

Good morning,

What's in this week's Report:

- Weekly Economic Cheat Sheet: A big week for inflation
- How Is the Consumer So Resilient? Low Unemployment
- What Is a "Run-Hot" Economy and What Does It Mean for Markets?
- Oil Update: No Bearish Breakdown (Yet)

Futures are little changed despite no incremental progress on an official U.S./Iran ceasefire over the weekend.

On Sunday night, President Trump declared Iran's response to the ceasefire terms "totally unacceptable," and oil is rallying as a result. However, markets still expect a ceasefire agreement (so stocks aren't down much).

Economically, the Chinese CPI rose more than expected (1.2% y/y vs. 0.9%), reflecting the inflationary effects of higher energy prices.

Today's focus will stay on geopolitics as there's only one economic report, Existing Home Sales (E: 4.05M), and it shouldn't move markets. Regarding the U.S. and Iran, regardless of the headlines, as long as the U.S. does not initiate widespread attacks on Iran again, markets will continue to view the situation as slowly trending towards a ceasefire (and it shouldn't be a material negative for stocks).

Market	Level	Change	% Change
S&P 500 Futures	7,410.50	-8.50	-0.11%
U.S. Dollar (DXY)	97.86	0.07	0.08%
Gold	4,695.66	-35.04	-0.74%
WTI	98.06	2.64	2.77%
10 Year	4.387%	0.023	0.53%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks continued to power to all-time highs last week thanks to easing, albeit simmering, geopolitical tensions, stronger tech earnings, and evidence of ongoing economic resilience in domestic data. The S&P 500 surged 2.36% on the week.

Equities took a breather from the strong Q2 advance to record highs last Monday as traders digested the announcement of "Operation Freedom" and reports of Iranian missile/drone strikes against the UAE. Strong Durable Goods data, hawkish comments by the NY Fed's Williams regarding the FOMC's dual mandate, and a solid rise in bond yields over the course of the session weighed on stocks, leaving the S&P 500 down 0.41%.

The bid in equities was quick to return on Tuesday, however, as there was no meaningful resurgence in U.S.-Iran military tensions overnight and Secretary of Defense Hegseth outlined plans to reopen Hormuz in the near future. A mega-cap tech deal between AAPL and INTC rekindled AI enthusiasm, while the ISM Services PMI and latest JOLTS data shored up the thesis that the U.S. economy remains resilient. The S&P 500 rose 0.81%.

The midweek rally accelerated on Wednesday after an Axios report detailing significant breakthroughs in U.S.-Iran negotiations and suggesting the framework for a lasting peace deal could be in place by the end of the week. Tech led the way higher thanks to AMD's blowout Q1 results and upwardly revised corporate guidance, but the rally was notably broad-based with all major indexes advancing. The S&P 500 gained 1.46%.

Stocks hit new record highs on Thursday with more AI-related earnings topping estimates, while Jobless Claims data reiterated that the U.S. labor market remains in good shape nearly halfway through Q2'26. Geopolitical headlines began to weigh on risk assets in the afternoon as oil rallied after the U.S. announced plans to restart "Operation Freedom," which had been briefly paused after Iran's foreign minister skipped a planned stop in Pakistan to meet with peace mediators on a trip home from China. Stocks drifted lower into the afternoon with the S&P 500 closing down 0.38%.

Once again, the bid returned to the equity market quickly on Friday as the April BLS jobs report came in Goldilocks, with a solid headline job-adds number and cooler-than-feared wage inflation. Mega-cap AI tech deals continued to be announced, bolstering the tech rally and pushing the broader indexes higher into the weekend. With the U.S.-Iran ceasefire appearing to hold, risk-on money flows continued with the S&P 500 adding 0.84% Friday.

[Economic Data \(What You Need to Know in Plain English\)](#)

Last Week

The important data last week was all jobs-related, and it gave the same signal as virtually all the other economic data right now: Growth/activity is solid, and that is an important support for this market. The key number last week was the jobs report, which was stronger than expected and was almost perfectly Goldilocks. Headline jobs adds were strong at 115k vs. (E) 65k, an almost-perfect number, as it's strong but not so strong that the Fed would be more inclined to hike rates. Other metrics of the jobs report, the unemployment rate and wages, were also Goldilocks, as the unemployment rate stayed steady at 4.3%, while year-over-year wage growth slowed to 3.6% from 3.8% y/y.

Other labor market metrics confirmed the solid monthly jobs report, as jobless claims rose to 205k but remained historically low and nowhere near the 260k level that would make us a bit concerned about the labor market. At the same time, JOLTS remained stable at 6.9 million jobs, well off the post-pandemic highs but still not close to the sub-six-million level that would imply deterioration.

Turning to growth, the only notable report last week was the ISM Services PMI, which was solid but reinforced that companies are seeing rising inflation pressures. The headline index slipped to 53.6 vs. (E) 53.9, while New Orders, the leading indicator in the report, also fell to 53.5 from a very elevated 57.5. While those were declines, the numbers remain solidly above 50 and are not in danger of entering contraction territory. Bottom line: service sector activity, which accounts for the majority of the U.S. economy, remains solid, which is good for broader economic growth. However, while activity was solid, prices were elevated.

The Prices Paid index stayed flat compared to March at 70.7, and while it's good, it didn't increase further; the reality is that it's matching the highest level since 2022. The last time the price index was at this level, CPI was over 6%! Bottom line, inflation pressures are building, but for now, Goldilocks economic data is overshadowing it, and the solid economic performance is absolutely supporting this stock market.

Important Economic Data This Week

This week's focus turns back to inflation via Tuesday's CPI and Wednesday's PPI. If these metrics run hot, that will push yields higher and incrementally increase the chances of a rate hike in late 2026, which would put at least a mild headwind on stocks.

Tuesday's CPI is the first major inflation reading for April, which will incorporate a second full month of higher oil/energy prices. The headline reading should stay high (above the 3.3% level last month), but the key will remain Core CPI, which last month was 2.6% y/y. If that number rises close to, or through, 3.0%, that will be an incremental negative, as a core CPI above 3.0% would make Fed members more hawkish and could increase the possibility of a rate hike in 2026.

Bottom line, rising inflation and rate-hike fears are one of the few things that can hurt this rally, so tame inflation data will be welcomed by markets, push back on stagflation fears, and help further support this rally.

Turning to growth data, retail sales on Thursday is the key report. And while the headline should be solid, the more important part will be the "Control" group of retail sales, which will give us insight into discretionary spending. Consumer spending is the engine of growth in the U.S. economy, and if it proves resilient, it'll further push back on stagflation concerns.

Finally, our first look at May economic activity will be the Empire Manufacturing survey on Friday. It's a volatile metric and provides only a regional view. However, it will still give us insight into the state of manufacturing and prices as we enter the third month of elevated energy prices. Bottom line, while stagflation fears haven't materialized yet, it doesn't mean they won't, so any "first look" at current data is important—and Empire will give us that look.

Special Reports and Editorial

How Is the Consumer So Resilient? Low Unemployment

The Q1 earnings season has revealed, yet again, that the U.S. consumer remains strong, as companies tied to personal finance (banks/credit cards) and discretionary spending (casual dining, travel, apparel) reported still-strong demand even amid a very volatile start to 2026. And if there's a single reason the consumer has remained resilient, it is the low unemployment rate.

Before going further, I want to clarify that "consumer spending" isn't some abstract economic concept; it's the lifeblood of the U.S. economy. Some 60-plus percent of the U.S. economy is driven by consumer spending, which is why analysts look at the "Personal Consumption Expenditures" number in every quarterly GDP report: it's aggregate consumer spending and the most important number in the report. This matters because if consumer spending starts to lag, then economic growth will automatically follow. So goes the consumer, so goes the U.S. economy.

Reasonably, there have been concerns that consumer spending would remain resilient in the face of consistently higher prices, driven by a multitude of factors and now compounded by surging oil and gas prices. But discretionary consumer spending has remained strong in the face of all of this, and the reason is clear: People have jobs!

I don't mean to oversimplify it, but the practical economic reality is that as long as Americans have jobs (meaning steady income), they will continue to spend, even in the face of higher prices. The problem occurs when they don't have jobs, because that's when "belt tightening" happens, as we last saw over a decade ago (the last time the unemployment rate was at danger levels was at the exit from the financial crisis).

Despite the narrative in the financial and mainstream media that AI is about to cause a surge in unemployment, the reality is the opposite. Virtually every labor market we track says the same thing: it's rock-solid.

	<u>Current Level</u>	<u>Level that Implies Weakening Labor Market</u>
JOLTS	6.8 million	< 6 million
U-3 Unemployment Rate	4.3%	> 5.0%
U-6 Unemployment Rate	8.0%	> 10.0%
Jobless Claims	189k	> 300k

Consider: JOLTS are well off post-pandemic highs, but at 6.8 million, they've been flat-ish for over a year and are not close to the sub-six-million level that would imply employers are embarking on a hiring freeze. The unemployment rate, meanwhile, remains near historic lows. The financial media mostly focus on the "U-3" employment rate, which measures the number of people in the labor force who are actively looking for work but are unable to find it. Like JOLTS, it's off post-pandemic lows but, at 4.3%, is well off recent highs and not close to the 5% level that would imply a weakening labor market.

Similarly, the U-6 unemployment rate, which is called the underemployment rate because it measures unemployed people and those who can't get as much work as they want, just hit its lowest level since September at 8.0%. Like the other metrics, it's not close to a 10% or higher level that would imply trouble in the jobs market. Finally, weekly jobless claims, the most "high frequency" data point we have on the labor market, dropped to 189k the prior week, a historically low number that's, again, not close to the 300k level that would imply a serious uptick in layoffs.

Here's why this matters to us. If labor market metrics remain around these levels, we should expect consumer spending to remain resilient. If consumer spending remains strong, the chance that the economy loses momentum is very low. If economic growth remains solid, the chances of a sustained stock market decline or a bear market will also remain low. Point being, the labor market matters a lot to this rally.

What Is a "Run-Hot" Economy and What Does It Mean for Markets?

Recently, someone asked me for some clarification on what a "run-hot" economy meant, exactly. I've found that over decades-plus of doing this, if one person has a question, many others are likely wondering the same thing. So, I wanted to explain what a run-hot economy is and how it would impact assets.

What is a "run-hot" economy? The term run-hot economy refers to the idea that the Fed basically allows strong economic growth and inflation solidly above target, either by cutting rates incrementally when 1) Economic growth is solid and not weakening, and 2) Inflation is elevated or by not raising rates, thereby allowing inflation to stay elevated.

The term run hot reflects the fact that, like throwing gasoline on an already-burning fire, the Fed cutting or not hiking rates at a time of solid growth and high inflation increases the likelihood that both remain elevated for a longer period. And right now, the economic data points to a run-hot economy.

Consider that the ISM PMIs are both solidly above 50 (remember the ISM manufacturing PMI spent over a year below 50, so it's been an improvement in the last few months), retail sales are strong, durable goods (business investment/spending) remain just off recent highs, the labor market has rebounded from a lull in mid-2025, inflation by virtually every measure is running solidly above the Fed's 2.0% target (higher than 3.0% on CPI and the Core PCE Price Index), and the Fed is not voicing any intention to potentially increase rates (and with Warsh becoming Fed chair, the Fed may want to try and cut them again).

Bottom line, in "normal" times, with inflation metrics running above the 2.0% target for multiple years and moving higher, and with growth solid across the board, we'd expect the Fed to want to raise rates. Instead, they are (at worst) standing idly by as growth and inflation appear to be accelerating.

How do we know if we are in a run-hot economy? 1) Growth metrics, excluding the labor markets, will remain solid (that means ISM PMIs, retail sales, durable goods), 2) Inflation will remain elevated (CPI and Core PCE Price Index above 3.0% y/y), and 3) The Fed not hinting at rate hikes (so worst case, rates stay stable and, best case, the Fed cuts again despite strong growth and elevated inflation).

Oil Update: No Bearish Breakdown (Yet)

WTI crude oil futures plunged as much as 13% in the pre-market on Wednesday as traders reacted to a detailed Axios report suggesting that U.S. negotiators and other government officials were close to striking a new "framework agreement" with Iranian counterparts to end the war, which continues to hinder ship traffic through the Strait of Hormuz. Additionally, President Trump announced Project Freedom would be paused, a development viewed as another sign of de-escalation.

WTI rallied off the pre-market, sub-\$90/barrel lows into the primary session's open and ultimately recovered over half of the peak-to-trough declines to end the day back above \$96/barrel, but still down 5.93% after the latest test of critical support between \$85 and \$90/barrel held on a closing basis.

Favorable, oil-bearish geopolitical headlines largely overshadowed weekly EIA data, but there were some noteworthy developments. The headlines were fairly benign, with crude, gasoline, and distillate inventory changes largely in line with consensus estimates. At the same time, the details revealed a modest dip in the refinery utilization rate (+0.5% to 90.1% vs. E: 90.3%) and a pullback in consumer demand for gasoline (down 291K to 8.813MM b/d, which was below the four-week rolling average of 9.02MM b/d).

While those supply data metrics were slightly bearish, the most attention-grabbing data point in the EIA release was that distillate supply (mostly diesel fuel) dropped to a ~21-year low and remained 11% below the five-year average for this time of year. With most U.S. and global goods relying on diesel-powered trucks or trains at some point in their supply chain, the bullish diesel print was not to be overlooked, as it adds to the input cost inflation argument despite yesterday's pronounced drop in front-month oil futures.

Bottom line: Last week's notably heavy price action in crude oil has been a well-received tailwind for equities. It offers measurable evidence that geopolitical tensions are easing for real this time. However, with WTI prices so far holding support, Strategic Petroleum Reserves rapidly falling to 17-month lows, and commercial diesel stockpiles sitting at a multi-decade low, higher energy costs remain a source of concern regarding "higher for longer" inflation, which could reemerge as a headwind for stocks if bond markets begin to take notice and price in higher inflation rates. This is definitely something to monitor in the weeks ahead.

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