

August 4, 2025

The Fed in the Cross Hairs

The final trading week in July will go down as one of the most eventful five-day spans of the year. The packed week includes EPS reports from more than one-third of S&P 500 component companies, including the major players in technology and AI (AMZN, MSFT, META, and AAPL). The week also includes the advance report on 2Q25 GDP, the Fed's preferred inflation report (core PCE prices), and July nonfarm payrolls reported on August 1. Sandwiched in the middle is a Fed meeting, which uncommonly occurs at the end of the month rather than mid-month.

The White House has not been shy about prompting the Fed to cut rates aggressively. With more trade deals taking shape, at least on a preliminary basis, the nature of these "suggestions" could intensify. The Fed, meanwhile, will be getting inputs in coming months – on inflation, consumer spending, and economic growth – that could actually make it more hesitant to cut rates.

Latest on Trade

In a major victory for the Trump administration, the EU agreed to a framework agreement for 15% tariffs on European goods imported into the U.S. The EU on a preliminary basis also agreed to purchase \$750 billion worth of U.S. petroleum products and semiconductors, among other products, over a three-year timeframe, and invest \$600 billion in the U.S., which could include purchases of military equipment. The president claimed there would be zero tariffs on U.S. goods imported into Europe, although European Commission President Ursula von der Leyen instead said that "zero for zero" tariffs were yet to be finalized on multiple product categories. Many details still need to be resolved.

The U.S. trade team immediately turned its attention to finishing the U.S.-China trade framework, which like the EU deal was light on details at the time of its announcement. The

15% level on imports from the EU increasingly looks like a baseline, a template for other nations yet to settle either formally or informally. Getting below the baseline, particularly for major trading partners, will be difficult. The 10% level allowed on British goods is a reward for the UK being the first to negotiate, according to Treasury Secretary Bessent.

The Fed: July Meeting, then Jackson Hole in August

With tariffs and trade moving from a massive uncertainty to a work in progress, the administration could well turn its attention to another priority: getting the Fed to lower rates. The Federal Open Market Committee (FOMC) of the Federal Reserve meets in the final week of July. On the agenda will be near-term rate policy. The FOMC is widely expected to maintain rates at current levels, meaning a fed funds tendency of 4.25%-4.50%.

The meeting follows an extraordinary event: President Trump accompanying Fed chair Jerome Powell as they surveyed the renovations underway at Federal Reserve headquarters. The two bickered somewhat amiably about the cost (\$2.5 billion) of the renovations. Office of Management and Budget (OMB) Director Russell Vought has led the Trump team effort to characterize the renovations as wasteful and use them as a potential lever to accelerate the Fed chair's departure.

Argus Fixed Income Strategist Kevin Heal, who is the Argus voice on all things Fed, notes that the total budget for renovations includes work long completed and that the project would not really be in the purview of the Fed chair. Based on his own analysis and his discussions with fixed-income colleagues, Kevin expects Powell to finish his term as Fed chair, which ends in May 2026. This suggests that the Trump

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administration will maintain its pressure campaign at the level of grumbling rather than taking action to remove the chairman before his term ends.

The administration believes its trade policy, with tariffs at the center, will stimulate growth. Many economists disagree and believe implementation of tariffs could slow growth and raise prices. Although administration officials believe a lower level of interest rates could be a countervailing tailwind for economic growth, the Fed may determine that now-formulating tariff policy could complicate and interfere with its agenda. In other words, some investors see a risk that tariff impacts may forestall the Fed's earlier plan for two quarter-point rate cuts by year-end 2025.

Over the past few months, some members of the Federal Reserve board and Fed governors have shown signs of dissenting from the Fed's overall cautious approach. Federal Reserve Governor Christopher Waller said in June that he supported immediate rate cuts. He also signaled that he might be more public in expressing his views should the Fed not cut rates at the July meeting. Some Fed governors have expressed support for Fed Chair Powell, while simultaneously acknowledging that rate cuts are worth discussing.

There is no FOMC meeting in August. Instead, as it does every August, the Fed will host its annual meeting in Jackson Hole, Wyoming, at which the central bankers are joined by CEOs, large investors, and thought leaders. The Fed does not explicitly discuss its intentions for rate policy at the annual event. Discussions and meetings are instead framed around a central topic. This year, the topic is "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy."

While the topic at first glance may seem dry and academic, it by necessity will run up against another key plank of the administration: immigration policy and enforcement. Historically, immigrants have performed the lowest-level jobs in the economy, notably including working in farm fields and slaughterhouses. Wary of ICE raids, many farm workers and slaughterhouse employees are not reporting to work. Farmers in California's Central Valley are complaining that produce is rotting in the field. Beef prices have been rising due to a smaller U.S. collective herd, drought conditions, and rising costs; labor scarcity could become another goad to higher meat prices.

GDP growth is a product of labor force growth and productivity growth. With birth rates among native-born Americans running below the replacement rate, the U.S. needs some level of immigration to keep the economy moving forward. These topics could turn the usually staid Jackson Hole conclave into something of a political event this year.

Second-Quarter Earnings Top (Low) Expectations

The stock market is at new highs partly because tariff uncertainty is giving way to at least the outlines of final deals. Another key support for the market has been the solid trend in earnings growth. With about one-third of companies having reported calendar 2Q25 results, earnings were running ahead of lowball expectations. The percentage of companies topping expectations was in the mid-80% range, which puts it well above the long-term average in the 75% range.

Investors went into 2Q25 earning season expecting EPS growth in the low-single-digit range, which if realized would be the lowest since 4Q23. As of 7/28/25, and with about 35% of component companies having reported results, S&P 500 earnings from continuing operations are forecast to grow between 6% and 8% from 2Q24, according to the blended growth estimates from Bloomberg, FactSet, and Refinitiv. That includes approximately 6% growth from FactSet and 8% growth from Refinitiv, with Bloomberg somewhere in the middle.

As a reminder, these are blended estimates that include actual reported results along with consensus estimates from Wall Street analysts. As another reminder, actual results exceed Street expectations by 5%-9% in most quarters. For the quarter to date, the magnitude of the beat against expectation has been about 6%. With one-third of companies having reported, and assuming that 6% total beat remains in place, 2Q25 earnings growth could come in at a final 10%-12% growth rate from 2Q24.

The final week of July features calendar 2Q reports from several technology and AI giants. Collectively these companies – Amazon, Microsoft, Meta Platforms, and Apple – have over \$10 trillion in market cap. They also tend to beat lofty pre-reporting expectations and have an AI wind in their sales (except for Apple). These companies tend to generate huge amounts of adjusted net income, meaning their dollar contribution to earnings growth is actually undercounted on a simple-average basis. By the end of the first full week of August, the full shape and scope of 2Q25 earnings season will be visible, and it should be positive.

Conclusion

The S&P 500 and Nasdaq Composite have jumped to new all-time highs in July, fueled by tariff progress, still-solid employment data, better-than-expected earnings, prospects for a favorable 2Q25 GDP report, and no sign yet that tariffs are reversing past progress on inflation. The S&P 500 is up 3% for July to date, while the Nasdaq is up more than 4%.

In what we see as a positive shift, growth sectors have moved to the sidelines after their dazzling April to mid-July run. Investors in late July have been buying stocks in defensive, rate-sensitive, and cyclical sectors favored in

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the first quarter but neglected in the second. The market in 2025 to date has been a tag-team match, with growth and nontraditional sectors regularly handing off and regaining leadership.

As a result, nearly every sector has appreciated year to date, and no sector is running away from the pack. Five sectors are up in double-digit percentages year to date, but

none are up more than 13%. With the S&P 500 up about 9% as of late July, most sectors are up in mid- to high-single-digit percentages year to date. Only Healthcare is negative year to date, by about 2%, due to the tremendous drag from health insurers. This kind of balance and breadth creates a positive set-up that could enable the market to build on existing gains into year-end.

Jim Kelleher, CFA,
Director of Research)

ECONOMIC TRADING CALENDAR

Release: **Factory Orders**

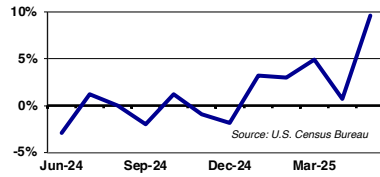
Date: 8/4/2025

Month: June

Previous Report: 9.6%

Argus Estimate: 6.1%

Street Estimate: NA



Release: **ISM Services Index**

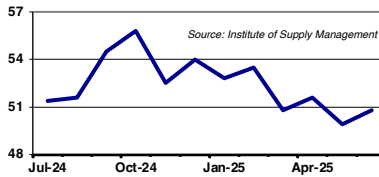
Date: 8/5/2025

Month: July

Previous Report: 50.8

Argus Estimate: 51.0

Street Estimate: 51.3



Release: **Trade Balance**

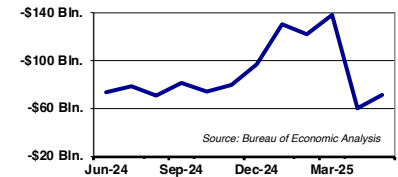
Date: 8/5/2025

Month: June

Previous Report: -\$71.5 Bln.

Argus Estimate: -\$62.0 Bln.

Street Estimate: -\$75.0 Bln.



Release: **Nonfarm Productivity**

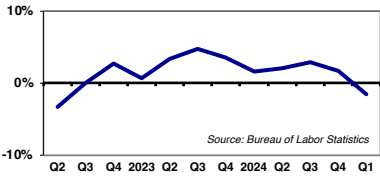
Date: 8/7/2025

Month: 2Q

Previous Report: -1.5%

Argus Estimate: 1.3%

Street Estimate: NA



Release: **Unit Labor Costs**

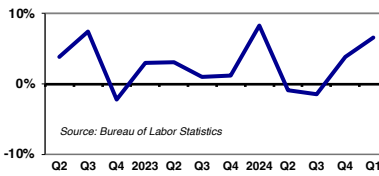
Date: 8/7/2025

Month: 2Q

Previous Report: 6.6%

Argus Estimate: 3.5%

Street Estimate: NA



Release: **Total Vehicle Sales**

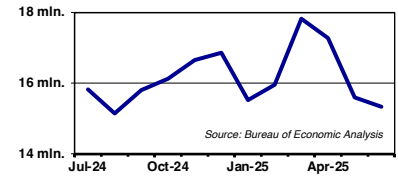
Date: 8/7/2025

Month: July

Previous Report: 15.34 mln.

Argus Estimate: 16.00 mln.

Street Estimate: 15.80 mln.



Release: **Wholesale Inventories**

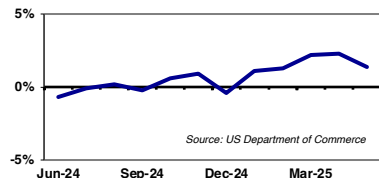
Date: 8/7/2025

Month: June

Previous Report: 1.4%

Argus Estimate: 1.5%

Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
29-Jul	Consumer Confidence	July	95.2	95.0	96.1	97.2
30-Jul	GDP Annualized QoQ	2Q "1st est."	-0.5%	1.8%	2.5%	NA
	GDP Price Index	2Q "1st est."	3.8%	2.5%	NA	NA
31-Jul	PCE Deflator	June	2.3%	2.5%	2.6%	NA
	PCE Core Deflator	June	2.7%	2.7%	2.8%	NA
	Personal Income	June	4.5%	4.6%	NA	NA
	Personal Spending	June	4.5%	4.6%	NA	NA
1-Aug	Nonfarm Payrolls	July	147K	112K	105K	NA
	Unemployment Rate	July	4.1%	4.1%	4.2%	NA
	Average Weekly Hours	July	34.2	34.3	NA	NA
	Average Hourly Earnings	July	3.7%	3.8%	NA	NA
	ISM Manufacturing	July	49.0	50.0	49.5	NA
	ISM New Orders	July	46.4	48.0	NA	NA
	Construction Spending	June	-3.5%	-3.6%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Aug	Consumer Price Index	July	2.7%	NA	NA	NA
	CPI ex-Food & Energy	July	2.9%	NA	NA	NA
14-Aug	PPI Final Demand	July	2.3%	NA	NA	NA
	PPI ex-Food & Energy	July	2.6%	NA	NA	NA
15-Aug	Retail Sales	July	3.9%	NA	NA	NA
	Retail Sales ex-autos	July	3.3%	NA	NA	NA
	Industrial Production	July	0.7%	NA	NA	NA
	Capacity Utilization	July	77.6%	NA	NA	NA
	Business Inventories	June	1.7%	NA	NA	NA
	Import Price Index	July	-0.2%	NA	NA	NA
	U. Michigan Sentiment	August	61.8	NA	NA	NA

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