FOUNTAINHEAD
ASSET MANAGEMENT

Market Commentary: Fed Goals in Conflict

August 2025

Every year since 1978, the Federal Reserve Bank of Kansas City has hosted an Economic Symposium at the end of August. In 1982, the symposium moved to Jackson Hole by direction of then-Fed Chair Paul Volcker, who loved fly fishing.[1] It also helps that Jackson Hole has a cooler, drier, and more comfortable climate in late August. The symposium is a three-day annual gathering that brings together central bankers, top economists, and policymakers from around the globe to discuss long-term economic policy challenges. Often described as *"the world's most exclusive economic get-together,"* speeches here—especially by central bank chairs—are closely scrutinized for clues to monetary policy shifts.

This year's theme was: "*Labor Markets in Transition: Demographics, Productivity and Macroeconomic Policy.*"[2] On August 22, Fed Chair Jerome Powell gave a strong signal that Fed policymakers are now leaning towards easing, especially if labor market data continues to soften.[3]

[4]

The Fed has twin goals of full employment and low, positive inflation—close to 2%. For the last couple of years, the Fed has held rates steady, despite repeated calls from Wall Street and Washington to lower them,

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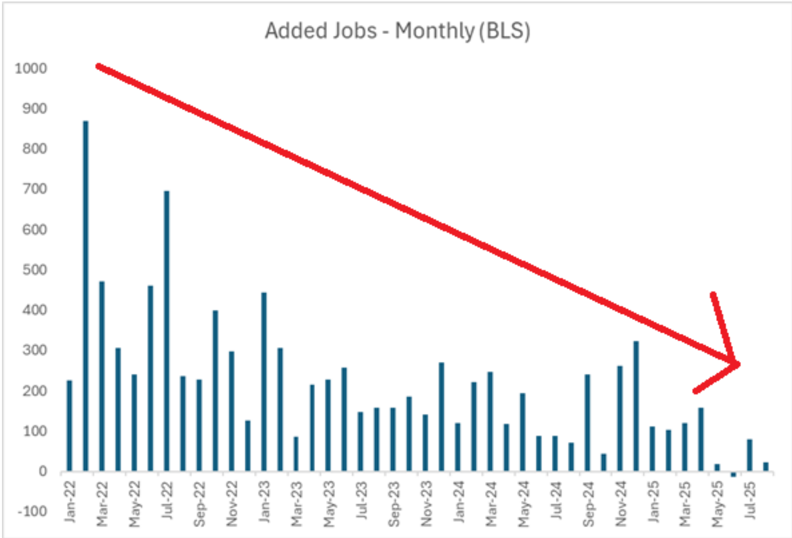
[1] Why do world financial leaders meet in Jackson, Wyoming? – Deseret News
[2] Federal Reserve Bank of Kansas City to Host Annual Jackson Hole Economic Policy Symposium Aug. 21-23 - Federal Reserve Bank of Kansas City
[3] Speech by Chair Powell on the economic outlook and framework review
[4] Graphic generated by ChatGPT.

as U.S. employment remained strong, and inflation had stubbornly stuck closer to 3%. Given tariffs and the broader reshoring trend, inflation falling back to 2% seems unlikely, though fears of runaway inflation are equally muted.



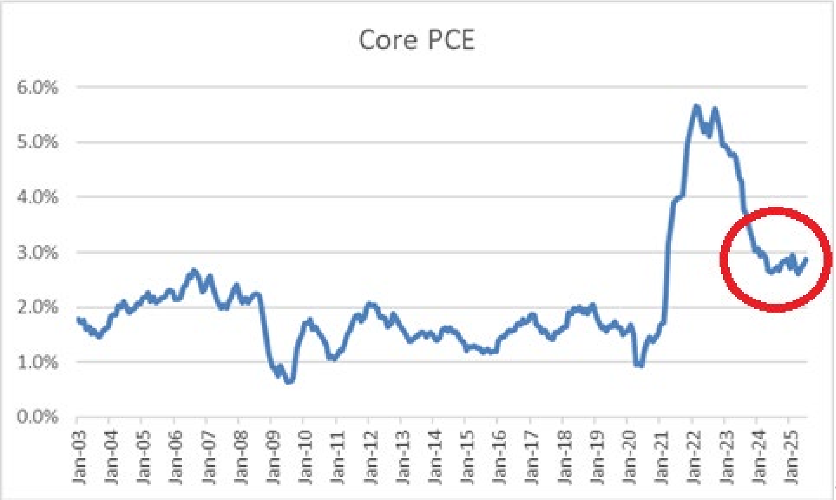
[5]

Low Added Jobs May Simply Be Due to Negative U.S. Migration

Headline data show a clear decline in job growth. Historically, economists estimated that about 75,000 jobs per month were needed to keep up with population growth. From 2020–2022, the U.S. averaged 70,000 jobs per month, broadly consistent with that benchmark. In 2023, however, job growth surged to more than 200,000 per month, driven in part by large inflows of migrant labor due to our porous borders. This year, the economy is averaging closer to 75,000 jobs monthly, yet over the last four months, that pace has slowed dramatically to about 27,000.

However, several think-tanks and economists believe that net migration will be negative this year for the first time in over 50 years[6]—something the Trump administration would like to see happen. With low or negative migration, the neutral net new jobs per month estimate drops to closer to 40,000 from 75,000—a reality discussed by Chicago Fed President Austan Goolsbee on "Why Austan Goolsbee is still concerned about Inflation."[7]

[5] Bureau of Labor Statistics Data
[6] PolitiFact | Trump's claims of negative net migration are premature. Some analysts say it could happen.
[7] "Why Austan Goolsbee is still concerned about Inflation," an episode of the *Odd Lots* podcast.



[8]

Core PCE, the Fed's Preferred Gauge of Inflation, Stubbornly Remains Near 3%

Even if labor markets soften, tariffs and reshoring/near-shoring initiatives are likely to keep inflation from returning to 2%. Additionally, the U.S. economy has shifted from prioritizing lowest-cost global supply chains to prioritizing security—both national and supply-chain. That structural change points to potentially higher baseline inflation going forward.

We recently discussed the importance of real interest rates with Paul Musson in our *Interest Rates and Economic Distortions* podcast episode. Positive real rates—where the risk-free rate exceeds inflation—are

[8] Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index), Index 2017=100, Monthly, Seasonally Adjusted - FRED

generally healthy. They help prevent distortions in financial markets by keeping valuations in check, discouraging excessive debt issuance, and limiting misallocation of capital. The chart above highlights the positive real rates generated currently—the risk-free rate has been 1-2% above inflation for the last couple of years.

This compares to negative real rates in the early 2010s and 2020s with a long period where the risk-free rate was equal to inflation.

Deep Thought: A Case for Onshoring Quickly

"If the U.S. and China ever did end up in a real confrontation, which would you prefer to dominate in: software like the U.S., or hardware like China? Dan's answer is that algorithms on their own "don't win battles." I suspect that many people in national security would agree." - ***Process knowledge is crucial to economic development by Henry Farrell***[9]

[10]

Process knowledge is the hidden capital of any real economy, the hard-won, often unspoken know-how that lives in the heads of engineers, machinists, and founders. It's what turns a clever design into a reliable product, what makes a machine not just work once but work every time. One Italian manufacturer described the ingenuity required to staple the tiny string to a teabag—an absurdly tricky task that demands more engineering than you'd expect. That image is the perfect metaphor: process knowledge is about solving the small, iterative problems that add up to industrial strength.

A potential challenge in the U.S. has been a tendency to treat process knowledge as more expendable—outsourcing it while focusing on 'capital-light' businesses that scale efficiently but may not cultivate the same depth. Perhaps this was due to increased regulation—views held by at least part of the left (e.g., Abundance thesis) and the right (e.g., Peter Thiel) or simply due to a high wage, wealthy population. *Breakneck: China's Quest to Engineer the Future, a new book by Dan Wang,*[11] argues that this lack of process knowledge leaves the U.S. hollowed out—great at algorithms and platforms, weak at execution in the physical world. China, by contrast, built vast ecosystems where solving teabag problems compounds into strategic advantage.

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[9] Process knowledge is crucial to economic development
[10] Graphic generated by ChatGPT
[11] Breakneck: China's Quest to Engineer the Future | Dan Wang

Artificially low rates result in distortions in financial markets. For instance, valuations increase for growth companies given the same expected future earnings simply due to the denominator decreasing—a future dollar earned is worth more today given lower rates when using the predominant discounted cash flow model. Further, it is a great opportunity for companies to optimally shift their debt/equity exposure based on the Capital Asset Pricing Model (CAPM) as debt becomes cheaper than equity it makes sense to buy back equity by issuing debt. Artificially low rates also fuel capital misallocation into projects that look attractive because financing is cheap—in essence, negative real rates subsidize any businesses that can attain capital. Consumers also tend to take on more credit, which greases our consumer-driven economy.

Low real rates do negatively affect savers and some investors. So, while everyone other than savers "likes" low rates (e.g., lower mortgages, easier credit), it is not necessarily healthy for the economy.

While markets continue to expect imminent rate cuts, Powell has resisted those pressures, keeping short-term rates steady. It seems like the Fed may finally cave given concerns about jobs. Wall Street and Washington seem more interested in low rates rather than real rates—it allows for increased debt with less consequence (due to low interest costs), which benefit both constituents. Yet, this short-sighted preference may negatively impact both financial markets (e.g., financial bubbles, less stable or poor companies being financed) and future generations (e.g., high debt levels).

Meanwhile, long-term yields remain anchored near 5%, highlighting the disconnect between near-term easing expectations and the structural forces that may keep borrowing costs higher for longer—and perhaps keying into some of concerns highlighted in the prior paragraph. That disconnect is the subject of a future conversation.

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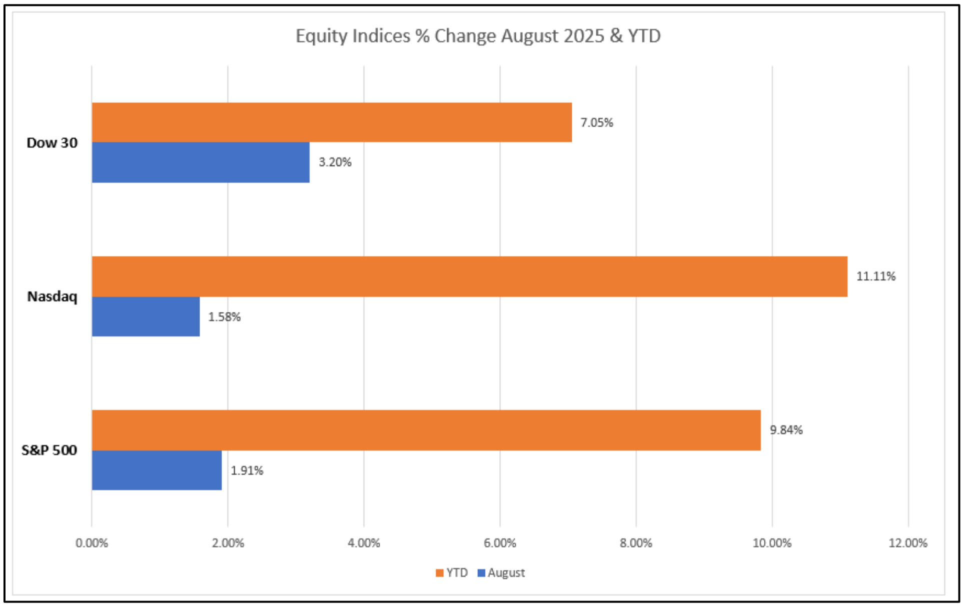
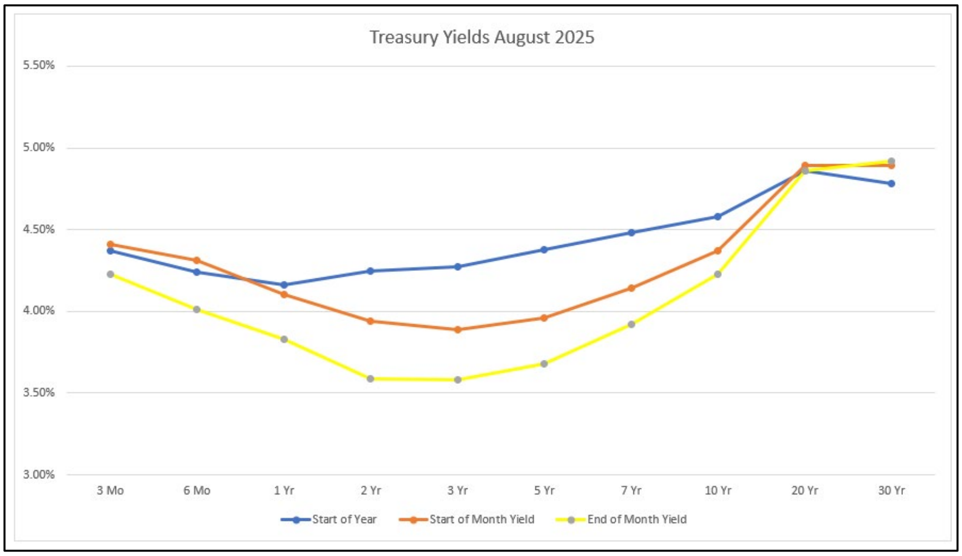
Talking Points: August 2025

Monthly Market Recap

In August, all three major US indices managed slight gains while yields fell in anticipation of the Fed likely cutting rates at their next meeting in September. Performance at the beginning of the month was driven mostly by tariff-related news prior to markets shifting focus to economic data and rate cuts.





The new tariffs levels for countries with no direct agreement officially went into effect as of August 7th. Several countries facing elevated tariffs are still attempting to negotiate a deal with the US (i.e. Switzerland, India) while the Trump administration is still working through the details on some industry specific tariffs (i.e. pharmaceuticals and chips).

Summary of New Tariff Levels:

- *10% on nations which the U.S. has a trade surplus with (or for other strategic reasons)*
- *15% on major industrialized economies*
- *15% of nations in which U.S. have small trade deficit*
- *15-50% for countries which the administration considers "bad actors" on trade*

Shortly after these new tariff levels became official, President Trump signed yet another executive order that pushed the deadline for tariffs on China to go into effect in early November. While markets would have preferred that the two sides finally came to an agreement, opting to extend the deadline to negotiate rather than ramping up tensions was viewed as positive. There are varying views on the ultimate impact of tariffs—from a one-time hit to inflation to a longer-term consumer cost—markets are discounting much effect and are positive on the clarity provided (markets hate uncertainty) as compared to the start of the summer.

	Liberation Day 4/2/25			Pause 4/9/25 Until 8/7/25			Deals/Truce/Pause/New		
Country	*Reciprocal*	*Fentanyl*	***Total***	*Reciprocal*	*Fentanyl*	***Total***	*Reciprocal*	*Fentanyl*	***Total***
China	34%	20%	**54%**	125%	20%	**145%**	10%	20%	**30%**
Canada	0%	25%	**25%**	0%	25%	**25%**	0%	35%	**35%**
Mexico	0%	25%	**25%**	0%	25%	**25%**	0%	25%	**25%**
UK	10%	0%	**10%**	10%	0%	**10%**	10%	0%	**10%**
EU	20%	0%	**20%**	10%	0%	**10%**	15%	0%	**15%**
Switzerland	31%	0%	**31%**	10%	0%	**10%**	39%	0%	**39%**
Norway	15%	0%	**15%**	10%	0%	**10%**	15%	0%	**15%**
Japan	24%	0%	**24%**	10%	0%	**10%**	15%	0%	**15%**
South Korea	25%	0%	**25%**	10%	0%	**10%**	15%	0%	**15%**
Vietnam	46%	0%	**46%**	10%	0%	**10%**	20%	0%	**20%**
Taiwan	32%	0%	**32%**	10%	0%	**10%**	20%	0%	**20%**
Philipines	17%	0%	**17%**	10%	0%	**10%**	19%	0%	**19%**
Indonesia	32%	0%	**32%**	10%	0%	**10%**	19%	0%	**19%**
Singapore	10%	0%	**10%**	10%	0%	**10%**	10%	0%	**10%**
Thailand	36%	0%	**36%**	10%	0%	**10%**	Lower	0%	**Lower**
Cambodia	49%	0%	**49%**	10%	0%	**10%**	Lower	0%	**Lower**
Bangladesh	37%	0%	**37%**	10%	0%	**10%**	20%	0%	**20%**
Laos	48%	0%	**48%**	10%	0%	**10%**	40%	0%	**40%**
South Africa	30%	0%	**30%**	10%	0%	**10%**	30%	0%	**30%**
Israel	17%	0%	**17%**	10%	0%	**10%**	15%	0%	**15%**
Pakistan	29%	0%	**29%**	10%	0%	**10%**	Lower	0%	**Lower**
India	26%	0%	**26%**	10%	0%	**10%**	50%	0%	**50%**
Australia	10%	0%	**10%**	10%	0%	**10%**	10%	0%	**10%**
New Zealand	10%	0%	**10%**	10%	0%	**10%**	15%	0%	**15%**
Brazil	10%	0%	**10%**	10%	0%	**10%**	50%	0%	**50%**
Chile	10%	0%	**10%**	10%	0%	**10%**	10%	0%	**10%**
Columbia	10%	0%	**10%**	10%	0%	**10%**	10%	0%	**10%**
Argentina	10%	0%	**10%**	10%	0%	**10%**	10%	0%	**10%**
Ecuador	12%	0%	**12%**	10%	0%	**10%**	15%	0%	**15%**

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With much of the tariff drama seemingly in the rearview, markets keyed in on economic data and interest rates towards the end of the month. The Fed has a dual mandate: maximum employment and stable prices. Both CPI and PCE releases this month pointed to a "reasonable/understandable" uptick in inflation due to tariffs while labor market data continued to show material weakening. With this scenario as the economic backdrop, it is very likely that the Fed will cut rates at their September meeting. Even though the Fed is hyper aware of the risks that inflation could start trending higher, the deterioration in the labor market poses a more serious risk to the economy in their assessment. Fed Chair Powell expressed this concern at Jackson Hole, paving the way for high certainty of a rate cut in September. Recall, throughout this interest rate cycle (i.e. beginning of 2022 until now) the Fed has always tried to "telegraph" their interest rate decisions ahead of making them to ensure the market has sufficient time to digest the expected move.

July CPI and Core CPI (yoy)	July	vs. Expected	vs. June
CPI	*2.7%*	*2.8%*	*2.7%*
Core CPI	*3.1%*	*3.0%*	*2.9%*

July PCE and Core PCE (yoy)	July	vs. Expected	vs. June
PCE	*2.6%*	*2.6%*	*2.6%*
Core PCE	*2.9%*	*2.9%*	*2.8%*

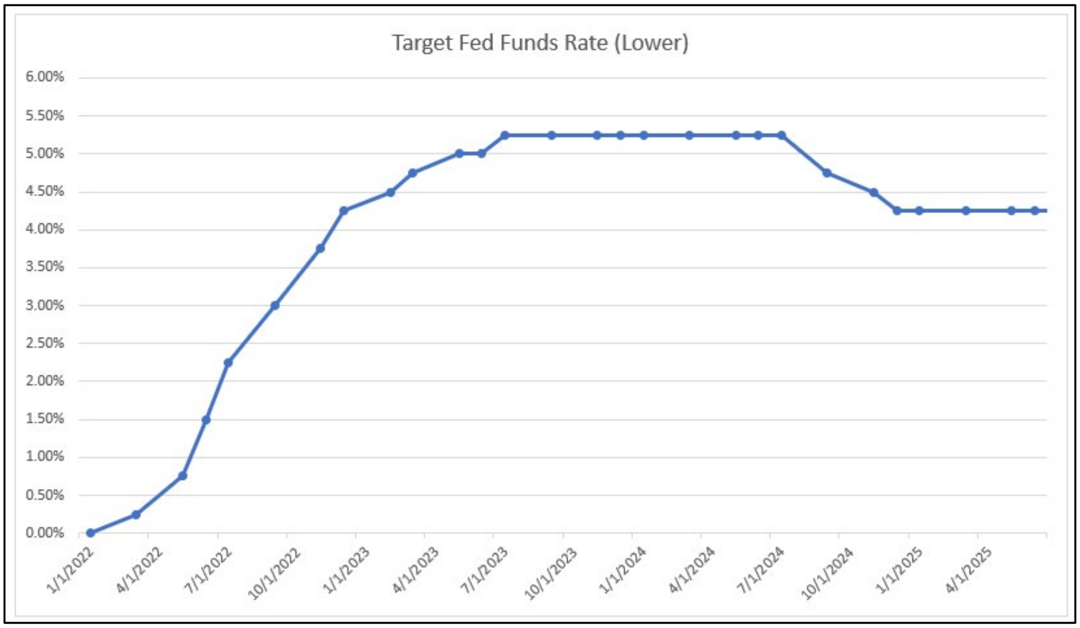
Probability of Upcoming Fed Interest Rate Decisions

8/1/2025	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
September	0.00%	10.20%	89.80%	0.00%	89.80%	0.00%	0.00%
8/8/2025	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
September	0.00%	10.60%	89.40%	0.00%	89.40%	0.00%	0.00%
8/15/2025	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
September	0.00%	15.10%	84.90%	0.00%	84.90%	0.00%	0.00%
8/22/2025	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
September	0.00%	16.00%	84.00%	0.00%	84.00%	0.00%	0.00%
8/29/2025	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
September	0.00%	12.00%	88.00%	0.00%	88.00%	0.00%	0.00%

Graphs/Visuals

Fed Interest Rate Decisions Since Start of Hiking Cycle

FOMC Meeting Date	Hike/Cut	Target Fed Funds Rate (Lower)	Target Fed Funds Rate (Upper)
Start of 2022	-	*0.00%*	*0.25%*
3/16/2022	**0.25%**	0.25%	0.50%
5/4/2022	**0.50%**	0.75%	1.00%
6/15/2022	**0.75%**	1.50%	1.75%
7/27/2022	**0.75%**	2.25%	2.50%
9/21/2022	**0.75%**	3.00%	3.25%
11/2/2022	**0.75%**	3.75%	4.00%
12/14/2022	**0.50%**	4.25%	4.50%
2/1/2023	**0.25%**	4.50%	4.75%
3/22/2023	**0.25%**	4.75%	5.00%
5/3/2023	**0.25%**	5.00%	5.25%
6/14/2023	**0.00%**	5.00%	5.25%
7/26/2023	**0.25%**	5.25%	5.50%
9/20/2023	**0.00%**	5.25%	5.50%
11/1/2023	**0.00%**	5.25%	5.50%
12/13/2023	**0.00%**	5.25%	5.50%
1/31/2024	**0.00%**	5.25%	5.50%
3/20/2024	**0.00%**	5.25%	5.50%
5/1/2024	**0.00%**	5.25%	5.50%
6/12/2024	**0.00%**	5.25%	5.50%
7/31/2024	**0.00%**	5.25%	5.50%
9/18/2024	**0.50%**	4.75%	5.00%
11/7/2024	**0.25%**	4.50%	4.75%
12/18/2024	**0.25%**	4.25%	4.50%
1/29/2025	**0.00%**	4.25%	4.50%
3/19/2025	**0.00%**	4.25%	4.50%
5/7/2025	**0.00%**	4.25%	4.50%
6/18/2025	**0.00%**	4.25%	4.50%
7/30/2025	**0.00%**	4.25%	4.50%



Highlights/Notes

Highlight: By the end of the month, the level of uncertainty surrounding tariffs subsided, markets shifted focus to economic data and interest rates. Continued weakness in labor market data, combined with only modest increases in inflation data resulting from tariffs, has markets confident that the Fed will cut at their next meeting in September.

FAM Sentiment Summary 2025

2025	January	February	March	April	May	June	July	August
Fed	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bullish**	**Mildly Bearish**	**Mildly Bullish**	**Neutral**	**Neutral**	**Mildly Bullish**
Interest Rate Decisions	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Neutral	Neutral	Neutral
Commentary	Mildly Bearish	Mildly Bearish	Mildly Bullish	Bearish	Mildly Bullish	Neutral	Mildly Bearish	Bullish
Economic Data	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**	**Mildly Bearish**	**Neutral**	**Mildly Bullish**	**Mildly Bearish**	**Mildly Bearish**
Inflation	Mildly Bearish	Mildly Bearish	Mildly Bearish	Bullish	Mildly Bullish	Bullish	Mildly Bearish	Mildly Bearish
Employment/Labor Market	Bearish	Mildly Bearish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Bearish	Bearish
GDP	Mildly Bullish	Neutral	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral	Neutral	Mildly Bullish
Consumer Spending	Neutral	Mildly Bearish	Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Neutral
Consumer Sentiment	Neutral	Bearish	Bearish	Bearish	Neutral	Neutral	Mildly Bullish	Neutral
Housing/Real Estate	Mildly Bearish	Mildly Bearish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral
Global Events/News	**Mildly Bearish**	**Neutral**	**Mildly Bearish**	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**
China	Bearish	Neutral	Neutral	Mildly Bearish	Mildly Bullish	Mildly Bullish	Neutral	Neutral
Europe	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish
Japan	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Mildly Bullish	Neutral
Middle East	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Neutral	Neutral
Russia/Ukraine	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Bearish
US Politics/Government	**Neutral**	**Bearish**	**Bearish**	**Bearish**	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bullish**	**Mildly Bullish**
Tariffs	Bearish	Bearish	Bearish	Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish
US/China Trade War	n/a	n/a	n/a	Bearish	Bullish	Bullish	Mildly Bullish	Bullish
Economic Policy	Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Neutral	Neutral
Market Trends	**Mildly Bullish**	**Neutral**	**Mildly Bearish**	**Neutral**	**Neutral**	**Neutral**	**Mildly Bullish**	**Neutral**
Earnings	Bullish	Mildly Bullish	Bearish	Mildly Bullish	Neutral	Neutral	Mildly Bullish	Mildly Bearish
AI/Chips	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bullish	Mildly Bullish
Crypto	Mildly Bullish	Bearish	Mildly Bearish	Neutral	Mildly Bullish	Neutral	Mildly Bullish	Neutral

Noteworthy Details

- Fed – Neutral to Mildly Bullish
  - Powells recent commentary clearly indicated that the Fed is likely to cut rates.
- Russia/Ukraine – Mildly Bearish to Bearish
  - Despite efforts from President Trump to broker a cease-fire throughout the month – Russia intensified their attacks on Ukraine.
- Tariffs – Mildly Bullish to Bullish
  - With the new tariffs levels officially in effect, the level of uncertainty surrounding tariffs has eased significantly.
- U.S./China Trade War – Mildly Bullish to Bullish
  - Markets appreciated that both sides opted to extend negotiations rather than escalate tensions.
- Earnings – Mildly Bullish to Mildly Bearish
  - Companies have started to warn markets that its costs are starting to increase materially as a result of tariffs.

Key Topics/Items from Below

- ***BEARISH***
  - President Trump announcing that industry specific tariffs on pharmaceuticals and semiconductor chips would be unveiled soon (and proposing potential 100% tariff on chips)
  - New tariff levels for countries officially going into effect on August 7th
  - Conflict between Russia/Ukraine intensifying at the end of the month despite the Trump administration's efforts to broker a cease-fire
  - Continuing trend of downward revisions to jobs data
- ***MILDLY BEARISH***
  - President Trump announcing that India would face an additional 25% in tariffs for continuing to purchase Russian oil
  - Confusion over whether gold bars from Switzerland would face elevated tariff levels (39%)
  - Two treasury auctions at the beginning of the month seeing weaker-than-expected demand (pushing yields higher)
  - PPI for the month of July coming in materially higher-than-expected after CPI only showed a modest surprise to the upside
  - Continuing trend of downward revisions to jobs data
  - Walmart's warning markets that its costs are rising as they replenish inventories with higher tariff levels in effect
  - Home Depot warning markets that their prices would start rising due to tariffs
  - Shares of tech companies selling off mid-month as concerns over stretched valuations grew
- ***NEUTRAL***
  - Nvidia and AMD announcing that they had reached a deal with the U.S. government to share 15% of their revenues from selling AI chips to China
  - The University of Michigan's Consumer Sentiment Survey unexpectedly dropping versus last month (after recovering from early 2025 lows)
  - Retail sales from July coming in line with expectations
  - Price of gold continuing to hit record highs
- ***MILDLY BULLISH***
  - EU pausing any "U.S. counter tariffs" for six months after agreeing to trade deal
  - Data release in the beginning of the month which showed that the U.S. trade deficit fell to its lowest level since September of 2023
  - Trump administration clarifying that gold bars would not face elevated tariffs
  - July CPI and Core CPI pointing to a "reasonable/understandable" impact from tariffs rather than a huge surprise to the upside – setting the Fed up to be comfortable cutting rates in September
  - President Trump and Putin agreeing to meet in Alaska to discuss the ongoing Russia/Ukraine conflict
  - U.S. and EU agreeing to additional terms on trade surrounding tariffs and investments in energy/tech

- Canada announcing that that they are lifting reciprocal tariffs of 25% on a broad range of U.S. products in an effort to appease the Trump administration
- Ukrainian President Volodymyr Zelensky and other European leaders meeting with Trump in Washington after he had met with Putin in Alaska – meeting was "optimistic" although no cease-fire seems imminent
- President Trump announcing that the U.S. government would be taking a 10% stake in troubled chip maker Intel
- EU eliminating tariffs on U.S. industrial imports in an effort to avoid higher tariff levels on autos
- GDP this quarter coming in materially higher than recent quarters
- July PCE and Core PCE mirroring CPI data released in the beginning of the month - "reasonable/understandable" impact from tariffs, again setting Fed up to cut in September

- ***BULLISH***
  - President Trump signing another executive order that would push the deadline for tariffs on China to go into effect in early November
  - Powell stating at Jackson Hole that downside risks to labor market likely outweigh lingering