

WEEKLY ECONOMIC UPDATE JULY 20, 2026

Stocks fell last week as the chip-stock trade entered a selloff phase, despite upbeat news on inflation.

The Standard & Poor's 500 Index fell 1.55 percent, while the Nasdaq Composite Index declined 2.90 percent. The Dow Jones Industrial Average slipped 0.93 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, lost 0.80 percent.^{1,2}

Chip Stocks Under Pressure

Renewed tensions in the Middle East gripped investors as the week kicked off. Stocks slid broadly as oil prices climbed.³

On Tuesday, investors cheered news of the first drop in consumer inflation in six years. The following day, an unexpected drop in wholesale inflation prompted investors to rethink the Fed's next move on short-term interest rates.^{4,5}

But on Thursday, the S&P 500 opened lower as chip stocks dragged the broader market lower once again.⁶

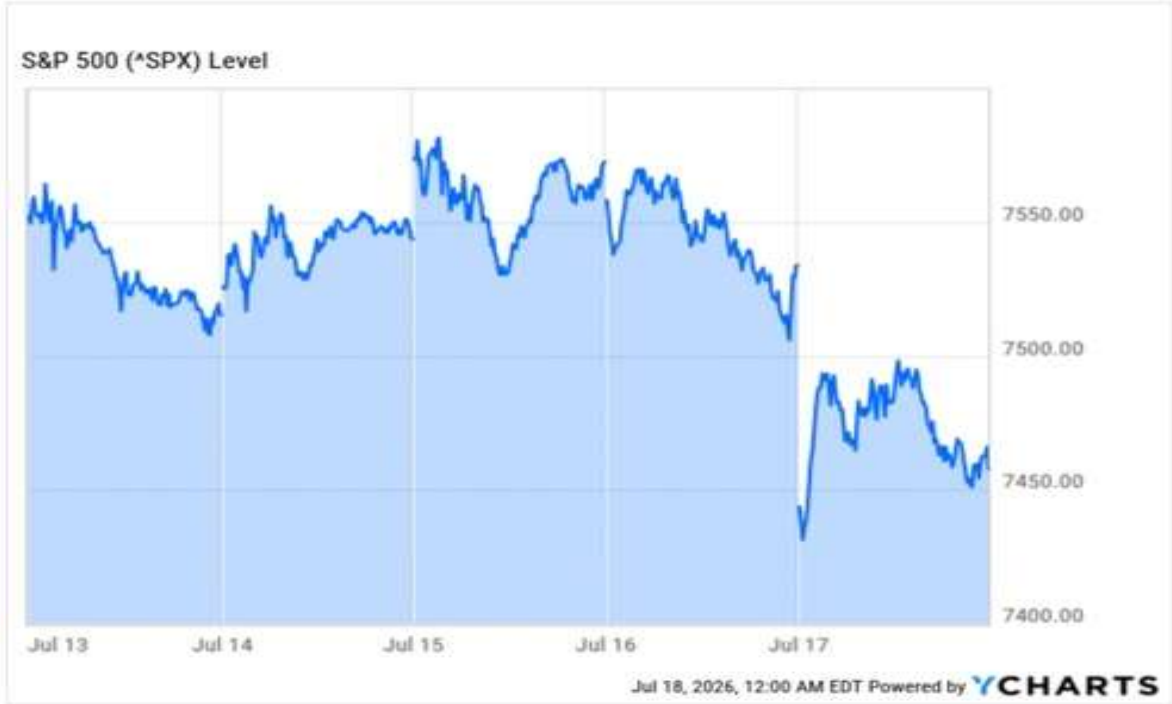
As the week wrapped up, the S&P lost over 1 percent on Friday, while the Nasdaq fell 1.4 percent as investors appeared to rotate out of chip stocks and other tech names in favor of other sectors.⁷

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	1.11%	10.28%	20.73%	66.65%
S&P 500	0.37%	10.76%	21.72%	87.10%
MSCI EAFE	-0.32%	10.41%	23.55%	59.09%
Nasdaq Composite	-1.85%	11.71%	25.61%	86.10%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 07/17/26	4.55%	4.49% 4.26% 4.47%	1.34% ▲ 6.81% ▲ 1.79% ▲

Inflation Declines

The Consumer Price Index (CPI) surprised Wall Street last week, falling 0.4 percent in June from the prior month. While month-over-month inflation has decelerated at times over the past six years, this was the first monthly decline in consumer prices since April 2020.⁸

Wednesday's Producer Price Index report showed that monthly wholesale inflation unexpectedly declined 0.3 percent in June. Later in the day, New York Fed President John Williams said that he believed inflation had likely peaked.⁹

This Week: Key Economic Data

Monday: Leading Indicators. Three-Month Treasury Bill Auction. Fed Board of Governors (closed) meeting.

Tuesday: Treasury Buyback Announcement.

Wednesday: Atlanta Fed Business Inflation Expectations. 20-Year Treasury Bond Auction. EIA Petroleum Status Report.

Thursday: Weekly Jobless Claims. Kansas City Fed Survey. EIA Natural Gas Report. Fed Balance Sheet.

Friday: Purchasing Managers Index (PMI) Composite—Manufacturing. PMI Composite—Services. New Home Sales.

Quote of the Week



“This may be the real endgame. If bonds break, the Fed will implement yield curve control. If stocks break, they’ll flood markets with liquidity. If inflation remains too high to justify

either action, they're simply redefine inflation until the numbers say what policymakers need them to say."

- Christopher Irons



Kevin Warsh, the newly appointed Federal Reserve chair, led his first committee meeting in June. The decision to leave short-term interest rates unchanged didn't surprise anybody, but there was plenty for markets to chew on. Warsh seems likely to make structural changes that may not impact near-term monetary policy but could matter much more to the US economy over the long run.

New Fed leaders bring their own communication style that could lead to misinterpretation by markets used to a particular voice. That creates the risk of turbulence, and Warsh was clearly aware of that when he reinforced the central bank's core mission to keep price pressures under control while enabling maximum employment, in line with its congressional mandate.

With inflation running hot right now, the market interpreted Warsh's repeated references to the importance of achieving the 2.0% inflation target as hawkish in tone and a development that increases the probability that rates move higher this year. Our base case is still for no hike, but the likelihood of rates moving higher is clearly greater than the likelihood that they'll decline in the months ahead.

Beyond that time frame, Warsh's plans get more interesting. He announced the formation of five task forces to study the core

building blocks of Fed monetary policy, with the results of their studies expected around year-end. Each issue under the microscope could change how the Fed does business and its relationship with markets.

Fed communication: The Fed-market dynamic is meant to be a two-way street, but the traffic flow is uneven. The Fed looks at asset prices to assess the market's economic outlook, but when the Fed shares its expectations, markets tend to reflect the central bank's view instead of its own independent view. Warsh has argued that the Fed should give less forward guidance, allowing markets to price their own view, and we expect this task force to develop a plan with that in mind. Warsh hinted at this by declining to submit his own dots for the Fed's "dot plot" of members' expectations for future rate moves. The Fed's statement was also atypically pared down. In our view, this task force is most likely to bring near-term changes to how the Fed operates.

The Fed's balance sheet: Warsh has long argued that the balance sheet of the Federal Reserve is too large and gives the central bank too big of a footprint in financial markets. The balance-sheet task force is likely to consider ways to reduce that footprint over time. We think it is unlikely that the balance sheet will shrink significantly, and we don't think shrinking it is necessary, but there are likely to be at least some minor tweaks to the regulatory regime that will enable a modest reduction.

Use of and reliance on existing data sources: Deteriorating data quality is one of the Fed's most challenging issues. Funding cuts to statistical agencies and threats to their independence have reduced the reliability of some incoming data. Another issue is that data-collection methodologies may not be keeping up to speed with the digital age. With the US government unlikely to boost funding to modernize data collection, the Fed may need to

broaden its lens and put more weight on alternative data sources going forward.

Productivity and jobs in an era of transformation: It's reasonable to think of this as the "artificial intelligence (AI) committee." Before becoming chair, Warsh argued that AI would be a deflationary force by boosting productivity. But AI can also stoke near-term inflation by creating heavy demand as data centers and other infrastructure are built. The balance between those two forces calls for robust analysis, as does AI's impact on the labor market. AI could both destroy jobs in the near term and create them in the longer term by enhancing productivity but changing the mix of skills needed. We shouldn't expect this task force to bring a clear answer to these unanswerable questions, and the Fed is already studying them deeply, but it's a good idea to convene internal and external resources for a closer look.

The Fed's inflation framework: Warsh made clear that the 2.0% inflation target is sacrosanct—the task force won't discuss it. What's likely to be on the table is a fresh look at the Fed's analytical approach to modeling inflation, which has focused largely on demand-driven inflation that can be managed with interest rates. Warsh has argued that it should focus more on the supply side of the economy. How to balance those two analytical approaches, as well as how the Fed can or can't influence the supply side, is an interesting topic that could impact how the Fed manages monetary policy over the long term.

The five task forces present a lot of ground to cover, and the Fed will be busy in the months ahead even if the economy's path doesn't require near-term rate changes. We're skeptical that some of the more grandiose changes that could emerge will come to fruition, but leadership transitions are always a convenient opportunity to step back and see if there are better and more efficient ways to do business.

We agree the Fed can and should communicate better with markets, explore available data that could enhance its analysis and study the longer-term outlook for growth and productivity as the economy enters the AI era. We're skeptical that it's necessary to change balance-sheet policy or that the Fed is equipped to measure or affect the economy's supply side meaningfully. But, as we expect the FOMC to do, we'll keep an open mind as the task forces get down to business. Investors should do the same.

Change for the sake of change would likely cause unnecessary volatility and harm the US economy. But if the Federal Reserve makes well-considered improvements to its process, we think it can only help the economy in the long run.¹¹

Footnotes And Sources

1. [WSJ.com](#), July 17, 2026
2. [Investing.com](#), July 17, 2026
3. [CNBC.com](#), July 13, 2026
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11. [advisorperspectives.com/commentaries/2026/06/26/federal-reserves-new-leader-lays-agenda?topic=alternative-investments](#)

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