Financial Markets This Week

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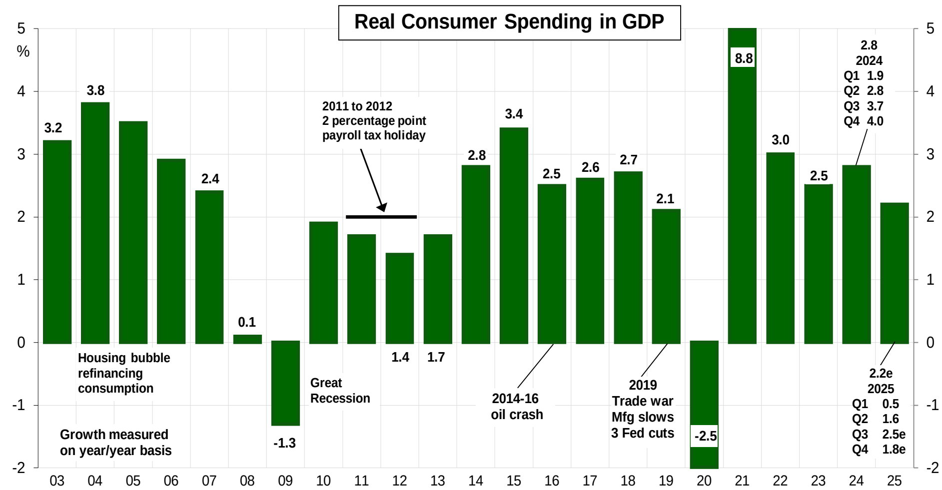
CONSUMER STILL 2%

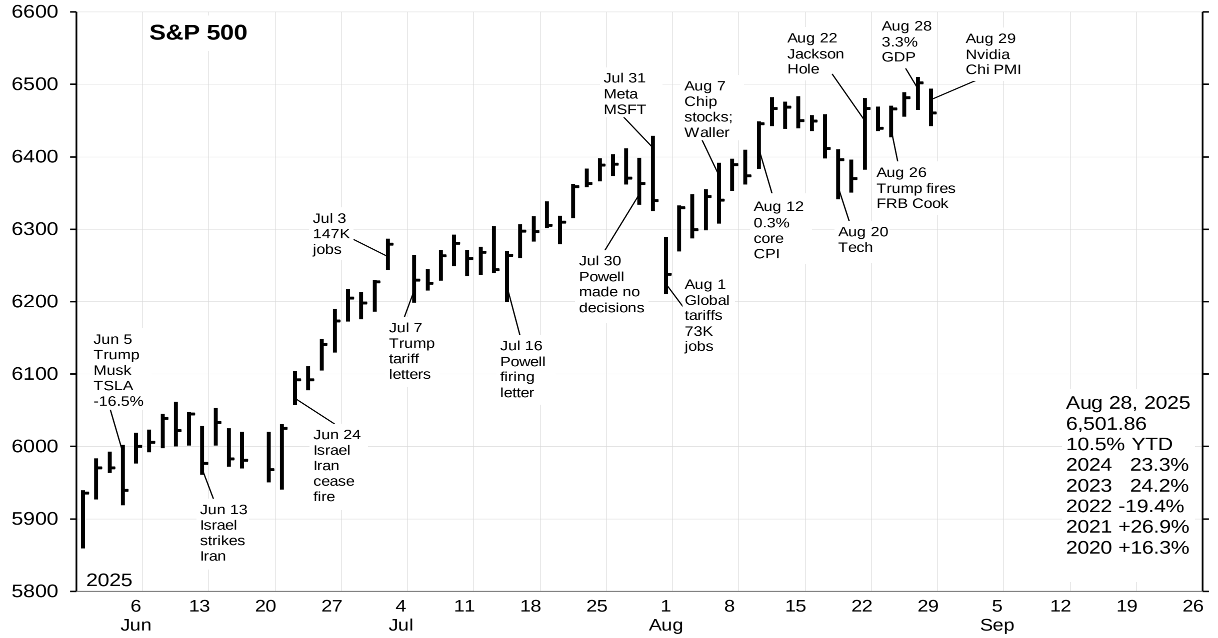


We don't know about resilient, but the consumer still looks to be spending at a solid, above 2% pace again in 2025 despite the uncertain tariff rollout and still unknown tariff price shocks which we figure should be evident by the fourth quarter. Better than the first half of 2025 anyway. Generally, it takes a lot to knock the consumer off their feet like during the Great Recession and of course the 2020 pandemic. Consumers are not a 100% reliable indicator of recession certainly; real consumption never fell a single quarter during the 2001 recession that included 9/11 for example. The 2.2% growth we forecast for 2025 included the slow start in Q1 due to the cold weather. These numbers are year-on-year, so the final two strong quarters of the Biden administration, help power the full year 2025 average higher. How are we doing in the third quarter of 2025 with today's data for July? Not bad with July running 1.3% above Q2 2025 with two more months to add to the total. The best so far this year was 1.6% in Q2. Motor vehicles are just 1.3% after falling 11.2% in Q1 and rebounding 11.7% in Q2 2025. Furnishings are negative again when you would think consumers would stock up ahead of the tariff price hikes. Major appliances were strong in Mar/Apr but are off the pace the last three months. Clothing and footwear (5.6%) and Recreational goods (6.6%) are standouts this quarter. Recreational goods, mostly computer software; perhaps consumers are embracing AI. It's not all goods and tariffs. Financial services and insurance is up 1.7% early this quarter; the increase is mostly Portfolio management and investment advice, and the American public is going to need it.

Recession	July 1990-March 1991							
SAAR %	Q1 90	Q2 90	Q3 90	Q4 90	Q1 91	Q2 91		
GDP	4.4	1.5	0.3	-3.6	-1.9	3.2		
Consumer	3.4	1.2	1.6	-3.0	-1.5	3.4		
Recession	March 2001-November 2001							
SAAR %	Q3 00	Q4 00	Q1 01	Q2 01	Q3 01	Q4 01	Q1 02	
GDP	0.4	2.4	-1.3	2.5	-1.6	1.1	3.4	
Consumer	3.9	3.5	1.5	0.8	1.4	6.6	0.9	
Recession	December 2007-June 2009							
SAAR %	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
GDP	2.5	-1.7	2.4	-2.1	-8.5	-4.5	-0.7	1.4
Consumer	1.6	-0.5	1.1	-3.0	-3.5	-1.0	-2.0	2.7

Real Consumer Expenditures & GDP	Q3	Q2	Q1	Q4	Level $bln
SAAR Percent change: Q3 2025e is July over Q2 avg	2025e	2025	2025	2024	Q2 2025
Gross domestic product (GDP)	--	3.3	-0.5	2.4	23,703.8
Personal consumption expenditures (PCE)	1.3	1.6	0.5	4.0	16,355.4
Goods	2.6	2.4	0.1	6.2	5,593.8
Durable goods	2.4	2.6	-3.7	12.4	2,114.4
Motor vehicles and parts	1.3	11.7	-11.2	19.7	609.6
Furnishings and durable household equipment	-1.6	-2.1	1.5	5.4	448.1
Recreational goods and vehicles	6.6	-3.5	0.4	13.9	792.4
Other durable goods	3.4	2.6	-1.2	3.1	301.4
Nondurable goods	2.6	2.3	2.1	3.1	3,490.9
Food and beverages for off-premises	3.8	0.3	1.0	1.8	1,180.0
Clothing and footwear	5.6	5.4	7.0	5.0	522.1
Gasoline and other energy goods	-3.8	-1.4	3.6	-2.0	319.2
Other nondurable goods	2.2	4.1	1.3	5.0	1,485.1
Services	0.7	1.2	0.6	3.0	10,786.2
Household consumption expenditures (for services)	1.0	1.9	1.6	3.3	10,385.8
Housing and utilities	0.6	-0.4	2.9	1.1	2,662.7
Health care	1.2	4.2	3.1	4.7	2,922.0
Transportation services	-0.2	-2.9	1.4	3.7	500.6
Recreation services	0.6	3.6	-5.1	4.5	622.4
Food services and accommodations	0.0	5.1	-1.8	2.8	1,083.1
Financial services and insurance	1.7	1.9	0.1	3.1	1,180.0
Other services	2.0	0.6	3.2	4.9	1,440.1
Final consumption nonprofit institutions	-4.1	-12.5	-16.7	-1.3	406.4

INTEREST RATES



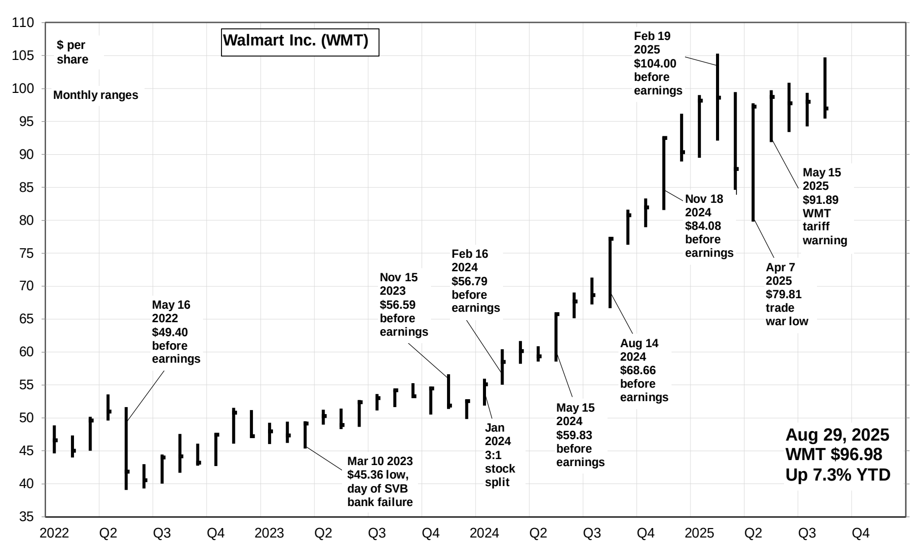
The President announced he was firing Fed Governor Cook at 8pm Monday evening which brought down [yields](), especially 2-yr notes. The yield curve steepened during the week thinking rate cuts were coming. The S&P 500 somehow made another new high on Thursday, unsure why although Q2 real GDP was revised up three-tenths to 3.3%. Stocks barely moved on the personal income report on Friday ahead of the holiday weekend perhaps. But started to break down with a news story about Alibaba having an AI chip to compete with Nvidia, then somehow the Chicago purchasing managers index at 945am is back to trade on, as the index fell sharply. Although the low for the day was set about an hour later. Perhaps it was not too early for stocks to look forward to the seasonal sell-off seen in Septembers in many years, thinking the entire first week of September 2024. Dead ahead.

Walmart Inc. (WMT) up 7.3% YTD

The stock fell 4.5% after earnings released (the morning of) August 21. AI said the company missed on expected earnings, but revenues were better. Earnings missed on various charges, but US sales were strong, and the company raised its full year guidance. Same-store US sales are steady at 4.8% YOY in the 13-weeks ending August 1, where they have been for three straight quarters. The word "tariff" appears just three times in the press release. Learned a lesson after the May 15 sell-off.

Bln $	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
Q1 2023	152.3	6.2	7.3%	4/28/2023
Q2 2023	161.6	7.3	6.3%	7/28/2023
Q3 2023	160.8	6.2	4.7%	10/27/2023
Q4 2023	173.4	7.3	3.9%	1/26/2024
Q1 2024	161.5	6.8	3.9%	4/26/2024
Q2 2024	169.3	7.9	4.3%	7/26/2024
Q3 2024	169.6	6.7	5.5%	10/25/2024
Q4 2024	180.6	7.9	4.9%	1/31/2025
Q1 2025	165.6	7.1	4.8%	5/2/2025
Q2 2025	177.4	7.3	4.8%	8/1/2025

* US comparable sales, incl. Sam's Club, ex-fuel

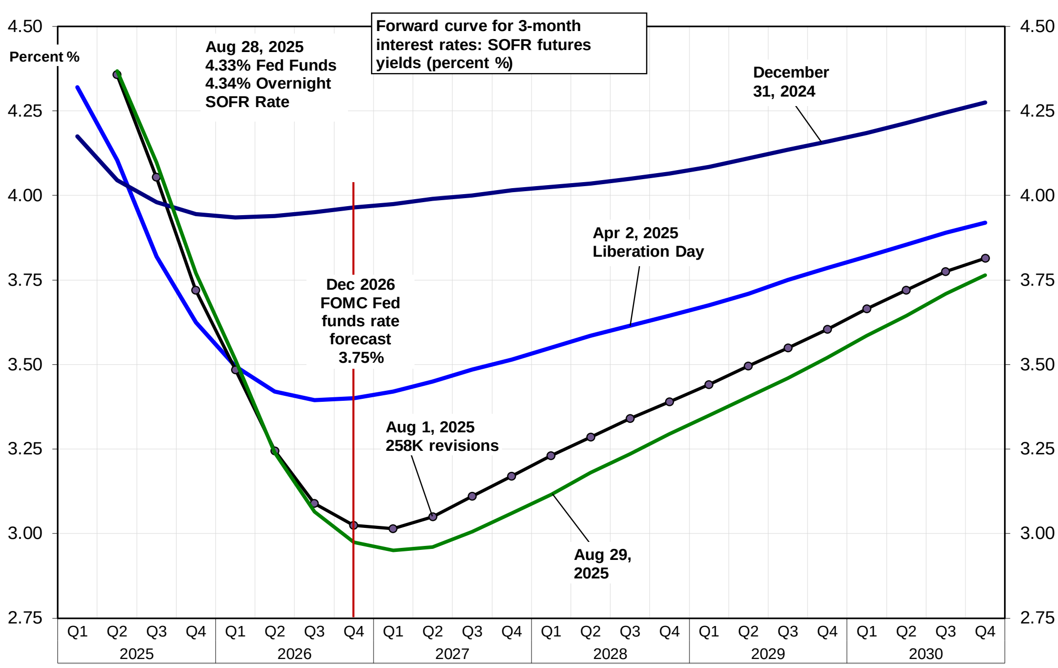


FEDERAL RESERVE POLICY

The Fed meets September 16-17, 2025 to consider its monetary policy. Trump fired Fed Governor Cook Monday night or tried to, and things are probably just going to get worse for the Federal Reserve just as it has been for other established Federal government branches and departments in Washington. Core PCE inflation came in as Powell advertised at Jackson Hole, so nothing to stop a rate cut in September yet with the jobs report which no one will trust and a CPI inflation report yet to go. Contender for Fed Chair Waller spoke on Thursday, he had dissented in favor of a rate cut at the July meeting. Now he wants to lay out a path for rates in the direction of a “more neutral stance.” The average pace of payroll jobs has been only 35K the last three months and he thinks this might be revised to an actual decline when revisions come to the data. He thinks neutral for rates is 3% as the FOMC forecast says, which means they need to get going. The only problem is that the President wants rates of 1%-something, which means Bessent has his hands full to provide an explanation, and regardless, it will be a rocky road for the next Fed Chair. Maybe jobs are, but growth is not slowing down, maybe neutral rates are 4.5%.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	27-Aug	20-Aug	13-Aug	6-Aug	3/11/20*	3/11/20
Factors adding reserves						to Aug 27
U.S. Treasury securities	4202.351	4201.953	4204.823	4204.501	2523.031	1679.320
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2102.846	2116.764	2120.606	2120.672	1371.846	731.000
Repurchase agreements	0.021	0.201	0.001	0.000	242.375	-242.354
Primary credit (Discount Window)	4.191	4.414	4.623	4.856	0.011	4.180
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	1.406	1.407	1.409	1.410		
Main Street Lending Program	4.254	4.250	4.481	4.476		
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	0.040	0.046	0.046	0.050	0.058	-0.018
Federal Reserve Total Assets	6654.2	6669.5	6694.6	6691.9	4360.0	2294.208
~~3-month Libor %~~ SOFR %	4.36	4.31	4.33	4.34	1.15	3.210
Factors draining reserves						
Currency in circulation	2407.523	2403.844	2403.364	2404.549	1818.957	588.566
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	595.798	526.063	515.469	464.315	372.337	223.461
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	34.744	34.999	57.202	91.966	1.325	33.419
Federal Reserve Liabilities	3437.382	3371.838	3366.277	3361.482	2580.036	857.346
Reserve Balances (Net Liquidity)	3216.851	3297.635	3328.346	3330.372	1779.990	1436.861
Treasuries within 15 days	51.346	54.667	85.044	90.821	21.427	29.919
Treasuries 16 to 90 days	162.597	158.447	150.698	147.831	221.961	-59.364
Treasuries 91 days to 1 year	460.469	461.246	452.564	449.602	378.403	82.066
Treasuries over 1-yr to 5 years	1443.113	1442.905	1426.444	1426.311	915.101	528.012
Treasuries over 5-yrs to 10 years	500.833	500.801	514.779	514.748	327.906	172.927
Treasuries over 10-years	1583.994	1583.886	1575.295	1575.189	658.232	925.762
Note: QT starts June 1, 2022	Change	8/27/2025	6/1/2022			
U.S. Treasury securities	-1568.428	4202.351	5770.779			
Mortgage-backed securities (MBS)	-604.600	2102.846	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				



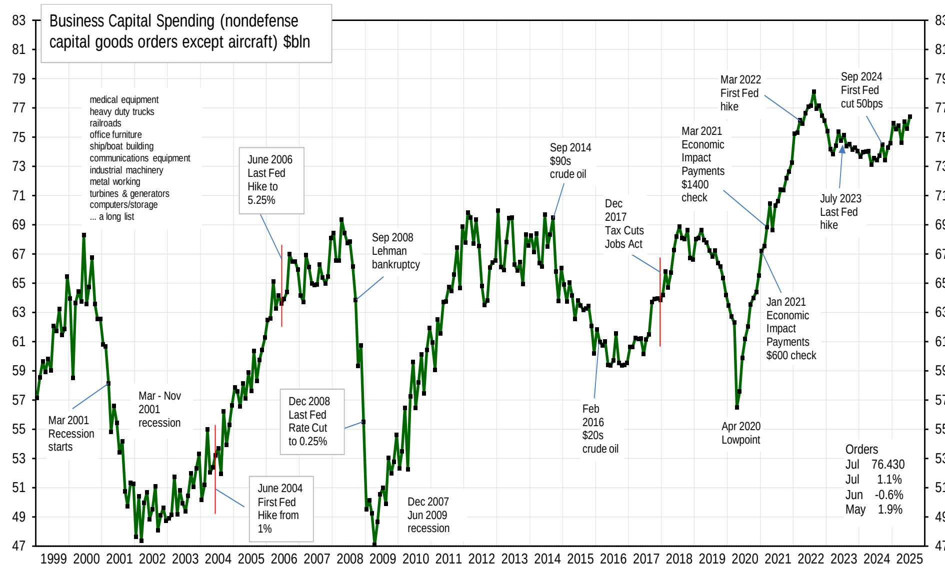
All but 2.5 bps of a 25 bps rate cut is discounted at the September meeting. Two rate cuts are discounted this year.

Fed funds futures call Fed policy		
Current target: August 29 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.275	Oct 2025	Sep 17*
4.145	Nov 2025	Adds Oct 29
3.925	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: August CPI inflation report Thursday, September 11 at 830am ET														
Monthly	2025							2025	2024					2024
% Changes	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
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
Core PCE inflation		0.3	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
Core PCE YOY		2.9	2.8	2.7	2.6	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6
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

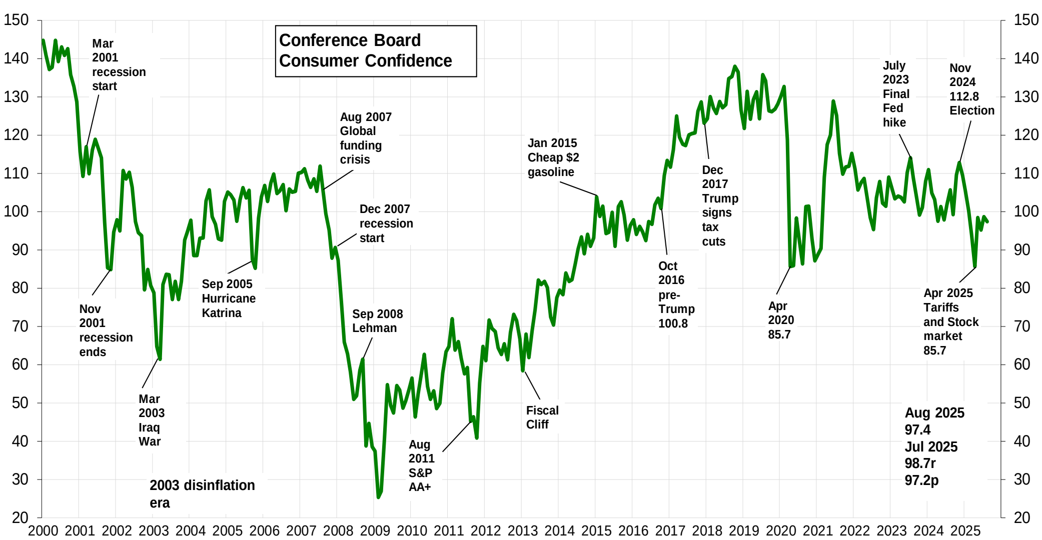
OTHER ECONOMIC NEWS

Durable goods orders new 2025 high (Tuesday)



Breaking economy news. Durable goods orders fell 2.8% to $344.069 billion in July, but excluding transportation orders were up 1.1% to $198.398 billion (Transportation includes Motor vehicles and parts $65.320 billion and Nondefense aircraft $59.969 billion). Nondefense capital goods ex-aircraft orders rebounded 1.1% in July after declining 0.6% in June. The upward trend in these key orders is a long way from being recessionary, although some ordering may be brought forward to beat widely anticipated import-tariff increases in prices.

Net, net, someone turned the switch back to on for US manufacturers as new orders for core long-lived capital goods rebounded sharply in July. Nondefense capital goods ex-aircraft jumped 1.1% in July after declining a revised 0.6% in June from the initial report of a 0.8% decrease. Many of the import tariffs did not start to get finalized for our trading partners until August 1, so there may still be some blow-back for industries when the imports of higher-priced inputs to production start to hit companies full on. Stay tuned. Business new orders for key capital goods that help the economy run are at new highs for 2025 as apparently the tariff-scare has not shut down American industry just yet. Business investment is strong which makes the economic outlook a little less uncertain at least for now.



At 10am ET, consumer confidence was little changed. On a revised basis, the index fell 8.2 points to 85.7 in April on tariffs and the stock market (down recession-magnitude as much as 21.3% on April 7), and rebounded 12.7 points to 98.4 in May 2025. Consumers may be certain or uncertain, but they are certainly confused by the economic agenda in Washington.

Economic growth a mirage (Thursday)

Breaking economy news. Second look at real GDP in the second quarter has growth at 3.3% now, revised up from 3.0%. Aside from the big swings in imports the first half of the year subtracting in Q1 and adding in Q2, the second quarter saw big contributions from consumer health care (0.5 percentage points), and business spending on software (0.6 percentage points). Try to forget that Washington has slashed the budget, and Federal nondefense spending subtracted 0.4 percentage points from growth.

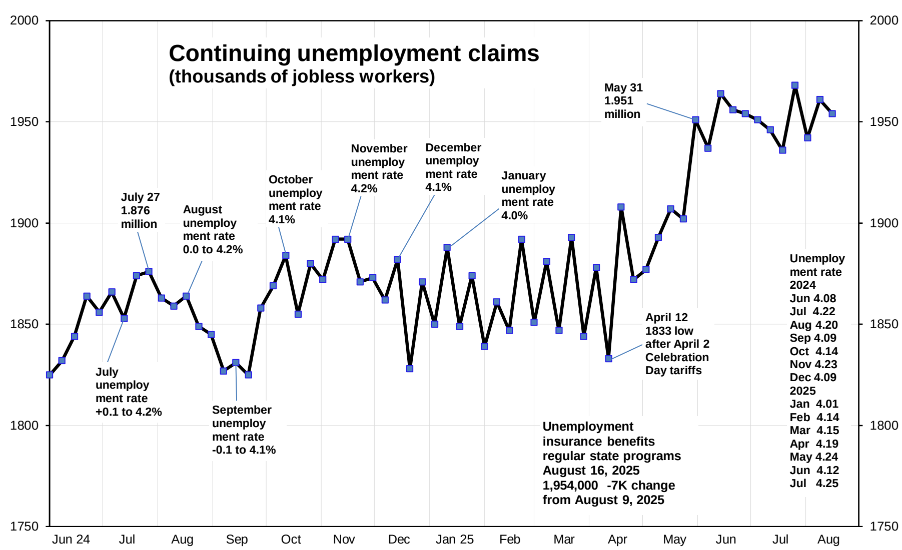
The labor market stats were not quite as bad First-time applications for benefits were 229K in the August 23 week, although same story, not a lot of activity in the summer with actual filings 191,289, so seasonal factors push the "layoffs" up. Continuing unemployment claims were 1.954 million in the August 16 week and the 1.972 million "new 2025 high" reading in the August 9 week was revised down to 1.961 million so it looks like the President's new economic stats team has hit the ground running.

	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25p	Q2 25r
REAL GDP	1.6	3.0	3.1	2.4	-0.5	3.0	3.3
REAL CONSUMPTION	1.9	2.8	3.7	4.0	0.5	1.4	1.6
CONSUMPTION	1.3	1.9	2.5	2.7	0.3	1.0	1.1
Durables	-0.1	0.4	0.5	0.9	-0.3	0.4	0.2
Nondurables	-0.1	0.2	0.6	0.4	0.3	0.2	0.3
Services	1.6	1.3	1.3	1.4	0.3	0.5	0.6
INVESTMENT	0.6	1.5	0.2	-1.0	3.9	-3.1	-2.7
Business Plant	0.2	0.0	-0.2	0.1	-0.1	-0.3	-0.3
& Equipment and	0.0	0.5	0.5	-0.5	1.1	0.3	0.4
Intellectual Property	0.4	0.0	0.2	0.0	0.3	0.3	0.7
Homes	0.5	-0.1	-0.2	0.2	0.2	-0.1	-0.2
Inventories	-0.5	1.1	-0.2	-0.8	2.6	-3.2	-3.3
EXPORTS	0.2	0.1	1.0	0.0	0.0	-0.2	-0.1
IMPORTS	-0.8	-1.0	-1.4	0.3	-4.7	5.2	5.1
GOVERNMENT	0.3	0.5	0.9	0.5	-0.1	0.1	0.0
Federal defense	-0.1	0.2	0.5	0.2	-0.3	0.1	0.1
Fed nondefense	0.1	0.0	0.1	0.1	0.0	-0.3	-0.4
State and local	0.3	0.3	0.3	0.3	0.2	0.3	0.3

Below line: Percentage point contributions to Q2 2025 3.3% real GDP

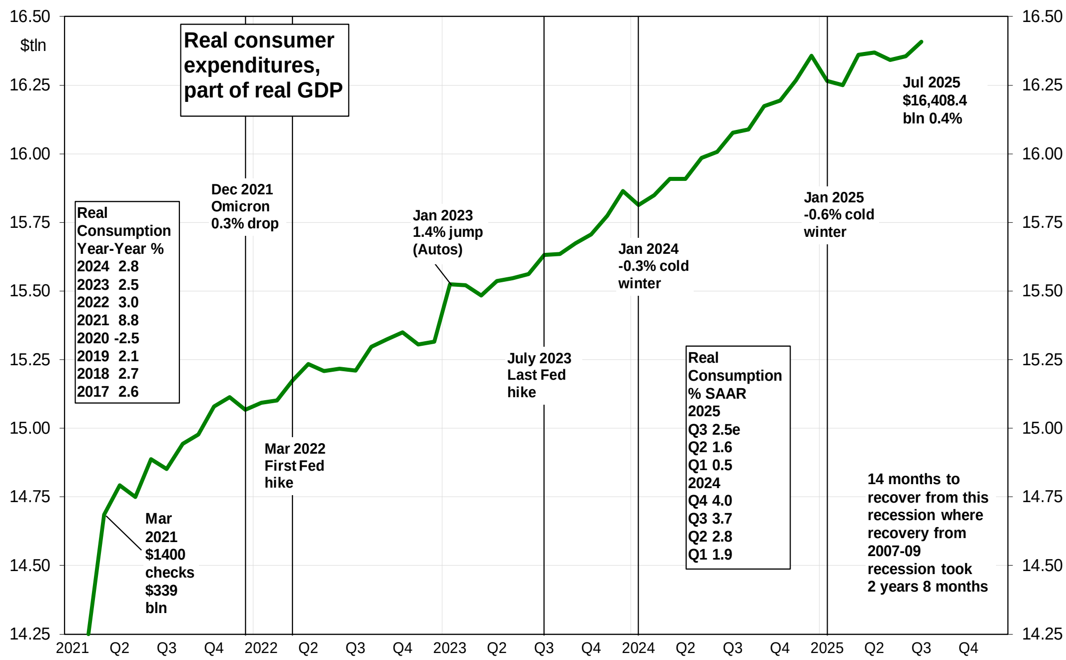
Third estimate for Q2 is Thursday, September 25

Net, net, the strength in economic growth last quarter remains a mirage that is based on the fallout from the Administration's economic agenda which is cutting Federal outlays to the bone and had importers scrambling to bring goods into the country before the tariff taxes go up. Real GDP was 3.3% in the second quarter up from the advance estimate of 3.0% made a month ago, but economic growth is set to sink once the import tariff effects on imports wash out in the third quarter. Imports surged in Q1 subtracting 4.7 percentage points from Q1 -0.5% real GDP and imports collapsed back in Q2 adding 5.1 percentage points to 3.3% real GDP. Tariffs giveth and now taketh away or is it the other way around from the first to the second quarter results which was moderated by the inventory changes in the broader economy. Stay tuned.

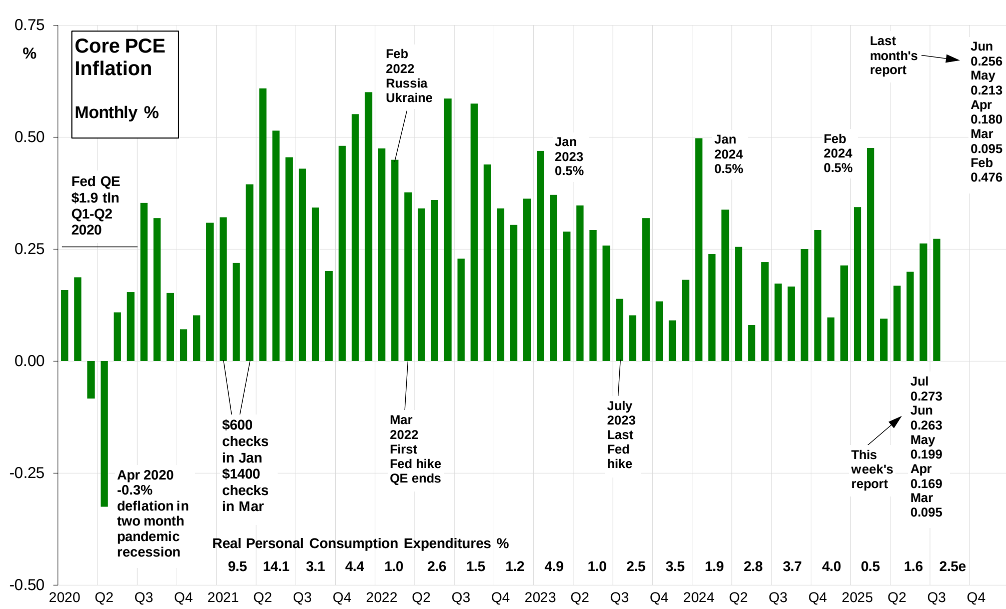


Middle of road personal income report (Friday)

Breaking economy news. Consumer spending is solid and goods inflation remains moderate for now as the tariff war has yet to slow the economy appreciably or lead to a worrisome outbreak of inflation that could worry markets. Core PCE inflation met the Fed Chairman's forecast at Jackson Hole and the 0.3% increase was closer to 0.2% than a 0.4% reading. Market-based core PCE prices were actually just 0.2% higher for prices that are directly observable. There is no tariff-based inflation threat yet in July before the White House August 1 announcement with clothing and footwear prices unchanged, household furnishings up 0.1% in July after a 1.3% hike in June, and motor vehicles still modest at 0.2% after actually falling 0.4% in June. Stay tuned. Consumers are set to spend at the fastest quarterly pace this year with a 1.3% rate in Q3 estimated with just one month of data so far, after rising just 0.5% in Q1 and 1.6% in Q2.



Markets seem nonplussed with today's personal income report where either they are unsure how to react to this middle-of-the-road economic report or they have already left for the beach this holiday weekend at the end of summer before school starts. There is nothing in today's inflation report to stop the Fed from delivering a rate cut at the September meeting and that has to be a relief for the highly-criticized members of the FOMC. In fact, July core goods prices were unchanged after jumping 0.4% in June. Whether a rate cut is the right thing to do or not, a rate cut is coming. Bet on it. The White House is. This is not the hottest economy on the planet, but there are no storm cloud warnings that tariffs are about to bring the economy to its knees either. Personal income was up 0.4% and consumers did not have to dip into their savings to spend at a moderate rate this month. The economy is not too hot and not too cold, it is just right. In July.



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