Financial Markets This Week

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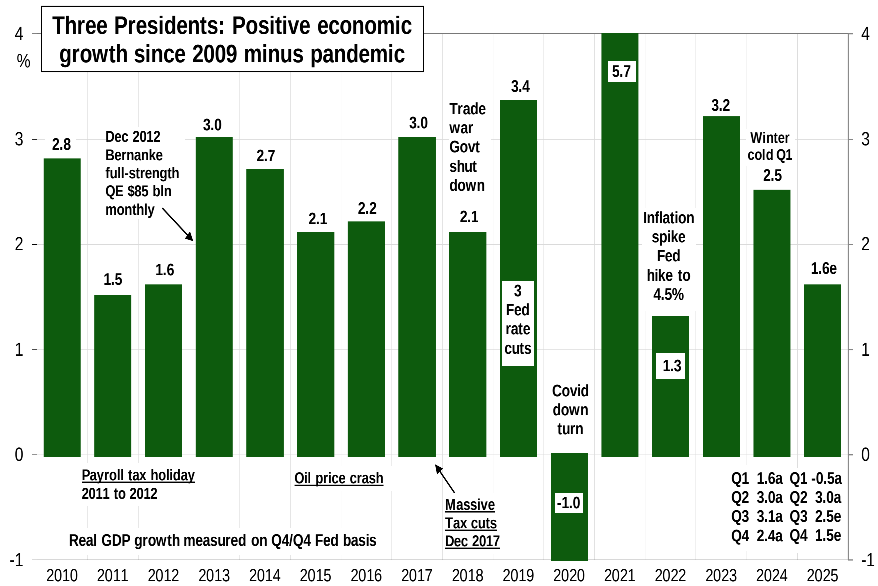
GDP 1.6% THIS YEAR



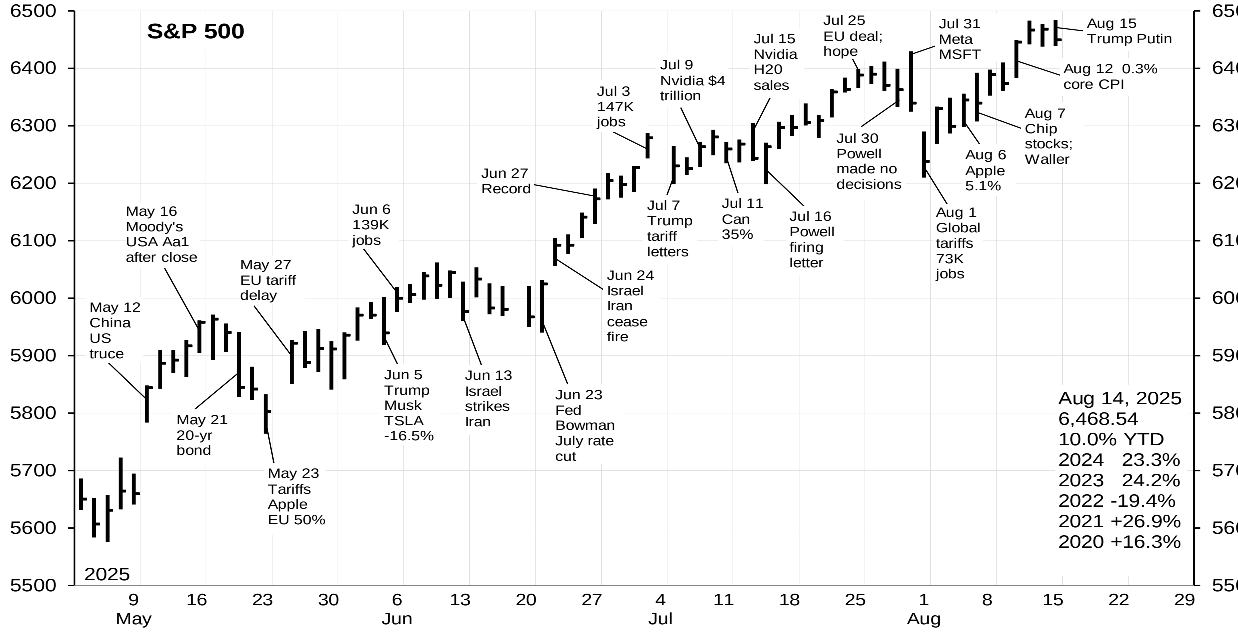
The average GDP growth in the first half (-0.5% Q1, 3.0% Q2) was 1.3% which averages out the tariff-avoidance effect on purchases. We figure a 2.5% rebound this quarter, and slowing to 1.5% in Q4 from the higher tariff-based inflation which means Q4/Q4 2025 real GDP growth of 1.6%. Despite three Presidents, some taking a gap year, economic growth never went negative based on their economic agendas, except in the short, two-month recession during the pandemic which led to a drop of 1.0% in 2020. Hearing lots of planned investment coming our way in coming years. The count of real investment spending in the GDP accounts may not be what Washington thinks. Real business investment in equipment to help the economy grow was $1.328 trillion in 2024 or 5.7% of real GDP spending last year. Real equipment purchases in 2024 rose 3.4% with computers and transportation a big part of it. Detailed breakdown for 2024 is due to be released soon, but in many years the increase in investment depends importantly on how many pickup trucks businesses purchase. The last two quarters saw a surge in computers in the race to beat the import tariff price hikes however. Intellectual Property Products like software? Spending has come up to surpass equipment purchases over time. Software has been the driver in 2025. Finally, we don't want to leave out investment in structures that has been weaker recently after the Chips Act had boosted construction of semiconductor plants. Oil drilling was weak in Q2 2025. Stay tuned.

Real Business Investment (% change SAAR)

$bln 2024		2023	2024	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
677.0	STRUCTURES	10.8	3.5	0.2	-5.0	2.9	-2.4	-10.3
171.1	Commercial and health care	-0.1	-5.2	-12.8	-7.3	3.1	-3.4	-7.4
147.2	Manufacturing	45.0	20.4	21.7	-2.3	2.3	-5.2	-5.5
125.2	Power and communication	3.6	7.0	-1.9	2.2	9.8	8.1	-5.3
107.8	Mining exploration, shafts, wells	4.9	-6.0	5.6	-20.1	-1.6	-1.3	-35.6
121.3	Other structures 1	11.9	1.3	-5.3	-1.3	-0.2	-6.6	-9.1
1,328.4	EQUIPMENT	3.5	3.4	9.8	10.8	-8.7	23.7	4.8
517.6	Information processing equipment	-4.3	5.3	8.0	18.0	-7.3	72.9	5.4
175.3	Computers	-7.1	18.0	19.9	38.8	-19.8	122.4	50.3
340.2	Other processing equipment 2	-2.9	-0.7	2.0	7.6	0.7	49.4	-16.4
260.5	Industrial equipment	0.8	1.8	-4.1	5.7	-1.0	4.7	4.5
306.1	Transportation equipment	27.6	5.5	41.4	22.1	-17.2	6.8	11.9
252.8	Other equipment 3	-0.5	0.0	-0.4	-5.1	-8.4	-2.1	-3.5
1,502.3	INTELLECTUAL PROPERTY	5.8	3.9	0.7	3.1	-0.5	6.0	6.4
767.7	Software	7.2	6.3	2.3	2.5	2.5	17.6	18.3
661.9	Research & Development (R&D)	5.1	2.6	-0.2	4.2	-3.2	-2.0	-1.6
92.0	Entertainment, literary, artistic	2.3	-1.0	-2.1	-0.5	0.1	-4.1	-6.1

1 Religious, educational, vocational, lodging, railroads, farm, amusement/recreational, other
2 Communication, medical, photocopy, office and accounting equipment; nonmedical instruments
3 Furniture; agriculture, construction, mining/oilfield, and service industry machinery; electrical equipment

INTEREST RATES

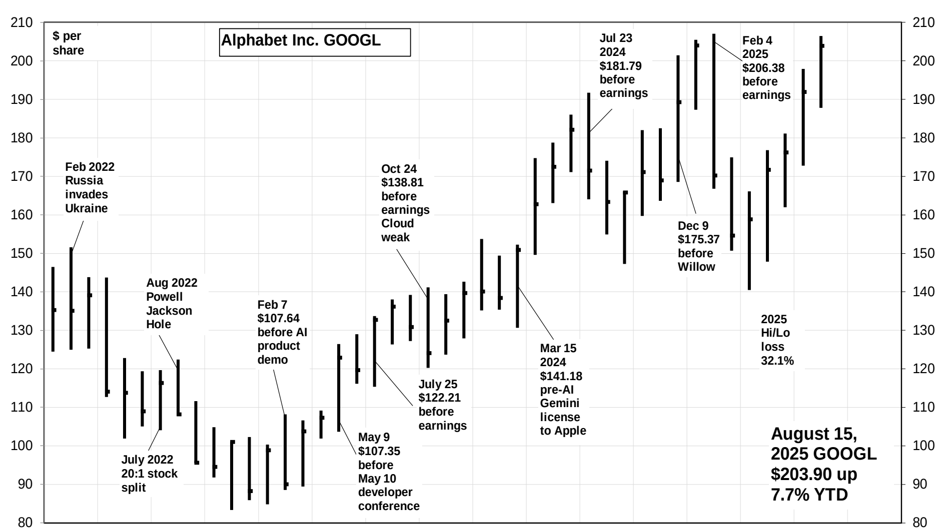


Stocks closed above 6,400 finally on Tuesday after the 0.3% core CPI number that was said to mean a Fed rate cut in September was coming. There is another CPI report on Thursday, September 11 before the Fed's September 17 decision date, but no matter. The next morning Bessent threw out the possibility of a 50 bps rate cut which rallied Fed funds futures even further. The bond market was down at the 4.20% low yield for the week on Thursday, but the 0.9% PPI inflation number sent yields up dramatically. Stocks did not care about PPI inflation with a slim gain to a record close 10.0% YTD. Ring a bell. The panic over the Trump tariffs had sent the S&P 500 down as much as a recession-magnitude loss of 21.3% YTD on April 7. Markets are waiting on results from Trump-Putin meeting in Alaska, given that a good chunk of the 2022 27.5% S&P 500 loss was due to the Ukraine War.

Alphabet, Inc. (GOOGL) up 7.7% YTD

The CEO said the company had a standout quarter after the bell on Wednesday, July 23 with the stock at $190.23, and GOOGL reached as high as $197.95 the next day before closing at $192.17. The stock jumped 3.1% to $195.04 on Monday, August 4 with the rest of the market after the 258K jobs data revisions and talk of a Fed rate cut. Advertising did not slow during the tariff roll-out yet, and Cloud revenue is up 42.3% from last year to $13.264 billion.

Calendar Year Mln $	Revenue	Advertising	Cloud	Operating Income
Q2 2025	96,428	71,340	13,624	31,271
Q1 2025	90,234	66,685	12,260	30,606
Q4 2024	96,469	72,461	11,955	30,972
Q3 2024	88,268	65,854	11,353	28,521
Q2 2024	84,742	64,616	10,347	27,425
Q1 2024	80,539	61,659	9,574	25,472
Q4 2023	86,310	65,517	9,192	23,697
Q3 2023	76,693	59,647	8,411	21,343
Q2 2023	74,604	58,143	8,031	21,838
Q1 2023	69,787	54,548	7,454	17,415

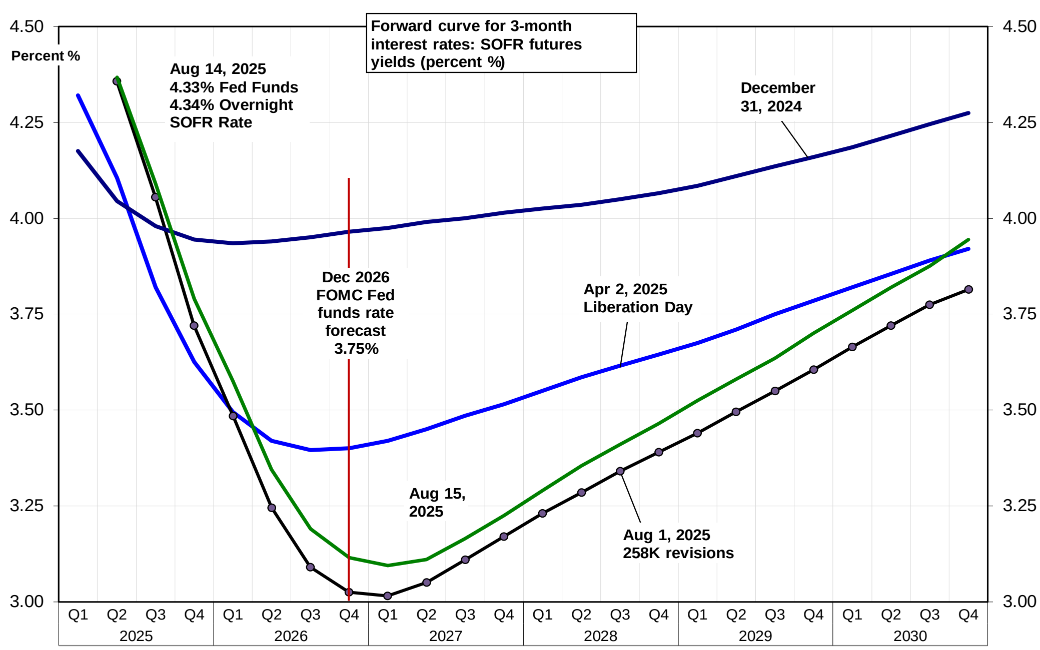


FEDERAL RESERVE POLICY

The Fed meets September 16-17, 2025 to consider its monetary policy. The Treasury Secretary is in the news even if not willing to be called a shadow Fed Chair or one who offers advice. Bessent's call for a 50 bps rate cut in September brought yields down Wednesday morning. At least he seems to focus on returning Fed rates to normal, meaning the 3.0% long-term Fed forecast, which is better than the President's call for rates with a 1%-handle. Retail sales seem to be doing okay, so it is unclear how restrictive the 4.5% Fed rate is at this time. Powell speaks in Jackson Hole next Friday, August 22 which seems early… what a long road it has been. The President wants him gone even though ironically his appointee is probably the one man most responsible for the Biden inflation that returned Trump to power. Those negative readings on the economy soured half the country on the Democrats and led half of all voters to seek change at whatever the cost. Powell Jackson Hole speech is 10am ET Friday, August 22 is on: "Economic Outlook and Framework Review." Markets are looking forward to an unusual final Powell speech, as the winds of change are…

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	13-Aug	6-Aug	30-Jul	23-Jul	3/11/20*	3/11/20
Factors adding reserves						to Aug 13
U.S. Treasury securities	4204.823	4204.501	4206.916	4206.720	2523.031	1681.792
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2120.606	2120.672	2120.672	2134.784	1371.846	748.760
Repurchase agreements	0.001	0.000	0.000	0.003	242.375	-242.374
Primary credit (Discount Window)	4.623	4.856	5.595	5.242	0.011	4.612
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.409	1.410	1.411	1.417		
Main Street Lending Program	4.481	4.476	4.471	4.553		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.046	0.050	0.057	0.084	0.058	-0.012
Federal Reserve Total Assets	6694.6	6691.9	6692.9	6708.9	4360.0	2334.596
~~3-month Libor %~~ SOFR %	4.33	4.34	4.32	4.28	1.15	3.180
Factors draining reserves						
Currency in circulation	2403.364	2404.549	2401.980	2399.077	1818.957	584.407
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	515.469	464.315	419.446	333.538	372.337	143.132
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	57.202	91.966	155.481	189.632	1.325	55.877
Federal Reserve Liabilities	3366.277	3361.482	3393.235	3350.557	2580.036	786.241
Reserve Balances (Net Liquidity)	3328.346	3330.372	3299.696	3358.382	1779.990	1548.356
Treasuries within 15 days	85.044	90.821	67.487	60.158	21.427	63.617
Treasuries 16 to 90 days	150.698	147.831	166.106	173.195	221.961	-71.263
Treasuries 91 days to 1 year	452.564	449.602	448.282	448.489	378.403	74.161
Treasuries over 1-yr to 5 years	1426.444	1426.311	1440.549	1440.465	915.101	511.343
Treasuries over 5-yrs to 10 years	514.779	514.748	510.290	510.275	327.906	186.873
Treasuries over 10-years	1575.295	1575.189	1574.202	1574.137	658.232	917.063
Note: QT starts June 1, 2022	Change	8/13/2025	6/1/2022			
U.S. Treasury securities	-1565.956	4204.823	5770.779			
Mortgage-backed securities (MBS)	-586.840	2120.606	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2025	2026	2027	Long Term
Fed funds	3.9	3.6	3.4	3.0
PCE inflation	3.0	2.4	2.1	2.0
Core inflation	3.1	2.4	2.1	
Unemployed	4.5	4.5	4.4	4.2
GDP	1.4	1.6	1.8	1.8
June 2025 median Fed forecasts				



All but 3 bps of a 25 bps rate cut is discounted at the September meeting. Two rate cuts are fully discounted this year.

Fed funds futures call Fed policy		
Current target: August 15 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.280	Oct 2025	Sep 17*
4.140	Nov 2025	Adds Oct 29
3.940	Jan 2026	Adds Dec 10*
Last trade, not settlement price		
*Not strictly true, Oct 2025 and Jan 2026 contracts could be two days at a new rate		

Next up: July PCE inflation report Friday, August 29 at 830am ET														
Monthly	2025						2025	2024						2024
% Changes	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Core CPI inflation	0.3	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1
Core PCE inflation	0.3e	0.3	0.2	0.2	0.1	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1
Core PCE YOY	2.9e	2.8	2.8	2.6	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7
Core CPI YOY	3.1	2.9	2.8	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4

OTHER ECONOMIC NEWS

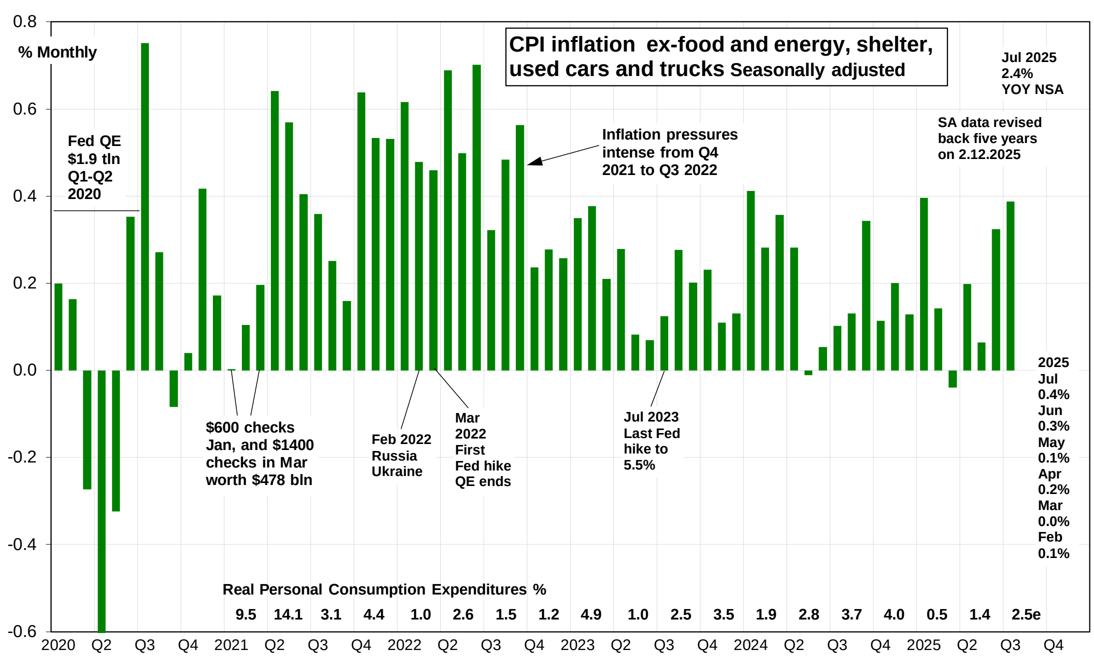
Inflation not quite ready to boil (Tuesday)

Breaking economy news. July CPI inflation was not as bad as feared, although the core CPI was 0.322%, so it was a solid 0.3% and closing in on 0.4% upon rounding. Core CPI minus food, energy, shelter and used cars and trucks was 0.4% in July, the worst since January, but markets overlooked it. Perhaps because core commodities or goods rose 0.2% for a second month in a row. New car prices were unchanged you will be happy to know.

Jun 25 Weight	CPI inflation	Monthly Percent Changes May 2025	Jun 2025	Jul 2025	YOY % Jul 2025
100.0	Total	0.1	0.3	0.2	2.7
13.691	Food	0.3	0.3	0.0	2.9
7.988	Food at home	0.3	0.3	-0.1	2.2
5.646	Food away from home	0.3	0.4	0.3	3.9
6.453	Energy	-1.0	0.9	-1.1	-1.6
2.968	Gasoline	-2.6	1.0	-2.2	-9.5
79.914	Ex-food & energy	0.1	0.2	0.3	3.1
4.320	New vehicles	-0.3	-0.3	0.0	0.4
2.421	Used cars/trucks	-0.5	-0.7	0.5	4.8
2.493	Clothing	-0.4	0.4	0.1	-0.2
1.513	Medical care goods	0.6	0.1	0.1	0.1
35.418	Shelter	0.3	0.2	0.2	3.7
26.167	Owner equiv. rent	0.3	0.3	0.3	4.3
6.305	Transportation	-0.2	0.2	0.8	3.5
6.750	Medical care services	0.2	0.6	0.8	4.3
	Special: Where inflation might come back down to				
60.602	Services ex-energy	0.2	0.3	0.4	3.6
19.311	Commodities (core)	0.0	0.2	0.2	1.2

Over the last year, the worst core CPI categories were 3.7% shelter, 3.5% medical care, 3.4% household furnishings and operations, and 5.3% car insurance, where total core CPI rose 3.1%.

Net, net, the inflation report was largely as expected with core consumer goods not ringing any alarm bells yet with an increase of 0.2% in July. The much-maligned Bureau of Labor Statistics got the President's message and found no inflation worry just yet in today's report. The bond market is letting out a huge sigh of relief as the Administration's tariff-guided, heat-seeking inflation missile hasn't blown up the entire US economy yet. Investors might want to hold back on the no-inflation celebration however because the goods sitting on store shelves arrived on boats months ago and the tariff hikes have yet to be applied to the goods on ships steaming the consumers way right now. Inflation is coming. Lots of it. Bet on it. The stock market is rallying as the inflation simmering on the back burner is not quite ready to boil. But for how long?



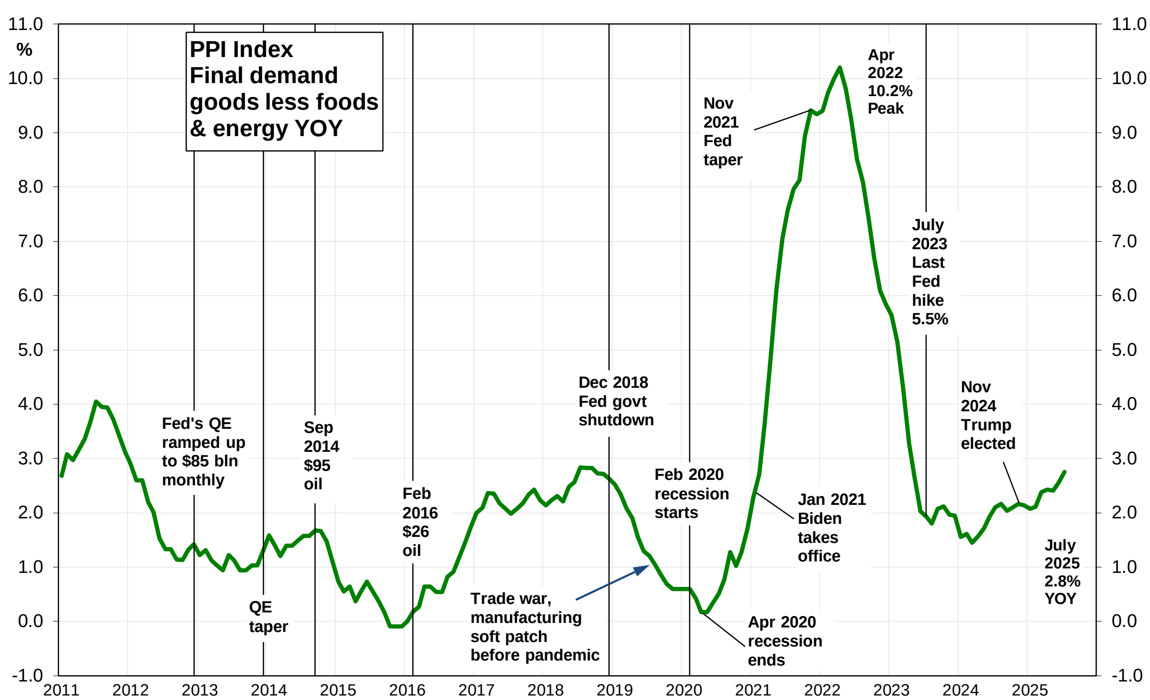
Tariff churn burns producers (Thursday)

Breaking economy news. July PPI rose 0.9% which was greater than the 0.2% expected by the market. Final demand goods prices jumped 0.7% in July with 40% of the increase due to the 1.4% increase in Foods. Old-fashioned PPI jumped 0.4% the most since January 2023, the category is called Final demand goods less foods and energy. The index graphed below is rising 2.8% from year ago levels.

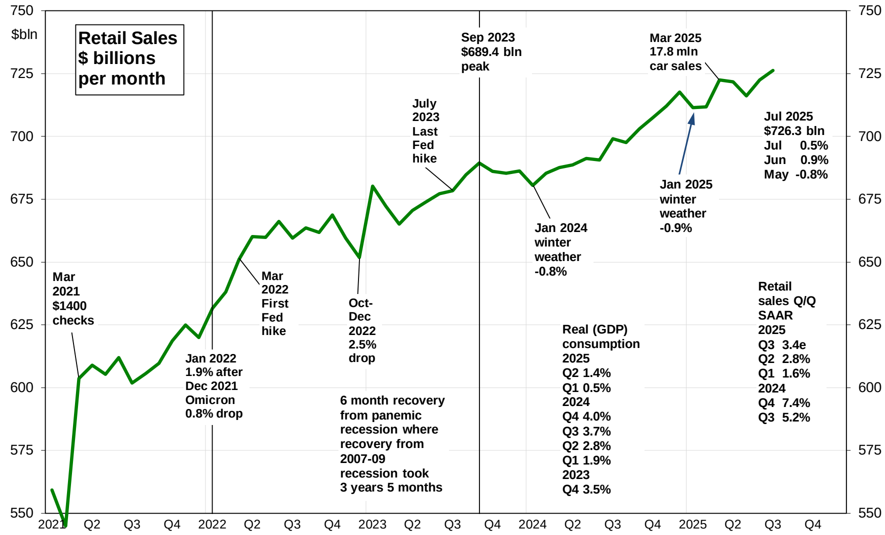
Monthly % SA		Final demand goods				Final demand services			
2025	Total final demand	Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other
Jan	0.7	0.7	1.0	2.0	0.2	0.7	1.2	0.6	0.4
Feb	0.1	0.3	1.6	-1.4	0.3	0.1	-0.8	0.0	0.5
Mar	-0.2	-0.9	-2.2	-3.9	0.3	0.2	0.4	-1.7	0.3
Apr	-0.2	0	-0.9	-0.3	0.3	-0.3	-0.3	0.1	-0.4
May	0.4	0.1	0.0	-0.4	0.3	0.5	1.5	0.0	0.1
Jun	0.0	0.3	0.1	0.9	0.2	-0.1	-0.3	-0.8	0.1
Jul	0.9	0.7	1.4	0.9	0.4	1.1	2.0	1.0	0.7
		**Final demand goods, less foods and energy is old-fashioned PPI							

Net, net, tariff churn is starting to burn and producers are starting to feel the inflation fire heat. The inflation bullseye report has clearly given the markets a black eye. It will only be a matter of time before producers pass their higher tariff-related costs onto the backs of inflation-weary consumers.

Today's PPI report is the final confirmation that inflation is heading our way. The inflation simmering on the back burner has been brought forward and is clearly starting to boil. They say a watched pot never boils, but this one is and it is bringing the markets down with it. The market's reaction suggests traders are fearful of one of the biggest economic policy mistakes to come out of Washington in history. Fed officials are likely to be whipsawed by markets looking for rate cuts after CPI only to be floored by a PPI report which says maybe not so fast on those rate cuts.



Retail sales uptick (Friday)



Breaking economy news. Retail sales rose 0.5% in July and the May/June numbers were revised 0.4 higher so the third quarter with only July to count is rising 3.4% after 2.8% in Q2 2025. The consumer is doing their part to keep the economy moving along. It is hard to tell if some of the sales, like for autos, are still seeing an attempt to beat import-tariff related price shocks. In other data, nonfuel import prices (before tariffs are applied) bounced 0.3% in July after falling 0.3% in June. It is always possible that foreign exporters could cut their prices to help offset the tariffs, but not this month anyway. The report said there were higher prices for apparel, footwear, and household goods. July nonfuel import prices are up 1.3% from last year.

Nonfuel Imports prices-- Monthly Percent Changes NSA July 2025 1.3% YOY

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.2	0.4	-0.5	-0.1	0.0	-0.3	-0.1	-0.2	-0.2	-0.2	0.1	0.1
2024	0.6	0.1	0.2	0.6	-0.2	0.2	0.2	0.0	0.2	0.2	0.1	0.0
2025	0.0	0.2	-0.1	0.3	0.0	-0.3	0.3					

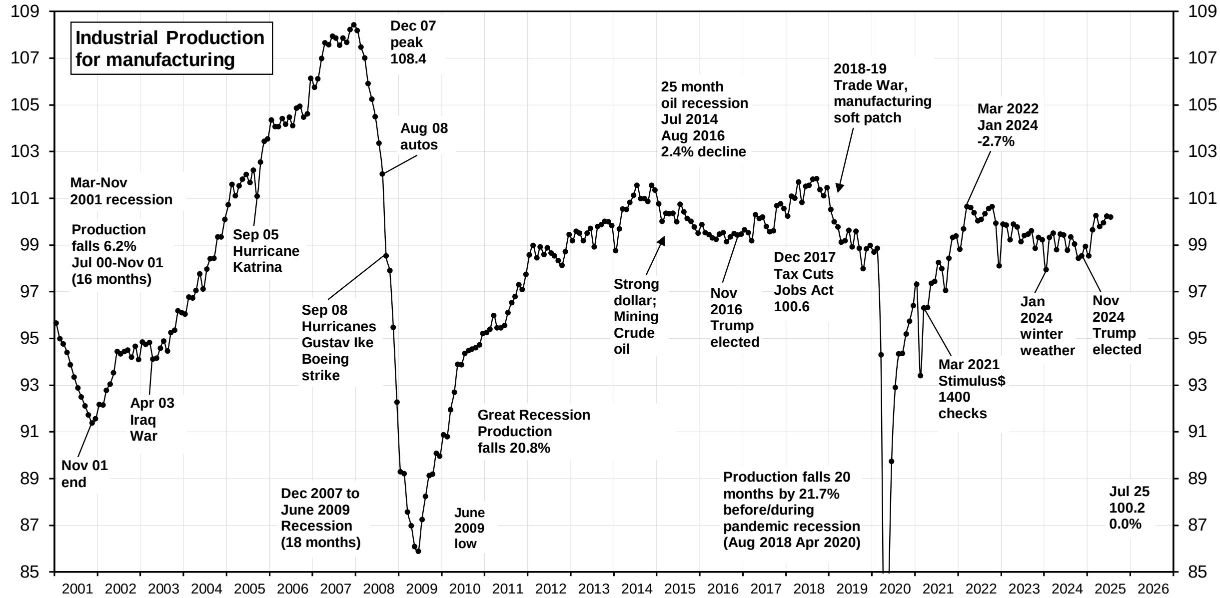
Net, net, consumers have a little more spring in their step as they start out the third quarter with purchases that are at a stronger pace than they were in the first two quarters of the year under the new Administration. Whether this is simply whistling in the dark time will tell, but the tariff headline chaos did not keep consumers at home in July with the one caveat that they reduced their dining out spending which is the only services data in the retail sales report today. Auto sales were a big driver of the 0.5% increase in July retail spending where motor vehicle sales rose 1.6%. Retail sales do not give the economy a complete bill of health, but at least the consumer is not in headlong retreat and the outlook for continued moderate economic growth this quarter is positive. The majority of import tariff price hikes on goods are still off in the future however, so time will tell how consumers will react when they see higher prices on goods in shops at the mall in the months to come. Stay tuned.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Jul	Total	Jul	Jun	Year/year
Total Retail Sales	726,283	100.0	0.5	0.9	3.9
Motor vehicles/parts	139,118	19.2	1.6	1.4	4.7
Furniture/furnishings	11,655	1.6	1.4	0.1	5.1
Electronics/appliances	7,539	1.0	-0.6	-0.3	-2.3
Building materials/garden	39,882	5.5	-1.0	1.3	-2.6
Food & beverage	85,010	11.7	0.5	0.8	2.5
Health/personal care	39,655	5.5	0.4	1.0	5.6
Gasoline stations	51,217	7.1	0.7	0.6	-2.9
Clothing/accessories	26,625	3.7	0.7	1.1	5.0
Sporting goods, books	7,970	1.1	0.8	-0.7	2.3
General merchandise	77,390	10.7	0.4	0.5	2.3
Department stores	3,243	0.4	0.9	-0.6	-0.8
Miscellaneous retailers	14,873	2.0	-1.7	2.7	10.6
Nonstore retailers (internet)	127,045	17.5	0.8	0.9	8.0
Eating & drinking places	98,304	13.5	-0.4	0.6	5.6
[Total ex-autos/gas]	535,948	73.8	0.2	0.8	4.4

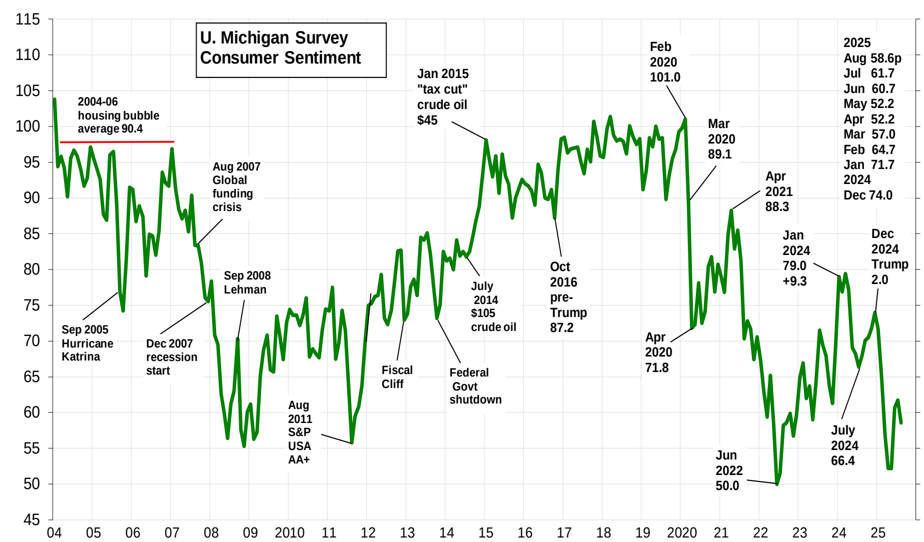
At 915am ET on Friday, July manufacturing industrial production was reported to be unchanged for the month. Whether America is starting to make things here or not is more complicated as many durables manufacturing categories rose at least 1.0% this month, counting electrical equipment, appliances and components, aerospace and miscellaneous transportation equipment, and furniture. Nondurables production overall fell 0.4%. Industrial production is a key indicator of recession, or at least it marks the bottom of almost every recession.

But if it does not fall due to Washington's America First Economic Agenda, other indicators would have to mark the start of the downturn, namely, the BLS payroll jobs measure.



Finally, at 10am ET, the University of Michigan survey of consumers index fell back.

University of Michigan comments: Consumer sentiment fell back about 5% in August, declining for the first time in four months. This deterioration largely stems from rising worries about inflation. Buying conditions for durables plunged 14%, its lowest reading in a year, on the basis of high prices. Current personal finances declined modestly amid growing concerns about purchasing power. In contrast, expected personal finances inched up a touch along with a slight firming in income expectations, which remain subdued. Overall, consumers are no longer bracing for the worst-case scenario for the economy feared in April when reciprocal tariffs were announced and then paused. However, consumers continue to expect both inflation and unemployment to deteriorate in the future.



Year-ahead inflation expectations rose from 4.5% last month to 4.9% this month. This increase was seen across multiple demographic groups and all three political affiliations. Long-run inflation expectations also lifted from 3.4% in July to 3.9% in August. This month ended two consecutive months of receding inflation for short-run expectations and three straight months for long-run expectations. Still, both readings remain well below the highs seen briefly in April and May 2025.

[That is the writeup, not sure preliminary August drop is that significant for our forecast.]

Analyst Certification

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