



ARGUS ECONOMIC COMMENTARY

August 11, 2025

Jobs Shocker: Our Monthly Survey of the Economy, Interest Rates, and Stocks

The final trading week in July was packed with eventful data, including EPS reports from about one-third of S&P 500 component companies, the advance report on 2Q25 GDP, the Fed's preferred inflation report (core PCE prices), and a Fed meeting. But nothing quite hit the market like the July nonfarm payrolls report, which showed clear deceleration in the employment economy.

A soft July nonfarm payrolls number combined with significant downward revisions in June and May payrolls resulted in three-month average payrolls growth of just 35,000. Unemployment was a still-low 4.2%, and wage growth remained healthy at 3.9% on an annual basis. But uncertainty about the economic outlook and the impact of tariff policy appears to be causing employers to slow hiring plans.

As of August 1, 2025, tariffs were in place for a multitude of countries and set to take effect on August 7. While that eliminates the uncertainty of not knowing what tariffs would be, it does not eliminate the uncertainty of how tariffs will impact consumer and business spending, demand for U.S. goods overseas, and inflation, among other factors.

The Economy, Interest Rates, and Earnings

In the second quarter of 2025, gross domestic product was impacted by actions taken in the first quarter in anticipation of stiff tariffs. Imports, which rose about 40% in the first quarter, collapsed in the second quarter, given massive pre-ordering from overseas. The subtraction to GDP from imports drove mid-single-digit GDP growth. The Trump administration has finalized deals or announced tariffs on multiple nations, although final details are still being worked out with key trading partners such as Canada and China. We expect trade uncertainty to continue to impact GDP growth in the next few quarters.

The first (advance) report of second-quarter 2025 GDP indicated growth of 3.0%, bouncing back from a 0.5% decline for 1Q25. Beyond the headline number. Imports, which are a subtraction to the calculation of GDP, declined 30.3% in 2Q25 after spiking 37.9% in 1Q25. The increase in 2Q25 GDP also reflected growth in consumer spending, partly offset by a decrease in business spending and exports.

The value of imported goods in 2Q25 decreased by \$346 billion in 2Q25, after increasing by \$309 billion in 1Q25. Imports (which subtract from GDP) represented a 5.18 percentage-point contribution to 2Q25 GDP growth, after representing a 4.66 percentage-point reduction to 1Q25 GDP growth.

The dearth of imports in 2Q25 was reflected in the drawdown in private inventories, which subtracted 3.17 percentage points to 2Q25 GDP after adding 2.59 percentage points to 1Q25 GDP. After a highly volatile first half, the impacts of imports and private inventories on overall GDP should moderate in the second half. However, these categories could remain more volatile than in the past, at least into year-end.

Beyond these headlines, other parts of the economy grew in the second quarter, but at a subdued pace. Personal Consumption Expenditures (PCE) for 2Q25 rose 1.4%, up from 0.5% for 1Q25. PCE contributed 0.98 percentage-points to GDP in the period. Durable goods spending rebounded by 3.7%, led by vehicles, while nondurables spending rose 1.3%. The largest PCE category of services spending increased 1.1% in 2Q25, better than 0.6% in the first quarter. We expect PCE within the GDP accounts to continue to send conflicting signals in 2025, while moving back into the 1%-3% range as the final tariff regime becomes established.

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Nonresidential fixed investment, the proxy for corporate capital spending, rose by 1.9% in 2Q25; that is a sharp step-down from 10.3% in 1Q25. This category grew in the 6%-7% range over 2023-24. Business spending slowed in 2Q25 after a 1Q25 boost from companies seeking to invest in infrastructure before tariffs were put in place. Nonresidential fixed investment added just 0.26 percentage points to 2Q25 GDP.

Overall government spending edged up 0.4% in 2Q25 after being down 0.6% in the final 1Q25 GDP report. Defense spending rose 2.2%, while nondefense spending was down 11.2% in 2Q25 from the first quarter. State and local government spending grew 3.0%, as local governments in some cases pick up functions dropped by the federal government.

The price index for gross domestic purchases increased 2.1% for 2Q25, after rising 3.4% for 1Q25, and the core PCE price index advanced 2.5%. The Fed needs both GDP growth and lower price increases to cut rates going forward.

Elsewhere, investors received a shock on the state of the jobs economy, amid continued positive signs about corporate earnings. The perception that the economy is holding steady as tariffs are put in place was shattered by the jobs number; restoring confidence in the economy may prove difficult.

The U.S. economy generated just 73,000 new nonfarm jobs in July, as hiring slowed and unemployment ticked higher. Severe downward revisions to job counts from June and May caused three-month average jobs growth to drop to 35,000, from a solid but misleading 150,000 before the report. The revisions prompted the president to fire the head of the Bureau of Labor Statistics (BLS). The BLS Diffusion Index indicated that 51.2% of 250 private industries were hiring in July. The unemployment rate reached 4.2% for July, up a tick from 4.1% in June.

Average hourly earnings grew 3.9% annually in July, about in line with the annual growth trend in 2025 to date. New claims for unemployment insurance remain relatively low. Most of the more-than 250,000 federal employees let go by DOGE are still on severance and thus not listed yet as unemployed. The quality of jobs is perceived as weakening; manufacturing shed 11,000 jobs in July; healthcare and services added 73,000. The steep job revisions caused bond prices to spike and the stock market to sell off; it also increased the likelihood of a September rate cut, according to the CME FedWatch tool.

Industrial production rose 0.3% in June after being unchanged in May and April. Utilities output rose 2.8%, while manufacturing edged up 0.1% and mining output declined. Capacity utilization came in at 77.6% in June, remaining about two percentage points below the long-run average.

The ISM manufacturing PMI ticked down to 48.0

for June from 48.5 for May, near its 2025 low of 47.9 for March. Purchasing managers are anticipating that tariffs will incentivize companies to shift from overseas manufacturing to onshore production, but the timing of such shifts is uncertain. The services PMI in June 2025 was 50.8, as improvement in the business activity index was offset by a declining employment index.

Business and consumer sentiment are both off their tariff-shock lows; these surveys were conducted before the July payrolls data. The NFIB's Small Business Optimism Index, which reached a six-year high of 105.1 in December 2024, has been declining amid on-again, off-again tariff policy. It bounced to 98.8 in May and was at 98.6 in June, from a low of 95.8 in April. The index is back above its 51-year average of 98.0, although respondents are reporting excess inventories. The University of Michigan's consumer sentiment data has continued to improve. The overall index rose to 61.7 in July from 60.7 in June. The current economic conditions index also improved from June.

The Bureau of Economic Analysis within the Commerce Department reported that personal incomes rose 0.3% in June after falling 0.4% in May; that followed growth in the 0.6%-0.8% range for February, March, and April. Consumer incomes drive consumer spending, which accounts for 70% of GDP growth. Personal consumption expenditures (PCE) gained 0.3% for the month of June after dipping 0.1% in May.

The Atlanta Fed's GDPNow model is estimating that third-quarter GDP will grow 2.1%. That represents a modest decline from 2Q25 GDP; we believe there could be some movement in the preliminary and final 2Q25 GDP reports.

Argus Chief Economist Chris Graja, CFA, has been encouraged by the economy's resilience, while monitoring consumer and business caution about the now-stabilizing tariff economy. Chris is modeling 1% growth in 2025 GDP and believes GDP growth is likely to accelerate slightly in 2026 to 1.5%.

The Federal Open Market Committee (FOMC) of the Federal Reserve met in the final week of July and, as expected, maintained rates at the fed funds tendency of 4.25%-4.50%. Office of Management and Budget (OMB) Director Russell Vought has led the Trump team effort to accelerate Jerome Powell's departure. Argus Fixed Income Strategist Kevin Heal, who is the Argus voice on all things Fed, expects Powell to finish his term as Fed chair, which ends in May 2026.

The July FOMC meeting concluded two days before the soft July jobs data and surprise downward revisions in prior-month payrolls and the Fed is now in something of a quandary. If the jobs economy is indeed slowing and needs stimulus, that argues for a September rate cut. The worrisome core PCE reading, which shows inflation creeping

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higher, argues for maintaining the fed funds rate at current levels. Other data provide mixed messages. GDP has been so distorted by trade pre-positioning that it is not sending many useful signals. And the earnings season, as noted, is an indicator of what was and not what is to come.

Even as the jobs economy shows worrisome trends, inflation remains above the Fed's 2% target. Following the June FOMC meeting, the central bank amended its economic growth outlook slightly in a bearish direction. The Fed looks for 1.4% GDP growth in 2025 and expects an unemployment rate at year-end 2025 of 4.5%. The Fed is also modeling inflation to end 2025 at an annual 3.1% growth rate. The Fed's so-called "dot plot" continues to signal two quarter-point rate cuts in the second half of 2025. But for the first time in this cycle, voting Fed members such as Christopher Waller and Michelle Bowman are publicly dissenting from the Fed's stand-pat posture.

Bond investors are also juggling many data points. While watching the deteriorating jobs economy, bond investors are concerned that the One Big Beautiful Bill Act could add to the national deficit and exert upward pressure on bond yields. Washington's tariff policies and rising deficit projections risk reducing the attractiveness of U.S. Treasury debt as the ultimate safe haven. Recent bond auctions have met with tepid response, particularly from overseas investors. But market interest rates came down following the July jobs data.

The 10-year Treasury yield was 4.23% as of the end of July 2025, compared with 4.29% as of the end of June. The cycle peak for the 10-year yield was 4.9% in October 2023. The two-year Treasury yield was 3.69% as of the end of July 2025, vs. 3.73% as of the end of June. The cycle peak for the two-year yield was 5.2% as of October 2023.

The extended period of yield-curve inversion is decisively finished. Over time, Argus expects short-term yields to move lower from current levels. Long yields over time are expected to widen their relative premium to short yields while also coming down.

Argus Fixed Income Strategist Kevin Heal continues to model two quarter-point rate cuts in 2025, most likely in September and December. According to the CME Fed-Watch tool, the probability of a rate cut at the September FOMC meeting is now above 87%. Argus also acknowledges the possibility that the Fed holds rates unchanged in 2025. The Fed is cognizant that tariffs historically are associated with higher goods price. Were inflation to rise from current levels, we believe this Fed would be likely to hold steady and even consider raising rates again.

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 the end of July, with about 65% 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. Over 80% of companies have exceeded consensus growth expectations, and the magnitude of the earnings beat against expectation has been about 6%.

As a reminder, these are blended estimates, which 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%. Four of the Magnificent 7 companies reported in the final week of July and surpassed lofty expectations. Altogether, 2Q25 earnings growth could come in at a final high-single-digit or even low-double-digit growth rate from 2Q24. Earnings growth at high-single-digit rates would represent slowing from low-double-digit growth in the preceding three quarter of 3Q24 through 1Q25.

For 2025, we are reiterating our forecast for S&P 500 earnings from continuing operations of \$270. Our 2025 EPS estimate implies full-year EPS growth of 10%. For the middle quarters of 2025, we have conservative growth assumptions for certain sectors including Consumer Discretionary, Healthcare, and Industrial.

Consumer Discretionary faces the triple whammy of already-high goods inflation, the potential for further price hikes due to tariffs, and too-high financing rates for large-ticket items. We have cut our growth forecast for Healthcare earnings due to pressure on insurance company earnings and the potential for White House-mandated lower drug prices. Industrial earnings could be impacted by reduced foreign demand for big-ticket equipment (machine tools, commercial aircraft, etc.).

For 2026, we estimate S&P 500 continuing operations earnings of \$300, which assumes EPS growth of 11%. Whereas 2025 EPS is forecast to be strong in the first and last quarters and weak in the middle quarters, our 2026 EPS growth forecast calls for more stable quarterly performance amid partly subdued growth across 2026.

Domestic and Global Markets

Stocks hit their 2025 trading year lows in the aftermath of President Trump's "Liberation Day" tariffs announced early in April. Stocks have since staged a three-plus month rally, with the only hitch coming following the weak July nonfarm payrolls data.

Seven months and one very eventful nonfarm payrolls Friday into 2025, the stock market is in solidly positive territory year to date (YTD). The S&P 500 was up 6.8% YTD at the end of July after being up 5.6% at the end of June. The Nasdaq was up 7.4% YTD at the end of July after being 5.4% YTD at the end of June. The Dow Jones Industrial Average was the only major index to decline across July and was up 3.4% at the seven-month mark after being up 3.9% at the end of June.

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Wilshire Large Cap Growth was up 13.4% YTD as of the end of July, rising 5.6 percentage points in just a month as investors piled back into AI stocks. The Russell 2000 remains down year to date by 2.1%, even though these smaller, domestic-facing companies are expected to be less-impacted by tariffs.

The Barclays Bloomberg U.S. Bond Index was up 3.6% year to date at the end of July 2025, little changed from June. Bond returns bounced around all through 2024, and there is no reason to assume they will be stable in 2025.

Sector Performance

For much of 4Q24 and all of 1Q25, investors rotated away from traditional growth leadership and toward defensive, interest-rate-sensitive, and cyclical sectors. In the second quarter of 2025, growth stocks came back into favor on stock-price weakness for well-known names. Sector leaders in Information Technology and Communication Service were helped by well-above-consensus earnings for calendar 1Q25 -- and that has continued in 2Q25 earnings season.

Rotation back to traditional growth sector leadership continued in May and intensified in June. 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 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, all but two sectors have appreciated year to date, and no sector is running away from the pack. Four sectors are up in double-digit-percentages year to date, and none is up more than 15%. The two leaders are non-traditional: Utilities are up 15.0% as of the end of July, and Industrials are up 14.4%. In third place is Communication Services, up 12.0%, followed by the traditional growth leader Information Technology, which is up 11.3%.

The remaining five sectors are all up in mid- to high-single-digit percentages year to date. This kind of balance and breadth creates a positive set-up that could enable the market to build on existing gains into year-end. Many sectors have had clear leadership stocks. Argus believes investors may take more of a bargain-hunter's approach for the remainder of 2025, with less regard to sector trends.

Investors have moved to a "prove it" mentality regarding the AI trade -- and in 2Q25 earnings season, AI companies have so far delivered. Partially for that reason, investors continue to put money into the AI names within the Information Technology sector.

Investors also pushed up non-growth sectors in broadly rallying July. The net impact on market weightings has been a new all-time high for Information Technology (adjusted

for past removals of social media and FinTech). For a handful of sectors, current weightings have slipped below the long-term weighting range even though some of these sectors are positive year to date.

Information Technology began August with a 34.0% weighting, up 90 basis points in just a month and up 2.6 percentage points year over year. The biggest loser continues to be Healthcare, which ended July with an 8.8% weighting -- below its long-term distribution range of 10%-15%. Healthcare weight in the S&P 500 in July declined 50 basis points (bps) from the end of June and 3.1 percentage points from July 2024.

The Energy and Consumer Staples sectors also posted meaningful annual weighting declines. Energy had a 3.0% weighting at the end of July, below its long-run range of 4%-10%. Staples weighed in at 5.2%, below its long-run range of 6%-16%. Energy has shed 70 bps of weight in the past year, while Staples is down 60 bps.

Besides IT, two other growth sectors have gained weight in the past year. Communication Services ended July with a 9.9% weighting, up 100 basis points year over year. And Consumer Discretionary, despite declining in the year to date, ended July with a 10.4% weighting, up 40 bps year over year. Financial, with a 13.8% weighting, is also up year over year though down from 14.0% at the end of June.

AI is not just disrupting the economy and the stock market. It is reordering where businesses and consumers put their money. As this transformative technology continues to reshape the world, we look for additional disruption in relative sector performance and sector weights.

Like the U.S. market, global stocks did better in 2023 than they did in 2022; and most carried that momentum across 2024. In 2025, overseas markets generally have been doing better than the U.S. market. But tariffs, now that they are in place, have realigned leadership. All nine global bourses in our tally are positive for the 2025 year as of the end of July, but leadership has changed since early in the year.

The Eurozone slipped 3% in July after it was perceived to have gotten the wrong end of its trade deal with the U.S. The UK strengthened in July partly because it is the only major trading partner with a 10% tariff. Some of the worst markets in 2024, such as Mexico, are near the top of the leaderboard in 2025 as that country continues final tariff negotiations. Conversely, some of 2024's winners, such as India and Japan, are relatively underperforming in 2025.

In terms of our themes, resources economies are up 13.0% and lead the pack. Americas markets are up 11.4%. BRICs-minus-Russia are up 9.4% year to date after rising 4.2% in 2024. Asian markets are up 10.2%. Mature economies, which led in 2024 and 2023, are up 8.0%, reflecting relative weakness in Japan and the U.S.

ECONOMIC & MARKET COMMENTARY (CONT.)

Conclusion

The tariff economy is now fully operational, and a stock market that has chugged through seven months of uncertainty has more uncertainty ahead. The S&P 500 ended July 2025 just below all-time highs, after the July nonfarm payrolls report dispersed some of the market optimism that had sent stocks soaring.

August and September historically have been some of the weakest months for the S&P 500. But the market has

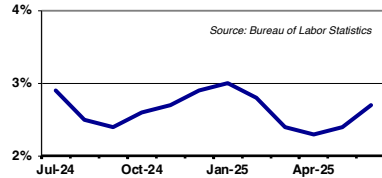
been ignoring the calendar all year long and instead trading on the very real changes in policy and in the economy. We expect that to continue into year-end.

The data discussed above is necessarily backward looking; but that does not mean it has no value. On balance, we believe it provides a reasonably strong basis for further stock-market gains into year-end, even if the road is bumpier than before.

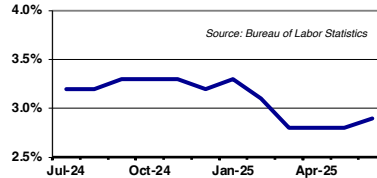
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

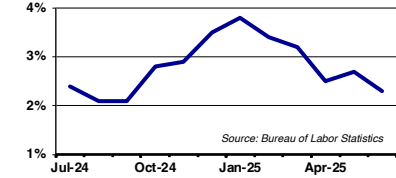
Release: **Consumer Price Index**
 Date: 8/12/2025
 Month: July
 Previous Report: 2.7%
 Argus Estimate: 2.8%
 Street Estimate: 2.8%



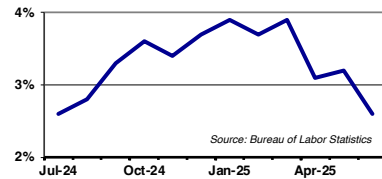
Release: **CPI ex-Food & Energy**
 Date: 8/12/2025
 Month: July
 Previous Report: 2.9%
 Argus Estimate: 3.1%
 Street Estimate: 3.0%



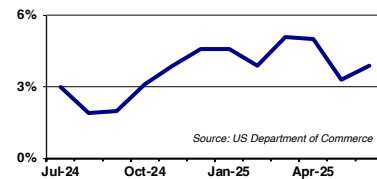
Release: **PPI Final Demand**
 Date: 8/14/2025
 Month: July
 Previous Report: 2.3%
 Argus Estimate: 2.6%
 Street Estimate: NA



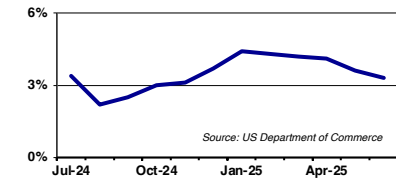
Release: **PPI ex-Food & Energy**
 Date: 8/14/2025
 Month: July
 Previous Report: 2.6%
 Argus Estimate: 2.9%
 Street Estimate: NA



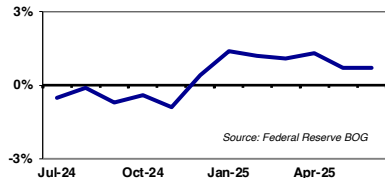
Release: **Retail Sales**
 Date: 8/15/2025
 Month: July
 Previous Report: 3.9%
 Argus Estimate: 3.4%
 Street Estimate: NA



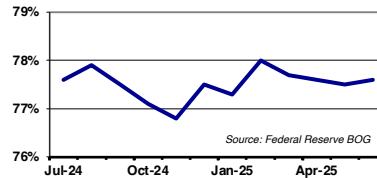
Release: **Retail Sales ex-autos**
 Date: 8/15/2025
 Month: July
 Previous Report: 3.3%
 Argus Estimate: 3.4%
 Street Estimate: NA



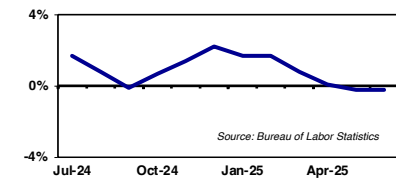
Release: **Industrial Production**
 Date: 8/15/2025
 Month: July
 Previous Report: 0.7%
 Argus Estimate: 1.0%
 Street Estimate: NA



Release: **Capacity Utilization**
 Date: 8/15/2025
 Month: July
 Previous Report: 77.6%
 Argus Estimate: 77.6%
 Street Estimate: 77.5%

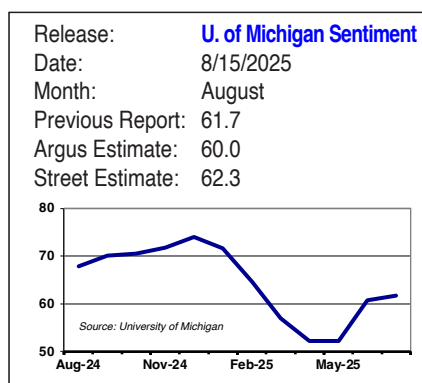
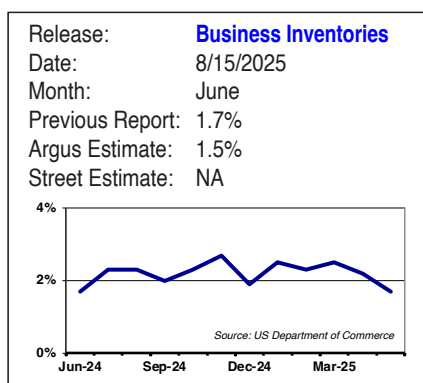


Release: **Import Price Index**
 Date: 8/15/2025
 Month: July
 Previous Report: -0.2%
 Argus Estimate: -0.2%
 Street Estimate: NA



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
4-Aug	Factory Orders	June	9.7%	6.1%	NA	5.6%
5-Aug	ISM Services Index	July	50.8	51.0	51.3	50.1
	Trade Balance	June	-\$71.7 Bln.	-\$62.0 Bln.	-\$75.0 Bln.	-\$60.2 Bln.
7-Aug	Nonfarm Productivity	2Q	-1.5%	1.3%	NA	NA
	Unit Labor Costs	2Q	6.6%	3.5%	NA	NA
	Total Vehicle Sales	July	15.34 Mln.	16.00 Mln.	15.80 Mln.	NA
	Wholesale Inventories	June	1.4%	1.5%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
19-Aug	Housing Starts	July	1,321K	NA	NA	NA
21-Aug	Leading Index	July	-0.3%	NA	NA	NA
	Existing Home Sales	July	3.93 Mln.	NA	NA	NA

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