

Week in review and ahead (vol.36)



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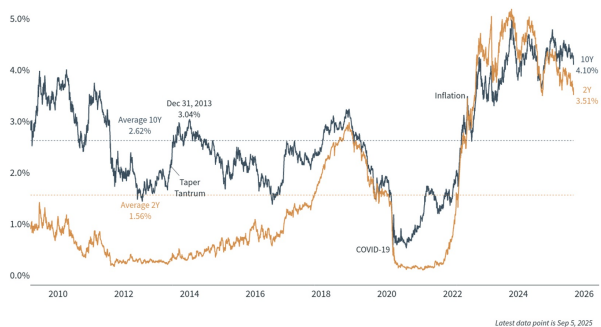
Equity markets in the US were mixed following yet another weak jobs report (for August). The tech trade benefited greatly from a favorable ruling in Google's antitrust case. Many feared a possible break-up of Google to be likely, however, the ruling did not impose any divestitures (i.e. of Google Chrome), in large part with the judge reasoning a changing competitive landscape in search by AI companies (like Open AI, Anthropic, Perplexity, and others) that appear to contest Google's leadership. Bonds that were recently in sell-off mode, leading to higher yields particularly in mid-to long-term maturities, rallied after the weaker than expected job report. The 30-year treasury yield that began the holiday shortened trading week just below 5%, ended the week down 20 basis points ("bps") at 4.76%. Similarly, the 10-year treasury yield ended the week lower by 18 bps.

The S&P500 advanced 0.3% on the week, the small cap index Russell 2000 was up 1%, the Nasdaq Composite increased by 1.1% fueled by the positive sentiment following the Google verdict, while the Dow Jones declined by 0.3% on the week.

Globally, major indices were mixed with Germany and China declining -1.3% and -1.2%, respectively, while markets in Hong Kong, India and Japan advanced 1.4%, 1.1%, and 0.7%, respectively.

Interest Rates

10-year and 2-year yields since 2010

Sources: Clearnomics, Federal Reserve
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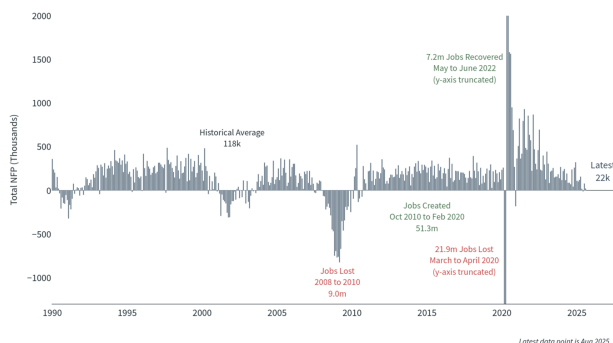
The market's focus this past week was on the US non-farm payroll ('NFP') growth report for August, following the disappointing report in July that included significant revisions to prior months, eliminating in total 258K previously reported NFP jobs, and that lead to POTUS' firing of the head of the Bureau of Labor Statistics ('BLS'). Under a new head, the BLS reported the US economy added 22K NFP jobs in August; well off the expected 75K and sequentially below the (slightly upward) revised 79K in July. Additional downward revisions to June's already materially revised figure previously (that reduced initially reported NFP growth of +147K to +27K jobs in July), resulted in the

US economy actually loosing NFP jobs for the month. The last time NFP were negative, was in December of 2020.

Given the slowdown in NFP jobs growth, the unemployment rate in August ticked up to 4.3% (from 4.2%) which does remain historically low in part because of the declining labor force participation. Additionally, average hourly earnings increased 0.3% month-over-month ('MoM') and 3.7% year-over-year ('YoY') in line with expectations and sequentially, albeit moderating somewhat to levels last recorded during middle of 2021. Hours worked dropped to 34.2, the 2nd lowest level reported in 2025.

Payroll Gains

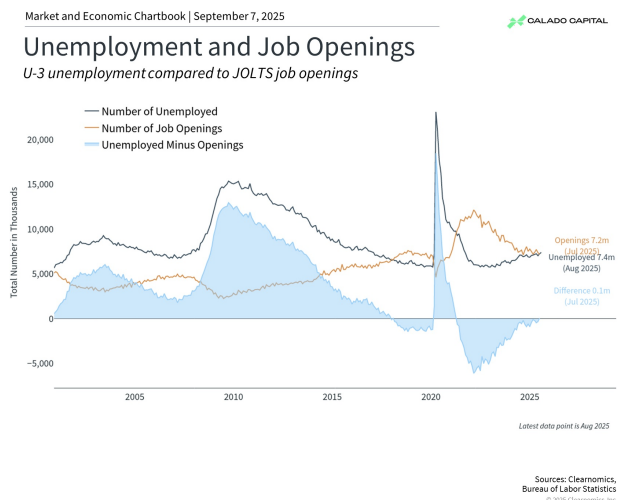
Monthly change in non-farm payrolls, seasonally adjusted

Sources: Clearnomics, Bureau of Labor Statistics
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The weekly jobless claims and continuing claims continue to show resilience, however. Initial claims ticked up to 237K, above the expected 230K and sequentially higher by 8K. Continuing claims ticked lower, back to 1.94M averting to reach or exceed the 2M, last reported in November of 2021. The BLS' report on Job Opening and Labor Turnover Survey ('JOLT') for July reported job openings of 7.18M, down compared to the 7.38M expected and 7.4M previously in June, reaching the lowest level since December of 2020. Within JOLTS, the layoff rate for July was reported at 1.1% and the quits rate of 2%, both in line with prior period rates, hence not showing any notable volatility.

With much of the focus on the labor market, the NFP jobs growth report (or lack thereof) arguably is denoting weakness in the labor market, while (most) other labor market datapoints continue to show some level of resilience amidst a slowdown in economic activity. US productivity, which includes labor productivity, for Q2'25 was revised upward to 3.3% from the estimated 2.8% previously, the highest level since Q4'23. Q2'25 labor unit costs were revised downward to 1% from the 1.3% previously estimated, the lowest increase since Q3'24. For many economists the

NFP report is reflective of a structural change, impacted by technological advancements in AI (similarly to the mid- to late 1990s with the dawn of the internet). Goldman Sachs, however, published that it would expect the August NFP figure to be subject to upward revisions in the coming months. It argues that historically the surveys tend to contain a negative bias that will be subsequently revised higher.



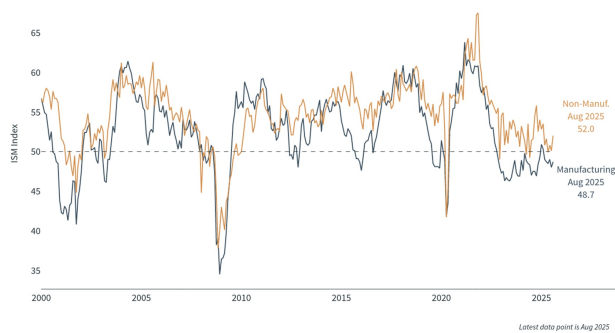
The weaker than expected job report is likely to test the Fed's recent pivot of favoring its full employment mandate over inflation when the FOMC meets in two (2) weeks. Accordingly, markets initially reacted to the NFP report by rallying, expecting the Fed will cut rates, however, quickly gave up those gains as the trading day evolved with investors weighting the risk on equities of a slowing economy while inflation continues above the Fed's target, and bonds rallying in an early sign of a flight to safety trade.

The ISM reports on the US manufacturing and service sectors for August, contrasting the NFP report, did report better than

expected and sequentially. Particularly the readings on the service sector of 52%, denoting expansionary, was better than the expected 50.8% and the 50.1% reported in July. Within the ISM report on services, however, the prices paid index of 69.2% did recede somewhat from July but remains elevated and indicating significant price increases for services (and not goods), while the employment index rose marginally to 46.5% signaling the third consecutive month of job losses. For the manufacturing sector the reading of 48.7%, denoting contraction, was marginally better than expected, however, remains below the 50% now for the sixth consecutive month with the last reading of expansionary back in February of 2025. Within the ISM report on manufacturing new orders stood out with 51.4, increasing by 4.3%-points compared to July, indicating growth after a six-month period of contraction. The prices paid index, similarly to the service sector, continued elevated and signaling continued increases with a reading of 63.7%, albeit it decelerated somewhat from 64.8% in July.

Economic Activity Indices

ISM Manufacturing and Non-Manufacturing Indices
Numbers above 50 represent economic expansion



Sources: Clearnomics,
IHS, ISM
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Following the NFP report for August, expectations that the Fed will cut rates multiple times this year, or alternatively, cut rates by more than 25bps at its very next meeting have heightened for many. The August inflation reports on retail (CPI) and wholesale (PPI) next week will be pivotal to those expectations and certainly weigh greatly into the Fed's decision in two weeks. While the administration's trade policy, or the imposition of tariffs, has grabbed most of the headlines, the re-acceleration of inflation in services has been of greater concern for some members of the Federal Open Market Committee ('FOMC'). After all, inflation triggered by goods while certainly important and

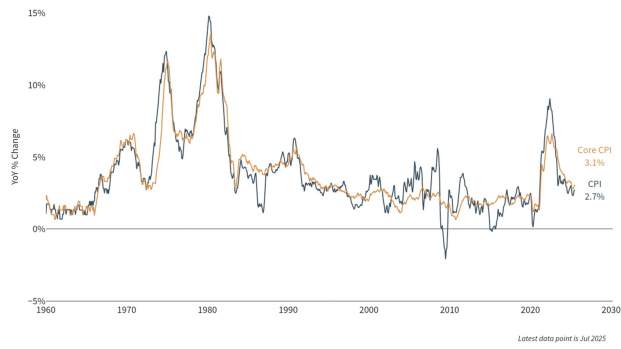
somewhat independent if the tariff's impact thereto is or is not 'transitory', only accounts for about 30% with the balance attributed to services. Accordingly, some Fed FOMC members appeared somewhat undecided on rate cuts, despite the official pivot announced by its chair a couple of weeks ago.

The Fed's release of the beige book last week, which summarizes current economic conditions across the US based on qualitative information attained from its twelve (12) federal districts, appears to imply that inflation bears greater risks to the US economy. In it, key concerns were attributed to service inflation, particularly rising costs for insurance, utilities, and technology. Overall economic activity for most of its districts showed no or slight change, while four (4) did report flat or marginally declining consumer spending. Employment was noted as stable throughout all districts but for one, with concerns squarely lying on inflation risks, or wages not keeping pace with rising prices.

The beige book surprised markets somewhat as it appears to be in contrast to the Fed's recently announced pivot. Accordingly, heightened volatility can be expected in the lead up to the CPI (and a lesser degree) the PPI reports, which are scheduled for Wednesday and Thursday, respectively.

Consumer Price Index

CPI and Ex Food and Energy, YoY % Change



Sources: Clearnomics,
Bureau of Labor Statistics
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