

Indices hit by AI stocks but breadth remains positive

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up, Gold down.
- **REAR VIEW:** US Retail Sales as expected; Jobless claims fall; Logan calls for modestly higher policy rate; Iran reportedly tells Yemen's Houthis to close Bab El Mandeb gateway to the Red Sea if the US hits power network; TSM earnings beat, raises capex; Japan to buy 27.5k NVDA Rubin chips to build AI for robots; UNH & ABT earnings beat; GOOGL Gemini launch delayed
- **COMING UP:** **Data:** EZ CPI Final (Jun), US Building Permits (Jun), Export/Import Prices (Jun), Industrial Production (Jun), UoM Consumer Expectations (Jul), Atlanta Fed GDP. **Speakers:** ECB's Cipollone. **Supply:** Australia. **Earnings:** Volvo AB.

MARKET WRAP

Stocks were lower on Thursday, with the Nasdaq leading the downside as concerns over AI valuations weighed on the technology sector. TSMC (TSM) reported strong quarterly earnings, but the results failed to satisfy lofty investor expectations alongside a capex raise, with the stock ultimately closing lower alongside the broader semiconductor complex. Adding further pressure late in the session, Alphabet (GOOGL) fell after reports it had delayed the launch of Gemini 3.5 after the model failed to meet internal performance targets.

Looking beneath the headline indices, however, underlying market breadth was more constructive. The equal-weight S&P 500 rose around 0.75%, while a slight majority of sectors finished in positive territory. Consumer Staples led the gains, with Health Care and Real Estate also outperforming. By contrast, Communication Services, Technology and Industrials lagged, highlighting that much of the weakness was concentrated within AI-related names rather than the broader market.

Crude prices were volatile but ultimately settled lower despite continued geopolitical tensions. Reports of explosions in Dubai were later denied by the Dubai Media Office, while Qatar rejected Israeli media reports claiming it had agreed to participate in military action against Iran. Those denials, alongside continued comments from the White House that Iran wants to make a deal, helped crude reverse earlier gains.

Treasury yields edged higher across the curve, with the front end underperforming following another round of encouraging US economic data and hawkish Fed commentary. Initial jobless claims fell below expectations, retail sales broadly matched forecasts and the Philadelphia Fed Manufacturing Index surprised sharply to the upside, although pending home sales disappointed. Fed speak was led by Dallas Fed President Logan, who became the first policymaker to explicitly call for "modestly higher" interest rates ahead of the end-July FOMC meeting. Nevertheless, the reversal lower in oil prices helped limit the rise in yields by keeping inflation expectations contained.

The Dollar outperformed on the stronger macro backdrop and hawkish Fed rhetoric, while the Swiss Franc and Pound lagged. The Franc underperformed as higher US Treasury yields widened rate differentials, while Sterling gave back some of its recent gains. UK MP Burnham is set to take over as PM next week, and reports suggest he is looking to hit the ground running with early announcements on cost of living, North Sea energy, social care and devolution.

Precious metals came under pressure despite the decline in oil prices, with gold and silver weighed down by the firmer Dollar and higher Treasury yields as resilient economic data and hawkish Fed commentary kept the prospect of further policy tightening alive.

US

JOBLESS CLAIMS: Initial jobless claims fell to 208k in the week ending July 11th (exp. 217k, prev. 216k revised from 215k), the lowest level since early May and below expectations, while the four-week moving average declined to 214.3k from 219.0k, pointing to continued resilience in the labour market. Continuing claims fell to 1.805m (exp. 1.820m, prev. 1.821m revised from 1.814m), with the insured unemployment rate unchanged at 1.2%. In the unadjusted data, initial claims rose by 18,834 to 244,826, although this was below the seasonal factors' expected increase of 28,574. Looking at the advance state breakdown, the largest increase in non-seasonally adjusted initial claims were seen in New York (+12,838), Michigan (+3,136), Texas (+2,664), Florida (+2,598), and South Carolina (+2,003), while the largest declines were in New Jersey (-5,723), Missouri (-5,557), California (-1,876), Massachusetts (-1,001), and Rhode Island (-1,041). Pantheon Macroeconomics highlights that claims remain low and stable but hiring indicators point to a gentle rise in Q3.

RETAIL SALES: US retail sales rose 0.2% M/M in June (exp. 0.2%, prev. 1.0% revised from 0.9%), while sales excluding autos fell 0.2% M/M (exp. -0.1%, prev. 0.8%). However, the details were firmer, with retail sales excluding autos and gasoline rising 0.4% M/M (prev. 0.5%) and the closely watched control group increasing 0.5% M/M (exp. 0.5%, prev. 0.7%), in line with expectations. Within the report, the strongest monthly gains were seen in motor vehicle & parts dealers (+1.9%), nonstore retailers (+1.9%), sporting goods, hobby, musical instrument & book stores (+1.3%), and electronics & appliance stores (+0.8%), while gasoline stations (-5.3%) posted by far the largest decline, alongside weaker sales at health & personal care stores (-0.8%), clothing & clothing accessories (-0.3%), miscellaneous retailers (-0.3%), and food & beverage stores (-0.2%). On an annual basis, headline retail sales rose 6.7% Y/Y. Analysts at ING suggest the retail sales data appears consistent with Q2 GDP real consumer spending growth of a touch above 2%, a marked improvement on the 0.5% annualised rate in Q1.

PHILLY FED: The Philly Fed Manufacturing Index for July jumped to 41.4 from 10.3, much above the expected 12. New orders rose to 37.0 from 27.3, while employment edged higher to 10 from 7.9. Prices paid were more-or-less unchanged at 53.9 (prev. 53.2), although business conditions tumbled to 34.4 from 50.2. Capex came in at 30.1 from 41.2. Overall, responses to the July Manufacturing Business Outlook Survey suggest overall expansion in the region's manufacturing activity. The indicators for current activity, new orders, and shipments all rose this month, and the firms continued to report an overall increase in employment. Both price indexes remained elevated. The survey's broad indicators for future activity continued to suggest expectations for growth over the next six months, although most readings moderated.

LOGAN (2026 voter, hawk): The Dallas Fed President openly called for "modestly higher" interest rates, becoming the first Fed official to explicitly advocate for explicit tightening. She argued that modestly higher rates would better balance the outlook and risks, stressing that it is time to finish the job of restoring price stability. Logan said one month of soft CPI data is not enough to change the inflation outlook and that some degree of policy restriction remains necessary to return inflation to target. She argued inflation does not appear to be moving sustainably back to 2% on its own and warned that inflation risks remain skewed to the upside. On AI, she said demand effects are already being felt and cautioned that the ongoing investment boom could lead to non-linear price increases, although any productivity benefits are likely to materialise later. Logan said downside risks to employment have faded, describing the labour market as well balanced and even strengthening somewhat. She suggested that labour market, consumer spending and financial market data all indicate that monetary policy is not materially restraining the economy, reinforcing her view that somewhat higher interest rates may be appropriate.

SCHMID (2028 Voter, hawk): Said inflation is proving persistent across a broad selection of goods and services, and remains concerning. Accountability requires the Fed to talk about how it makes decisions, provides transparency and allows for open criticism. He added he is focused on inflation in setting monetary policy, noting inflation shocks are not intrinsically transitory, and disagrees that the Fed should look through certain types of increases.

FIXED INCOME

T-NOTE FUTURES (U6) SETTLED 5 TICKS LOWER AT 109-04+

Treasuries were little changed on Thursday despite encouraging US economic data and hawkish Fed commentary, with lower oil prices helping keep inflation expectations contained. At settlement, 2-year +2.1bps at 4.158%, 3-year +2.1bps at 4.205%, 5-year +1.6bps at 4.280%, 7-year +1.7bps at 4.414%, 10-year +1.8bps at 4.567%, 20-year +1.1bps at 5.095%, 30-year +1.2bps at 5.096%.

THE DAY: Oil prices ultimately settled lower despite a volatile session. Crude initially rallied after reports that Iran had instructed Yemen's Houthis to close the Bab el-Mandeb Strait if the US were to strike Iran's power infrastructure. Separately, the Houthi leader warned that all Saudi energy facilities would become targets should Saudi Arabia launch all-out aggression against Yemen. While both headlines were conditional rather than signalling imminent action, they highlighted the risk of a broader regional escalation. Reports of explosions in Dubai were later denied by the Dubai Media Office, while Qatar rejected Israeli media reports that it had agreed to participate in military action against Iran. Those denials, alongside continued comments from the White House that Iran wants to make a deal, helped crude reverse earlier gains.

US economic data painted a constructive picture of the economy. Initial jobless claims fell below expectations, continuing to point to a resilient labour market, while retail sales broadly matched forecasts, reinforcing the view of a healthy consumer. ING said the data are consistent with around 2% annualised Q2 GDP growth. Elsewhere, the Philadelphia Fed Manufacturing Index surged to 41.4 from 10.3, well above the 12.0 consensus, driven by a sharp rise in new orders, improving employment and broadly stable price pressures.

Fed speakers maintained a hawkish tone. Dallas Fed President Logan (2026 voter) became the first Fed official to explicitly call for "modestly higher" interest rates, arguing it is time to finish the job of restoring price stability and that some policy restriction remains necessary to return inflation to target. Kansas City Fed President Schmid (2028 voter) also warned that inflation remains persistent across a broad range of goods and services, although he stopped short of explicitly calling for further rate hikes.

Despite the stronger data and hawkish Fed rhetoric, Treasury yields finished little changed, rising only 1-2bps across the curve, as the reversal lower in crude prices helped offset upside pressure on inflation expectations.

SUPPLY

Notes

- US to sell USD 13bln of 20yr bonds on July 22nd, to settle on July 24th; to sell USD 21bln of 10-year tips on July 23rd; to settle on July 31st

Bills

- US sold 4-wk bills at high rate 3.660%, B/C 2.57x; sold 8-wk bills at high-rate 3.650%, B/C 2.84x
- US to sell USD 92bln of 13-week bills and USD 79bln of 26-week bills on July 20th, to settle on July 23rd.
- US to sell USD 95bln of 6-week bills on July 21nd, to settle on July 23rd.

STIRS / OPERATIONS

- Fed Pricing: Dec 23.7bps (prev. 25.1bps)
- EFFR at 3.63% (prev. 3.63%), volumes at USD 109bln (prev. USD 111bln) on July 15th
- SOFR at 3.64% (prev. 3.63%), volumes at USD 3.104tln (prev. USD 3.092tln) on July 15th
- NY Fed RRP op demand at 0.12bln (prev. 0.15bln) across 1 counterparties (prev. 2) on July 16th
- Treasury Buyback (20-30 year liquidity support, max USD 2bln): Accepted USD 2bln of 30.5bln offers, Offer to cover 15.27x

CRUDE

WTI (Q6) SETTLED USD 0.65 LOWER AT 78.95/BBL; BRENT (U6) SETTLED USD 0.72 LOWER AT 84.23/BBL

The crude complex was choppy, but ultimately settled lower, despite the situation between US and Iran remaining tense.

Overnight, the US completed another round of strikes on various parts of Iran, targeting military capabilities, and Iran responded with its own attacks on Kuwait and Jordan. The next steps seem unclear, whether it is a path back to peace, or further escalations, as Trump said that strikes would expand next week; WSJ suggested that Trump is leaning toward expanding US military operations in Iran after days of briefings from top aides. Benchmarks moved higher after a Reuters report suggested that the IRGC-backed Houthis are to close the Bab El Mandeb Strait, if the US hits Iran's power network. Meanwhile, crude saw fleeting upside amid headlines that booms were heard in Dubai's downtown area. However, a move lower was seen on the Dubai media official denying the reports, while Qatar officially pushed back on reports in Israeli media that Qatar agreed to participate in military action against Iran. Nonetheless, benchmarks came off lows into settlement as US CENTCOM said it is carrying out new strikes on Iran.

EQUITIES

CLOSES: SPX -0.51% at 7,534, NDX -1.62% at 29,026, DJI -0.20% at 52,554, RUT +0.01% at 2,977.

SECTORS: Consumer Staples +2.90%, Health +2.23%, Real Estate +2.08%, Energy +1.00%, Utilities +0.56%, Materials +0.46%, Financials +0.40%, Industrials +0.06%, Consumer Discretionary -0.29%, Technology -1.77%, Communication Services -2.84%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.25% at 6,281, Dax 40 -0.53% at 24,866, FTSE 100 +0.54% at 10,572, CAC 40 -0.05% at 8,378, FTSE MIB -0.07% at 52,374, IBEX 35 -0.19% at 19,238, PSI -0.52% at 9,037, SMI -0.22% at 14,276, AEX +0.41% at 1,102

STOCK SPECIFICS:

- **TSMC (TSM):** Hiked CapEx, but quarterly numbers & guidance was strong
- **United Airlines (UAL):** Next Q guidance light
- **J.B. Hunt (JBHT):** Top & bottom line surpassed exp.
- **AtaiBeckley (ATAI):** To be acquired by Eli Lilly (LLY)
- **UnitedHealth (UNH):** EPS & rev. topped w/ solid FY profit view
- **Abbott (ABT):** Strong Q numbers & lifted FY profit outlook
- **Distribution Solutions Group (DSGR):** To be taken private for \$35/shr in cash.
- **Lululemon (LULU):** Downgraded at Truist to 'Sell' from 'Hold'.
- **Google (GOOGL)** Gemini launch delayed as tech falls short of goals.

FX

The dollar and US yields were firmer together, reversing some of the WTD downside seen in response to softer-than-expected CPI & PPI reports. Today, US data showed initial and continuing claims dipping beneath expectations to unalarming levels, while Retail Sales and its core component matched expectations in June. Elsewhere, the focus was on geopolitics as oil prices proved volatile amid fresh threats surrounding the closure of the Bab El Mandeb strait by Yemen's Houthis in the event the US hits the power network. The development leaves tensions even more elevated, particularly after Trump said on Tuesday, "will hit Iran's power plants and bridges next week unless they come to the negotiating table". The geopolitical risk has limited further USD downside, allowing DXY to rebound to 100.77 from WTD lows of 100.37.

G10 FX reversed some WTD strength amid the dollar rebound today, with CHF and GBP the biggest laggards, while CAD was little changed. In the UK, GDP rose 0.1% M/M in May (in line/firmer than exp.), revisions saw April's data remaining in contractionary territory; little reaction was seen, as focus remains on the political situation, in which confirmation of the next chancellor is awaited. Recent reports point towards Mahmood.

USD was the preferred haven on Thursday, meaning USD/JPY was modestly higher at 162.40. Bloomberg, citing options data, notes sizeable expiries are clustered in the 162-164 area, suggests traders see a move to the 165 handle as providing a possible trigger for the central bank to step in.

KRW outperformed despite USD strength, set for a third consecutive week of gains. Overnight, the BoK raised its 7-day Repo Rate by 25bps to 2.75%, as expected in a unanimous decision, for the first time since January 2023.. The central bank expects the growth rate this year to considerably surpass the May forecast of 2.6%, and will assess the timing of further increases in inflation pressure, the improvement trend in the economy and financial stability.

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newsquawk.com · +44 20 4545 5000 · sales@newsquawk.com