Weekly Market Flash

More Data, Fewer Answers

August 1, 2025

This week has been witness to a veritable inundation of data, including headline macroeconomic reports on jobs, inflation and GDP, another pause decision on interest rates by the Fed, and a bevy of corporate earnings reports of which the top-line message seems to be that nothing is going to stand in the way of the AI narrative and its attendant tsunami of capital spending. Financial markets have powered through this onslaught of numbers with their usual nonchalance – the S&P 500 and Nasdaq stock indexes adding to their record high count, and interest rates mostly staying put around recent averages. Retail investors have poured record amounts of money into equities; among other things, reviving the silliness of the meme stock frenzy that raged through the surreal summer months of 2021.

We'll have more to say about the stock market and its potentially concerning frothiness in next week's commentary. Today, though, we try to wade through and make sense of this week's sea of data. That will be easier said than done.

The Growth Question

Let's start with the GDP numbers. On Wednesday, we learned that real GDP growth for the second quarter was up by 3.0 percent on an annualized basis, a nice pickup from the slightly negative first quarter and comfortably ahead of economists' expectations. Upon closer scrutiny, however, the second quarter numbers were distorted by a near mirror image of the factors skewing the first quarter results, all having to do with imports and exports.

The GDP math for imports and exports is relatively straightforward: exports add to GDP and imports subtract from it. In the first quarter, businesses rushed to import the goods they needed before the anticipated tariffs kicked in. Imports grew at a stunning 37.9 percent for the quarter and were the primary reason for the overall Q1 contraction in GDP of minus 0.5 percent.

In the second quarter, the trend went the other way. Imports fell by 30.3 percent. Meanwhile consumer spending, which is the single largest contributor to GDP, grew by 1.4 percent, an improvement over first quarter growth of 0.5 percent. Government spending also increased slightly after falling in the first quarter. All told, the changes were enough to deliver that headline growth rate of 3.0 percent.

But the underlying trends show some cause for concern. The GDP report contains an addendum figure called, unglamorously, "final sales to private domestic purchasers." Economists refer to this number as "core GDP" – a measure that strips out much of the noise affecting the top line. For the second quarter, core GDP by this figure was 1.2 percent – well below the average of 3.0 percent last year and the lowest since the last quarter of 2022. A slowdown trend by businesses and households alike is becoming visible.

The Fed's Mandate-balancing Act

The GDP numbers came out Wednesday morning, as did an employment survey by ADP showing another relatively healthy month for the job market (note: we are writing this commentary before the Friday BLS jobs report that will have been published by the time you receive this). These were the final two pieces of data for the Fed to chew over before concluding its Federal Open Market Committee meeting the same afternoon. As expected, the Committee decided to hold the target Fed funds rate at the current range of 4.25 – 4.50 percent, though with two notable dissents from FOMC members Michell Bowman and Christopher Waller, both of whom were appointed during the first Trump administration and who in recent weeks have been outspoken proponents of cutting rates sooner rather than later.

The Fed's dual mandate is to maintain stable prices while seeking full employment in the economy. The unemployment rate has trended in a relatively tight range on either side of four percent for more than a year, a level commensurate with what most economists would consider to be full employment. Inflation, while not yet having risen by as much as some were forecasting on account of tariff increases, has meanwhile remained stuck at levels meaningfully elevated over the Fed's 2.0 percent target. The core Personal Consumption Expenditure index, the Fed's preferred gauge of inflation, was 2.8 percent year-on-year as of the most recent report issued this morning.

The decision to hold rates rather than cut now is, we believe, a correct assessment based on what the data are telling us today. If the employment numbers do change in a meaningfully negative way in the coming months (which was the essence of the arguments put forth by the FOMC dissenters on Wednesday), then a reassessment may be appropriate, come September, when the Committee next meets.

What does all this mean for the market? The other big news segment this week, corporate earnings with a focus on earnings from tech companies, has given a renewed upward push to valuations that have already reached the stratosphere. We'll share our thoughts on this development in next week's commentary. We have a lot of data to work with, but still more questions than answers.

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