Summary

Economic data for the week included inflation data that came in more robustly than expected, especially on the producer side. Positive news came from a gain in retail sales, offsetting a drop in industrial production and weaker consumer sentiment.

Equities gained around the world, with similar gains in the U.S. and abroad. Bonds were flattish domestically, with mixed results internationally. Commodities saw gains in agriculture offset by declines in energy and precious metals.

Economic Notes

(+) **Retail sales** for July rose by 0.5%, just below the 0.6% expected, but roughly half the pace of the prior month after revisions. Removing autos decreased the gain to 0.3%, as car sales rose nearly 2% in the month, partially offsetting some weakness in building materials, down -1%. Core/control sales (minus the most volatile items of autos, gasoline, and building materials) rose 0.5%, in addition to featuring a strong 0.4% upward revision for the prior month. Sales there were led by furniture, sporting goods, and nonstore/online retail, all up 1%, while misc. stores and electronics/appliances fell. Retail sales have risen 4% over the past year, pointing to real gains after inflation, led by autos on the headline side.

(-/0) **Industrial production** fell by -0.1% in July, relative to expectations calling for a flat reading, although the prior month saw a revision higher. Within the report, manufacturing production was flat for the month, was continued gains in business equipment were offset by a drop in motor vehicle assemblies. Mining/petroleum production declined -0.4%, while utilities production fell by -0.2%, despite summer heat which tends to boost cooling needs. Over the past year, total industrial production rose 1%, led by high tech at 14% and autos up 8%. **Capacity utilization** fell by -0.2% to 77.5%.

(+) The **Empire manufacturing index** rose by 6.4 points to 11.9 for August, staying in expansion, above the forecast for a decline down to a flat reading. Under the hood, data was decent, with new orders rising 13 points to 15, and a smaller gain in shipments, while employment fell a few points, but continued to expand a bit. Prices paid fell by -2 points to 54, continuing to expand, but at a lesser pace than seen in other surveys like the ISM. However, the 6-mo. ahead business conditions index fell by -8 points to 16, the first decline in four months.

(-) The **Consumer Price Index** rose 0.2% in July on a headline level, and 0.3% on a core basis, removing food and energy, both in keeping with market expectations. For the month, elements within core were behind the gains, with airfares up 4% (the biggest month in several years), and dental services. Shelter prices were steady at 0.2%, with owners' equivalent rent unchanged for several months at 0.3%, although that contributed a third to the July core CPI rise, while tariff-related goods prices were far less impactful, despite fears.

Over the trailing 12 months, the pace of headline CPI was unchanged at 2.7%, while core CPI ticked up by two tenths to 3.1%, partially due to a weaker year-over-year comparison. During the full period, the energy index fell by nearly -2% (energy commodity prices down -9%, offset by utilities/gas up 14%), while food prices rose by just under 3%. Other key drivers remained shelter (3.7%), medical care (4.3%), and used cars/trucks (4.8%). Services prices rose 3.8% for the year, while durable goods rose 1.2% and nondurables only 0.5%. In reviewing the often-interesting alternative CPI measures, "All items less food, shelter, and energy" rose 2.6% for the year, while "All items less shelter" rose at only a 2.1% pace.

All-in-all, the CPI report wasn't terrible, nor great, with impacts of tariffs still not quite clear in their effects, and the next few months remaining important from that standpoint. What is clear is that inflation remains elevated, beyond what the Federal Reserve, bond markets, and consumers would like to see being so removed from the pandemic price spikes of several years ago now. A key factor from the Fed's perspective is how individual members of the committee 'look through' tariff-caused price rises to the underlying inflation trend. The first cut of the year is still priced in as the most likely case for September, but the pace beyond that may depend on how inflation pressures are viewed from a structural standpoint, in addition to in relative terms as to how fast the labor market is weakening.

(-) The **Producer Price Index** rose 0.9% in July, on both a headline and core level, removing food and energy. These were above the 0.2% expected for each. By segment, energy prices were up nearly a percent, while food prices rose 1.4% in the month, although core segments also rose to similar degrees, in areas such as retailer and wholesaler margins, cable/internet services, healthcare, and portfolio management (due to higher stock prices). Year-over-year, headline PPI rose 3.3%, while core PPI was up 3.7%. Being reported after CPI, PPI was definitely inflationary, but it wasn't due solely to higher tariff-related goods prices.

(-) The preliminary **Univ. of Michigan index of consumer sentiment** fell by -3.1 points (-5%) to 58.6 in August, well below the slight increase to 62.0 expected, and the first drop in four months. The key drivers were assessments of current economic conditions, which fell by -10%, while expectations for the future were down only a percent. Compared to a year ago, the overall reading has declined -14%, which was mostly a -21% drop in future expectations over that time. Inflation expectations for the coming year rose from 4.5% to 4.9%, as did long-term expectations from 3.4% to 3.9%, but remained below the highs seen this spring. Of survey respondents, about 60% expected unemployment to worsen in the year ahead, not seen in nearly 20 years, similar to the proportion mentioning tariffs as well as those expecting to cut back on spending in the next year. Within the narrative, the sponsor noted that "deterioration largely stems from rising worries about inflation," as buying conditions for durables fell by -14%. Though, "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." That all said, as pointed out by economists and the Fed, consumers might complain about conditions, but they continue to buy (which tends to be related to whether or not they're employed).

(+/0) **Initial jobless claims** for the Aug. 9 ending week fell by -3k to 224k, just below the 225k expected. Continuing claims for the Aug. 2 week fell by -15k to 1.953 mil., further than the 1.964 mil. expected. There were minimal changes by state, with no signs of extreme stress that point to layoffs or further deteriorating labor activity.

Market Notes

Period ending 8/15/2025	**1 Week %**	**YTD %**
DJIA	1.79	6.72
S&P 500	0.99	10.55
NASDAQ	0.83	12.42
Russell 2000	3.12	3.39
MSCI-EAFE	2.36	23.54
MSCI-EM	1.55	20.42
Bloomberg U.S. Aggregate	-0.02	4.38

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2024	4.37	4.25	4.38	4.58	4.78
8/8/2025	4.32	3.76	3.84	4.27	4.85
8/15/2025	4.30	3.75	3.85	4.33	4.92

U.S. stocks gained with sentiment that appeared to be driven by rising hopes for a Fed rate cut in September, along with comments from the U.S. Treasury Secretary, noting that Fed funds "should probably be 150, 175 basis points lower." By sector, health care, communications, and consumer discretionary led with gains of several percent, while defensive utilities and consumer staples lagged with declines of just over a half-percent. With perceived rate impacts, small caps outperformed large caps by the widest weekly margins in several months.

Foreign stocks gained at a rate similar to or better than U.S. stocks, led by Japan and Europe, with developed markets outperforming emerging markets. Sentiment in Europe especially has been increasingly focused on the chances of a Russia-Ukraine peace deal, which would be positive for regional stability, but seen as perhaps less conducive for defense stocks. In EM, China led the way as the deadline for U.S. tariffs had been extended for another 90 days while a potential deal continues to be negotiated.

Bonds were mixed, with U.S. government bonds falling back a bit as rates rose across the longer end of the yield curve. Investment-grade and high yield corporates fared positively, with help from tighter spreads. Foreign bonds were mixed as the U.S. dollar fell back for the week, with emerging market debt faring positively.

Commodities were mixed, with gains in agriculture offset by declines in energy and precious metals. Crude oil fell about a percent last week to $63/barrel, with little critical news to move the needle in either direction. Gold prices fell back Mon. as the U.S. administration provided assurances that bullion wouldn't be subject to tariffs.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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