

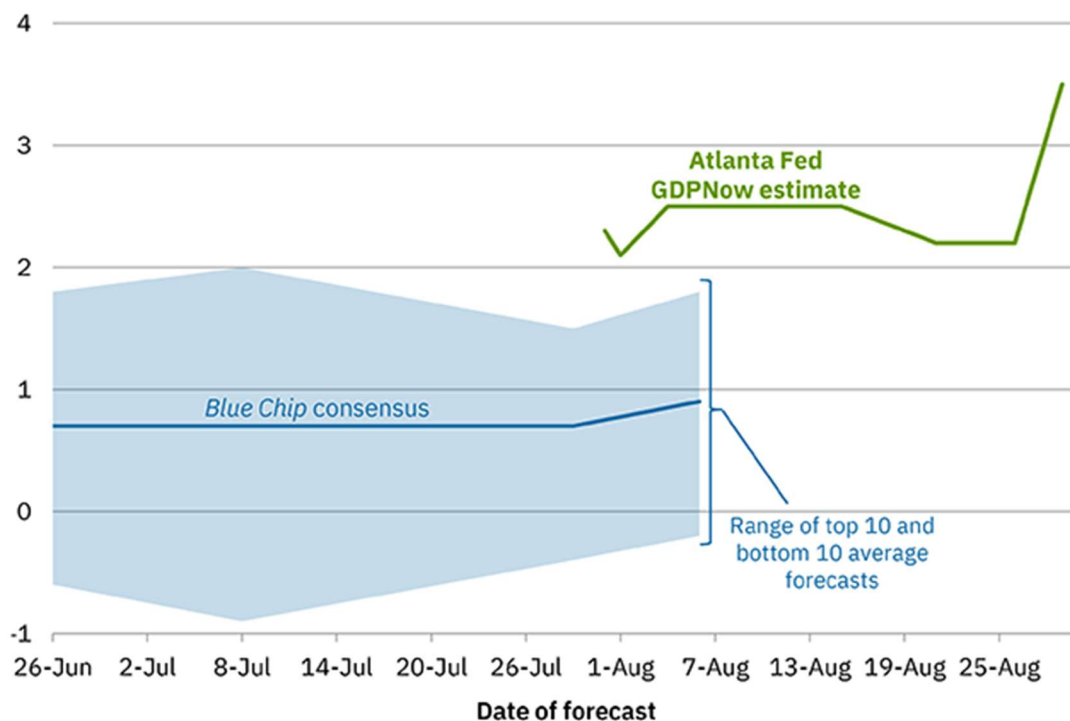
## KEY TAKEAWAYS

- The equity markets lurched higher and faded back throughout the month but ended near all-time highs on the S&P 500 after Fed Chairmans' perceived dovishness at Jackson Hole.
- The U.S. 10-year Treasury Yield dropped to start the month after the jobs report and then traded between that low and the previous month close of 4.36%, finishing at 4.23%.
- Crude oil couldn't rally back to \$70 and ended up drifting lower throughout the month to finish below \$65.

## The U.S. Economy

The second read for 2<sup>nd</sup> quarter GDP came in at +3.3%, beating expectations of +3.1%. Core PCE, the imbedded inflation measure, remained at 2.5% in line with expectations. The 3<sup>rd</sup> quarter's GDP estimates continue to climb with GDPNow, currently at +3.5%, though the Blue-Chip consensus forecast is still under +1.0%, as shown in the chart below. GDP continues to have good growth, though inflation seems to be firming and employment may be losing steam.

**Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3**  
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

## Stocks and Bonds

The U.S. 10-year Treasury yield hit the high of the month on the initial reaction to the jobs report and closed the first day of the month near the bottom of the range. Yields tried a couple of times to capture the prior month end yield but backed off each time. The Jackson Hole symposium brought some anxiety as people feared that Fed Head Powell would continue his hawkish rhetoric, but surprisingly he finally acknowledged the softening employment data that many pundits have been pointing to the last couple of months. We will touch more on the specific employment report in “The Rest of the Data”. The market is fully pricing in a 25-basis point rate cut in September. Two items which the market is looking to for another September 50 basis point surprise are the August employment report and the Annual employment revisions that come out before the next Fed meeting. Recall, last year the number of new jobs was revised lower by over 800,000 and the catalyst for the 50-basis point rate cut last September. The decline in yields was a tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF jumped +1.19% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.23%, returning to June’s close of 4.23%, down from July’s close of 4.36%.

The Dow Jones Industrial Average jumped +3.20%, the S&P 500 rose +1.91%, and the small cap iShares Russell 2000 ETF soared +7.19%. The international markets traded in line with the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index popped +4.45%, and the MSCI Emerging Markets iShares Core ETF Index climbed +2.92%.

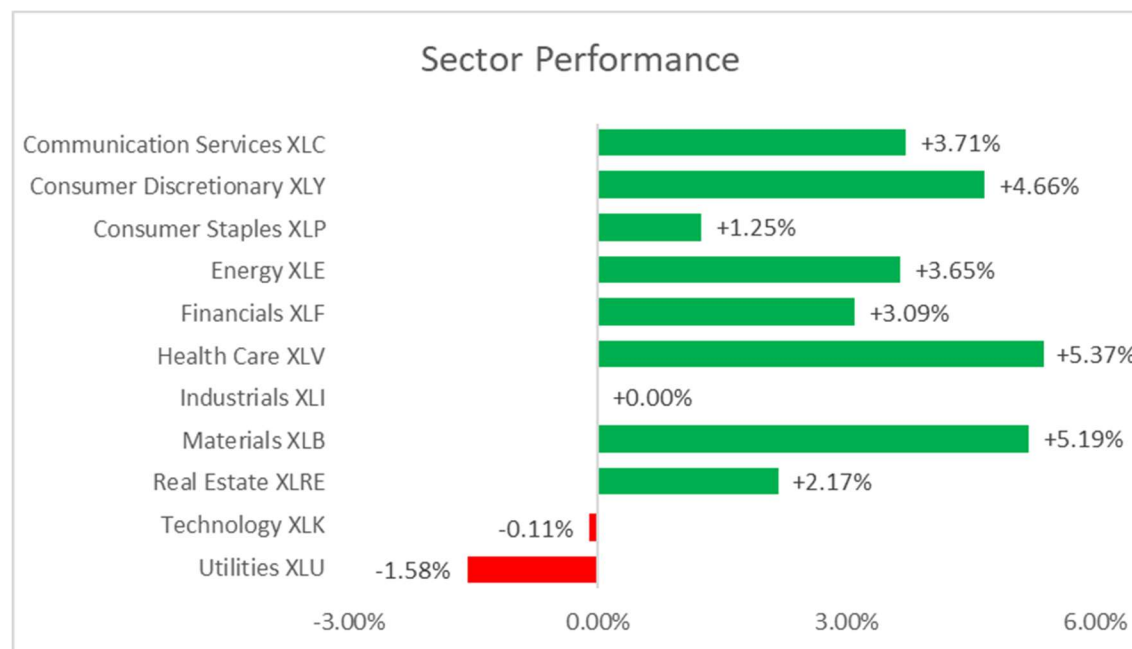
August’s sector performance was mostly green with a few stragglers.

The best performers were...

- Health Care: +5.37%
- Materials: +5.19%
- Consumer Discretionary: +4.66%

The worst performers were...

- Utilities: -1.58%
- Technology: -0.11%
- Industrials: +0.00%



Source: <https://www.morningstar.com>

## **Oil Report**

Crude Oil was a slow and steady decline as the geopolitical environment was status quo and OPEC+ continues to bring on additional supplies in the face of lackluster demand. Price continued lower after last month's failed attempt to regain \$70. Most of the month was spent below \$65 and \$65 seems to have replaced \$70 as the resistance level that can't be overtaken. The current NYMEX WTI Crude Oil futures settled at \$64.01, losing over 8% from the prior month's close of \$69.26 a barrel. RBOB gasoline was choppier than Crude, dropping by over 9% for the month vs. July's close, with most of the decline occurring on August 22nd. The driving season has resulted in the lowest prices for this time of year in 5 years. It didn't feel that way in Seattle, where I paid more for gas than two weeks later in Hawai'i! So far, the hurricane season has been fairly quiet and hopefully will remain that way.

## **The Rest of the Data**

The July ISM Manufacturing Index decreased to 48.0 from June's reading of 49.0, remaining below 50. The ISM Services Index decreased to 50.1 in July, from June's print of 50.8, barely hanging on to a greater than 50 level. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing backed off from high in the elevated range and Services' prices moved back to highly elevated levels. Consumer confidence decreased to 97.4 in August, which compared to a downwardly revised 98.7 in July. The unemployment rate increased as expected to 4.2%, while the number of jobs added came in at 73,000 in July, missing expectations of 104,000 jobs. The shock though, was the downward revision of a total of 258,000 jobs for May and June combined. The Consumer Price Index for All Urban Consumers (CPI-U) increased +0.2% in July, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate held at +2.7% on a non-seasonally adjusted basis. The CPI ex Food and Energy increased to 3.1% over the last year. The tune is changing a little, reasonable economic growth, wobbling employment data with expectations of another year of big downward revisions and firming inflation data. The Fed, and even Chairman Powell, seems to be turning more attention to employment as Powell used Jackson Hole to voice concerns about the softening employment data. Seemingly setting the stage for a rate cut when the Fed meets in September. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

## **Summary**

With Powell's apparent shift in policy focus, the market now expects at least one rate cut in September. Will the two employment related data releases make it a 50-basis point rate cut? We will have to wait and see, but it is interesting how things are setting up like last September. The markets popped strongly on the dovish pivot last Thursday but then didn't extend those gains. A pause that refreshes or a cause for concern that the data may be weak enough to merit a 50-basis point cut? The markets moved into the summer doldrums after the Powell speech and will likely continue that way until Friday's jobs report and as more people return from the last of their summer vacations.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs.

growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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