Des Moines, Iowa

WEEK OF AUGUST 11, 2025

Market Navigator

U.S. equities rallied. Strength in technology—led by Apple's 13 percent gain—and upbeat earnings powered the S&P 500 to its best week since late June. Energy and consumer sectors lagged. Treasuries firmed as dovish signals from the Federal Reserve (Fed) increased the odds of a September interest rate cut.

Quick Hits

1. **Beyond the headlines:** What does the rapid shift in Fed expectations mean for you?
2. **Report releases:** Service sector confidence decreased modestly last month.
3. **Financial market data**: Tech strength and rising expectations for a rate cut buoyed equities.
4. **Looking ahead:** This week, the focus will be on inflation, retail sales, and consumer sentiment.

LIFETIME Asset Management

Beyond the Headlines: What Does the Rapid Shift in Fed Expectations Mean for You?

In just one week, market expectations regarding Fed policy have shifted remarkably. On July 31, according to CME Group's FedWatch Tool, the probability of the central bank keeping rates unchanged at its next meeting was 62.3 percent. By August 8, just one week after a lackluster employment report, the probability plummeted to 11.1 percent. Markets are now pricing a nearly 90 percent chance of a September rate cut. The abrupt swing reflects how quickly investor sentiment can change when softer economic data collides with evolving central bank rhetoric.

The Fed meeting in August added another layer to the story. Although the decision to keep rates on hold was broadly expected, there were two dissenting votes—one in favor of an immediate cut and another preferring no change for longer. This type of visible disagreement is relatively rare at the Fed, suggesting that the Federal Open Market Committee (FOMC) is more divided, with some members increasingly concerned that waiting too long to ease rates could risk a deeper slowdown.

Fed's Tone Is Shifting

Public remarks from key officials since the August meeting have reinforced the perception that the Fed's tone is shifting. San Francisco Fed President Mary Daly, typically seen as a centrist voice, acknowledged that though she was comfortable waiting another policy cycle before making changes, that window was narrowing. She pointed to easing inflation trends—outside of tariff-related pressures—and a cooling labor market as reasons why the central bank "may need to act soon," even hinting that more than two rate cuts this year could be appropriate.

Minneapolis Fed President Neel Kashkari struck a similar tone, noting signs of slowing consumer spending and broader economic momentum. Although he views two cuts this year as a reasonable baseline, he made clear that the September FOMC meeting is firmly in play for the first move. The comments from Daly and Kashkari suggest that concerns over growth are carrying as much weight as inflation in the Fed's policy calculus.

Potential Turning Point

For investors, the September Fed meeting is shaping up to be a potential turning point. A confirmed shift toward easing could provide a tailwind for equities, particularly in rate-sensitive sectors such as housing, utilities, and technology. If cuts are driven by slower economic growth, however, earnings expectations for cyclical industries could come under pressure.

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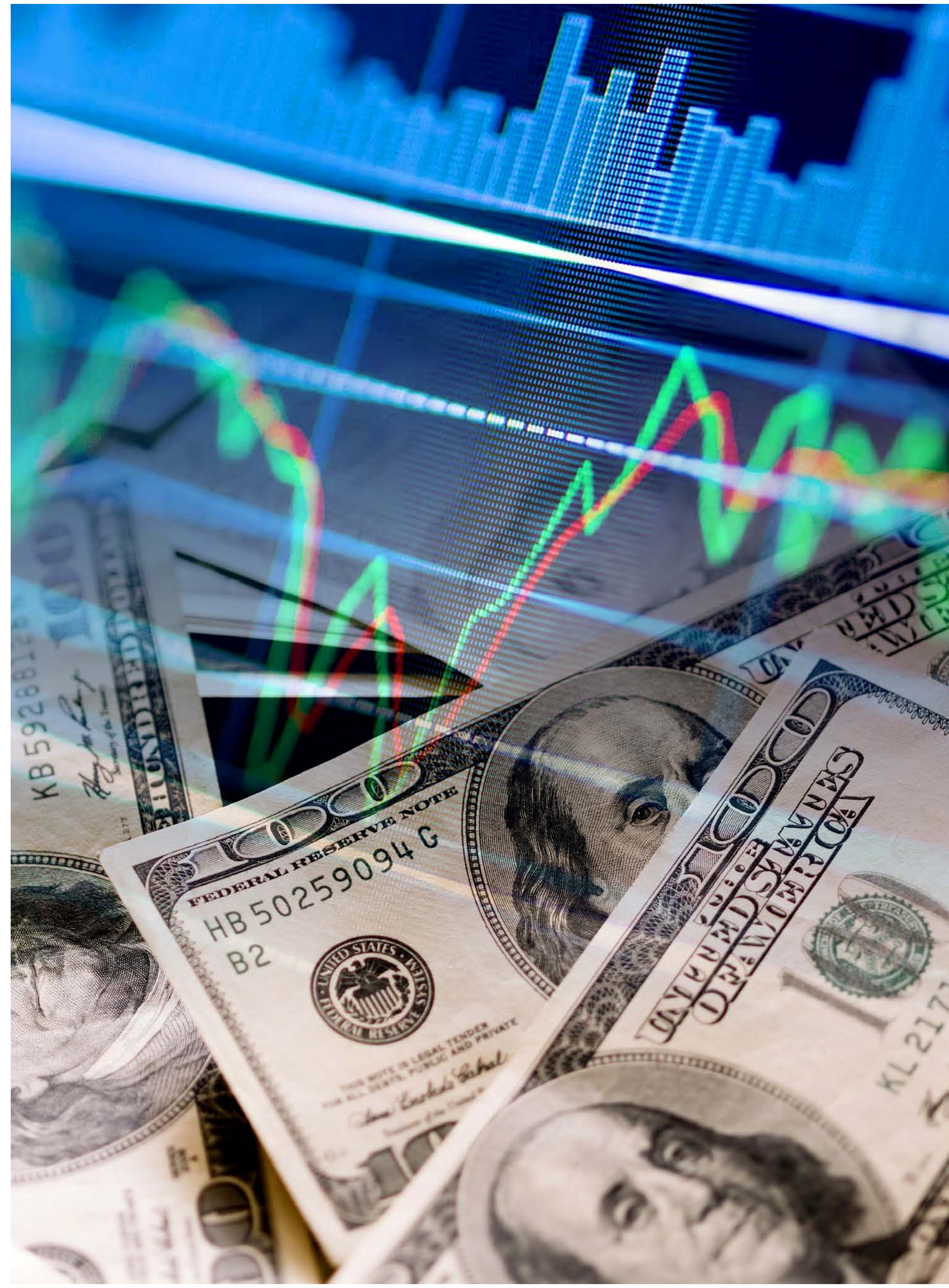
In fixed income, anticipation of near-term easing has already pushed short-term yields lower, creating opportunities to lock in attractive levels; however, heavy Treasury issuance and lingering inflation concerns may limit the decline in long-term yields, steepening the yield curve. This environment may favor a combination of short-duration strategies to capture policy-driven moves and selective long-duration positions for potential capital gains if growth slows further.

With the September meeting approaching, the balance between easing financial conditions and managing economic risks will remain central to market direction. Maintaining flexibility and diversification is critical in navigating this transition period.



Report Releases: August 4–8, 2025

Factory Orders
June (Monday)

Although they declined, factory orders slightly beat expectations in June.
- Expected/prior month factory order growth: –4.9%/8.3%
- Actual factory order growth: –4.8%

International Trade Balance
June (Tuesday)

The international trade deficit narrowed in June.
- Expected/prior month trade balance: –$61.0B/–$71.1B
- Actual trade balance: –$60.2B

ISM Services Index
July (Tuesday)

Service sector confidence decreased modestly while remaining in expansionary territory.
- Expected/prior month ISM Services index: 51.5/50.8
- Actual ISM Services index: 50.1

Wholesale Inventories
June (Thursday)

Wholesale inventories were higher than expected, posting a modest increase in June.
- Prior change in wholesale inventories: –0.3%
- Actual change in wholesale inventories: 0.1%

>> The Takeaway

- Factory orders fell in June, but the decline was slightly less than forecast.
- Supported by improved export performance, the trade deficit narrowed in June.

Financial Market Data

Equity

Led by the technology sector, U.S. equities rebounded. Apple jumped 13 percent on U.S. production plans and tariff exemptions. Semiconductors and AI-linked companies advanced despite mixed hardware sentiment. S&P 500 earnings growth approached 12 percent with broad beats, though reactions were muted. Consumer, travel, and tariff-sensitive stocks lagged. AI momentum, buybacks, and dovish Fed expectations supported gains, whereas inflation concerns, weak survey data, and tariff uncertainty tempered sentiment. Energy underperformed on oil weakness, with leadership rotating toward staples, tech, and materials. Markets now price a September rate cut as highly likely, bolstering risk appetite.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.44%	0.81%	9.46%	21.70%
Nasdaq Composite	3.88%	1.56%	11.52%	29.70%
DJIA	1.37%	0.12%	4.85%	13.98%
MSCI EAFE	2.87%	2.48%	21.23%	22.22%
MSCI Emerging Markets	2.32%	0.93%	18.95%	23.18%
Russell 2000	2.41%	0.34%	0.25%	7.88%

Source: Bloomberg, as of August 8, 2025

Fixed Income

Treasuries saw modest gains as dovish Fed commentary and weaker economic signals boosted rate cut expectations. Markets now price a 90 percent chance of a September cut and roughly 57 basis points (bps) of easing by year-end, up sharply. Short-term supply pressures weighed on sentiment, with three consecutive weak Treasury auctions and record four-week bill issuance at $100 billion. Rising inflation expectations and cautious survey data limited the rally, keeping a floor under yields. Curve dynamics reflected this tension, with front-end yields edging lower on policy bets while long-end supply concerns kept the back end more anchored. Credit spreads held steady.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.16%	4.40%	3.59%
U.S. Treasury	1.09%	4.01%	2.67%
U.S. Mortgages	1.07%	4.61%	3.56%
Municipal Bond	0.41%	0.09%	0.10%

Source: Bloomberg, as of August 8, 2025

>> The Takeaway

- Equities rebounded on tech strength, led by Apple’s 13 percent surge; semiconductors and AI firms advanced as energy and consumer sectors lagged.
- Treasuries edged higher as dovish Fed signals lifted September rate cut odds, though heavy supply and rising inflation expectations kept long-end yields steady.

Looking Ahead

This week will be busier than the previous one, with a focus on inflation, retail sales, and consumer sentiment.

- The week kicks off Tuesday with the **Consumer Price Index** for July. Consumer price increases are expected to tick up modestly on a year-over-year basis.
- On Thursday, we'll see another inflation data point when the **Producer Price Index** for July is released. Producer prices are expected to increase after remaining relatively flat in June.
- The week wraps on Friday with July **retail sales** and the **preliminary University of Michigan consumer sentiment survey**. Retail sales growth is expected to slow compared with the prior month. Consumer confidence is expected to increase slightly in August.

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