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Wednesday, August 12, 2026

Market Snapshot

S&P 500: 7,756 - +0.4% | Stocks advanced after July inflation matched consensus and reduced immediate rate-hike pressure

Brent Crude: \$88.88 | Down about 0.4%, but still high enough to keep the August inflation impulse in view

Gold: \$4,402 | Up about 0.7% as geopolitical risk and uncertainty around the next Fed move sustained demand

Fed Funds Rate: 3.50-3.75% | Held July 29 - In-line CPI lowers near-term hike pressure without closing the debate

The Lead

CPI Cleared the First Hurdle. Oil Keeps the Finish Line Moving.

July CPI rose 0.1% month over month and 3.4% year over year, while core inflation advanced 0.2% and 2.5%, matching consensus closely enough to lift the S&P 500 about 0.4% and the Nasdaq 0.7% as immediate Fed-hike pressure receded.

The inflation report gave markets the result they needed after last week's surprise payroll contraction. Headline CPI slowed from 3.5% to 3.4% year over year, while core eased from 2.6% to 2.5%. The absence of an upside surprise matters because the Fed can now weigh softer labor demand without simultaneously confronting a fresh broadening in underlying prices.

The composition offered guarded reassurance. Energy prices declined 1.5% in July and gasoline fell nearly 3%, helping offset pressure elsewhere, while core inflation showed little evidence that the earlier oil shock had spread widely through services and goods. Shelter remains important, however, and inflation is still above the Fed's goal, limiting how far rates can rally on one report.

Equities responded with relief rather than euphoria. The S&P 500 rose about 0.4% toward 7,756 and the Nasdaq gained roughly 0.7%, with growth shares benefiting from a less threatening discount-rate outlook. The move preserves the index breakout, but market breadth still depends on whether yields remain contained and earnings guidance validates current multiples.

Oil is the complication that prevents July's data from becoming a durable all-clear. Brent near \$88.88 is modestly lower on the session but remains well above levels that produced July's gasoline decline. If the Strait of Hormuz risk premium persists, August energy data could reverse part of the relief before policymakers meet again.

Cross-asset pricing reflects that unresolved tension. Gold near \$4,402 remains supported by geopolitical risk, natural gas volatility bears watching as another input-cost channel, and

USD/JPY near 159 keeps intervention sensitivity alive. A softer dollar and lower Treasury yields would broaden the equity response; renewed oil pressure could instead support the dollar and inflation breakevens while challenging credit and consumer margins.

The next confirmation points arrive quickly. The federal budget is due at 2:00 p.m. ET, Cisco reports after the close, and Thursday brings PPI, jobless claims, Cleveland Fed President Beth Hammack, and Applied Materials earnings. Together they test whether benign consumer inflation can survive the producer-cost pipeline and whether AI and networking demand can keep earnings growth ahead of financing costs.

Callout

Key insight: July CPI removed the immediate upside-inflation surprise, not the inflation risk. The next durable market move depends on whether producer prices stay contained while oil remains elevated and corporate guidance keeps the earnings denominator growing.

What Moves Today

July CPI and Core CPI (8:30 AM ET - Released)

High Impact Headline CPI matched consensus at 0.1% month over month and 3.4% year over year; core rose 0.2% and 2.5%. The clean result reduced immediate hike pressure, but markets still need evidence that elevated oil will not reappear in August inflation.

EIA Petroleum Status Report (10:30 AM ET)

High Impact Crude, gasoline, and distillate inventories will show whether physical balances justify Brent near the high \$80s. Draws would reinforce the energy premium and inflation risk; builds would support the view that supply stress remains contained.

July Federal Budget (2:00 PM ET)

Macro The monthly balance will update Treasury financing needs after heavy issuance and elevated interest expense. A wider shortfall can keep term-premium pressure alive even if the CPI impulse pulls front-end yields lower.

Cisco Fiscal Q4 Earnings (After the close)

Earnings Consensus expects networking demand and AI-related orders to support results, with guidance carrying more weight than the backward-looking quarter. Product orders, margins, and hyperscaler commentary will shape the read-through to semiconductors and enterprise technology.

PPI, Claims, Hammack and Applied Materials (Watch this week)

High Impact Thursday's producer prices and jobless claims test both halves of the Fed mandate before Cleveland Fed President Beth Hammack speaks. Applied Materials then provides a direct check on wafer-fabrication spending, China exposure, and AI-capex durability.

Three Signals

Signal 01 - Rates / Inflation

The Fed gained time, not a mandate for a policy turn.

In-line core CPI lowers the probability of an immediate hike after weak payrolls, but 3.4% headline inflation remains too high for complacency. The front end can rally while the long end stays sensitive to oil, deficits, and term premium.

Signal 02 - Commodities / FX

Gold and the yen say macro uncertainty is still expensive.

Gold near \$4,402 is holding firm even as equities rise, while USD/JPY around 159 remains close to intervention-sensitive territory. That combination suggests geopolitical and policy tail risks have been repriced, not extinguished.

Signal 03 - Equities / Earnings

The valuation handoff now runs through enterprise and semiconductor demand.

Cisco and Applied Materials must show that networking and fab-equipment spending can convert AI enthusiasm into revenue and margins. Strong guidance would broaden leadership; cautious orders would leave index gains dependent on fewer mega-cap names.

Possible Paths - Wednesday, August 12, 2026

In-line CPI opens a relief window; oil, PPI, and earnings decide whether it stays open.

Disinflation confirmation: PPI stays contained, oil holds below \$90, claims show orderly labor cooling, and technology guidance remains firm. Equities broaden, Treasury yields ease, the dollar softens, EUR/USD firms, USD/JPY retreats, gold consolidates, natural gas stays contained, credit spreads remain tight, and earnings estimates hold.

Energy relapse: Inventory data tightens, Brent clears \$90, and producer prices reveal renewed pipeline pressure. Equities lose breadth, Treasury curves bear-steepen, the dollar and gold stay supported, EUR/USD weakens, USD/JPY revisits intervention risk, commodities remain volatile, credit spreads widen, and margin estimates fall.

Earnings fracture: Inflation data stays benign but Cisco or Applied Materials signals weaker orders, tighter margins, or slower AI-capex conversion. Growth equities underperform, Treasury yields can fall without lifting technology shares, FX follows rate differentials, gold retains support, energy remains geopolitics-led, technology credit softens, and earnings revisions narrow.

Disclosure

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