

Week in review and ahead (vol.35)



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The equity markets to some pause this past week after rallying to near all-time highs the week before, fueled by the Fed Chair's speech that indicated a pivot in monetary policy to prioritize the labor over the inflation mandate. While macroeconomic data last week continues to suggest that the labor market remains resilient, showing little of the (Fed's FOMC members) alluded down-side risks (at least as it pertains to weekly and continuing claims), the Fed's preferred inflation gauge, the PCE price index, showed inflation to (re-)accelerating, as both, headline and core PCE, increased sequentially albeit in-line with expectations, with core PCE of 2.9% in July reaching the highest since February of 2025.

All major equity indices ended the week near break-even when compared to the previous week with the small cap index, the Russell 2000, being the only to advance on the week by 0.1%. The S&P500, Nasdaq Composite, and Dow Jones declined by -0.1%, -0.2%, and -0.2%, respectively, for the week. Internationally, all major world indices declined on the week but for Japan's Nikkei that advanced by 0.2% for the week. The biggest decline for the week were seen in France, with the CAC-40 declining -3.3% on the week. The markets reacted to the country's prime minister Francois Bayrou calling, somewhat unexpectedly, for (yet another) confidence vote, which many projects he stands to lose, likely pushing France into yet another political crisis. The German equity markets declined by -1.9% on the week as the markets reacted to the 2nd estimate of German GDP Q2'25, released on Friday the week prior to last, and that was revised downward showing the economy actually contracted by -0.3% for the quarter rather than break-even, as previously estimated. The decline in consumer sentiment reported on Wednesday, following a slump in investor confidence reported prior to last week, further supported the risk-off sentiment.

Stock Market Cycles

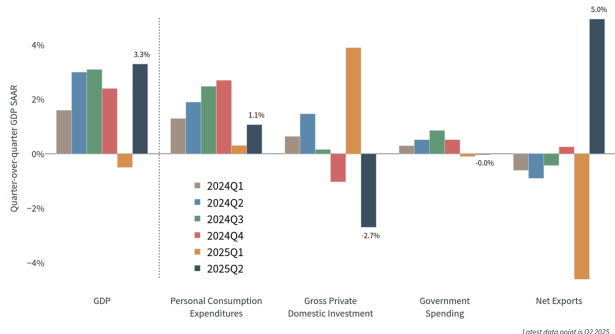
NASDAQ Composite since 1995

Sources: Clearnomics, Nasdaq
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resilient, showing personal consumption expenditure increasing by 0.5% month-over-month ('MoM'), while personal income continues to perform well, increasing by 0.4% MoM.

GDP Growth Components Over Time

Quarterly GDP growth rate (SAAR) and contributions



Latest data point is Q2 2025

Sources: Clearnomics, U.S. BEA
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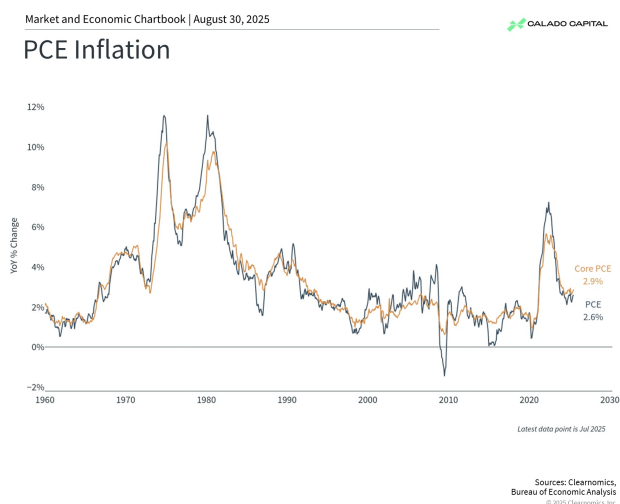
In the US, the 2nd estimate of Q2'25 GDP was revised upward to 3.3% from 3%, as consumer spending and private investment were revised upward by +0.7%. Regardless, the GDP read for Q2 was influenced heavily by an increase in net exports (or rather, a decrease in imports) due to the administration's trade policy, as expected, and offsetting the distorted report of Q1'25 in which negative net exports lead to a declining GDP. The improvement in consumer spending and private investment is certainly favorable, showing some resilience in consumption, as many fear some slowdown in spending. The PCE report on Friday for July further supported that consumption continues

The data on the US housing market, on the other hand, continues to show significant headwinds and weakness as pending home sales in July decline by -0.4% MoM, compared to an estimated increase of 0.3%, as the rate by which contracts are being canceled increases to 15%, the highest rate since this metric began tracking back in 2017. The rate of decline did slow somewhat sequentially, after declining -0.8% MoM previously, and did increase by 0.7% year-over-year (YoY). New home sales did increase by 652K compared to 632K estimated, but down slightly sequentially as the median home prices continue to raise, increasing 2.1% YoY, and further adding downward

pressure on demand, besides the overall higher (mortgage) rates.

Consumer confidence for August, with a reading of 97.4, it dropped by 1.3 points sequentially, however, exceeding expectations of 96.5, as worries about jobs and income offset more optimistic views on existing and future business conditions. Jobless claims of 229K declined sequentially by 5K and were slightly better by 1K than expected, showing continued resilience of the labor market. Similarly, continuing jobless claims retraced by nearly 20K with last week's number falling back to 1.95M. While the labor market continues to be somewhat resilient, inflation continues to climb as measured with the Fed's preferred inflation gauge of the PCE price index. Headline and core PCE increased 0.2% and 0.3% MoM, and 2.6% and 2.9% YoY, respectively, all very much in-line with expectations (in itself not particularly surprising as the PCE price index generally can be closely estimated once CPI and PPI are released). Sequentially, headline PCE was at the same level as June's rate, however, core PCE increased by 0.1% to 2.9% on a YoY basis and continues to diverge

from the Fed's target of 2%.



With the Fed's announced pivot, markets will closely watch the payrolls report next Friday, to discern if the downside risks are de facto showing in the data. Thus far, data shows a resilient labor market albeit the difficulty of finding another job once laid off is being reported and widely adding to concerns that the labor market may indeed be weakening. Given the administration's immigration policy, the difficulty for the Fed is to determine how structural changes influence the number of job growth required to balance supply and demand to determine the downside risks.

The unemployment rate has remained near historical lows; however, the declining

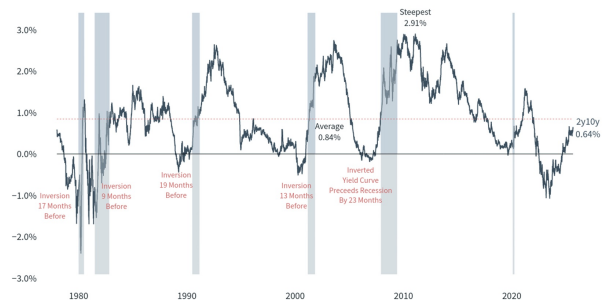
number in labor force participation may have favored said rate to remain low as job growth in the US slowed significantly (per the recent July report that included substantial downward revisions to the prior months wiping out about 258K of previously reported created jobs). Arguably, the same can be said about inflation given the administration's trade policy heavily influenced by tariffs that continue to change and remain uncertain. The news late Friday that a federal appeals court upheld the previous ruling by the Court of International Trade that POTUS' tariffs imposed under the emergency law (and which do not comprise all tariffs recently imposed) were illegal, may further add to uncertainty and challenges to discern impact on inflation going forward.

Prior to the job report on Friday, reports on job openings are due on Tuesday followed by the weekly jobless claims on Thursday. Besides labor market, readings on the state of the economy are expected on Tuesday and Thursday with S&P and ISM reporting on the manufacturing and service sectors' trajectory in August. The ISM report expects contraction in the manufacturing sector to continue, while the service sector should show readings of just above 50%, or (marginally) expansionary.

Finally, markets will look to Washington DC on Tuesday, as a judge is to decide on the Fed's board member Cook's request for an injunction on POTUS firing her on mortgage fraud allegations. While markets expected a ruling this past Friday, the judge in the case requested additional filings for deliberation. While equity markets appear somewhat unaffected by POTUS exerting pressure on the Fed continuously that many view as an attempt to challenge the Fed's independence, the yields between short- and long-term US treasuries have widened this past week, ever since the Fed announce to pivot with the likelihood of rate cuts (that influence short-term maturities). Even though the Fed see more downside risk in labor to possibly justify cutting rates, the widening gap signals that the markets may disagree and next week's decision on Cook, as well as the job report, should be closely watched as it undoubtedly will influence the Fed's FOMC decision later in September.

Yield Curve Steepness

10-year minus 2-year yields. Recessions are shaded



Sources: Clearnomics,
Federal Reserve, NBER
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