

CAPITAL MARKETS REPORT - AUGUST 18, 2025



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SERVICE BEYOND COMPARISON

- Fed's Next Move Still Uncertain
- Mixed Messages in Inflation Dynamics
- Secretary Bessent Calls for Aggressive Cuts
- Retail Spending, Consumer Sentiment at Odds

• The Federal Reserve's next move remains in flux ahead of next month's meeting. Traders previously priced in a 90%+ probability of a rate cut in September, with growing bets on a 50-basis-point reduction following soft CPI data and dovish commentary from Treasury Secretary Scott Bessent. However, those expectations moderated after July's Producer Price Index (PPI) came in above expectations — up 0.9% month-over-month, the largest gain since mid-2022. This increase further fuels concerns that tariff-related costs are now flowing into wholesale prices. As of this morning Fed futures imply an 85% chance of a September cut, down from more than 100% last week. Policymakers remain divided, with inflation pass-through still playing out unevenly across sectors.

• Markets received mixed messages in the CPI, PPI, and PCE numbers. CPI came in with a modest acceleration but not alarming. PPI surged on services, particularly wholesaling and equipment retail. While Core PCE Forecast (July, due Aug. 29) is estimated at 3.0%, up from 2.6%. Bloomberg Economics warns that while tariff-driven goods inflation may have peaked, services inflation is still firm, especially in vehicle-related and financial services categories, making the Fed's September decision highly data-dependent.

• In a bold departure from tradition, Secretary Scott Bessent called for a 150 basis-point policy easing, citing economic model guidance and revised labor data. He also voiced concern about Japan's rate trajectory, stating they are "behind the curve" and may pressure global bond yields higher. He emphasized that recent equity rallies — notably post-"Liberation Day" tariff pauses — may skew PCE inflation via portfolio fee increases.

• Retail Sales rose in July (+0.5% headline, +0.3% ex-autos). Broad-based gains were led by autos, online, and general merchandise. Consumer Sentiment for early August unexpectedly fell, despite stock market rebounds. Discretionary spending has shown notable weakness in restaurants and bars, suggesting cautious service spending. Economists caution that resurgent tariffs, high debt levels, student loan resumption, and waning savings may cap spending through year end.

Market Last Week

	8/8/2025 Close	8/15/2025 Close	Weekly Change In Bps
2 yr. Note	3.76%	3.75%	-1
5 yr. Note	3.83%	3.84%	1
10 yr. Note	4.28%	4.32%	4
30 yr. Bond	4.85%	4.92%	7
SOFR Rate	4.36116%	4.35325%	-0.791

Data This Week

Date/Time (ET)	Economic Data	Market Estimate	Prior Report
8/18/2025 10:00 AM	NAHB Housing Market Idx (Aug)	34	33
8/19/2025 8:30 AM	Building Permits MoM (July)	-0.20%	-0.10%
8/19/2025 8:30 AM	Housing Starts MoM (July)	-2.40%	4.60%
8/20/2025 7:00 AM	MBA Mortgage Apps (Aug 15)	--	10.90%
8/20/2025 2:00 PM	FOMC Meeting Minutes (July 30)	--	--
8/21/2025 8:30 AM	Continuing Claims (Aug 9)	1960k	1953k
8/21/2025 8:30 AM	Initial Jobless Claims (Aug 16)	225k	224k
8/21/2025 8:30 AM	Philadelphia Fed Buss Outlook (Aug)	8.00	15.90
8/21/2025 9:45 AM	S&P Global US Manu PMI (Aug)	49.70	49.80
8/21/2025 9:45 AM	S&P Global US Svcs PMI (Aug)	54.20	55.70
8/21/2025 10:00 AM	Existing Home Sales MoM (July)	-0.80%	-2.70%
8/21/2025 10:00 AM	Leading Index (July)	-0.1%	-0.3%

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