



Weekly Wire

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September 2, 2025

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The Fate Of The Fed's FAIT...

By Tim Holland, CFA

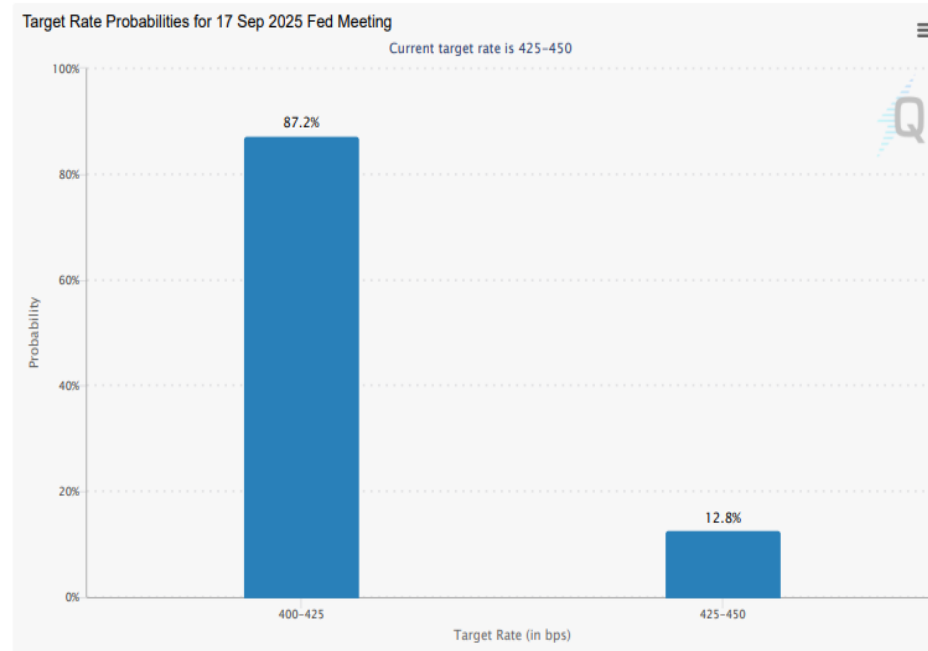
- The Fed is top of mind once again (maybe it's always top of mind?) as Wall Street digests President Trump's effort to fire Fed Governor Lisa Cook. As has been widely reported, the President has cited an accusation of mortgage fraud as grounds for the firing, an effort Governor Cook is resisting. Our best guess is Governor Cook's fate will be decided by the courts, most likely the Supreme Court. It is worth noting, that if the President succeeds in firing Governor Cook, he will have two vacancies to fill on the Board of Governors, ultimately enabling him to appoint four of seven Governors.
- That written, this note is focused not on the fate of the Board of Governors, but on the fate of FAIT (the Fed's "Flexible Average Inflation Targeting" framework). Adopted in August 2020, FAIT made the case that the Fed, instead of targeting a symmetrical 2% inflation target overtime, could allow inflation to overshoot 2% to make up for prior periods where inflation ran below target. The introduction of FAIT followed an extended period of modest US economic growth and inflation; a stretch largely attributed to the deflationary effects of the Global Financial Crisis and was seen by many as biasing the Fed towards the full employment side of its dual mandate (and away from price stability). FAIT's launch, in hindsight, was poorly timed, as it coincided with the onset of the worst US inflation in 40 years.
- Well, the Fed just retired FAIT and introduced a new Monetary Policy Framework, as it does every five years. The new MPF, to most pundits, reorients the Fed to a balanced approach to its dual mandate; a consistent, long-term inflation target of 2%, and higher rates over time, which is ironic as the new MPF was explained by Fed Chair Powell in the same Jackson Hole address where he was seen as teeing up a September rate cut, a move the market overwhelmingly expects (see table).
- The Fed, like any institution, will get things right and wrong, will have its wins and losses, and we don't come to praise or condemn the world's most important central bank but acknowledge that setting monetary policy for the world's most important, largest economy is no easy feat. And while the Fed doesn't need our advice, we think a September rate cut is warranted, and that Wall Street is right to expect one.

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Source, CME FedWatch, August 2025

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Looking Back to Last Week

By Ben Vaske, BFA™

Markets were quiet overall. US equities slipped slightly, with the S&P 500 still up just over 4 percent for the quarter and nearly 11 percent year to date. Large and small caps were flat, while mid-caps saw modest losses. Treasury yields edged lower across the curve.

Economic data took center stage, with second quarter GDP revised higher to 3.3 percent from 3.1 percent. This marks another upward revision after stronger net exports and builds on earlier upward revisions to Q1. The stronger growth backdrop has helped lift third quarter GDP expectations as well, with the Atlanta Fed GDPNow model jumping to 3.5 percent from 2.3 percent the prior week.

The PCE deflator, the Fed's preferred inflation gauge, rose 0.2 percent in July and is up 2.6 percent from a year ago. Core PCE increased 0.3 percent in the month and 2.9 percent year over year, still above the Fed's 2% target. Encouragingly, income growth was led by private sector wages and salaries, which rose 0.7 percent, shifting away from government transfers that had previously driven much of the growth.

Earnings season brought another closely watched NVIDIA report. The company once again beat consensus estimates, with EPS up 54 percent year over year and topping expectations by 4 percent. Revenue also edged higher than expected, though data center revenues came in light, which investors treated as a blemish. The US dollar fell nearly 1 percent, providing some support for international equities.

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Looking Ahead to This Week

The holiday-shortened week still brings plenty of data that could influence rate expectations. Job openings, the ADP employment report, and Friday's nonfarm payrolls and unemployment data will be key drivers. The September Fed meeting remains in focus, with futures pricing an 86 percent probability of a cut, little changed from last week. Labor market results could shift those odds.

Earnings season is winding down, with several retail names reporting this week. According to FactSet, with 98 percent of S&P 500 companies having reported, Q2 earnings growth stands at 11.9 percent, marking a third straight quarter of double-digit gains.

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Stocks, Bonds, Alternatives, & Real Assets as of August 29, 2025

Security Name	Risk Score	1 Week	1 Month	QTD	YTD	1 Year	3 Year Ann.
Global Equities (60% US, 40% Intl)	100	-0.37%	2.02%	4.06%	15.44%	17.20%	17.38%
S&P 500 Total Return	102	-0.08%	2.03%	4.32%	10.79%	15.88%	19.54%
Dow Jones Industrial Average	97	-0.11%	3.42%	3.59%	8.30%	11.45%	15.27%
NASDAQ 100 Total Return	122	-0.34%	0.92%	3.36%	11.98%	20.52%	25.05%
TV Benchmark	107	-0.18%	2.12%	3.75%	10.36%	15.95%	19.95%
Morningstar US Large Cap	102	0.02%	1.98%	4.48%	11.44%	17.51%	21.43%
Morningstar US Mid Cap	113	-0.16%	1.99%	3.65%	9.05%	12.24%	13.18%
Morningstar US Small Cap	125	0.05%	4.58%	6.77%	7.58%	9.76%	11.96%
Morningstar US Value	98	0.04%	5.05%	4.69%	10.79%	8.93%	13.99%
Morningstar US Growth	126	-0.14%	0.40%	3.36%	12.05%	22.22%	19.67%
MSCI ACWI Ex USA	98	-0.95%	3.54%	3.27%	22.19%	16.11%	15.77%
MSCI EAFE	101	-1.43%	4.27%	2.82%	23.31%	14.46%	17.64%
MSCI EM	98	-0.62%	1.47%	3.51%	19.63%	17.66%	11.39%
Bloomberg US Agg Bond Index	27	0.16%	1.20%	0.93%	4.99%	3.14%	3.02%
Bloomberg High Yield Corp Bond Index	41	0.45%	1.25%	1.71%	6.35%	8.26%	9.30%
Bloomberg Commodity Index	70	1.22%	1.93%	1.46%	7.07%	11.77%	-0.81%
Wilshire Liquid Alternative Index	25	0.03%	1.31%	1.51%	4.27%	3.37%	4.68%
US Dollar	10	-0.82%	-0.83%	0.97%	-9.84%	-3.25%	-3.49%
Bloomberg US Treasury Bill 1-3mo	1	0.09%	0.38%	0.75%	2.90%	4.56%	4.82%

Source: Morningstar.

The TV Benchmark represents an average of the S&P 500, Dow Jones IA, and NASDAQ 100 return indexes

The Orion Risk Score represents risk relative to the global equity market.

Interest Rates as of August 29, 2025

Rate	This Week	1 Week
13-Wk Treasury Yield	4.04%	-0.04%
10-Yr Treasury Yield	4.23%	-0.03%
Bloomberg US Agg Yield	4.48%	-0.03%
Avg Money Mkt Yield	4.11%	0.00%
Avg 30-Yr Mortgage Rate	6.62%	-0.02%

Sources: Yahoo Finance, S&P Global, Crane Data, BankRate

Key Economic Data Last Week

Data Point	Expectation	Actual
New Home Sales	632,000	652,000
Durable Goods Orders	-4.0%	-2.8%
Second Quarter GDP (first revision)	3.1%	3.3%
Personal Consumption Expenditures (PCE) YoY	2.6%	2.6%
Core PCE YoY	2.9%	2.9%

Source: MarketWatch, First Trust

Key Economic Data This Week

Data Point	Expectation	Release Date
ISM Manufacturing	48.5%	9/2/25
Job Openings	7.4M	9/3/25
ADP Employment	75,000	9/4/25
U.S. Trade Deficit	-\$77.8B	9/4/25
ISM Services	50.5%	9/4/25
U.S. Employment Report	75,000	9/5/25
U.S. Unemployment Rate	4.3%	9/5/25

Source: MarketWatch



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Thank You

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