August 27, 2025

Morning Briefing

On US Labor Market, The Dollar In Asia & SMidCaps

Check out the accompanying chart collection.

Executive Summary: The balance of risks in the US labor market is shifting, as Fed Chair Powell discussed at the Fed's Jackson Hole Symposium last Friday. Today, Melissa breaks the labor market down into its moving parts, identifying the areas of strength and weakness with reference to Powell's views. … Also: Don't short-change the US dollar; its global supremacy is secure for solid reasons that William explains. …And: Joe discusses the wild ride that sent US stock market indexes plummeting and soaring so far this year and where it has deposited the major ones at this point in time.

US Labor Market: Balance of Risks. There are plenty of bright spots in the labor market. Hours worked, productivity, and real wages are climbing, boosting consumer spending power. But while employers generally are holding onto workers, many are reluctant to add new ones. Payroll gains have slowed, unemployment spells are lengthening, and new graduates face the toughest job market in years.

Many employers are holding off on hiring plans because of concern about the potential profit impacts of President Donald Trump's tariffs. If the FOMC votes to cut interest rates when it meets in September, as widely expected, such worries may ease. But certain structural forces weighing on hiring from both the supply and demand sides will remain. These include aging demographics, tighter immigration, and rapid technological change.

Fed Chair Jerome Powell's Jackson Hole *speech* last Friday addressed how the balance of risks in the labor market is shifting. With reference to points he made, let's look at the upsides and downsides of this shifting terrain:

(1) *Upsides: workweek, productivity & wages*. Rather than expanding payrolls, employers are stretching output by adding hours and relying on productivity gains to meet labor demand. The average workweek for private-sector employees ticked up to 34.3 hours in July, up 0.1 hour from June (*Fig. 1*). That helped to push private-sector aggregate weekly

hours worked to another record (*Fig. 2*). Labor productivity (output per hour) increased by 2.4% q/q (saar) in Q2, pushing up real nonfarm business output to 3.7% q/q (saar) as real GDP (saar) advanced 3.0% q/q (*Fig. 3*).

Despite weaker hiring momentum, the purchasing power of employees is steadily rising. Real average hourly earnings in private industry have steadily climbed from a recent bottom of $27.60 in June 2022 to $28.70 in June 2025 (*Fig. 4*).

(2) *Upside: stable unemployment rate, for now.* The unemployment rate has been stable at historically lows over the past year, edging up in July to 4.2% (*Fig. 5*).

(3) *Downside: payroll growth slows.* Fed Chair Powell *warned* in his Jackson Hole speech that the downside risks to employment are rising and could materialize "quickly in the form of sharply higher layoffs and rising unemployment."

For now, the weakness in the job market is showing up in slower hiring. Specifically, payrolls in the July employment report rose just 35,000 per month over the past three months, down from 123,000 during July 2024 (*Fig. 6*).

(4) *Downsides: lower supply & demand*. Powell observed that the labor market is in "a curious kind of balance that results from a marked slowing in both the supply of and demand for workers." On the supply side, labor force participation slipped to 62.2% in July (*Fig. 7*). Labor force growth also has slowed this year, led by a sharp falloff in immigration.

On the demand side, job openings fell to 7.4 million in June, nearly five million below the March 2022 peak (*Fig. 8*). The August 21 *WSJ* notes that employers are freezing hiring as tariffs raise costs and Fed uncertainty clouds outlooks. One in five employers now plans to slow hiring in the second half of 2025, double last year's share, according to a Conference Board survey.

(5) *Downside: longer unemployment timeline*. The widening gap between the average and median unemployment duration signals further labor market fragility: Long-term joblessness erodes skills, drives people out of the labor force, and leaves older and less-skilled workers most exposed.

The average unemployment duration rose to 24.1 weeks in July, the longest since April 2022 (*Fig. 9*). The median is just 10.2 weeks, showing that many folks find jobs quickly while others are stuck unemployed for longer. Rising continuing jobless claims reinforce that re-entry is becoming tougher.

(6) *Downside: recent graduates struggling to find jobs*. Entry into the labor market for young college educated folks is challenging. The St. Louis Fed *finds* that young college graduates are experiencing higher unemployment rates, at 4.59%, than in 2019, just before the pandemic (3.25%).

"These disparities suggest that the traditional premium associated with higher education—at least for quickly landing a job—may be weakening," the researchers observe. They also cite the impact of artificial intelligence on professional roles as a possible factor.

(7) *Downside: limits of monetary policy*. Powell said at Jackson Hole that "monetary policy can work to stabilize cyclical fluctuations but can do little to alter structural changes." In other words, while investors cheered the green light for September rate cuts, the Fed's easing won't reverse demographic headwinds, tighter immigration, or technology-driven shifts in hiring.

US Dollar I: Why Asia Won't De-Throne King Dollar. Dollar bears in Asia are having a surprisingly rough 2025, with the US currency *up 6.1%* versus the yen so far this year.

Six months ago, bets against the dollar made reasonable sense. The chaotic rollout of Trump's tariffs raised valid questions about the safety of the US currency. Worries about inflation, budget-busting tax cuts, and Trump's assault on the Federal Reserve only buttressed the argument that the dollar would weaken, perhaps to the point of losing its global supremacy among currencies.

Yet the dollar isn't following the bearish script in Asia. The region's inability to dethrone King Dollar is significant considering that Asia is where Washington turns to finance its budget imbalances.

Let's look at why Asia can't quit the dollar:

(1) *Washington's top bankers*. Japan, the biggest holder of US Treasury securities with *nearly $1.15 trillion worth*, isn't selling. China, Washington's No. 2 banker, holds $756 billion, little changed from the start of the year. Ditto for Taiwan, Singapore, India, and South Korea. The reason is a dearth of viable alternatives.

The East-West divide on the dollar can make for quite a dramatic split-screen. The euro's

12% increase versus the dollar is the mirror image of dollar-yen's chart. Yet the euro isn't exactly increasing its share of currency reserves, stuck for years *around 20%* to the dollar's 58%.

(2) *Front-running the Fed*. Besides sticking with the dollar, many Asian central banks have begun cutting rates earlier than expected—or making clear pivots in that direction—to counter Trump's tariffs. Last week, Bank Indonesia and the Reserve Bank of New Zealand cut rates and signaled more easing to come.

Thursday should bring monetary policy decisions by two central banks that have been tilting dovish—in South Korea and *the Philippines.* Odds are rising that central banks in Malaysia, Taiwan, Thailand, and *Australia* likewise will be slashing borrowing costs.

US Dollar II: Risk of Trump's Fed Adventurism. One motivation for Asian nations to lower interest rates is maintaining their trade competitiveness. For all of East Asia's efforts to wean itself off exports, the region remains highly dollarized—hence, the urgency to front-run the Fed.

(1) *Fed's big pivot*. Fed Chair Powell's own pivot toward looser US policy is a work in progress, of course. Powell seemed to signal in his Jackson Hole speech Friday that he's leaning toward a rate cut. *Much could change* in the few weeks between now and the Fed's September 16-17 policy meeting, however, especially if upcoming data confirm that the labor market remains robust.

Asia, by cutting now and suggesting more cuts to come, is acting proactively ahead of slower economic growth in the second half of the year, courtesy of the US tariffs. As a result, if the Fed begins easing, Asian exchange rates are unlikely to fall precipitously, fanning inflation risks.

(2) *Trump's tariff bark*. A slower second half of the year, in some ways, will be a hangover from the heady first half. Asian economies generally performed well, owing partly to optimism that Trump's tariff bark would be worse than his bite and a burst of front-loading activity to beat tariffs boosted exports.

The bill for that demand surge is coming due as reality sets in. "In terms of policy responses, we expect central banks to continue to do the heavy lifting through *policy rate cuts* while the fiscal support remains more targeted," notes Lavanya Venkateswaran of Oversea-Chinese Banking Corp. "The fortunes from frontloading are likely to come to an end and weigh on export growth."

(3) *Fed dust-up.* There's reason to worry that Trump's intensifying pressure on the Fed to cut rates could give the dollar bears their day. After flirting with firing Powell, Trump on Monday moved to oust Fed Governor Lisa Cook for alleged mortgage fraud. Cook pushed back, saying Trump "*has no authority to do so*."

This unprecedented step constitutes a sharp escalation in the White House's efforts to exert greater control over the fiercely independent Fed. The dollar fell 0.3%, and *gold rose as much as 0.6%*, after the Cook news broke amid fears that overly loose Fed policy will fuel inflation.

For now, though, Asia isn't throwing in the towel on the dollar despite the myriad risks—unless Trump's Fed adventurism flips the script.

Strategy: Is It SMidCap's Time Yet? The US stock market has had a roller coaster of a ride this year. Many of its indexes traded at record highs until Trump's inauguration in January, then tumbled as he began imposing tariffs. Nearly all swooped into correction territory with declines of 10%-20%, and a few plunged into bear markets with even deeper drops.

Since then, recoveries have lifted the S&P 500, the Magnificent-7, and the S&P 493 (i.e., the 500 without the Mag-7) to new record highs through Monday's close. The "SMidCaps" (i.e., the S&P SmallCap 600 and the S&P MidCap 400 collectively) hasn't returned to its post-election record highs of late November. But just recently, it has begun to outperform its large-cap peers, as Jackie discussed in the August 21 *Morning Briefing*. Could that signal a reversal of fortune?

The Magnificent-7 group of stocks, with a ytd gain of 10.6% in its collective market capitalization, has outperformed the S&P 500's 9.5% ytd rise only slightly. If the Mag-7's ytd performance were to slip below the S&P 500's by the end of 2025, it would mark only the second time in 13 years that the group lagged the broad index. The S&P 493 has risen 8.9% ytd, considerably outperforming the SMidCaps: The S&P MidCap 400 has gained 3.5% so far this year, and the S&P SmallCap 600 has risen 1.5%.

Despite the mixed price performances of the three capitalization-size indexes this year, the fundamentals remain generally stronger for the LargeCaps.

Below, Joe details the strides that the companies in each index collectively made in forward fundamentals so far this year (as a reminder, forward revenues and earnings are the time-weighted averages of analysts' consensus estimates for the current and following year; the forward profit margin is derived from forward revenues and earnings):

(1) *Forward revenues.* The Magnificent-7's forward revenues has risen 8.3% ytd, more than double the rises for the S&P LargeCap 500 (4.1%) and the S&P 493 (3.5%) (*Fig. 10*). The S&P MidCap 400 has outperformed its larger-capitalization counterparts with a 4.7% ytd gain in forward revenues, but the S&P SmallCap 600 continues to lag considerably with a ytd decline of 4.1% to around a three-year low (*Fig. 11*).

SmallCap's forward revenues is now 9.0% below its September 2022 record high. Those of LargeCap, the S&P 493, and the Magnificent-7 all are at record highs. MidCap remains close, at just 0.5% below its April 9 record.

(2) *Forward earnings.* Before Trump's Tariff Turmoil (TTT), forward earnings forecasts were at record highs during April for all but the S&P SmallCap 600, which last hit that mark over three years ago in June 2022. The resulting uncertainty caused analysts to lower their estimates, but now forward earnings is back at record highs or nearly so.

Leading the way so far in 2025 is the Magnificent-7, with its forward earnings up 13.6% ytd, well ahead of the gains for the S&P LargeCap 500 (6.2%) and the S&P 493 (4.2%) (*Fig. 12*). All three of those indexes are at record highs.

The SMidCap's forward earnings continues to underperform. The S&P 400 MidCap's forward earnings is up just 1.3% ytd, and the S&P SmallCap 600's has risen 1.9% (*Fig. 13*). SmallCap's forward earnings remains 10.3% below its June 2022 record high, while MidCap's is just 0.3% below its early April record.

(3) *Forward profit margin.* The Magnificent-7's forward profit margin dropped 0.3ppt during TTT to a low of 25.9% during the May 20 week. It has rebounded since then to a new record high of 26.6% during the August 22 week. The Magnificent-7's forward profit margin has risen 1.2ppts from 25.4% at the start of the year.

The S&P 500's margin has improved 0.2ppt from 13.5% at the start of the year to another record high of 13.7% during the August 14 week (*Fig. 14*).

The S&P 493's forward profit margin ticked up from 11.9% at the year's start to a 24-month high of 12.0% in mid-January but then dropped 0.1ppt to an 11-month low of 11.8% during the April 25 week due to TTT. It since has gained 0.2ppt to 12.0% and is now heading toward a three-year high.

Among the SMidCaps, margins went in different directions (*Fig. 15*). The S&P MidCap 400's forward profit margin dropped 0.5ppt from 8.3% at the start of the year to a four-year low of 7.8% during the May 23 week. It since has risen to 8.0% but remains 0.3ppt lower ytd. The S&P SmallCap 600's forward profit margin dropped just 0.1ppt during TTT to a low of 6.3% from 6.4% at the start of the year. It since has risen 0.6ppt to a three-year high of 6.9%.

Calendars

US: **Wed:** MBA Mortgage Applications; Barkin. **Thurs:** Real GDP & Price Index 3.0% & 2.0%; Headline & Core PCED 2.1% & 2.5% q/q; Initial Claims 231k; Pending Home Sales -0.3%; Kansas City Fed Manufacturing Index; Fed Balance Sheet; Waller. (Source: FX Street)

Global: **Wed:** Germany Gfk Consumer Climate -21.5. **Thurs:** Eurozone Business & Consumer Survey 95.9; Eurozone M3 3.5%y/y; ECB Monetary Policy Meeting Accounts; Japan Unemployment Rate 2.5%; Japan Industrial Production -1.2%; Japan Retail Sales 1.6%y/y. (Source: FX Street)

US Economic Indicators

Consumer Confidence (*link*): "Consumer confidence dipped slightly in August but remained at a level similar to those of the past three months," according to the Conference Board. *Headline consumer confidence* fell 1.3 points to 97.4 in August, down from an upwardly revised 98.7 in July (from 97.2). Both the *present situation* (to 131.2 from 132.8) and *expectations* (74.8 from 76.0) components fell during the month—with the expectations component remaining below the threshold of 80, which typically signals a recession ahead, for the seventh consecutive month. Consumers' assessment of the *short-term labor market* cooled further in August, with 29.7% of consumers saying jobs are "plentiful," ticking down from 29.9%, while 20.0% said jobs were "hard to get," up from 18.9%. Consumers' outlook for *short-term business conditions* improved slightly again this month, with 22.0% of consumers saying business conditions were "good," up from 20.5% in July, while 14.2%

said business conditions were “bad,” up from 13.6% in July. Consumers’ outlook for the *labor market in six months* cooled further in August, with 17.9% of consumers expecting more jobs to be available, down from 19.8% in July, while 26.8% anticipated fewer jobs, up from July’s 25.1%. Consumers were less pessimistic about *future business conditions* this month, with 19.5% expecting conditions to improve, up from 19.0% in July, while 21.9% expected business conditions to worsen, down from 22.7% in July. Consumers’ outlook for their *income prospects* was less positive in August, with 18.3% expecting their incomes to increase, down from 18.7% last month, while 12.6% expected their incomes to decrease, up from 11.8% in July. *Write-in responses* once again showed that tariffs were the top concern for consumers this month, while inflation and high prices remained among consumers’ concerns. Inflation expectations rose to 6.2% y/y this month, up from 5.7% in July though still below the April peak of 7.0%. *Consumers’ outlook on stock prices* deteriorated slightly, with 47.4% expecting stock prices to rise over the next 12 months, down from 48.9% in July. Conversely, 30.3% of consumers expect a drop in stock prices over the next 12 months, up from 28.1% in July. *As for interest rates*, the share of consumers expecting rates to rise over the next 12 months rose to 54.0% from 53.1% in July, while fewer consumers expect interest rates to fall (20.9% from 21.4%).

Durable Goods Orders & Shipments (*link*): Durable goods orders contracted in July, reflecting a continued drop in transportation orders, mainly aircraft. *Orders for durable goods* sank 2.8% in July, after plummeting 9.4% in June, though July’s decline was narrower than June’s decline and below the consensus estimate of -3.8%. *Transportation equipment orders* sank for third time in four months, plunging 9.7% in July, with *nondefense aircraft & parts* tumbling 32.7% during the month. *Boeing* reported that it received only 31 aircraft orders in July, compared to 116 in June. *Excluding transportation*, orders rose 1.1%, with orders for computers & related products (3.5%), machinery (+1.8), and primary metals (+1.5) posting solid gains. *Nondefense capital goods orders*—a proxy for business spending—climbed 1.1%, rebounding from June’s 0.6% decline, while *shipments of core capital goods*, used in the calculation of the GDP component of business equipment spending, is on a steep uptrend, climbing 0.7% in July and 3.5% from its recent bottom in October 2024.

Regional M-PMIs (*link*): *Four regional Fed banks* so far have reported on manufacturing activity for August, *New York, Philadelphia, Dallas, and Richmond*. The New York and Dallas regions showed increases in activity, while the Philadelphia region was at a standstill, and Richmond’s continued to contract. *New York’s headline general business activity index* rose from 5.5 in July to 11.9 in August—to its highest level since November 2024. *New orders* (to 15.4 from 2.0) accelerated this month, while *shipments* (12.2 from

11.5) continued to expand at a solid pace. Meanwhile, *delivery times* (17.4 from 8.3) lengthened significantly, and *supply availability* (-5.5 from -11.0) worsened a bit. *Employment* (4.4 from 9.2) climbed slightly higher, while the *average workweek* (0.2 from 4.2) held steady. As for pricing, the *prices-paid* (54.1 from 56.0) measure was little changed this month but remained elevated, while *prices-received* (22.9 from 25.7) showed moderate selling pressure. *Turning to the Dallas region*, its *production index*—a key measure of state manufacturing conditions—was 15.3 in August, down from July's 21.3, though still well above average. *New orders* (to 5.8 from -6.3) showed growth for the first time since January, while *shipments* (14.2 from 2.7) shot up to its highest reading in more than three years. *Capacity utilization* (13.7 from 17.3) eased a bit though remained elevated. The *employment* (8.8 from 8.4) measure held fairly stable, while *hours worked* (15.0 from 7.7) climbed to its highest reading in more than three years. Turning to pricing, *prices paid for raw materials* (43.7 from 41.7) was well above its average reading of 27.4, while *prices received for finished goods* (15.1 from 11.1) was also at an elevated reading. The *Philadelphia survey's general business activity* (-0.3 from 15.9) measure was at a standstill in August. *New orders* (to -1.9 from 18.4) dipped into negative territory, while *shipments* (4.5 from 23.7) slowed considerably, though remained in positive territory. *Employment* (5.9 from 10.3) continued to register job gains, though at a slower pace, while the *average work week* (4.7 from 0.4) rose during the month. Turning to pricing, both measures remain elevated, though Philadelphia's *price-paid* (66.8 from 58.8) measure accelerated sharply—posting its highest reading since May 2022. *Prices-received* (36.1 from 34.8) accelerated, though was more subdued. *Turning to the Richmond region*, its composite manufacturing (to -7 from -20) index continued to contract, though at a slower rate, with all three of its component indexes—employment (-11 from -16), new orders (-6 from -25), and shipments (-5 from -18)—continuing to contract, though at slower rates. Price indexes in the Richmond region are yearly percent changes. The prices-paid (to 7.24% from 5.65%) measure shows an acceleration in inflation this month, while prices-received (3.14 from 3.16) held steady.

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