August 19, 2025

Morning Briefing

Talking Fed Heads

Executive Summary: To cut or not to cut? Fed Chair Powell's speech at the annual Jackson Hole symposium on Friday may hint at which way he's leaning. The stakes of the FOMC's September 16-17 meeting decision could hardly be higher: The economic support for a federal funds rate cut is dubious amid a resilient economy, Dr Ed maintains, and unwarranted cutting could invite the Bond Vigilantes, a stock market meltup, and financial system destabilization. Yet the Trump administration is pushing hard for a rate cut, and investors widely expect one. William parses the viewpoints of individual FOMC members and a dovish Trump loyalist who looks likely to be on the committee in September—making at least three rate-cut advocates at the table.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

The Fed I: Rate Cut Isn't a Slam Dunk. Will the next policy meeting of the Federal Open Market Committee (FOMC), on September 16-17, be the most consequential of its 112-year history? Every meeting seems consequential to investors just before it occurs, so we doubt it. But with stock investors confident of a rate cut, President Donald Trump demanding one, and the economic support for one so far ambivalent at best, the US central bank's September 2025 decision will be important for sure. An unwarranted cut of the federal funds rate could have unintended consequences that include a stock market meltup and a bond market meltdown.

"This time, it's different." Sir John Templeton famously called that phrase "the most dangerous four words in investing." But rarely has it been so apropos.

Among the unprecedented exogenous events that could impact monetary policy-setting since the FOMC met in July: (1) President Trump has railed unrelentingly against Chair Jerome Powell and Fed independence; (2) Treasury Secretary Scott Bessent called for *150-175bps* of easing; (3) the President *fired* Bureau of Labor Statistics (BLS) head Dr. Erika McEntarfer for statistical insubordination; (4) he has leaned on Goldman Sachs to *replace* its chief economist for forecast insubordination; and (5) Trump has nominated his Council of Economic Advisers Chief Stephen Miran to fill a vacated FOMC seat; Miran's confirmation would raise to three the FOMC's clearly-rate-cut-minded voting members.

Adding another layer of complexity to the FOMC's decision are conflicting signs on the US data front. News on August 1 that the US added just *73,000 jobs* in July, and that May and June totals were revised down by a combined 258,000 jobs, was widely received as a sign of labor market weakness. It's the reason that Trump fired Dr. McEntarfer and that the stock market sees a September rate cut as inevitable. However, we see in those same numbers not slackened demand for labor but employers' hesitancy to hire amid tariff uncertainty. We maintain that the economy is resilient and doesn't need a monetary jolt.

The plot thickened anew two weeks later when July inflation data hit the tape. The *0.9% m/m jump* in producer prices was the biggest monthly jump since June 2022, one that augurs poorly for June's PCED inflation rate to be released at the end of this month. It was also the statistical equivalent of throwing ice water on the cut-rates-now argument.

Let's explore where these mixed signals leave the Fed:

(1) *Powell's tough balancing act*. All this makes Powell's speech at the Fed's annual Jackson Hole retreat on Friday the most anticipated of his *90 months* as Fed chair. Typically, the Jackson Hole confab amidst the majestic Grand Tetons is a moment of monetary reflection for policymakers from Washington, Frankfurt, and Tokyo to take stock, compare notes, and kick the tires on responses to global challenges. This year's proceedings will take place in the shadow of the Trump administration's mountainous pressure to lower interest rates.

(2) *Rate cut isn't a slam dunk*. Chicago Fed President Austan Goolsbee, voicing his view of the Fed's efforts to understand how tariffs are affecting price dynamics, told CNBC on August 15 that July data inserted "*a note of unease*" to these efforts. Service prices, Goolsbee said, are "kicking up" under pressures that aren't obviously transitory, and another inflation report is needed "to figure out if we're still on the golden path."

(3) *The Trump of it all*. Powell's challenge for Friday's speech is to walk a very fine line in depicting an economy that's neither listing toward recession nor about to overheat—while knowing that Trump is likely to be live-tweeting his disapproval at any suggestion that a mega rate cut might not be forthcoming.

Clearly, the Trump-Bessent rate-cut argument has its FOMC sympathizers. Also speaking in Wyoming this week, albeit at a blockchain symposium, will be the two Fed board members who've been waging the most noteworthy *monetary protest* in more than 30 years: Governor Michelle Bowman *goes first* on Tuesday, followed by Governor Christopher

Waller on Wednesday. It's doubtful that either rate-cut proponent would pass up the chance to update their calls to lower the federal funds rate at the next FOMC meeting.

Notably, July 30 marked the first time since *December 1993* that two Fed governors dissented from the committee's prevailing decision (both voted for a 25bps rate cut).

The Fed II: Where Individual Members Stand. Let's examine the rate-cut pro and con stances of FOMC voters (and prospective voter Miran) as well as some vocal nonvoting meeting participants:

(1) *Bowman.* Since July 30 but before the July inflation data were known, Bowman made it clear she's with Trump and Bessent. On August 9, *she said*: "As I gain even greater confidence that tariffs will not present a persistent shock to inflation, I see that upside risks to price stability have diminished." Bowman added that "with underlying inflation on a sustained trajectory toward 2%, softness in aggregate demand and signs of fragility in the labor market, I think that we should focus on risks to our employment mandate."

(2) *Waller.* Waller made clear in his *dissenting statement* that "I believe that the wait and see approach is overly cautious, and, in my opinion, does not properly balance the risks to the outlook and could lead to policy falling behind the curve."

(3) *Miran.* The odds are that Council of Economic Advisers Chair Stephen Miran, Trump's pick to serve out the rest of Governor Adriana Kugler's term (ending January 31, 2026), will be at the FOMC table for next month's meeting. He's almost certain to add a third dissenting voice should the committee vote to leave the federal funds rate in the current 4.25%-4.50% range.

Miran, a top architect of Trump's tariff policy, *told* CNBC on August 12 that "[t]here just still continues to be no evidence whatsoever of any tariff-induced inflation. I think [for] lots of folks who are expecting that, who are predicting doom and gloom, it just hasn't panned out, and it continues to *not pan out* for them."

(4) *Cook*. Fed Governor Lisa Cook seems somewhere in the middle. At an August 6 Boston Fed symposium, Cook allowed that the July jobs data were "concerning" and that "these revisions are somewhat typical of *turning points*."

(5) *Williams.* Yet it's not clear that the rate-cut argument is resonating as much as Trump and Bessent have hoped. New York Fed President John Williams, for example, told *The*

Wall Street Journal on August 1 that the labor market remains solid even after the May-June payroll revisions. Williams said he's approaching September with "very much an open mind."

The problem, notes Michael Pearce at Oxford Economics, is that "tariffs are *feeding through unevenly* and will continue to push inflation higher in the coming months. It will be difficult for policymakers to tease out one-off tariff effects from longer-lasting inflationary pressures."

(6) *Schmid.* Kansas City Fed President Jeffrey Schmid, a voting FOMC member and host of the Jackson Hole symposium, told an audience in Oklahoma City on August 12 that monetary policy is "*appropriately calibrated*" at the moment.

"With the economy still showing momentum, growing business optimism, and inflation still stuck above our objective, retaining a modestly restrictive monetary policy stance remains appropriate for the time being. … While increased tariffs seem to be having a limited effect on inflation, I view this as a rationale for keeping policy on hold rather than an opportunity to ease the stance of policy."

(7) *Musalem.* On August 14, voting FOMC member and St Louis Fed President Alberto Musalem called market chatter about a 50bps rate cut "unsupported." The figure came from Bessent, of course. But Musalem *told CNBC* that it's premature for him to know what policy he could support at the September meeting.

(8) *Collins.* Corporate America is struggling to cope with all the tariff-related uncertainty. Boston Fed President Susan Collins—and current FOMC voter—in an *August 6 public appearance* alongside Governor Cook detailed the earful she is getting from businesspeople. She described a "wait-and-see" approach to pricing decisions and "a general sense of disorientation across the economy" that reinforce the sense of unprecedented times. "Most of the literature that I'm aware of does focus on real activity, but the idea of a direct uncertainty effect on pricing decisions … wasn't something I had thought about. … But it's certainly something that I've been hearing specifically about." She even called Trump's Tariff Turmoil an "*uncertainty tax*" that remains "top of mind across a wide range of different industries."

Cook concurred. She said businesses are spending excessive amounts to manage the uncertainty and called it "*deadweight loss*."

(9) *Non-voting members.* Among non-voting FOMC members, Minneapolis Fed President

Neel Kashkari seems predisposed toward a September rate cut. “Wage growth is coming down,” he *told CNBC* on August 6. “We’ve seen the jobs number, and consumer spending is cooling. All of that suggests the real underlying economy is slowing.”

Also apparently predisposed toward a cut is San Francisco Fed President Mary Daly. In an *August 6 speech* to a business forum in Anchorage, she said: “The labor market has softened. And I would see additional slowing as unwelcome, especially since we know that once the labor market stumbles, it tends to fall quickly and hard. All this means that we will likely need to adjust policy in the coming months.”

Others are less preoccupied by downside risks. Cleveland Fed President Beth Hammack argues that, despite “*disappointing*” jobs data, the labor market remains healthy. On August 1, she *told Bloomberg* that “it looks like a healthy labor market that’s still well in balance, but with some ... disappointing signs that we should watch very carefully.”

According to a *CBS News interview* broadcast on August 4, Hammack said “both sides of our mandate are being challenged. And so the decision of which way to go and how quickly to move is a really difficult one right now.”

Another difficult one: knowing where monetary policy changes can and can’t work, circa 2025. Goolsbee points to figuring out the extent to which slowing job growth may reflect *declining immigration*—a key Trump priority. In the meantime, Goolsbee is prioritizing the fact that the jobless rate remains at a historical low of 4.2%. As he told a Springfield, Illinois, audience on August 13: “I think the state of the labor market is pretty strong, pretty solid.”

On August 13, Atlanta Fed President Raphael Bostic said that policymakers have the “*luxury*” of taking their time “because the labor market has been pretty much at full employment.” If upcoming data confirm the weakness hinted at in July, “then maybe the risks are more in balance, and we should be thinking [that] our ability to be patient is much less than it was before. …[T]hat’s the question we’re going to try to have an answer for.”

The Fed III: How a Rate Cut Could Backfire. The Kalshi prediction market assigns a *73% chance* of a 25bps cut at the September 16-17 meeting. It assigns only a 4% chance of a bigger move. The CME FedWatch Tool sees an 83% probability of a small rate cut.

One reason the Powell-led Fed might disappoint Trump and Bessent with only a small rate cut is fear of the signal that a sizable cut might send to jittery world markets. As Andrew Brenner at NatAlliance Securities notes, a supersized cut might “send a panic message,” doing more harm than good.

Additionally, a sizable rate cut might not drive longer-term borrowing costs and mortgage rates lower, as Trump World assumes. After the FOMC cut rates by 50bps in September 2024, the bond market pushed back assertively, driving up yields. As we pointed out in an August 13 *QuickTakes*, the Bond Vigilantes "may be lurking" again. Even if a stock market that's all-in for rate cuts welcomes easing with a meltup, a bad bond market reaction could shake the entire financial system.

Calendars

US: Tues: Housing Starts & Building Permits 1.29mu & 1.39mu; Atlanta GDPNow 2.5%; Bowman. **Wed:** Mortgage Applications. (Source: FX Street)

Global: Tues: Canada CPI 2.7%y/y; Japan Core Machinery Orders -1.0%m/m, 5.0%y/y; PBoC Loan Prime Rate 3.90%. **Wed:** Eurozone Headline & Core CPIs 2.0% & 2.3% y/y; Germany PPI 0.1%m/m, -1.3%y/y; UK Headline CPI -0.1%m/m, 3.7%y/y; Lagarde. (Source: FX Street)

Strategy Indicators

S&P 500/400/600 Forward Earnings (*link*): During the August 15 week, forward earnings rose simultaneously for all three of these indexes for the 11th time in the 12 weeks since May 30. LargeCap's forward earnings rose for a 13th straight week, its longest winning streak since it did so for 38 weeks through the September 13, 2024 week. MidCap's rose for the 12th time in the 13 weeks since it bottomed during the May 16 week. SmallCap's has risen for 12 straight weeks since it bottomed during the May 23 week, and is now on the longest winning streak since it did so nearly four years ago for 15 weeks through the December 17, 2021 week. LargeCap's forward earnings rose 0.3% w/w to its 11th straight weekly record high. MidCap's rose 0.2% w/w to a 19-week high and is 0.2% below its record high during the April 4 week. SmallCap's rose 0.2% w/w to a 47-week high and is 10.7% below its June 2022 record. LargeCap's forward earnings has soared 28.3% from its 54-week low during the week of February 1, 2023; MidCap's is just 8.9% above its 55-week low during the week of March 10, 2023; but SmallCap's has lagged considerably and is up just 4.6% from a very recent 42-month low during the May 23 week. These three indexes' forward earnings downtrends from mid-2022 to early 2023 and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 10.1%, 13.4%), MidCap (0.4, 2.2, 17.5), and SmallCap (-10.2, 4.0, 17.7).

S&P 500/400/600 Valuation (*link*): Valuations were higher w/w for all three of these indexes during the August 15 week. LargeCap's forward P/E rose 0.2pt w/w to 22.3, and is just 0.1pt below its four-year high of 22.4 during the July 25 week. It's now 5.3pts above the seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E rose 0.2pt w/w to 15.9. It's now 1.2pts below its 40-month high of 17.1 during the November 29 week and 3.7pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E rose 0.4pt w/w to 15.2 from a nine-week low of 14.6, and is 0.4pt below its 20-week high of 15.6 during the July 4 week. It's 2.3pts above its 17-month low of 12.9 during the April 4 week and 4.6pts above its 14-year low of 10.6 in September 2022, but remains 1.2pts below its 41-month high of 17.1 during the November 29 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed, and a record low of 10.2 in November 2009 during the Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E is at a 28% discount to LargeCap's P/E, up from a 26-year low 29% discount a week earlier, which matched its similar 29% discount during the July 5, 2024 week. That compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. SmallCap's P/E is at a 31% discount the LargeCap's P/E, up from a 13-month-low 33% discount a week earlier. That compares to a 23% discount during the November 29 week, which was its best reading since the March 2, 2023 week. It's now just 3ppts above its 24-year-low 34% discount during the July 5, 2024 week. SmallCap's P/E is at a 4% discount to MidCap's, up from a 13-month low 6% discount a week earlier and a 20-year-low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

US Economic Indicators

NAHB Housing Market Index (*link*): "Affordability continues to be the top challenge for the housing market and buyers are waiting for mortgage rates to drop to move forward," notes

NAHB Chairman Buddy Hughes. “Builders are also grappling with supply-side headwinds, including ongoing frustrations with regulatory policies connected with supply-side headwinds, including ongoing frustrations with regulatory policies connected to developing land and building homes.” August’s *housing market index* (HMI) edged down from 33 in July to 32 in August—the lowest since December 2022. In August, the components of the index were mixed, with *current sales* conditions slipping a point to 35 and *sales expectations* unchanged at 43. *Traffic of prospective home buyers* posted a two-point gain to 22, though remains at a very low level. *Turning to prices*, 37% of homebuilders reported cutting prices in August, down from 38% in July—holding between 37% and 38% the past three months. The *average price cut* held steady at 5% again in August—the same as it’s been every month since last November. The *use of sales incentives* rose from 62% in July to 66% in August—the highest percentage in the post-Covid period.

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