August 13, 2025

Morning Briefing

On Trump's Fed, Global Inflation & S&P 500 Earnings

Check out the accompanying chart collection.

Executive Summary: President Trump appointed Stephen Miran, a Trump loyalist and chair of the Council of Economic Advisers, to fulfill the remaining days of Fed Governor Adriana Kugler's term. William explores Miran's historical stances, including his calls for lower interest rates, reforming the Fed, a weak dollar, and aggressive tariffs and trade policies. … Global inflation has decelerated sharply from elevated pandemic-era levels, but it has been relatively sticky recently. Melissa parses the data to see what's keeping inflation aloft and whether tariffs are having an impact. … Analysts' net earnings revisions for the S&P 500 are increasingly positive, Joe reports. They've grown more optimistic about earnings in the Communications Services, Information Technology, Financials, Utilities, and Industrials sectors.

Trump's Fed: Making the Fed Put Great Again. If President Donald Trump donned a lab coat to create his ideal Federal Reserve governor, the prototype would look a lot like Stephen Miran.

On August 7, Trump tapped his Council of Economic Advisers *chairman* to serve out the remaining term of Governor Adriana Kugler, at least until January 31, 2026. Odds are, the Senate will quickly get self-described dove Miran on the job in time for the September 16-17 Federal Open Market Committee (FOMC) meeting. He could represent the *third dissenting vote* if the FOMC doesn't vote to ease at the September meeting of the committee, putting additional pressure on Fed Chair Jerome Powell. This may be a moot point since the odds are increasing that the FOMC will cut the federal funds rate by 25 basis points at their next meeting without any dissenters.

Let's look at who Miran is and what his Fed role might be:

(1) *Solid resume for Trump*. At 42, the Harvard University-trained, Pearl River, NY-born Miran sure has the resume for the job Trump must fill. Before joining the US Treasury Department as an advisor *in 2020*, he did stints at Lily Pond Capital Management, Fidelity Investments, and Hudson Bay Capital Management.

Almost perfectly, Miran seems to embody the very economic mind that a lab-coat-wearing Trump would conjure up. He favors lower interest rates, *overhauling the Fed system* to give it less independence and a weaker dollar via a "Mar-a-Lago Accord." He's *pro-crypto*, thinks China is the "*worst offender*" on trade, and believes tariffs are key to reducing the *budget deficit*, funding corporate tax cuts, and replacing income taxes.

(2) *'Fed Put' returns*. Yet more important than who Miran is or from where he came, global markets may quickly come to grapple with what he may represent: a top-down effort to make the "Fed Put" great again.

Miran could soon find himself in a far more actionable job to impose Trump's will on short-term borrowing costs. His immediate task, it seems, will be to help cajole the Powell Fed to slash rates early and often.

As the "Trump Put" may be losing its potency in markets, the administration would like to bring back the Fed Put. Analysts at *Barclays* and *Morgan Stanley* agree with us.

The Fed Put first *gained notoriety* during Alan Greenspan's chairmanship during the late 1980s through the early 2000s. His successor, Ben Bernanke, also wasn't shy about deploying the "*Bernanke Put*." Ditto for *Janet Yellen*'s 2014-2018 stint as Fed chair.

(3) *Miran on Yellen*. Yet Miran's arrival will tantalize economists in other ways. In *July 2024*, he argued that then-Treasury Secretary Yellen's moves to shift debt issuance toward shorter maturities "manipulated the amount of interest rate risk owned by investors." Things might get awkward should Trump Treasury head Scott Bessent do the same as the national debt tops *$37 trillion*.

(4) *Structural reforms*. Miran has also called for shorter terms for Fed governors. He prefers eight-year terms, not the current 14 years, while making it easier for presidents to fire Fed governors. Another *structural reform* Miran advocates is making the presidents of the 12 district banks permanent monetary policy votes.

Yet it's Miran's policy leanings that may garner the most attention. One is his vocal advocacy for a weaker dollar, a stance that's exceedingly rare in senior Fed circles. Another is prioritizing the full-employment half of the Fed's dual mandate over price stability. And perhaps being enthusiastic about using the Fed Put's powers more actively should Trump's tariff policies unnerve stock and bond markets or be ruled illegal by the courts.

(5) *Only loyalists need apply*. Installing loyalists at the Fed has ended badly before. Look no further than Arthur Burns' stint as chair from 1970 to 1978, which set the stage for the worst US inflation shock in modern history. This isn't necessarily how the Trump era will end. But markets are likely to scrutinize Miran's every word and deed even more closely than others on the Board of Governors.

Global Inflation: Losing Steam, But Still Warm. Trade frictions and tariff flare-ups remain a near-term inflation risk, even though they haven't ignited a fresh global price surge. Inflation worldwide has eased from the fevered peaks of the pandemic era, but the descent has been uneven and far from complete relative to the 2.0% inflation targets of most of the major central banks. Both headline and core measures have cooled from their highs, but they continue to run above pre-COVID benchmarks.

Consider the following global inflation data:

(1) *OECD: cooling trend with residual heat*. The Organization for Economic Co-operation and Development (OECD) composite CPI, a purchasing power parity-weighted average of its 38 members, shows the post-pandemic inflation wave receding after it peaked in 2022, though both headline and core remain well above 2019 norms (*Fig. 1*). OECD headline CPI ticked up to 4.2% y/y in June, up from May's 4.0% reading, while the core CPI edged up to 4.5% y/y in June, up from May's 4.4% OECD inflation may be near its lowest levels since mid-2021, but it remains materially higher than the 2019 pre-pandemic average of around 2.0%.

The OECD's country breakdown shows that 21 of the 38 OECD members recorded higher headline inflation in June compared with May, while seven managed declines, and ten were unchanged. Turkey was the clear outlier, with June inflation soaring 35.0% y/y.

(2) *Cooler energy, warmer food*. While energy prices have certainly fallen from their extreme highs in 2022, further deflation may not be in the cards. OECD energy inflation, which had been easing for two months, turned positive in June at 0.9% y/y, though 16 member countries still reported declines (*Fig. 2*).

Food inflation continues to reflect the combined effects of unfortunate weather events hurting crop yields, ongoing supply chain bottlenecks, and labor shortages in key agricultural and production sectors. Food inflation held steady at 4.6% y/y. However, the global dispersion here was wide: 21 countries saw increases in food inflation, 12 experienced declines, and five were roughly flat.

(3) *G7: Core keeps the pace*. For the G7 nations, components of core inflation continue to be the main drivers of inflation because energy prices have been steady after falling from their 2022 highs. G7 headline inflation rose from 2.4% y/y in May to 2.6% in June (*Fig. 3*). The G7's core inflation rate was flat at 2.9% y/y from April through June. The largest increases in headline inflation were in the US and France, driven by service-sector and food-related inflationary pressures, reported the OECD. Japan saw the sharpest decline, with falling energy prices more than offsetting higher food costs. Inflation was broadly stable in Germany, Italy, Canada, and the UK.

(4) *Durables goods inflation: tariffs cast a long shadow*. So far, the feared tariff shock to global prices has not materialized, yet the prices of durable goods, like appliances, electronics, and vehicles, remain firmly on the radar for policymakers.

The surge in durable goods prices in 2021–2022, driven by pandemic-related supply chain bottlenecks, has largely faded. US durable goods inflation surged to a peak of 20.7% during February 2022 and has since settled to 1.3% in June. However, year-over-year durable goods inflation rates in June remained above pre-pandemic June 2019 rates in several key markets: Japan posted 1.7% (vs. 0.1% in 2019), South Korea 0.7% (-0.7%), Taiwan 1.2% (-0.2%), the US 0.6% (0.4%), and the Eurozone 0.2% (-0.4%) (*Fig. 4*).

US CPI data came out yesterday as we were writing this, which showed that US durable goods inflation rose to 1.3% in July, providing evidence that tariff related costs may be starting to roll into consumer prices.

(5) *Nondurables and services: inflation's sticking around*. Nondurable goods inflation—which includes everyday essentials like food, clothing, and household products—has fallen in recent months across several select countries, according to national data, though it also remains mostly elevated for these countries compared to pre-pandemic levels (*Fig. 5*).

Services inflation is less directly influenced by tariffs and trade disruptions yet it continues to be persistent (*Fig. 6*) In the US, the services inflation rate stood at 3.8% y/y in July, well above pre-pandemic rates. This "stickiness" in services prices creates ongoing challenges for policymakers aiming to tame overall inflation while keeping an eye out for risks that haven't shown up yet in the durables data.

Strategy: Estimate Revisions Data Rockets Out Of The Ashes. This week, LSEG released its August snapshot of the monthly consensus earnings estimate revision activity over the past month. While the company provides raw data for all its polled measures, we focus primarily on the revenues and earnings forecasts, captured in our *S&P 500 NRRI &*

NERI report. There, the analysts' estimate revisions activity is indexed by the number of upward revisions in forward earnings less the number of downward ones, expressed as a percentage of total forward earnings estimates. We look at this activity over the past three months because that timespan encompasses an entire quarterly reporting cycle. Since analysts' tendency to revise their estimates differs at different points in the cycle, three-month data are less volatile—and misleading—than a weekly or monthly series would be.

Joe's review of the August data found that revisions activity continues to improve relatively broadly among the 11 sectors since the S&P 500's NERI bottomed in May, and at a very rapid pace for most of those sectors with positive NERI:

(1) *S&P 500 NERI positive again.* The S&P 500's NERI index, which measures the revisions activity for earnings forecasts, turned positive in August for the first time in 11 months. It jumped to 0.2% from -4.2% in July and is up from a 28-month low of -7.8% in May (Fig. 7). A zero reading indicates that an equal number of estimates were raised as were lowered over the past three months.

August's 0.2% reading ranks smack dab in the middle of its observations since March 1985, when the data were first calculated, and is above the average reading of -1.9% seen since. However, the 4.4ppt m/m jump in NERI during August was its biggest move in 26 months and ranks in the top 10% of the m/m changes since then.

(2) *More sectors have positive NERI.* Five S&P 500 sectors recorded positive NERI in August, the highest count since November and up from three sectors in July. That's a notable improvement too from May, when Utilities was the only sector with positive NERI. Financials and Industrials improved markedly m/m, becoming the latest entrants in the positive NERI club (Fig. 8 and Fig. 9). Financials has been in the positive club during 15 of the past 18 months, and its NERI soared the most in five years during August, rising 8.9ppts m/m to 4.6%. Industrials' NERI has been negative in 14 of those 18 months, but rose the most in two years during August, 6.0ppts to 0.4%.

Also in the positive NERI club, Communication Services' latest reading was best in class among the S&P 500's 11 sectors (Fig. 10). This sector's NERI was positive for a third straight month and at a seven-month high of 7.1%. Close behind was Information Technology, which improved for a third straight month to a 42-month high of 6.6% (Fig. 11). While Utilities' NERI may not be improving as strongly, its positive NERI streak of 15 months leads all sectors (Fig. 12).

Here are the August NERI readings for the S&P 500's 11 sectors: Communication Services (7.1%, seven-month high), Information Technology (6.6, 42-month high), Financials (4.6), Utilities (1.0, eight-month high), Industrials (0.4, 12-month high), S&P 500 (0.2, 11-month high), Real Estate (-0.5), Health Care (-0.6, nine-month high), Materials (-4.0, 12-month high), Consumer Discretionary (-7.0), Consumer Staples (-7.7, nine-month high), and Energy (-8.5).

Calendars

US: Wed: Mortgage Applications. **Thurs**: Initial Claims 220k; Headline & Core PPI 0.2%/0.2%; Barkin; Fed's Balance Sheet. (Source: FX Street)

Global: Wed: Germany CPI 0.3%m/m, 2.0%y/y; Germany WPI 0.2%; Spain CPI -0.1%m/m, 2.7%y/y. **Thurs:** Eurozone GDP 0.1%q/q,1.4%y/y; Eurozone Industrial Production -0.9%; UK GDP 0.1%; UK Industrial Production 0.4%; UK Trade Balance -£21.7b; France CPI 0.2%m/m,1.0%y/y; Eurogroup Meetings; Japan GDP 0.1%q/q,0.4%y/y; China Retail Sales 4.6%; China Unemployment Rate 5.1%; China Industrial Production; China NBS Press Conference. (Source: FX Street)

US Economic Indicators

CPI (link): The *headline CPI* rose 0.2% in July, in line with expectations, and a tick below June's 0.3%—which was the highest since January. The Bureau of Labor statistics notes *shelter* was once again the largest contributor to July's CPI, despite its only 0.2% uptick. The *food* index was flat, with *food away from home* up 0.3%, while *food at home* ticked down 0.1%. Meanwhile, *energy* prices fell 1.1%, led by a 2.2% drop in *gasoline prices*. The CPI ex food & energy rose 0.3%, a tick above June's 0.2% gain. Indexes that *moved higher* in July, were air fares (4.0), medical care (0.7), used cars & trucks (0.5), recreation (0.4), and household furnishings & operations (0.4). Lodging away from home and communications were among the few major indexes that decreased during the month. Looking at the *yearly rates*, the *headline* rate held at 2.7% in July, after easing from 3.0% in January to a four-year low of 2.3% in April; it was at 2.4% in May. The *core* rate rose to 3.1% y/y in July, following four months below 3.0%. The *headline* rate peaked at 9.1% during June 2022, while the *core* rate peaked at 6.6% during September 2022. Categories posting noticeable increases over the past year include motor vehicle insurance (5.3% y/y), shelter (3.7), medical care (3.5), household furnishings & operations (3.4), and recreation (2.4).

NFIB Small Business Optimism Index (link): The *Small Business Optimism Index (SBOI)* climbed 1.7 points to 100.3—slightly above the 52-year average of 98.0. Meanwhile, the Uncertainty Index increased 8.0 points to 97.0, though the NFIB's chief economist Bill Dunkelberg notes, "While uncertainty is still high, the next six months will hopefully offer business owners more clarity, especially as owners see the results of Congress making the

20% Small Business Deduction payment permanent and the final shape of trade policy." In July, six of the 10 *components of the SBOI* increased, two decreased, and two were unchanged. Contributing positively to July's SBOI was expect the economy to improve (+14ppts to 36%), followed by now is a good time to expand (+5 to 16), while the remaining four components showed little change, plans to increase inventories (+2 to 1), current inventory (+2 to -3), plans to increase employment (+1 to 14), and plans to make capital outlays (+1 to 22). Meanwhile, current job openings (-3 to 33) and sales expectations (-1 to 6) were a minor drag, while earnings trends and expected credit conditions were unchanged at -22% and -4%, respectively. Quality of labor (21%) was the *single most important problem for small business owners* in July, with taxes (17), inflation (11), poor sales (11), and cost of labor (9) rounding out the top five. The bottom five ranged from 3% to 8%. The net percentage of owners *raising selling prices* fell to 24% in July, after climbing from 25% in April and May to 29% in June. It was at 32% in February—which was the highest percentage since May 2023—while a net 28% of owners plan price hikes in the next three months, down from 32% in June. Turning to *compensation*, a net 27% reported raising compensation in July, down from 33% in June, while a net 17% plan to raise compensation in the next three months, down from 19% in June and 20% in May; it peaked recently at 28% in November.

Contact us by email or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102