Weekly Economic Commentary

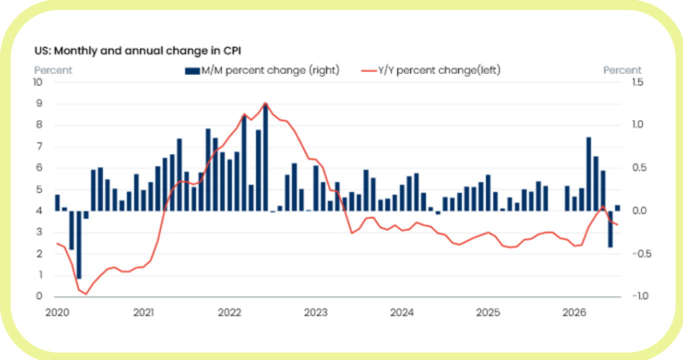
August 14, 2026

Millennium
CORPORATE CREDIT UNION

Reports on inflation and consumer spending garnered the economic headlines this week but neither delivered provocative reading. Some details of the reports did raise eyebrows, but they were not enough to move the needle for the Fed, which is dialed in to hold rates steady until – or unless – one becomes more of a dominant trend that forces its hand. At this juncture, things remain at a standoff. Inflation is still too high, but slowly retreating, allowing policymakers to remain on the sidelines to see if the trend gains traction. Likewise, a relatively healthy job market and burgeoning stock portfolios are sustaining consumer spending, particularly among wealthier households, but retail sales came in a tad softer than expected in July.

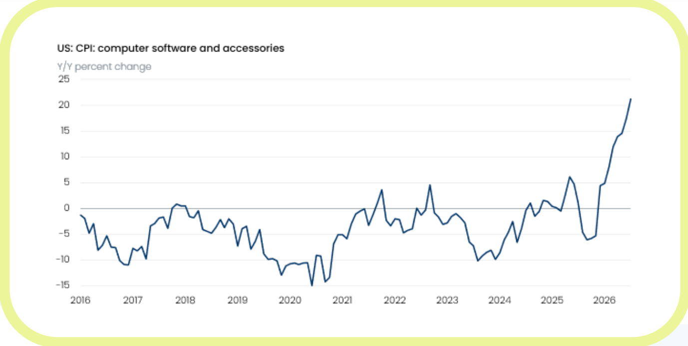
Since Fed Chair Walsh is on record saying that no forward guidance would be forthcoming, it is up to the financial markets to parse the data and guess what the Fed will do. The next policy meeting is still more than a month away, and there will be another round of inflation and spending reports for traders to process as well as the all-important jobs report. But they already concluded that the latest batch of data diminishes the odds of a rate hike at the September confab. A few weeks ago, those odds were more than even; now they are well below 50 percent.

We have long agreed with that assessment and incoming data provide further reason for the Fed to keep its finger off the rate-hiking trigger. A big wildcard of course is the Mideast conflict, which is playing havoc with energy prices and yanking the headline consumer price index in both directions. In July the pull was down for the second consecutive month, but it will likely have an upward influence in August, based on recent movement in oil prices. Hence, less attention is paid to the headline CPI, which slipped to a year-over-year rate of 3.4 percent last month from 3.5 percent in June, and more to the less volatile core CPI, which excludes energy and food prices.



The good news is that the core index slowed to 2.5 percent from 2.6 percent, returning to the low end of the range seen this year. The bad news is that it is having a difficult time piercing that threshold, as core inflation has not dipped below 2.5 percent since March 2021. Staying above the Fed's 2 percent inflation target for more than five years is undoubtedly testing the Fed's patience; it also gives voice to hawks, both within and outside the Fed, that a rate increase is needed to break through that barrier and launch a sustained move towards the 2 percent target. That view may gain traction the longer inflation remains sticky and the war-induced elevation in oil prices is prolonged, raising the risk it will bleed into a broader swath of other prices.

The unpredictability of geopolitics suggests that oil prices will continue to be a wildcard in the inflation outlook. But assuming a durable truce is achieved in the foreseeable future, and a sense of normalcy returns to the oil market, price pressures should begin to ease and allow the Fed to remain on a prolonged hold. The productivity improvement seen in recent years is still in its early stages and should be an inflation-dampening influence going forward. Clearly, however, the main catalyst behind this prospect – the rapid adoption of AI technology – is facing hurdles, including growing resistance towards energy-hogging data centers, which may be stoking more near-term inflation than the productivity offsets they promise to generate down the road.



What's more, the deep hunger for memory chips, semi-conductors and other paraphernalia needed to feed the AI buildout is already having a meaningful inflation impact in the tech sector. Some of us are old enough to remember Moore's Law, introduced by Intel's co-founder Gordon Moore more than 50 years ago, which contends that the rapid advancement in technology would cut the price of computers in half every two years. That notion was prescient for many years, but Mr. Moore would be flabbergasted at the eye-opening price surge on computer inputs unfolding now. Happily, his legacy lives on, as Intel's stock price is up 164 percent this year.

Indeed, tech stocks have led a powerful market rally this year that has lifted prices to one new high after another, which is fattening the stock portfolios of upper-middle-income and wealthy households. This cohort has been a driving force behind consumer spending via the wealth effect. There is always the risk that a severe market correction would deflate this powerful spending catalyst and stifle the economy's main growth driver in the process. However, it would take more than a run-of-the mill setback to bring that about, as four years of almost uninterrupted gains have generated a formidable wealth cushion that can sustain spending. What's more, it's a gift that keeps on giving. We note that Anthropic is set to go public in October at an estimated valuation of $2 trillion. The company has around 2500 employees most of whom hold stock grants that can be cashed out when the lockout period ends. This is only one of several AI-linked private companies set to go public in the years ahead, generating another layer of millionaires that will reinforce the wealth effect underpinning consumer spending.

That said, the majority of households rely mostly on income growth to finance spending, and their prospects are less promising than those higher up the income ladder and wealthy shareholders. The modest slowdown in inflation last month is welcome, but prices are still outpacing income growth and eroding the purchasing power of the working class that relies on paychecks to sustain living standards. The labor market is reasonably balanced, stuck in a low hiring/low firing mode, which does not portend an increase in worker bargaining power that would strengthen wage growth. Nor does it indicate that labor costs will be a source of inflationary pressure. As noted earlier, the forces influencing Fed policy are at a standoff, suggesting a prolonged "wait-and-see" period. We believe the Fed will be peering through the looking glass on the sideline well into next year.

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Key Financial Indicators

Interest Rates	August 14	Week Ago	Month Ago	Year Ago
3-month Treasury bill	3.80	3.80	3.80	4.21
6-month Treasury bill	3.92	3.92	3.92	4.08
2-year Treasury note	4.18	4.21	4.18	3.76
5-year Treasury note	4.36	4.36	4.29	3.84
10-year Treasury note	4.69	4.65	4.55	4.32
30-year Treasury bond	5.26	5.20	5.07	4.92
30-year fixed mortgage rate	6.67	6.69	6.55	6.58
15-year fixed mortgage rate	5.96	6.01	5.93	5.71
Stock Market				
Dow Jones Industrial Index	53732.41	54036.93	52146.42	44946.12
S&P 500	7785.76	7757.64	7457.69	6449.80
NASDAQ	26729.16	26690.62	25520.24	21622.98
Commodities				
Gold ($ per troy ounce)	4429.60	4402.9	4023.0	3381.7
Oil ($ per barrel) - Crude Futures (WTI)	82.29	76.89	82.47	63.14

Key Economic Indicators

	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
Consumer price Index (July) - % change	0.1	-0.4	0.5	0.3
Core CPI (July) - % change	0.2	0.0	0.2	0.2
Producer Price Index (July) - % change	0.0	-0.1	0.5	0.4
Retail Sales (July) - % change	-0.6	0.3	0.9	0.7

Millennium Corporate Credit Union
8615 West Frazier Street
Wichita, KS 67212