Weekly Economic Brief

Collaboration with The Investing Group (TIG)

by Saied Toossi | Week of July 20, 2026

Data for June showed inflation pulling back from its May highs, driven largely by lower energy prices after the signing of the MOU between the U.S. and Iran and the re-opening of the Strait of Hormuz. Headline inflation as measured by the Consumer Price Index fell from 4.2% in May to 3.5% in June, while the core rate excluding volatile food and energy prices moderated from 2.9% to 2.6%. This cooling was mirrored in the prices paid to producers for their output, with the headline Producer Price Index dropping to 5.5% from 6%. Prospects for longer-term peace and falling gasoline prices also boosted consumer sentiment in June to its highest level since the war broke out in late February. Inflation remains significantly above the 2% target, however, and is expected to re-accelerate with the intensification of hostilities in the Middle East in July. Consumer sentiment is likely to retreat in tandem.

Energy prices are rising once again with the re-closure of the strait, erasing the temporary relief that helped ease inflation in June. As the conflict escalates, risks are heavily tilted toward the closure of the Bab al-Mandab Strait and the potential destruction of critical regional infrastructure. A shutdown of both chokepoints, compounded by such damage, threatens to severely disrupt global supply chains and raise costs, triggering another wave of inflation. Other data also point to inflation remaining elevated. Core retail sales continue to point to resilient demand, while import prices surged by 7.1% relative to a year ago, the highest since 2022, as the cost of nonfuel imports rose.

Faced with these risks, a growing number of Federal Reserve officials have been expressing a highly cautious, hawkish tone. Chair Kevin Warsh maintained his commitment to restoring price stability in his congressional testimony. Other officials amplified this stance. Dallas Fed President Logan overtly advocated for higher interest rates, and Cleveland Fed President Hammack relayed concerns from business contacts about broad-based inflation while stressing the need for the Fed to act. Governor Waller likewise warned against treating a single month of soft data as a permanent trend. In contrast, New York Fed President Williams suggested current policy remains well-positioned to guide inflation back to goal in 2028. Markets appear less optimistic, however, after over five years of above-target inflation.

Week ahead for economic data: The upcoming week presents a relatively light data calendar. The focus will be on how the war in the Middle East develops and its impact on commodity and transportation costs. Additional corporate earnings reports and S&P Global PMI survey results for July will also be watched closely to assess underlying economic momentum. Federal Reserve officials will enter a quiet phase ahead of the July 28-29 FOMC meeting. Current expectations are for the committee to hold rates steady at the upcoming meeting before hiking later in the year.