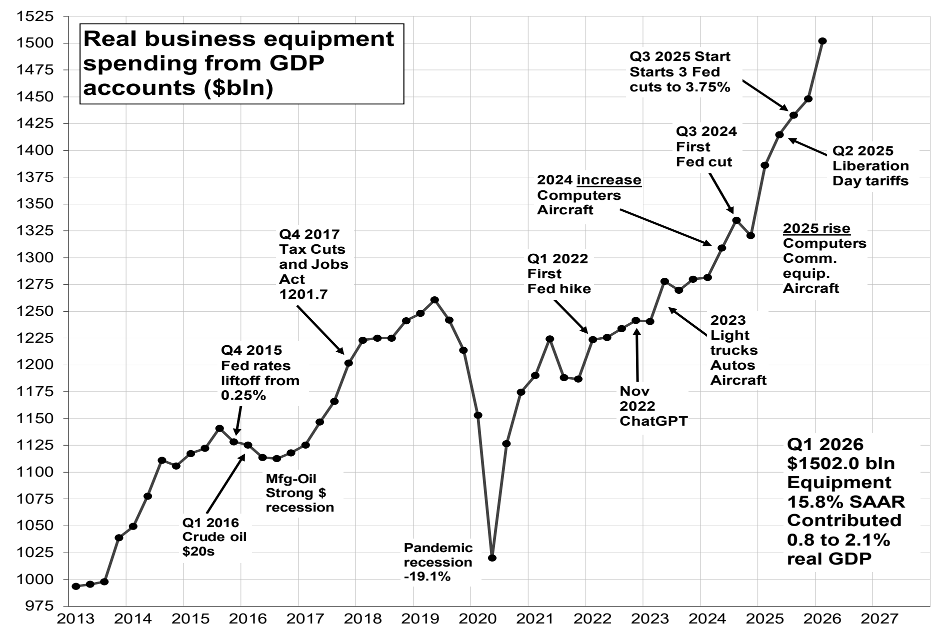
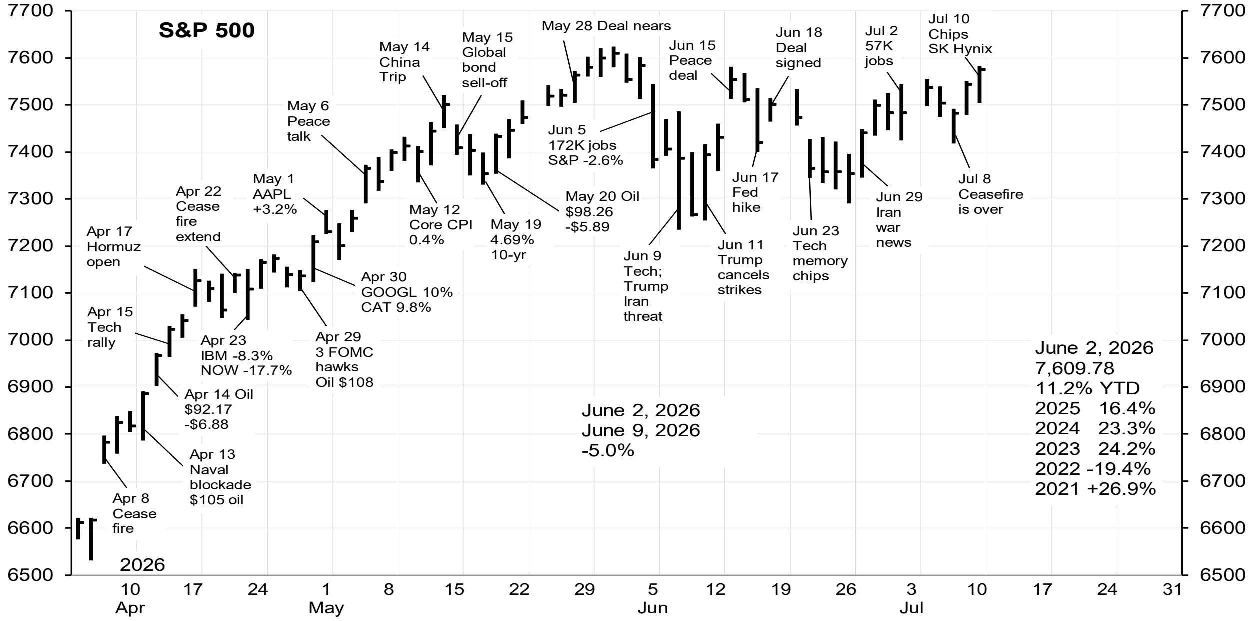
AI ECONOMY



The AI boom is helping chip stock valuations, what about the rest of the economy? We mean AI giving a push to GDP growth while maintaining the same number of workers. Productivity often tends to go up in recessions simply because job losses are greater than any downturn in economic growth. AI will probably not help consumers buy goods at the store more efficiently. We have looked at data center construction projects before. But the AI boom will show up primarily as new investment in GDP equipment and software. We will look at the details of investment in Q1 2026 just for the record as the first look at Q2 real GDP is due out on Thursday, July 30. The graph here almost makes it look like Fed rate cuts 3X from 5.5% starting September 2024, and another round, 3X starting in September 2025 cut financing costs and encouraged companies to invest in more equipment. Fed rates from 5.5% to 3.75% did all that. Obviously, tax write-offs in the July 2025 big beautiful bill and ChatGPT in November 2022 generated equipment purchases, although with a strange jump in the first quarter this year the same as in Q1 2025. How much is AI contributing to economic growth? Equipment investment in Q1 2026 added 0.8 percentage points to 2.1% real GDP. Intellectual property including software added another 0.7 percentage points to Q1 GDP. Given the record high in the May durable goods report for nondefense capital goods orders ex-aircraft, the Q2 2026 AI contribution should be nearly as strong as the first quarter.

Q1 26-Q4 25	How much business investment in equipment? Fixed Investment in Real Nonresidential Equipment ($bln)	Q1 26	Q4 25	SAAR %	2025	2024
54.1	**Nonresidential Equipment ($bln)**	1502.0	1447.9	15.8	1420.4	1311.5
59.5	Information processing equipment	739.7	680.2	39.9	630.8	517.3
44.1	Computers, peripheral equipment	356.1	312.0	69.7	260.8	175.0
13.3	Communications equipment	215.2	201.9	29.1	198.5	179.0
0.3	Medical equipment, instruments	119.6	119.3	1.0	123.6	117.6
0.3	Nonmedical instruments	33.8	33.5	3.6	34.4	33.6
1.1	Photocopy, related equipment	9.8	8.7	61.0	9.3	9.5
0.4	Office and accounting equipment	4.1	3.7	50.8	4.0	4.0
3.0	Industrial equipment	265.6	262.6	4.6	262.7	254.9
0.6	Fabricated metal products	18.0	17.4	14.5	18.0	18.4
0.0	Engines and turbines	12.5	12.5	0.0	10.9	8.8
0.9	Metalworking machinery	29.9	29.0	13.0	30.0	30.9
1.7	Special industry machinery	54.0	52.3	13.6	48.4	44.2
0.4	General industrial (materials handling)	93.9	93.5	1.7	95.0	95.1
-0.6	Electrical transmission/distribution	58.3	58.9	-4.0	60.7	57.5
-8.2	Transportation equipment	285.0	293.2	-10.7	309.7	298.9
0.7	Trucks, buses, truck trailers	192.8	192.1	1.5	212.5	217.5
-1.0	Light trucks	146.0	147.0	-2.7	159.7	157.6
-4.9	Autos	59.8	64.7	-27.0	66.3	71.9
-4.9	Aircraft	55.4	60.3	-28.8	55.7	37.9
0.1	Ships and boats	4.5	4.4	9.4	4.9	4.8
-2.0	Railroad equipment	8.2	10.2	-58.2	10.6	14.3
6.4	Other equipment	255.6	249.2	10.7	248.1	255.3
0.5	Furniture and fixtures	42.0	41.5	4.9	42.2	43.2
0.4	Agricultural machinery	28.5	28.1	5.8	28.2	32.5
1.6	Construction machinery	52.5	50.9	13.2	48.5	48.4
0.8	Mining, oilfield machinery	23.4	22.6	14.9	20.7	22.7
1.0	Service industry machinery	30.6	29.6	14.2	29.9	29.2
0.3	Electrical equipment	9.5	9.2	13.7	9.4	9.2
1.8	Other	69.0	67.2	11.2	68.9	70.2

INTEREST RATES

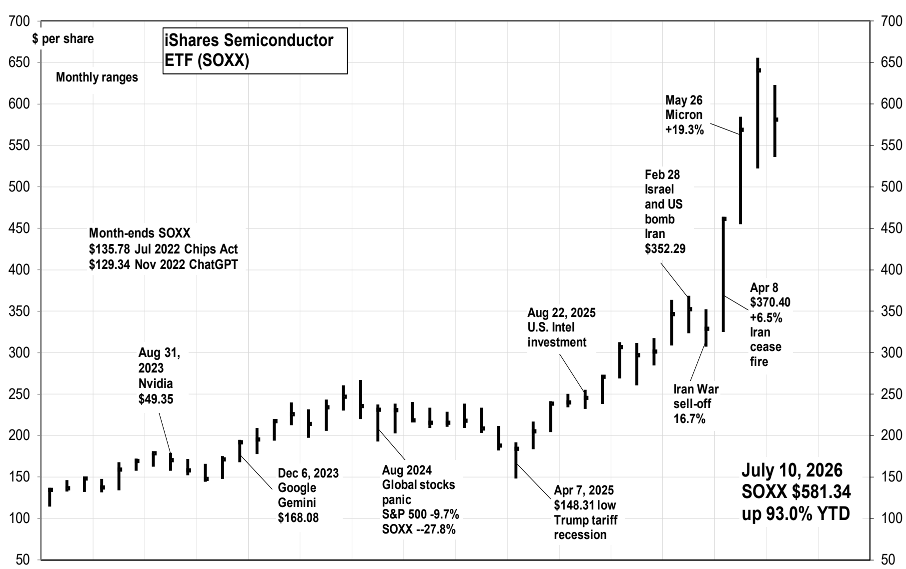


A new high close for stocks since the 5% sell-off from record highs to the early June low. The ceasefire is over and other Iran news did not appear to hold the market back. Price action followed crude oil which had closed at $68.55 on Monday, moving up as high as $76.08 on Wednesday. Last trade Friday for August crude oil futures was $71.41, not high enough to send inflation (risks) higher. Gasoline is $3.88 versus $3.82 last week and $4.15 a month ago. Inflation help is on the way. Warsh's inflation task force (2 in their 80s) will examine how to deliver price stability in "a changing economy." Looks like Warsh picked all these himself. The communications task force has a BOE guy, a former head of Brazil's central bank, and a guy at the US Treasury who surprised the markets on Halloween after 9/11, eliminating the long bond, a move some old timers will never forget/forgive. Get ready.

iShares Semiconductor ETF (SOXX) up 93.0% YTD

Chip stocks have helped spur broader market rallies on many days looking back over the last year. The SOXX ETF fell as much as 18.3% from the year's $655.95 high on June 22 but has since stabilized. The top 5 in the ETF are Advanced Micro, Micron, Nvidia, Broadcom, Intel. The market cap weighting in the fund for the top 5 stocks is limited to 8% max.

SOXX Weights	
%	7.7.2026
8.35	AMD
8.07	MU
7.79	NVDA
6.93	AVGO
5.82	INTC
36.96	Top 5

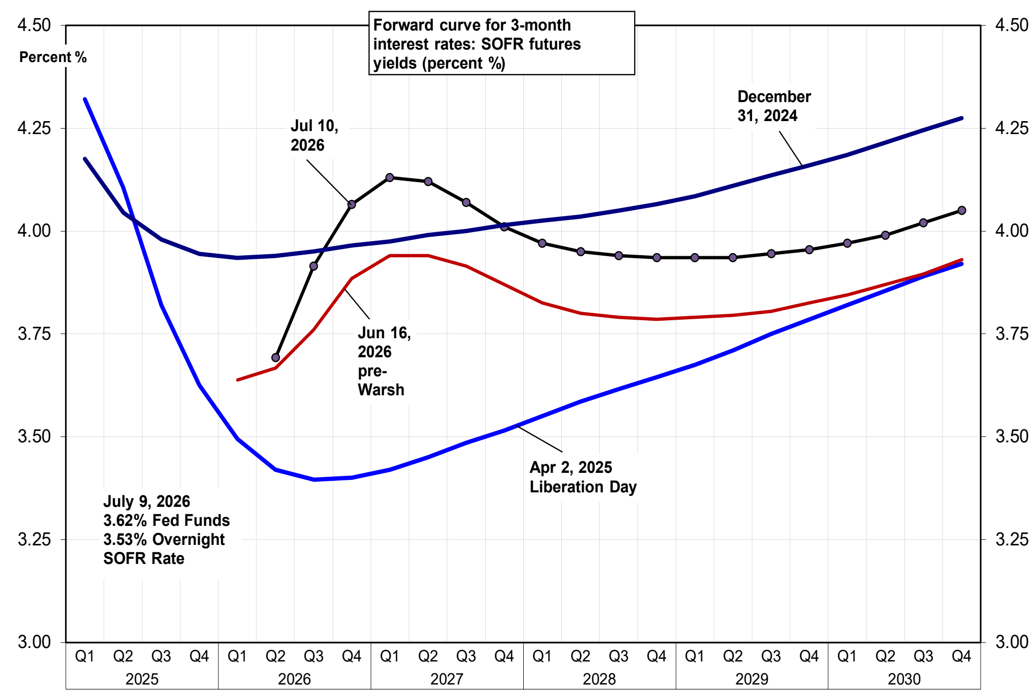


FEDERAL RESERVE POLICY

The Fed meets July 28-29, 2026 to consider its monetary policy. [On Wednesday the June meeting "minutes" were released](), three weeks to the day, after the Warsh less is less press conference explaining what they did. The minutes had less guidance but did repeat that half wanted a rate hike by year-end due to elevated inflation, and half don't want one. The minutes are dated as inflation risks have come down with falling energy prices after the "end of the Iran war." [Warsh announced the leaders]() of his task forces, and all the names were less radical than feared. Most of them have had dealings with the Federal Reserve over the years and are unlikely to come up with major changes. Markets just want to know if the 3.75% Fed funds rate should be 5% or should it go to 2.5%? If anything, the economy seems to be more immune to minor tweaks in Fed rates. The abolish the Fed crowd, some among Trump 2.0 economic officials, do not appear on the list. Warsh just got there but will give testimony on the Semiannual Monetary Policy Report to Congress (report [released Friday 11am ET]()) before the House Financial Services Committee on Tuesday, July 14.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	8-Jul	1-Jul	24-Jun	17-Jun	3/11/20*	3/11/20
Factors adding reserves						to Jul 8
U.S. Treasury securities	4502.749	4492.235	4488.106	4487.319	2523.031	1979.718
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1948.398	1948.398	1961.590	1964.798	1371.846	576.552
Repurchase agreements	0.000	0.001	0.004	0.002	242.375	-242.375
Primary credit (Discount Window)	5.771	7.778	7.894	7.572	0.011	5.760
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.019	0.019	0.019	0.019		
Main Street Lending Program	0.628	0.628	0.626	0.599		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.170	0.250	0.035	0.049	0.058	0.112
Federal Reserve Total Assets	6787.1	6775.6	6787.1	6787.5	4360.0	2427.074
~~3-month Libor %~~ SOFR %	3.58	3.66	3.62	3.63	1.15	2.430
Factors draining reserves						
Currency in circulation	2747.567	2474.926	2473.044	2470.831	1818.957	928.610
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	749.244	807.359	901.845	956.502	372.337	376.907
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	3.347	1.001	4.534	6.828	1.325	2.022
Federal Reserve Liabilities	3649.723	3698.603	3832.655	3851.099	2580.036	1069.687
Reserve Balances (Net Liquidity)	3137.377	3077.019	2954.465	2936.355	1779.990	1357.387
Treasuries within 15 days	89.001	81.609	105.602	112.513	21.427	67.574
Treasuries 16 to 90 days	379.529	343.382	349.873	338.723	221.961	157.568
Treasuries 91 days to 1 year	498.247	531.768	508.915	513.068	378.403	119.844
Treasuries over 1-yr to 5 years	1432.105	1431.865	1425.477	1425.130	915.101	517.004
Treasuries over 5-yrs to 10 years	490.642	490.590	485.491	485.420	327.906	162.736
Treasuries over 10-years	1613.225	1613.020	1612.748	1612.465	658.232	954.993
Note: QT starts June 1, 2022	Change	7/8/2026	6/1/2022			
U.S. Treasury securities	-1268.030	4502.749	5770.779			
Mortgage-backed securities (MBS)	-759.048	1948.398	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2026	2027	2028	Long Term
Fed funds	3.8	3.6	3.4	3.1
PCE inflation	3.6	2.3	2.0	2.0
Core inflation	3.3	2.5	2.1	
Unemployed	4.3	4.3	4.2	4.2
GDP	2.2	2.3	2.2	2.0
June 2026 median Fed forecasts				



23 bps of a 25 bps rate hike to 4.0% is discounted by the September 2026 meeting. The market is forging its own path on expectations as Warsh would like to see.

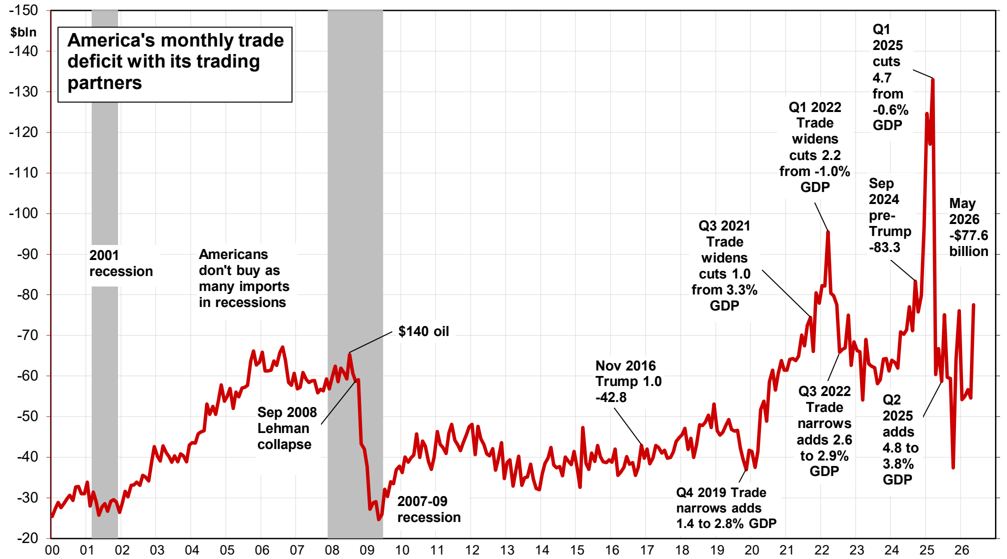
Fed funds futures call Fed policy		
Current target: July 10 -- 3.75%		
Rate+0.13	Contract	Fed decision dates
3.980	Oct 2026	July 29, Sep 16*
4.130	Jan 2027	Adds Oct 28, Dec 9*
4.165	Feb 2027	Adds Jan 27
*Oct 2026 could be 3 days at a new rate		
*Jan 2027 could be 4 days at a new rate		

Next up: June CPI inflation Tuesday, July 14 830am ET														
Monthly	2026					2025								
% Changes	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation	0.2	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1
Core PCE inflation	0.3	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1
Core PCE YOY	3.4	3.3	3.3	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7
Core CPI YOY	2.9	2.8	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8

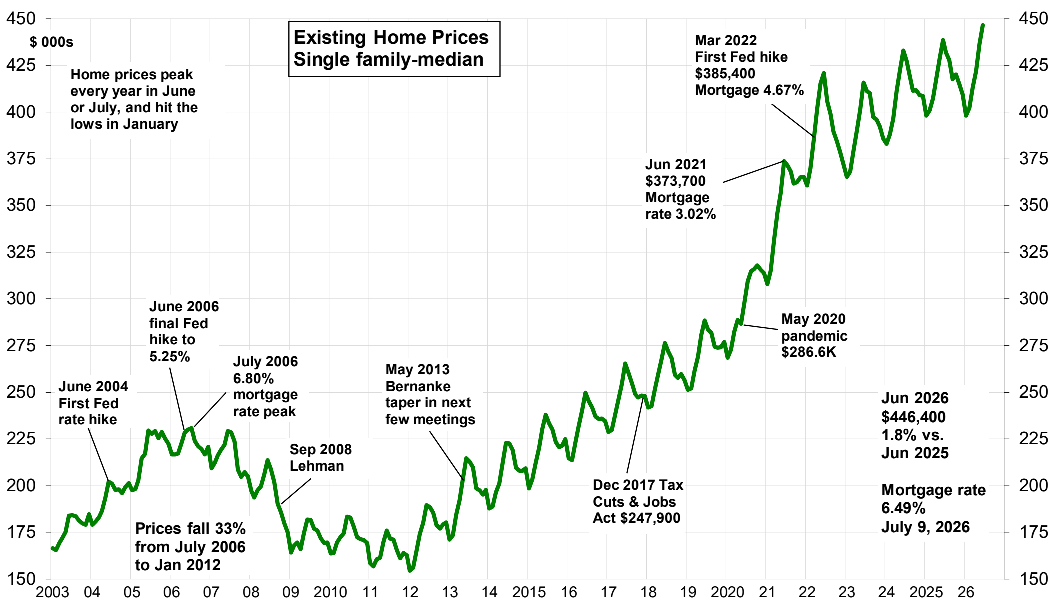
OTHER ECONOMIC NEWS

Trade data and Existing home sales

Breaking economy news. Data this week are not likely to pique the interest of the new Fed Chair looking for new, new, new. In addition to the important signals from the markets, just as long as they don't have the Fed's dot-plot forecasts to lean on to form their own views ("bond traders think"), Warsh wants to "improve the quality and timeliness of real economic signals" to guide policymaker decisions, including a former Walmart president, we guess to see how real-time sales and inventory data can be collected. The trade data for May show stronger imports which will be a big drag on real GDP growth in the second quarter which hopefully will make it at least to 2 percent again.



Existing home sales are going nowhere down at the lows, but single-family home prices keep inflating the shelter affordability crisis even if it is more slowly. In the PCE inflation data, imputed rental of owner-occupied nonfarm housing has risen 31.8% in May 2026 since May 2020 during the pandemic. But single-family existing home prices have appreciated 55.8% over the same period, so housing inflation and inflation-inflation is worse than the PCE inflation statistics. The Administration is working on this the opposite way with changes that will bring the PCE inflation rate down starting in the September 30 statistical release.



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