

WEEKLY ECONOMIC UPDATE AUG. 25, 2025

Stocks rose last week despite mixed signals on inflation as investors kept one eye on the Fed's September meeting.

The Standard & Poor's 500 Index advanced 0.94 percent, while the Nasdaq Composite Index added 0.81 percent. The Dow Jones Industrial Average rose 1.74 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, increased 2.16 percent.^{1,2}

Third Gain in Four Weeks

Stocks posted modest losses to start the week as investors braced for July consumer inflation reports. The White House's executive order on Monday extending the tariff deadline for China by 90 days failed to move markets in the other direction.³

Stocks then staged a two-day rally following the latest Consumer Price Index (CPI) report, which showed July inflation held steady over the prior month—beating expectations. The inflation news led some investors to move into small-cap stocks, with the Russell 2000 Index of small-cap stocks rising 5 percent over Tuesday and Wednesday.⁴

However, markets slipped Thursday as investors dug into the Producer Price Index (PPI) for July, which showed wholesale inflation hit a 3-year high last month; this was the third weekly gain in the past four weeks for each of the three major averages; the S&P and Nasdaq advanced four of the last five weeks.^{5,6,7}

MARKET INSIGHTS



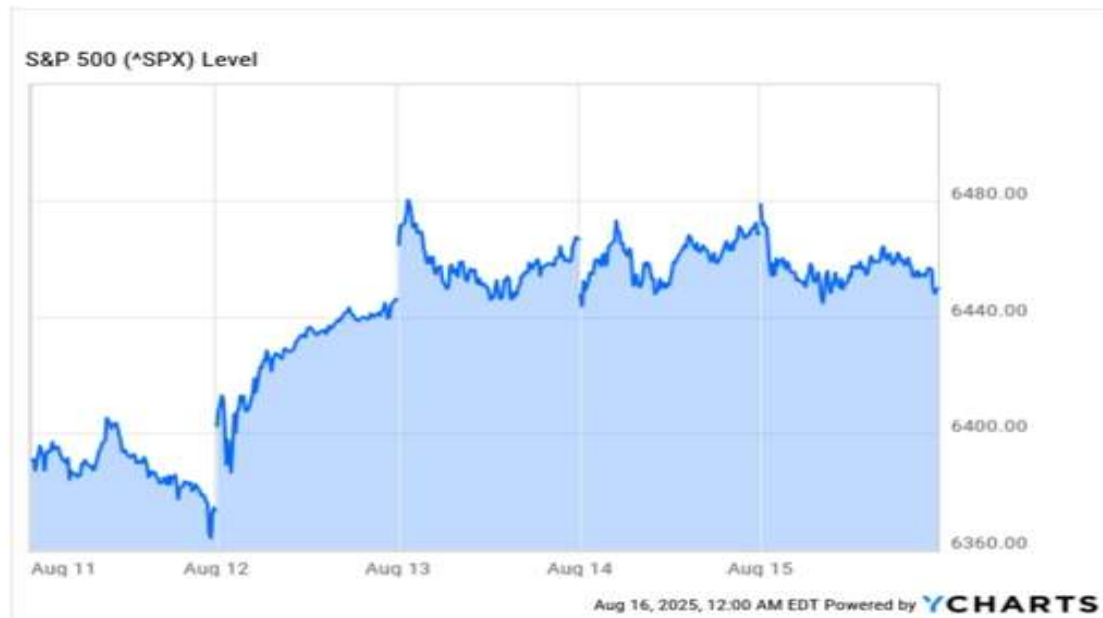
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Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Nasdaq Composite	5.22%	12.87%	27.15%	104.5%
S&P 500	3.27%	10.84%	20.16%	106.7%
MSCI EAFE	2.98%	22.99%	19.96%	66.92%
Dow Jones Industrial Average	1.09%	6.61%	14.21%	77.23%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 08/15/25	4.33%	4.50% 4.45% 3.92%	-3.78% ▼ -2.70% ▼ 10.46% ▲

A Mixed Inflation Story

Inflation continues to give mixed signals, which can unsettle investors who anticipate the Fed adjusting rates at its September meeting.

Last week's CPI report showed that "headline" (retail) inflation held steady. Stocks rose in response, even though core inflation—excluding volatile food and energy prices—was hotter than economists expected.

Two days later, the PPI report revealed that inflation began to creep into wholesale prices in July. Stocks fell in response as investors processed the conflicting reports.^{8,9}

This Week: Key Economic Data

Monday: Homebuilder Confidence Index.

Tuesday: Housing Starts. Building Permits. Federal Reserve Official Michelle Bowman speaks.

Wednesday: Minutes from Fed's FOMC July Meeting. Federal Reserve Official Christopher Waller and Atlanta Fed President Raphael Bostic speak.

Thursday: Weekly Jobless Claims. Services & Manufacturing PMI Composite. Existing Home Sales. Leading Economic Indicators. 30-Year TIPS (Treasury Inflation-Protected Securities) Auction. Fed Balance Sheet. Atlanta Fed President Raphael Bostic speaks.

Friday: Fed Chair Jerome Powell speaks.

Quote of the Week



"Society was becoming more complicated, more riven with difference, more demanding of the state but less convinced that the state could deliver. What was left was a political system far weaker than anyone--even those committed to its renewal--was able to recognize."

– Andrei Amalrik, Soviet Dissident in the 1960s

Of Note



The Bureau of Labor Statistics (BLS) divides all expenditures into eight categories and assigns a relative size to each. The BLS weighs these annually with the latest weighting taking place in December 2024.

The first three categories follow the traditional order of urgency: food, shelter, and clothing, which account for over 60% of the index. Transportation comes before Medical Care, and Recreation precedes the lumped category of Education and Communication. Other Goods and Services refers to a bizarre grab-bag of odd fellows, including tobacco, cosmetics, financial services, and funeral expenses.

Not surprisingly, Medical Care and Housing have been the fastest-growing categories, each growing more than 100% since the turn of the century. The Food and Beverage category is the

other category up over 100%, in large part due to the steep spike in prices following the pandemic. At the opposite end is Apparel, which has deflated nearly 1% since 2000. Another unique feature of Apparel is its seasonal volatility.

Transportation is the other category with high volatility — much more dramatic and irregular than the seasonality of Apparel. Transportation includes a wide range of subcategories, such as motor vehicles, fuel, parts/equipment, maintenance/repair, insurance, fees, airline fares, etc. The volatility is largely driven by the Motor Fuel subcategory.

Unlike other spending categories, the BLS does not treat Energy as a standalone expenditure category. Instead, energy costs are distributed across Housing and Transportation expenses. Also, energy costs are indirectly reflected in expenditure changes for goods and services across the Consumer Price Index.

The BLS does track Energy as a separate aggregate index, comprised of household energy under the "fuels and utilities" index (Housing category) and the motor fuels index (Transportation category). As of the latest weighing (December 2024), Energy has been assigned a relative importance of 6.216 out of 100. In other words, Uncle Sam calculates inflation on the assumption that energy in one form or another constitutes 6.2% of total expenditures, 3.0% goes to transportation fuels — mostly gasoline, and 3.2% goes to household energy — mostly electricity.

The BLS weights College Tuition and Fees at 1.324% of the total expenditures. But for households with college-bound students, the relentless growth of tuition and fees can cripple budgets. The Education and Communication expenditure category is up nearly 200% since the turn of the century. The BLS calculates tuition based on sticker prices, which often

doesn't reflect the actual costs paid after financial aid and grants. A 2014 New York Times piece, *How the Government Exaggerates the Cost of College*, explains that the government data ignores financial-aid grants which substantially lowers the real cost to consumers.

Economists and policymakers (e.g., the Federal Reserve) pay close attention to Core Inflation, which is the overall inflation rate excluding Food and Energy. Now this is a somewhat peculiar metric in that one of the exclusions, Energy, is an aggregate that combines specific pieces of two consumption categories: 1) Transportation fuels and 2) Housing fuels, gas, and electricity. The other, Food, is a major part of the Food and Beverage category. Interestingly, while the BLS excludes food and energy from Core Inflation, alcoholic beverages remain in the calculation. So, while your morning coffee isn't included, your evening whiskey is.

As of July 2025, the annualized rate of change for headline CPI is 2.70% while the annualized change for core CPI is 3.06%. However, the cumulative change in these series since 2000 is 91.9% for headline CPI and 84.6% for core CPI.

The universal response is to moan over price increases and take delight when prices are cheaper. But in reality, households vary dramatically in the impact that inflation has upon them.

For example, when gasoline prices skyrocket, a two-earner suburban family with long car commutes suffers far more than the metro family with short subway commutes or remote workers with no commute. And the pain is even more extreme for low-income households whose grocery money shrinks when gas prices rise. And remember, Uncle Sam excludes energy costs from core inflation. Additionally, households with high

medical costs are significantly more vulnerable than comparable households with low expenses in this category.

One thing is certain: Inflation volatility hits hardest for lower-income households, those on fixed incomes, and families with high costs in tuition, transportation, or medical care. And for those with little room in their budgets, discretionary spending often remains just a dream.¹⁰

Footnotes and Sources

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