

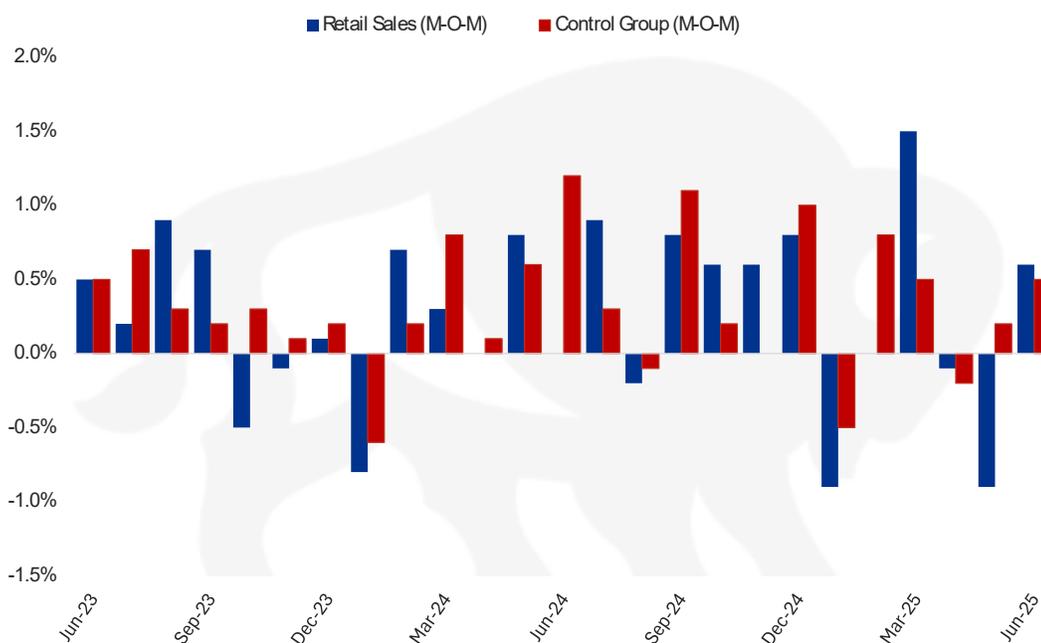
Markets Rally as Consumers Remain Resilient

Retail Sales for June surprised to the upside, rising +0.6%, an unexpectedly strong bounce following a -0.9% drop in the previous month. The initial sales measure, unadjusted for inflation and subject to revision, easily topped the +0.1% median forecast. Just two of 65 economists participating in the Bloomberg survey expected a reading at or above the actual number. *The forecast miss highlights once again the difficulty analysts have had in predicting the economy with so many variables affecting it.*

The “control group” (ex-autos, gas, home improvement stores, and food services) climbed +0.5%, pointing to stronger Q2 GDP growth than previously anticipated. 10 of 13 major categories posted gains last month with a surprising rebound in motor vehicles, despite weak previously reported unit sales data.

It was largely assumed that a combination of diminished spending capacity for much of the population and tariff concerns would crimp demand. *This rebound suggests otherwise.* However, since inflation remains historically elevated and a majority of domestic spending is on services, the retail sales results may be less conclusive than the headline suggests.

Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

In other news this morning, weekly filings for first-time unemployment benefits fell to a 13-week low, hinting at improvement in the labor market.

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Import prices fell -0.2% in June (vs. +0.4% expected), showing no signs of tariff-related inflation, while export prices rose +0.5% (vs. 0.0% expected), a positive signal for trade and corporate pricing power.

The combination of resilient consumer spending, cooler import prices and labor market improvement have sparked a rally in both stocks and bonds. This morning's data suggests the economy may be on firmer footing than many expected.

Market Indications as of 9:31 A.M. Central Time

DOW	Up 71 to 44,326 (HIGH: 45,014)
NASDAQ	Up 83 to 20,814 (NEW HIGH)
S&P 500	Up 18 to 6,282 (NEW HIGH)
1-Yr T-bill	current yield 4.09%; opening yield 4.06%
2-Yr T-note	current yield 3.90%; opening yield 3.90%
3-Yr T-note	current yield 3.87%; opening yield 3.87%
5-Yr T-note	current yield 3.99%; opening yield 4.00%
10-Yr T-note	current yield 4.44%; opening yield 4.46%
30-Yr T-bond	current yield 4.99%; opening yield 5.02%

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