CALADO CAPITAL

# Week in review and ahead (vol.39)

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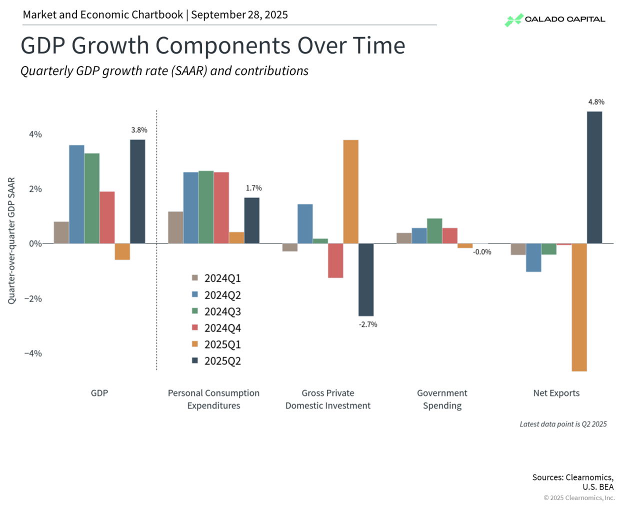
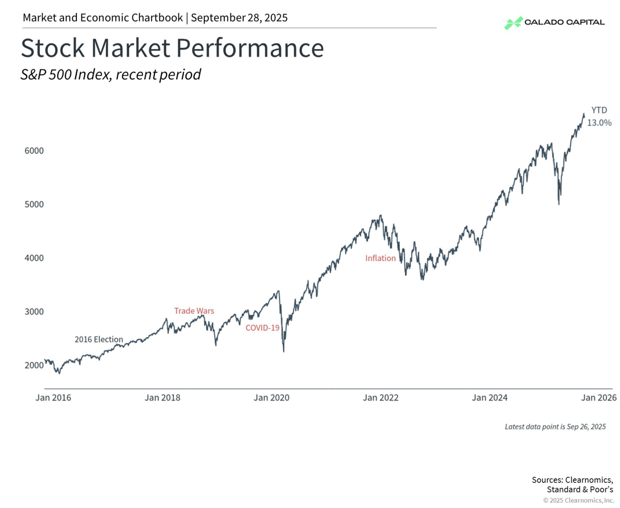
Markets appeared to cool off towards the end of the week, halting the most recent rally as macroeconomic data continues to provide confusing signals about the US economy and for monetary policy alike. While signs of labor market weakening (mainly driven with the July and August revisions) drove a Fed pivot towards easing monetary policy fueling the recent market rally, the surprising upward revision of Q2'25 GDP to 3.8% (from 3.3%) mainly driven by stronger consumer spending, clearly contrasts with fears of slow growth on the heels of a weaker labor market.

Stated differently, can the US economy continue to grow amidst growing unemployment, all the while inflation remains elevated? Well, the Fed's pivot that fueled markets as of late may remain the focus if a slowing economy (due to a weaker labor market) does not materialize. Therefore, next week's jobs report for September will take main stage, beginning with job openings and turnover on Tuesday followed by the non-farm payroll (NFP') report on Friday, with expectations of 45K jobs added.



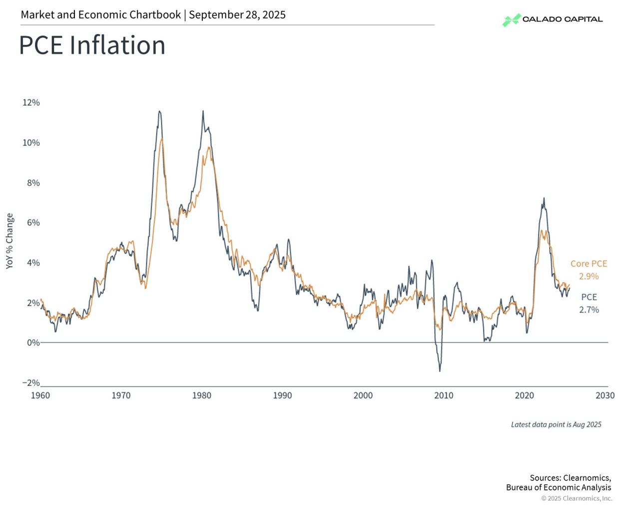

All major US indices declined during the week, taking a break from the recent rally. The declines were led by the tech-heavy Nasdaq that fell -0.7% to close the week, followed by the small-cap Russell 2000, the S&P500, and the Dow Jones declining for the week by -0.6%, -0.3%, and -0.2%, respectively. Despite the declines this past week, many expect the bull market to continue. The S&P500 now reached 109 sessions without recording a decline of 2% or greater, setting a total of 28 new all-time records, the recent coming this past Monday and coming within two (2) weeks of its third anniversary.

Internationally, all major indices were up on the week except for India, down -2.7% for the week, and Hong Kong, down -1.6% on the week, as both retraced from recent rallies in their respective equity markets.



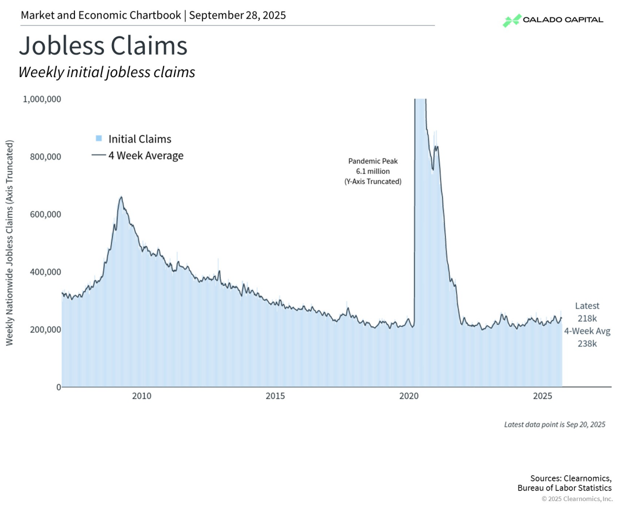

Last week's focus was on the Fed's closely watched inflation index, the PCE. While both, the headline PCE (inflation) index and core PCE index, were in-line with and met expectations, it continue its recent uptick and did so again in August. The headline PCE index for August was up 0.3% month-over-month ('MoM'), up 0.1% sequentially, while the core PCE increased by 0.2% MoM, down -0.1% from July. On a year-over-year basis, headline index was up 2.7%, up +0.1% from July, while core remained elevated at 2.9%, same as in July.

Besides inflation, personal income in August kept to a strong 0.4% MoM, same as in July, while spending ticket up to a strong 0.6%, up 0.1% sequentially, and both better than expectations. Particularly real spending reported a strong +0.3% MoM, a level not seen since March'25 and following GDP's surprising 3rd estimate revision to 3.8% YoY from a 3.3% annualized rate previously on the heels of consumer spending. It is noteworthy that 3rd estimates to GDP generally do not see this stark of revisions and did surprise markets. Similarly, durable goods orders for August surprised by rebounding strongly at +2.9% MoM, well exceeding expectations of -0.4% MoM, and following two consecutive declines of -9.4% MoM in June, and -2.7% MoM in July. Considering the PCE data, fears of an economic slowdown in the US may be premature, particularly as the Atlanta Fed's estimates for Q3'25 GDP in the US are at 3.9% YoY following recent strong personal consumption data.




While growth fears may subside, markets will focus on the NFP report next week. Last week's initial jobless claims of 218K was well below expectations of 235K and sequentially from 232K and well off the 260K reported just a few weeks ago, a level not seen since Oct'21. Similarly, continuing claims remained at 1.92M, below expectations of 1.95M.

Besides the anticipated NFP report for September, ISM and S&P will provide final readings on the state of the service and manufacturing sectors. Expectations are for the service sector continue to see readings of expansion, while the manufacturing sector, as estimated by the market's closely watched and gauged ISM reading, is to remain in contraction. Besides the overall readings, markets will focus on the employment and prices paid aspect of the reports that for both sectors has been reporting slowing in hiring and raising inflationary pressures for an extended period now.



If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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