



WEEK OF AUGUST 25, 2025

Market Navigator

U.S. equities were mixed; small-caps, value, and cyclical groups outperformed but technology underperformed. Retail earnings highlighted consumer resilience. Inflation data and AI concerns pressured sentiment before dovish remarks from Federal Reserve (Fed) Chair Jerome Powell sparked a rally. Treasuries firmed, with the yield curve steepening, as markets priced greater conviction in a September rate cut.

Quick Hits

1. **Beyond the headlines:** A cautious pivot by the Fed and tariff pressures raised opportunities and risks for investors.
2. **Report releases:** Existing home sales unexpectedly rose in July.
3. **Financial market data:** Small-caps, value, and cyclicals outperformed but big tech lagged. Powell's dovish tone lifted sentiment.
4. **Looking ahead:** The focus this week will be on housing, consumer confidence, durable goods, and spending data.



LIFE TIME
Asset
Management

Beyond the Headlines: A Cautious Pivot by the Fed and Tariff Pressures Raise Opportunities and Risks for Investors

The Fed's annual gathering in Jackson Hole, Wyoming, offered important clarity on how policymakers are weighing the economy's crosscurrents. Powell acknowledged that though inflation has eased from post-pandemic highs, it remains above the central bank's 2 percent target, with tariffs clearly adding upward pressure on the price of goods. The labor market, though still near full employment, has slowed markedly, with job creation and labor force growth weakening. This unusual "two-sided" balance leaves the Fed confronting rising downside risks to employment even as tariff-related inflation risks linger.

Powell emphasized that monetary policy is closer to neutral than it was one year ago, suggesting that the restrictive stance may no longer be necessary if growth continues to soften. Although he stopped short of committing to imminent cuts, his message was clear: the Fed is prepared to adjust policy if inflation proves transitory and labor conditions deteriorate further. Importantly, the Fed also released a revised "Statement on Longer Run Goals and Monetary Policy Strategy," signaling a return to traditional flexible inflation targeting at 2 percent and dropping its previous "average inflation targeting" language. This shift reflects lessons from the post-2020 experience, when inflation overshot sharply and communication around intentional overshoots created confusion.

Interest Rate Cuts Are Firmly on the Table

For investors, the policy backdrop is shifting from one in which inflation control dominates to one in which downside growth risks carry more weight. Interest rate cuts are now firmly on the table, though their timing hinges on incoming data. That creates a more supportive near-term environment for risk assets, but also one in which volatility could increase if inflation pressures from tariffs are more persistent than expected.

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A Fed tilt toward easing typically benefits cyclical and rate-sensitive sectors, such as financials, industrials, and housing. Small-cap and value segments, which had already begun to outperform this summer, may continue to receive tailwinds if borrowing costs decline. At the same time, richly valued growth and technology stocks remain vulnerable to renewed inflation pressures or policy missteps, particularly given investor sensitivity to high multiples. Corporate earnings resilience—especially in consumer-oriented areas—has provided support, but margin risks tied to tariffs warrant close attention.

Short-term Treasury yields eased after Powell's remarks, with the curve steepening as short-end yields fell on rising rate cut expectations. If cuts materialize, extending duration could offer capital appreciation potential, though heavy Treasury issuance and tariff-linked inflation risks may keep longer yields sticky. Credit markets remain well supported, but spreads near historical highs suggest limited room for error if growth slows sharply.

Diversified Approach Remains Prudent

For clients, Powell's Jackson Hole speech underscores the need for balance. Although the Fed is pivoting toward greater flexibility, uncertainty around tariffs, labor supply, and inflation expectations will keep markets sensitive to data. A diversified approach across styles, sectors, and asset classes remains prudent. Rate-sensitive exposures may benefit from an easing path, but portfolios should also maintain protection against inflation surprises and growth disappointments. In short, the central bank is signaling readiness to act, but investors should prepare for a market environment in which upside opportunities and downside risks are elevated.



Report Releases: August 18–22, 2025

National Association of Home Builders (NAHB) Housing Market Index
August (Monday)

Home builder confidence fell slightly more than expected.

- Expected/prior month NAHB Housing Market Index: 34/33
- Actual NAHB Housing Market Index: 32



Housing Starts and Building Permits
July (Tuesday)

Housing starts and building permits were mixed; starts continued to rise but permits fell more than expected.

- Expected/prior month housing starts monthly change: -1.8%/+5.9%
- Actual housing starts monthly change: +5.2%
- Expected/prior month building permits monthly change: -0.1%/-0.5%
- Actual building permits monthly change: -2.8%



Federal Open Market Committee (FOMC) Meeting Minutes
July (Wednesday)

FOMC meeting minutes showed that growth slowed in the first half of the year as tariffs added upward pressure on inflation. The labor market remained solid, and policymakers left rates unchanged amid elevated uncertainty.



Existing Home Sales
July (Thursday)

The pace of existing home sales unexpectedly rose.

- Expected/prior month existing home sales monthly change: -0.3%/-2.7%
- Actual existing home sales monthly change: +2.0%



>> The Takeaway

- Home builder sentiment slipped more than expected in August. Housing starts in July rose 5.2 percent, even as building permits declined 2.8 percent.
- FOMC meeting minutes signaled slower first-half growth and tariff-driven inflation pressures. Existing home sales surprised to the upside in July, gaining 2 percent.

Financial Market Data

Equity

Equities were mixed. Small-caps and value stocks led, with strong gains in banks, energy, machinery, and home builders; most-shortened names and retail favorites also rallied. Big technology dragged, with Meta Platforms and Microsoft underperforming, along with weakness in tech hardware, software, and discounters. Retail earnings highlighted consumer resilience, but concerns around AI valuations, inflation, and policy uncertainty weighed on sentiment until Powell’s dovish comments sparked a late-week rebound. Overall, breadth improved, outside of tech, with cyclical and rate-sensitive groups outperforming, leaving the broader equity tone constructive heading into next month’s Fed meeting.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.30%	2.11%	10.87%	17.61%
Nasdaq Composite	−0.55%	1.84%	11.83%	22.89%
DJIA	1.59%	3.54%	8.42%	14.04%
MSCI EAFE	0.85%	5.80%	25.15%	18.12%
MSCI Emerging Markets	−0.40%	2.09%	20.33%	18.25%
Russell 2000	3.32%	6.91%	6.81%	11.35%

Source: Bloomberg, as of August 22, 2025

Fixed Income

U.S. Treasuries firmed. The 2-year yield dipped 7 basis points (bps) and the long bond went below 4.9 percent as the curve steepened on dovish Powell remarks that solidified expectations for a September rate cut. Earlier weakness stemmed from hotter inflation data and cautious labor indicators, whereas hawkish Fed speak briefly tempered easing bets. Credit markets were stable; spreads held near cycle highs despite ongoing concerns around stagflation risks, fiscal dominance, and geopolitical uncertainty. Global bonds remained soft—notably Japanese Government Bonds (JGBs)—though U.S. markets staged a late-week rally that reinforced conviction in a more aggressive rate-easing path by the Fed into year-end.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.06%	4.82%	2.86%
U.S. Treasury	0.86%	4.28%	2.06%
U.S. Mortgages	1.18%	5.15%	3.00%
Municipal Bond	1.10%	0.06%	−0.10%

Source: Bloomberg, as of August 22, 2025

>> The Takeaway

- Equities were mixed; small-caps, value, banks, energy, and home builders outperformed, whereas big tech lagged. Sentiment improved later in the week after Powell’s dovish remarks.
- Treasuries rallied, with the 2-year down 7 bps and the yield curve steepening, as Powell’s comments solidified September rate cut expectations despite earlier inflation and labor concerns.

Looking Ahead

This week, the calendar focuses on consumer and household trends, with data spanning housing, confidence, and spending. Markets will parse results for signs of resilience in demand and potential implications for monetary policy.

- The week kicks off on Monday with **new home sales data** for July; sales are expected to rise modestly to 632,000.
- On Tuesday, preliminary July **durable goods orders** are expected to decline and August **consumer confidence** is projected to soften.
- Finally, on Thursday, **personal income and spending** for July are expected to post modest gains.





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