VIEWS | AUGUST 15, 2025

Economic news inflates–then tempers–Fed rate-cut expectations.

The market and economy

- Major U.S. equity market indexes moved higher over the week ending August 15, as relatively tame retail inflation data bolstered investors' hopes that the Federal Reserve (Fed) will implement an interest-rate cut next month. This optimism subsequently was blunted somewhat by concerns about accelerating inflation at the wholesale level.
- According to the Department of Labor, the consumer-price index (CPI) rose 0.2% in July, down marginally from the 0.3% rise in June and in line with expectations. Housing costs ticked up 0.2% and comprised the bulk of the increase in the index for the month. Conversely, prices for gasoline and utility gas service fell 2.2% and 0.9%, respectively, in July. The CPI advanced 2.7% year-over-year in July—unchanged from June and slightly below expectations. Costs for utility gas service surged 13.8% over the previous 12-month period, while electricity prices were up 5.5%. In contrast, gasoline and fuel oil prices saw year-over-year declines of 9.5% and 2.9%, respectively. Core inflation, as measured by the CPI for all items less food and energy, rose at 3.1% year-over-year in July, up from the 2.9% annual upturn in June. Housing prices increased 3.6% year-over-year, while costs for medical services and transportation services each were up 3.4%. Prices for used cars and trucks, medical services, and housing rose by corresponding margins of 4.8%, 4.3%, and 3.7% over the previous 12 months, while apparel prices dipped 0.2%.
- The CPI data led to growing expectations of a Fed rate cut next month. At the end of the week, CME's FedWatch Tool, which provides a gauge of the market's expectations of potential changes to the federal-funds target rate while assessing potential Fed monetary policy actions at Federal Open Market Committee (FOMC) meetings, implied an 86.9% chance that the central bank will reduce the federal-funds rate by 25 basis points (0.25%) to a range of 4.00% to 4.25% following its meeting on September 16-17.
- There are signs that U.S. tariffs on imported goods and services are beginning to have an impact on wholesale prices. The Department of Labor reported that the producer-price index (PPI), which tracks the average change over time in selling prices received by domestic producers of goods and service providers, posted a greater-than-expected advance of 0.9% in July—the largest monthly increase since June 2022. The services index surged 1.1% for the month, while the index for goods increased 0.7%. Wholesale prices for food and energy rose 1.4% and 0.9%, respectively, in July. The PPI advanced 3.3% year-over-year, up sharply from June's 2.3% gain.
- The University of Michigan's preliminary Index of Consumer Sentiment fell 3.1 points (5.0%) to 58.6 in August—the first decline in four months—and was down 9.3 points (13.7%) year-over-year. Consumers' expectations for inflation over the next 12 months increased 0.4 percentage point to 4.9% in August, while long-run inflation expectations rose 0.5 percentage point to 3.9%.
- The Census Bureau reported that U.S. retail and food services sales—a gauge of consumer spending—climbed 0.5% in July, in line with expectations but down from the 0.9% rise (adjusted upward from 0.6%) in June. Sales increased 3.9% over the previous 12-month period. Motor vehicle and parts dealers, and furniture and home furnishings stores posted the largest sales gains in July.
- Mortgage rates have declined for four consecutive weeks. The Federal Home Loan Mortgage Corporation (Freddie Mac) reported that the average interest rate on a 30-year fixed-rate mortgage dipped 5 basis points to 6.58% during the week ending August 14—the lowest level since the week ending October 24, 2024—but was up 9 basis points year-over-year.

Stocks

- Global equities gained ground for the week. Emerging markets outperformed developed markets.
- U.S. equities garnered positive returns for the week. Healthcare and consumer discretionary were the top-performing sectors, while utilities and consumer staples were the primary market laggards.
- Value stocks outperformed growth, while small caps surpassed large caps.

Bonds

- The 10-year U.S. Treasury note yield rose to 4.32% during the week.
- Global bond markets eked out a marginal gain for the week.
- Corporate bonds led the markets, followed by high-yield bonds and government bonds.

The Numbers as of August 15, 2025	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	1.2%	13.1%	17.1%	951.9
MSCI EAFE ($)	1.4%	20.2%	15.9%	2717.7
MSCI Emerging Mkts ($)	1.4%	18.3%	18.2%	1272.0
US & Canadian Equities				
Dow Jones Industrials ($)	1.7%	5.6%	10.8%	44946.1
S&P 500 ($)	0.9%	9.7%	16.4%	6449.8
NASDAQ ($)	0.8%	12.0%	22.9%	21623.0
S&P/ TSX Composite (C$)	0.5%	12.9%	21.2%	27905.5
UK & European Equities				
FTSE All-Share (£)	0.3%	10.9%	8.6%	4954.2
MSCI Europe ex UK (€)	1.2%	9.2%	7.5%	1927.4
Asian Equities				
Topix (¥)	2.8%	11.6%	19.5%	3107.7
Hong Kong Hang Seng ($)	1.7%	26.0%	47.7%	25270.1
MSCI Asia Pac. Ex-Japan ($)	1.7%	17.4%	19.7%	668.3
Latin American Equities				
MSCI EMF Latin America ($)	0.0%	25.5%	0.2%	2325.4
Mexican Bolsa (peso)	0.4%	17.8%	7.5%	58313.9
Brazilian Bovespa (real)	0.2%	13.3%	1.6%	136239.9
Commodities ($)				
West Texas Intermediate Spot	0.1%	-10.8%	-18.2%	64.0
Gold Spot Price	-1.7%	27.2%	35.9%	3338.3
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	0.1%	4.5%	3.1%	2288.5
JPMorgan Emerging Mkt Bond	0.7%	8.2%	8.9%	971.0
10-Year Yield Change (basis points*)				
US Treasury	3	-26	40	4.32%
UK Gilt	10	13	77	4.70%
German Bund	10	42	53	2.79%
Japan Govt Bond	8	47	73	1.57%
Canada Govt Bond	7	23	38	3.45%
Currency Returns**				
US$ per euro	0.5%	13.0%	6.7%	1.171
Yen per US$	-0.4%	-6.3%	-1.4%	147.22
US$ per £	0.8%	8.3%	5.5%	1.356
C$ per US$	0.4%	-4.0%	0.6%	1.381

Source: Bloomberg. Equity-index returns are price only, others are total returns.
*100 basis points = 1 percentage point.
**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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