

Summary

Economic data included the Federal Reserve keeping interest rates steady for another meeting. On the positive side, U.S. GDP saw strong growth for the second quarter (albeit with caveats), and consumer sentiment improved. However, the employment situation report was far weaker than expected, with several downward revisions, job openings declined, and the pace of home price appreciation continued to decelerate.

Stocks fell back last week globally along with more U.S. tariff announcements and negative labor market data. Bonds fared well domestically, as rates fell, but foreign bonds were mixed as the dollar strengthened. Commodities were also mixed as oil prices rose but fell in other groups.

Economic Notes

(0) The July **FOMC meeting** ended with no action, and Fed funds kept at 4.25-4.50%, but featured two dissenting member votes, which hadn't happened in over 30 years. For the sake of context, even one dissent is relatively uncommon, as the Fed chair tends to try to garner consensus for committee decisions if at all possible. While it isn't a dealbreaker by any means, it does provide a clue as to the sentiment of where the committee is leaning—and that's getting closer to rate cuts than not.

Chair Powell's post-FOMC press conference included responses on a variety of issues, notably the reasoning for not cutting rates now, and what the appropriate timeline might be before there are cuts. In keeping with prior meetings, he described the committee being "well positioned" to respond in a "timely" way to changes in economic developments, while the economy is in a "solid" position, and labor market near "maximum" employment, despite economic growth having "moderated." The most critical discussion was centered around the potentially inflationary pressures brought on by tariffs (likely to be "short-lived") and the type of data required to justify cutting rates. It may sound like a broken record, but the "balance of risks" component was again used as rationale—as the inflation is further away from target and labor is essentially "on" target, the "moderately restrictive" policy to keep inflation at bay is the side being acted on. And, at the current time, according to Powell, it doesn't appear as if the economy is being held back "inappropriately" by such policy. The dissents were downplayed a bit, in terms of the meeting being described as one of the "best" in some time, in terms of a diversity of opinions shared, and a range of views remains on what the "neutral rate" is for the economy. The coming months will bring a variety of data points to help in the decision-making process, yet it remains "early days" for evidence on tariff's impact on growth and inflation, as they "never expected it to be a fast process."

Per common convention after dissents, separate published statements from Vice Chair Bowman and Gov. Waller shed more light on their votes to cut rates. In Bowman's case, slowing economic growth and a "less dynamic" labor market pointed to a cut as a proactive hedge against further weakening, particularly on the labor side, which she mentioned several times. Waller's comments referenced tariff's being more of a one-time inflation increase in the price level, affecting inflation to a lesser degree, arguing that data points to more of a "neutral" policy position, rather than "restrictive," as it has been described, also

pointing to slower economic growth and labor conditions. This was in addition to the same proactive view of “We can cut now and see how the data evolves.” These dissents point to the imperfect nature of Fed decision-making, where opinions can diverge about current data as well as how the central bank should approach the environment as conditions change.

(+/-) The advance report for **U.S. GDP** in the 2nd quarter showed annualized growth of 3.0%, beating the consensus calling for 2.6%. Before too much excitement is generated, it's worth noting that the distortions from Q1 in net exports, inventories, and equipment investment as companies attempted to front-run possible tariffs, and causing -0.5% in negative growth, were generally unwound and reversed in Q2, resulting in the sharp 'growth' figure. Removing that element puts other categories in a more normal light, resulting growth of just over 1% for the first half combined. Due to the aforementioned trade effects, the messiness of the data requires looking at Q1 and Q2 together to some degree. Otherwise, Q2 growth was seen in personal spending (by 1.4%, adding 1.0% to the overall figure, and split equally between goods and services), and state/local government, while federal government spending fell (by -3.7%, trimming -0.24% from the total). On the inflation front, the GDP price index rose by an annualized 2.0% (down from 3.8% in Q1), PCE rose by an annualized 2.1% (from 3.7%), and core PCE rose 2.5% (from 3.5%).

The final Atlanta **GDPNow** measure for Q2 estimated 2.9% growth, which again was not far from the initial official release. The first Q3 GDPNow estimate came in at 2.3%, reduced to 2.1% by Friday, while the Blue Chip consensus of leading economists started around 0.75%, within a wide range of the lowest and highest estimates of around -0.5% and +1.5%. Consumer spending is again expected to be a primary contributor, followed by positive results for non-residential fixed investment, inventories, and government. However, net exports remain negative and residential investment is expected to be flattish thus far.

(0) **Personal income** rose by 0.3% in June, a tenth higher than expectations, and boosted by a rise in unemployment insurance and Social Security and Veterans' benefit payments. **Personal spending** also rose by 0.3%, a tenth below the median forecast. The personal saving rate was unchanged at 4.5%. Personal income and spending were each up nearly 5% over the past 12 months, which equates to real gains after inflation. **PCE inflation** rose 0.3% on a headline level, at a tenth stronger than the prior month, as did core PCE ex-food and energy on a rounded basis. Year-over-year, headline PCE picked up by over a tenth to 2.6%, while core PCE was little changed at just under 2.8% on a rounded basis. The latter continues to run at a pace well above the Federal Reserve's 2.0% target, which explains the ongoing concerns about ending the inflation battle too early.

(-) The **ISM manufacturing index** fell by -1.0 point to 48.0 for July, which disappointed compared to expected improvement to 49.5, and staying in contraction. Under the hood, new orders improved by nearly a point to 47, but remained in contraction, while employment deteriorated by nearly two points, down to the 43 level. It appeared that deliveries had sped up, implying there were fewer of them, while prices paid fell by -5 points to a still-high 65 level. Anecdotally, tariffs continued to be mentioned nearly as often as the prior month, with respondents mentioning that they were indeed impacted by them

through “costs of raw materials and components both sourced domestically and from overseas,” and expect expenses to continue to increase. At the same time, just under half of the industries reporting showed expansion for the month, which is somewhat hidden in the overall figure. On the other hand, the final **S&P Global US manufacturing PMI** for June was revised up by 0.3 of a point to 49.8, as new orders ticked higher into a slight expansion.

(-) **Construction spending** for June fell by -0.4%, below the median forecast of no change, and matching the decline of the prior month. While public non-residential spending inched up by a tenth of a percent, it fell in public residential and private residential and non-residential. As construction costs rose by 0.2% for the month, spending fell by -0.6% in real terms.

(0) The **S&P Case-Shiller 20-city home price index** declined by -0.3% in May on a seasonally-adjusted basis, while it rose 0.4% on an unadjusted basis. Year-over-year, the 20-city index rose by 2.8%, which was a deceleration of -0.6% from the prior month. This was led by an over-7% gain for New York, followed by Chicago and Detroit in the mid-single digits, while Tampa prices fell over -2%. Flattish results were the norm in several Western cities, which had fared so well during the pandemic, but have lost steam since.

(0) The **FHFA house price index** showed a -0.2% decline in May, which included a range of regional gains of 0.3% in the West South Central (OK/AR/TX/LA) and New England (CT north), offset by a -0.8% decline in Middle Atlantic (NY/NJ/PA). Year-over-year, the national index showed a gain of 2.8%, which included a range of 0.6% in the Pacific states to 5.9% for Middle Atlantic, but was sharply lower than the 5.9% 12-month reading from a year ago. The over-400 cities covered in the FHFA offers a more comprehensive view of the country over the past several decades, although results were largely similar to the Case-Shiller release, with a trend of home price deceleration driven by the continued low home affordability drivers such as low housing supply, high mortgage rates, and slower transaction activity than normal, although the data ends just prior to the traditional summer ‘high season’ for home sales.

(+) The Conference Board’s **index of consumer confidence** rose by 2.0 points to 97.2 in July, just above the 96.0 level expected. While assessments of present conditions fell by over a point, expectations for the future rose by over four points. The labor differential ticked down by about a point, to the lowest level in four years, despite jobs still appearing plentiful as opposed to being ‘hard to get.’ Inflation expectations for the coming year fell back by a tenth but remained quite elevated at 5.8%. The survey sponsor noted that “pessimism about the future receded somewhat,” which was good news, and likely aligns with improvement in tariff-related uncertainty.

(+/0) The **Univ. of Michigan index of consumer sentiment** rose a point to 61.7, but remained down -7% on a year-over-year basis. Assessments of current conditions were responsible, rising nearly 5% (most notably by those respondents who owned stocks, while those who didn’t saw little change in sentiment), while expectations for the future fell slightly. However, worries about the economy were consistent across the political spectrum. Inflation expectations for the coming year fell from 5.0% to 4.5%, while five-year expectations fell from 4.0% to 3.4%—far closer to more normal readings.

(-) The **JOLTS** government job openings report for June fell by -275k to 7.437 mil., just below the 7.500 mil. expected by consensus. By segment, the declines were largely driven by leisure/hospitality (-264k) and private education/health services (-255k). The job openings rate fell by -0.2% to 4.4%, while the hiring rate fell by a tenth to 3.3%. On the departure side, the layoff rate and quits rates were unchanged at 1.0% and 2.0%, respectively.

(0) **Initial jobless claims** for the Jul. 26 ending week rose by 1k to 218k, below the 224k median forecast. Continuing claims for the Jul. 19 week were unchanged at 1.946 mil., relative to an expected rise to 1.953 mil. Claims rose slightly in NY and CA, but fell in KY and MO, with little else moving the needle.

(-) The employment situation report for July came in weaker than expected, and rattled economists and markets to some degree. **Nonfarm payrolls** rose by 73k, well below the 104k expected. However, the bigger news was far larger-than-normal revisions, with May payrolls reduced by -125k to only 19k, and June payrolls by -133k to 14k. For July alone, by segment, gains were seen in health care (55k) and retail (16k). On the declining side were professional/business services (-14k), manufacturing (-11k, mostly nondurable goods) and government (-10k, with declines all on the federal side). The U-3 **unemployment rate** rose a tenth from 4.1% to 4.2%, although that's still considered quite low from trend and historical standards. The U-6 underemployment rate ticked up by 0.2% to 7.9%. **Average hourly earnings** rose by 0.3%, which equated to 3.9% over the past year. The **average workweek length** rose 0.1 to 34.3.

It's worth noting that monthly nonfarm payrolls do tend to have a standard deviation of +/- 100k, so the monthly report has never been overly precise in real time, and wide variations and revisions aren't unusual. But, the past two-month revisions were larger than average, which caused markets to question the true strength of labor market activity. It's also possible that tighter immigration policies and a smaller labor pool has begun to surface in hiring. In fact, the news was taken so poorly by the U.S. administration that the commissioner of the Bureau of Labor Statistics was fired by the President shortly thereafter, with the recent release condemned as "rigged" and "manipulated." (At least a few economists were skeptical of that being the case, with the chair of the White House Council of Economic Advisors casting blame on uncertainty over spending and tariff policies as being at least partially behind the weaker numbers.) If the jobs report had surfaced prior to the Fed meeting, the outcome might have tipped from no change to cut, but odds for the next FOMC meeting in September have already moved from 50% to over 80% by Friday.

Market Notes

Period ending 8/1/2025	1 Week %	YTD %
DJIA	-2.92	3.43
S&P 500	-2.34	6.85
NASDAQ	-2.16	7.33
Russell 2000	-4.16	-2.11
MSCI-EAFE	-3.13	17.33
MSCI-EM	-2.47	15.91
Bloomberg U.S. Aggregate	0.95	4.59

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
7/25/2025	4.42	3.91	3.95	4.40	4.92
8/1/2025	4.35	3.69	3.77	4.23	4.81

U.S. stocks lost ground last week, resulting from trade news and a weak labor market report. Markets started positively on Monday with the weekend news of a US-EU trade deal, where the EU accepts tariffs of 15% but levies a 0% rate in return, as well as agreements to purchase American energy and defense supplies. Though, by Thursday evening, the President signed an executive order to raise tariffs on most trading partners, to take effect Aug. 7, which markets took poorly on Friday. Otherwise, updated tariffs included Canada (25% to 35%, on non-treaty items), South Korea (15%), India (25%), Brazil (50%), certain copper products (50%, but not on all), several other countries at 30% (such as Switzerland), while keeping a 10% baseline on everyone else. This also included a 90-day reprieve for Mexico, allowing for further analysis and negotiations. The overall tariff rate picture remains convoluted, with markets assuming twists and turns as negotiated announcements are made.

By sector, aside from a gain in utilities and flat results for communications, all others ended in the negative, led by materials and consumer discretionary, which each fell around -5% for the week. Real estate also declined several percent, despite lower interest rates. On the positive side, per FactSet, roughly two-thirds of S&P 500 firms have reported 2nd quarter earnings, with initial estimates of around 4-5% now at a blended growth rate of 10.3%, all led by communications and technology.

Foreign stocks fell back last week as well, with the U.K. and emerging markets faring slightly better than Europe and Japan. The Bank of Japan kept the policy rate at 0.50%, as did the Bank of China at 2.75%, albeit with a dovish tone. European growth of 0.1% for Q2 exceeded expectations of a negative result. In EM, Chinese stocks led the way downward, as economic data soured, in addition to continued uncertain U.S. trade policy and no finalized deal.

Bonds fared positively as flows moved away from risk, with gains in U.S. Treasuries and investment-grade corporates, while high yield and floating rate bank loans were down just slightly. Foreign bonds were mixed, depending on currency exposure, as the U.S. dollar moved higher by over a percent.

Commodities were mixed, with gains in energy offset by declines in agriculture and industrial metals. Crude oil prices rose over 3% last week to \$67/barrel, due to a mix of trade concerns as well as potential sanctions against Russian and Iranian oil exports, which could cause global supply disruptions.

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.

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



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