



July 17, 2026

A Sigh of Relief on Inflation

COLLIN MARTIN: I'm Collin Martin

LIZ ANN SONDEERS: And I'm Liz Ann Sonders.

COLLIN: And this is *On Investing*, an original podcast from Charles Schwab. Every week we analyze what's happening in the markets and discuss how it might affect your investments.

LIZ ANN: Well, hi, Collin. Happy continuation of World Cup. I got to go see my beloved Norway unfortunately lose to England, went there in person. It was just such a thrill. So I'm still on a little bit of a high, even though I think they were robbed to some degree.

COLLIN: So now do you root for England as the team that beat Norway, or do you root against England because they beat Norway?

LIZ ANN: No, I think I root for England.

COLLIN: OK. Fair enough.

LIZ ANN: Yeah, I have an affinity for them, too. But we have actual podcast stuff to talk about today. And before we get into discussing the markets, one question we sometimes get from listeners to this show is about, you know, "Why do you talk so much about the macro economy, the Fed, and interest rates and unemployment and global events rather than things like which investments are better than others or how someone should handle their personal portfolio?"

So I'll touch on it for a couple of minutes and then bring you in, Collin, to ask your thoughts. You know, the real bottom line is the macro backdrop is essentially important to understand when either if you're doing it on your own or working with

a financial consultant or an advisor how to think about portfolio construction. We are not financial consultants. We are not investment advisors. So in an audience like this that is hopefully getting larger every week, but with a vast differences in terms of what their financial lives look like and their time horizon and risk tolerance and past experiences and how they go about investing. Are they do-it-yourself investors? Do they work with an advisor or a consultant?

And so we will talk about biases within the market and where we think there might be opportunities. I often talk about sectors or factors, which are characteristics to look for, and about leadership and what type of market activity we expect to continue. But it really is not appropriate for us to make direct investment recommendations, particularly in some cookie-cutter fashion that makes the assumption that this is a good investment for everybody.

And so I think it's important to frame our discussions with that context and just let everybody know that we are almost always going to stay fairly high level. And Collin, because the Fed was specifically mentioned and often is mentioned in questions about "Why don't you get more granular with us?" And we certainly ... we may be getting tired of talking about the Fed as much as we do, but maybe talk about why that is so important to have as a sort of backdrop for any investment decision-making that that goes forward.

COLLIN: Well, the Fed is very important, but it's important to separate the idea that the Fed and the fed funds rate is not the bond market. It influences the bond market, but it influences the bond market in any number of ways. And like you said, we do talk about it a lot. I mean, if we go back and re-listen to every one of these episodes, we probably touch on it at least once because it is very important because the Fed influences the short-term interest rates, but how they view the outlook for the economy and the outlook for inflation in the labor market can give us clues about what they might do down the road.

And the markets, whether it's the stock market or the bond market, they're forward looking. And markets tend to react and adjust in anticipation of what may or may not happen over the next few months, quarters, or years. And a good example of that to kind of show how the Fed isn't representative of all things bond market, if we look at the 10-year Treasury yield, it's another thing we focus on a lot. It's, you know, right now, in the middle of July, it's around 4.6%. Earlier this year it dropped below 4%, got as high as 4.7%, and the Fed hasn't done anything this year. So that just shows that the Fed indirectly influences long-term interest rates but directly influences short-term interest rates. And we don't want our discussion about the Fed, will they hike, won't they hike? It shouldn't be the end-all, be-all. We use that as a guide about maybe what sort of maturities investors should be focusing on. You

know, if the Fed is expected to raise rates and expected to raise rates in a sustained manner, you know, the conventional thinking suggests that you should maybe focus more on short-term bonds because they're less sensitive to interest rate changes because bond prices and yields move in opposite directions. And if you have those short-term bonds, and the Fed raises rates, you can have those bonds mature more quickly to take advantage of that.

And then the opposite is true. If it's expected that the Fed might be cutting rates, maybe it might make more sense to focus on intermediate and long-term bonds to actually kind of lock in those higher yields and not face reinvestment risk down the road. So we talk about the Fed a lot, but it's not a binary discussion or binary decision about what we expect the Fed to do and therefore what you should you do with, not just your bond portfolio, but your overall portfolio. And a lot of times it's really just "OK, am I positioned well? Are there any tweaks I need to make?" As opposed to some big move based on what the Fed may or may not do. So that's kind of how I think about it.

Let's get into the data that that is influencing the Fed, for better or for worse. And this week we got the June Consumer Price Index, or the CPI. It was a, I'd say, a good number, because it came in below expectations, which is good for a number of reasons, but we as consumers, we don't want to see prices rising too sharply. What does that mean for your world? I mean, I have thoughts on the bond side, but what does it mean for your world, Liz Ann?

LIZ ANN: So the headline reading, which is inclusive of food and energy, that took a dip down, which was good news, for obvious reasons, given the decline that we have seen, and this is an important caveat, until recently, in oil prices. There are other feeders into core inflation, and that is it was better than expected, but still a little bit sticky.

And of course, as we sit here today with the re-escalation in the war with Iran, you've got oil prices. I think Brent crude was in the low \$70s recently. Is that right, Collin? I don't know if you I see

COLLIN: That's what I remember seeing. Low \$70s is what I saw.

LIZ ANN: And yeah, now we're back up to the mid-\$80s. And we also have other components that are driving inflation at the core level, on the core services side, but also artificial intelligence, which we talk a lot about on this show, is having a feeder into core measures of inflation, too. So a lot of the costs associated with this AI build-out are ... do get embedded in CPI. And I guess the only other related rub to what was a more benign CPI report than the consensus believed is that there are

components to both the Consumer Price Index and the Producer Price Index, which gets reported this week after you and I are taping this right now, that you can map to the Personal Consumption Expenditures Index. That, at least as of now, before the possibility that Kevin Warsh as chair of the Fed changes what the preferred measure is, but that PCE is the Fed's preferred measure.

And unfortunately, the components within the Consumer Price Index that map over to PCE were the ones with slightly hotter readings. So unfortunately, this more benign CPI report is not suggestive of a more benign PCE report. I don't think that that significantly moves the needle in terms of what the Fed is likely to do near term, don't expect a rate hike at the July meeting, but I think that could potentially keep the possibility of hikes maybe toward the end of the year, certainly into the beginning of 2027. So I assume you think that there's very little chance that the Fed does anything at the July meeting?

COLLIN: That's right. We don't expect the Fed to raise rates in July, or lower rates for that matter, but that's not really a discussion. I will say it was a sigh of relief for me to see those good numbers, mainly because it supports our view. You always want to see data that supports what you're putting out there. But our view right now is that we expect the Fed to remain on hold for the next, you know, handful of meetings, but we acknowledge that the stickiness of the inflation that we're seeing raises the likelihood of a hike. We're not there yet, but we acknowledge that if inflation continues to come in a little bit hot or stays elevated, that would raise the likelihood of a Fed rate hike.

And so seeing yesterday's release—we're recording this on Wednesday, we got it on Tuesday—I kind of said "phew" when I saw that. That was good news because it kind of takes the likelihood of a hike this month off the table, because we're not getting much ... many clues from Fed Chair Kevin Warsh, but we're getting some clues from other officials. And this is where the whole task force on communications might come into play, but one of the governors, Christopher Waller, made a comment about inflation, and he gave some sort of very short-term look and acknowledged that if inflation, the release this week, was hot, that could, you know, maybe make the case for a near-term hike.

So the good news is that that didn't necessarily happen. But I referenced this before, Liz Ann, but what does all this mean for investors? And you know, does this mean that you, I, our Schwab clients, should we act on this? And our answer is no, because like I said before, the fed funds rate, it's an overnight interest rate. It influences short-term yields. It doesn't influence all yields. And if you're an investor looking at the bond market, you actually can earn slightly higher yields the longer you go out in maturity. And if we look at the two-year Treasury yield, for example, it's around

4.2%. It's been fluctuating for the past handful of weeks, but it's around 4.2%. And given where the fed funds rate is right now, in the 3.5% to 3.75% range, the Fed would need to hike rates two times, two 25-basis-point hikes to get to that level. And unless you expect the Fed to embark on a sustained rate-hike cycle, which is not really our case right now, we think that those short-term yields, you know, beyond what Treasury bills offer right now, look pretty attractive. You know, if you can earn 0.5%, or 50 basis points, more now, why wait for Fed rate hikes that might not come. So that's a takeaway in, you know, what does this mean for us? What does this mean for investors if the Fed is not expected to raise significantly or even at all, we see more value in not the shortest-term maturities right now, whether it's two years, three years, five years, maybe something like that, just to earn higher yields than what you can get today.

Now, inflation obviously is a hot topic all the time, Liz Ann, and that kind of flows into one of the indicators that that you look at frequently. It's the NFIB, the National Federation of Independent Businesses, and they have an index, a survey out there, and you posted recently that, in the index, in the release, it shows that inflation remains the single most important problem to these small businesses.

So can you talk a little bit about maybe that series itself and a bit how smaller businesses are not always represented when we talk about the broad indexes as a sort of a proxy for the overall economy?

LIZ ANN: Yeah, I do pay a lot of attention to NFIB because the economy, in terms of particularly things like hiring, there there's more net hiring that gets done by smaller businesses. You know, as market watchers and participants, we always are so focused on an index like the S&P 500, but that's 500 large companies. I think to get a truer flavor of what's going on in the economy, you've got to come down the size spectrum a little bit.

And NFIB has a lot of very interesting questions they ask during their monthly survey. As you pointed out, probably the one most widely watched is the single most important problem. And they give options. And recently, actually, taxes was the number one concern. That may seem odd given the extension of corporate tax cuts, but a lot of respondents wrap tariffs into taxes.

So that had been running as the single most important problem, but inflation just leapfrogged that again. And now that is what is vexing small companies more than anything else. But it wasn't all bad news in that report. There was actually a pretty decent jump in the plans for small-business capital outlays over the next 6 months. That's been in a downtrend, a very volatile downtrend, since pre-pandemic, but it was a pretty meaningful pop back up. So small businesses looking at this as an

opportunity, like many large companies have, to increase some of their capital spending.

You also saw a little bit of an uptick in the labor components that are in NFIB. The two components are the job openings hard-to-fill measure, and then just hiring plans. And both of those ticked up a little bit. Now, the hard-to-fill ticking up means you've got a potential quality-of-labor problem, and all else equal, that can serve to have an inflationary impulse. So that's something to keep an eye on. And it is the case that, even though the quality of labor was not the number one answer to what is vexing you most, the percent of small businesses saying that that was their top issue jumped by 6 percentage points. And that's the third largest month-over-month increase going back to 1985. So just some nuggets in there that bear watching, especially given oil prices being back up that, notwithstanding the more benign CPI report, we need to keep, and I know the Fed is keeping, inflation on their on their radar.

COLLIN: Well, on the idea of small businesses, just this week via, you know, an email exchange with our, you know, team, you shared an interesting look at earnings, but how there's a few ways we can look at earnings, whether it's, say, the S&P 500, or the what we call the NIPA, the National Income and Product Accounts, corporate profits from the Bureau of Economic Analysis. And you know, that's an interesting look because, directionally, you tend to see them move mostly in the same direction, but sometimes there can be gaps there. You know, I tend to favor the BEA's NIPA debt data mainly because the S&P 500 earnings aren't a one-for-one match for the corporate bond market or the high-yield bond market. For me, it's a better way to get a gauge of "How is the broad corporate, you know, revenue, earnings, profit margin, what's that big picture look?"

And from a big company, small company, public-private, you name it, because it's not again, not just the S&P 500 that issues, say, investment-grade or high-yield corporate bonds. And generally speaking, when we look at corporate fundamentals from a top-down view, they're relatively strong. What we noticed over in the first quarter, we saw aggregate balance sheets weakened a little bit. We saw cash levels fall a little bit relative to their short-term liabilities, their short-term borrowing needs, but it's still at a very high level. So trends matter, but levels also matter for me, and it shows that companies are pretty much in good shape from a big-picture standpoint to service their outstanding debt. Anything you're taking away from that sort of divergence in NIPA profits and S&P 500?

LIZ ANN: And it is a wide divergence, with S&P's earnings growth running hotter than NIPA-based profits. And it's something that I'm going to keep a close eye on because if the spread continues to widen out, and you look back at history of

similarly large spreads, which are almost always to the benefit of S&P earnings relative to broader NIPA-based profits, most of the time, the convergence happens by S&P earnings moving back lower to kind of catch down to NIPA-based profits. And a wide spread at the point where S&P earnings start to decelerate has often been a recession warning in the past. So lots of reasons, lots of important reasons.

I think this cycle has so many unique characteristics to it, not least being that we've had many recessions within the economy since the pandemic at the sectoral level. Manufacturing was in a recession for a few years, but it didn't mean we had an overall aggregate economic recession. And I do think that that could continue where we have these rolling recessions and expansions. So you know, air quotes around "this time may actually be a bit different," but it is something to watch because S&P earnings expectations are so elevated right now.

So back to you, Collin, as we wrap up. What is what's on your radar in terms of economic data over the next week or so?

COLLIN: You know, Liz Ann, there's not much.

LIZ ANN: I know. Quiet week.

COLLIN: It's a pretty light calendar as we look ahead. So quiet week. I'm going to steal that because it's literally a quiet week when we think about the Federal Reserve. On Saturday, July 18, they go into their communications blackout period. So from starting this Saturday until the Fed meeting at the end of July, we will not hear from Fed officials about monetary policy.

On the economic data front, there's not much. There's a few Federal Reserve regional manufacturing gauges, Chicago and Kansas City next week. We have the S&P, the Standard & Poor's, Global Purchasing Managers' Index, coming out on Friday, a preliminary look at the July readings. I tend to favor them a little bit less than the Institute for Supply Management, the ISM PMIs, but regardless, it'll be a good early look at what activity looks like.

And on the bond side, there are a few bond auctions next week, Treasury auctions. There's a 20-year note auction, which won't matter too much. The 20-year is a little bit funky, where institutional investors tend to favor either the 10- or the 30-year, and the 20-year, which was recently re-introduced, it's not as popular as those. So we're not going to read too much into that, but we get a 10-year TIPS, Treasury Inflation Protected Securities, auction, which, I think, will be interesting because inflation is still very top-of-mind right now. So it'll be interesting to see how that

auction goes and if it gives us signs that, hey, maybe investors are looking for more inflation protection today. So that's what I'll be looking at. Liz Ann, what about you?

LIZ ANN: So we got the Leading Economic Index that gets put out by the Conference Board. That has not done a very good job of giving a heads-up as to the direction for the economy. It's kind of flashed recession for a few years now, but interestingly it did just start to tick a little bit higher. So I'll be looking to see whether that improving trend has legs.

And then some housing data, home sales and building permits. Building permits is a leading indicator. It's embedded in the Leading Economic Index that sometimes can tell you about the forward-looking part of the economy that is driven by residential investment. And then, you know, just the weekly labor-market indicators that we get, initial unemployment claims, and the ADP version of weekly payrolls. So that's what's on my radar.

COLLIN: All right, well I think that's it for us this week, Liz Ann. To our listeners, thank you for listening as always. As a reminder, you can always keep up with us in real time on social media. I'm @CollinMartinCS on both X and LinkedIn. That's Collin with two L's, and the CS is for Charles Schwab.

LIZ ANN: And I'm @LizAnnSonders on X and LinkedIn. Still lots of imposters. Please make sure you are following the real me. And you can also find all of our written reports, there's always tons of visuals in there, charts and graphs. And those are found at schwab.com/learn. And if you've enjoyed the show, please consider leaving us a review on Apple Podcasts, a rating on Spotify, or feedback wherever you listen. Also, please tell a friend or more about the show, and we will be back with a new episode next week.

COLLIN: For important disclosures, see the show notes, or visit schwab.com/OnInvesting, where you can also find the transcript.