GOVERNMENT PORTFOLIO ADVISORS

Weekly Economic Update—July 14th, 2025

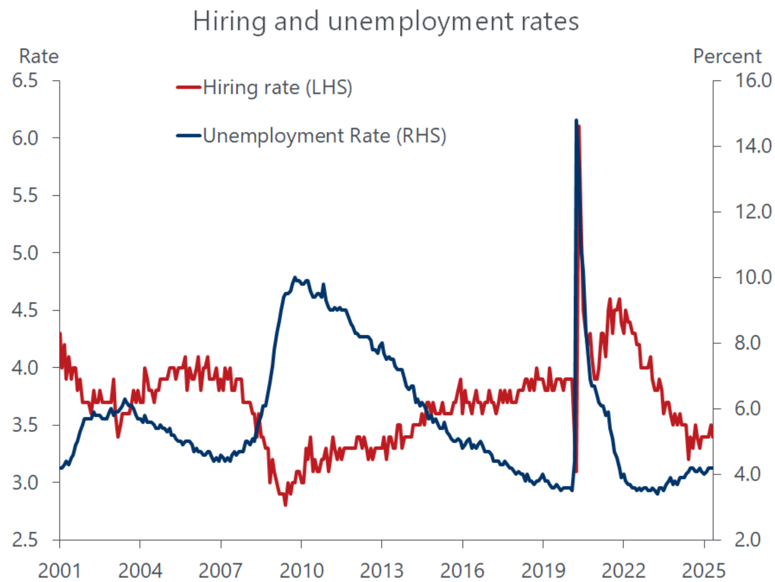
The on-again, off-again tariff threats were in full display this week, the levies that were scheduled to take effect on July 9 were postponed once again, giving trading partners a reprieve until August 1 when the next escalation is set to go into effect. Whether or not market participants have become inured to the chaotic rollout of Trump's trade policy, the latest iteration met with a ho-hum response in the markets. The absence of meaningful economic reports this week also helped set a calming note; by default, most attention focused on a Fed meeting that happened three weeks ago.

In the minutes from that meeting, released this week, nothing particularly new was revealed. The full report reaffirmed the message conveyed in the summary statement and economic projections released right after the FOMC meeting as well as subsequent comments by chair Powell. Simply put, the resilience of the job market gives policy makers time to stay put until they have a clearer picture of how tariffs will impact the Fed's dual mandate of promoting full employment and stable inflation.

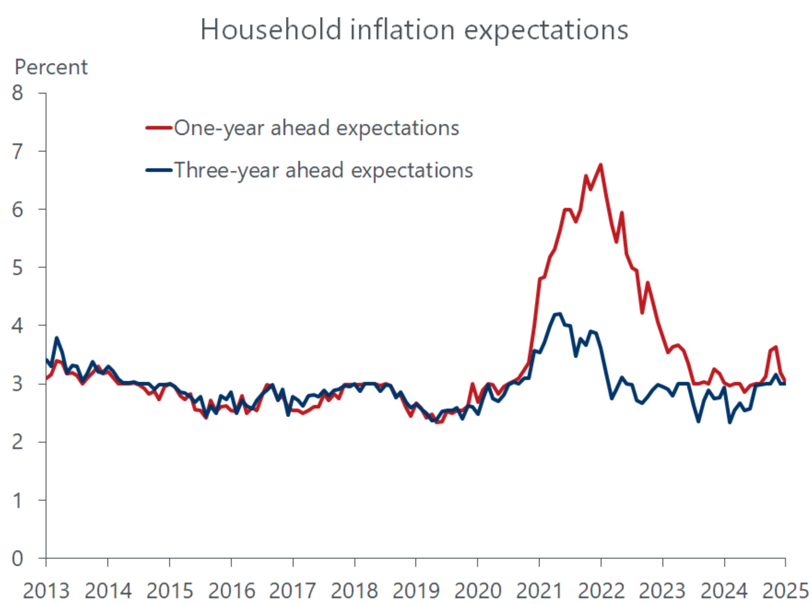
That picture remains as fuzzy as ever thanks, in good part, to the lack of clarity over what tariffs will look like when all is said and done. Negotiations are still in progress and the final deals could reduce the hikes announced this week on more than a dozen nations before they take effect on August 1. In the meantime, the Fed's patience is not being overly tested, as the trends leading up to the FOMC meeting appear to be firmly intact. That said, this week's underwhelming data reports tilt the odds slightly in favor of a rate cut sooner rather than later. On the jobs front, the "no hiring, no firing" narrative continues to play out at state unemployment offices.

As has been the case for some time, employers continue to hold on to workers for myriad reasons, including uncertainty over future economic conditions as well as fears of rehiring difficulties should conditions turn out to be more resilient than expected. The severe post-covid labor shortages are still fresh in mind for many businesses. With layoffs low, so too are first-time claims for unemployment benefits, which slipped again in the latest week and remain at levels consistent with a relatively tight labor market. Conversely, the same uncertainty over future economic prospects that is spurring labor hoarding as well as visible signs of cooling activity is putting hiring plans on hold. That, in turn, is prolonging the job search for unemployed workers, leading to extended time on the unemployment line. Continuing claims for jobless benefits have been steadily climbing, reaching the highest levels since November 2021.

This "no hiring, no firing" confluence is not sustainable over time, as it eventually seeps into the mindset of employed workers, stoking heightened anxiety over job security and discouraging discretionary spending, something that is already visible in recent sales data. We note that the current hiring rate, at 3.4 percent according to the latest JOLTS data, has been reached 24 times since 2001. On average, that low rate has been associated with an unemployment rate of 6.2 percent. Unsurprisingly, workers are staying put, as the quit rate in the private sector is hovering around 10-year lows. Nor is there any incentive to jump ship for another job as the pay bump for job switchers has evaporated, according to the Atlanta Fed Wage Tracker. Indeed, job stayers are being better rewarded, as their wage increases have exceeded those for the stayers over the past five months.



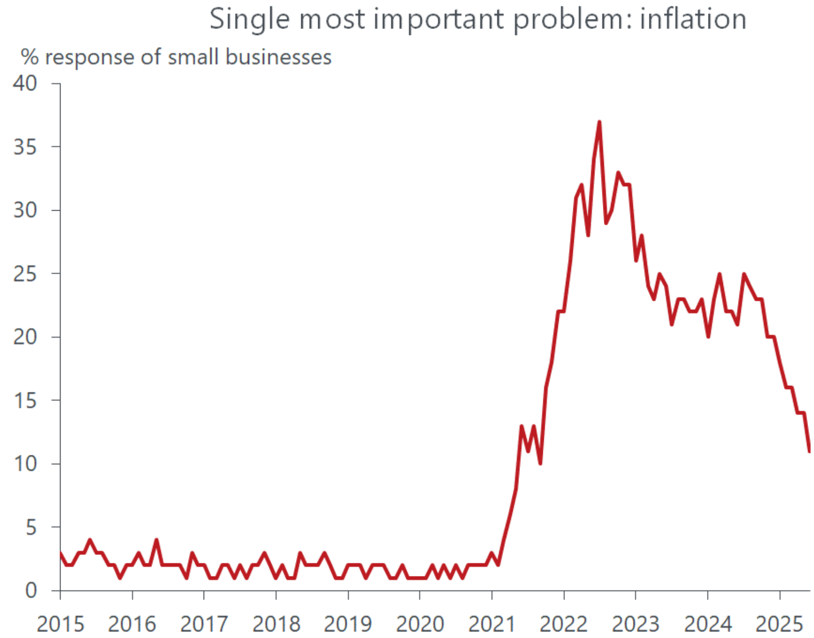
To be sure, the Fed is laser-focused on labor conditions, and it likely gives more importance to the low unemployment rate than the lack of churn in the job market. Still, Powell has recently signaled more of a willingness to cut rates if the feared inflationary impact of tariffs turns out to be overblown. We believe the lagged effects will become more visible in coming months, but the mild passthrough so far appears to be seeping into expectations. The latest survey by the New York Fed reveals that household short and longer-term inflationary expectations are well anchored, with both hovering tightly around 3.0 percent. Importantly, neither has budged since the tariff threats started hitting headlines late last year.



Source: New York Fed Survey of Consumer Expectations

Likewise, inflation is not on the radar of small businesses, a surprising development given the heavy exposure that a broad swath of this sector has to imports. When asked by the NFIB, the trade association for this group, what the top concern was, only 11 percent blamed inflation, the lowest share since September 2021. A year earlier, that percentage was twice as high.

Instead, these firms listed taxes as their top concern in June. That irritant should move down the list following the signing of the One Big Beautiful Bill Act this month, which contains substantial tax breaks for the business sector.



Interestingly, while inflation is not a concern now the share of firms planning to raise prices in coming months has been steadily rising. This may reflect growing fears that tariffs will soon start driving up costs, prompting higher prices down the road. We caution, however, that the number of respondents to the NFIB latest survey was the lowest in twenty years, undercutting its credibility. However, a low response rate is also a growing problem with the collection of hard data including, most notably, the Labor Department's employment report. The Fed is not flying blind, but it is navigating an economy through a window of foggy data as well as a stormy tariff policy. That backdrop heightens the risk of a policy error, something that may not be priced into the financial markets.

GPA SOLUTIONS

FINANCIAL INDICATORS

INTEREST RATES	July 11	Week Ago	Month Ago	Year Ago
3-month Treasury bill	4.34	4.35	4.36	5.33
6-month Treasury bill	4.27	4.30	4.28	5.18
2-year Treasury note	3.90	3.89	3.96	4.47
5-year Treasury note	3.98	3.94	4.01	4.11
10-year Treasury note	4.42	4.35	4.41	4.19
30-year Treasury bond	4.96	4.87	4.90	4.40
30-year fixed mortgage rate	6.72	6.67	6.84	6.89
15-year fixed mortgage rate	5.86	5.80	5.97	6.17
STOCK MARKET				
Dow Jones Industrial Index	44,371.00	44,828.50	42,197.79	40,000.90
S&P 500	6,259.75	6,279.40	5,976.97	5,615.35
NASDAQ	20,585.53	20,601.10	19,406.86	18,398.45
COMMODITIES				
Gold ($ per troy ounce)	3,370.90	3,338.80	3,453.00	2,416.50
Oil ($ per barrel) - Crude Futures (WTI)	68.65	67.11	73.58	82.20

ECONOMIC INDICATOR	Latest Month/ Quarter	Previous Month/ Quarter	Two-Months/ Qtrs Ago	Average- Past Six Months or Quarters
No major releases				

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