2025 Q3 Commentary

EXPERIENTIAL WEALTH
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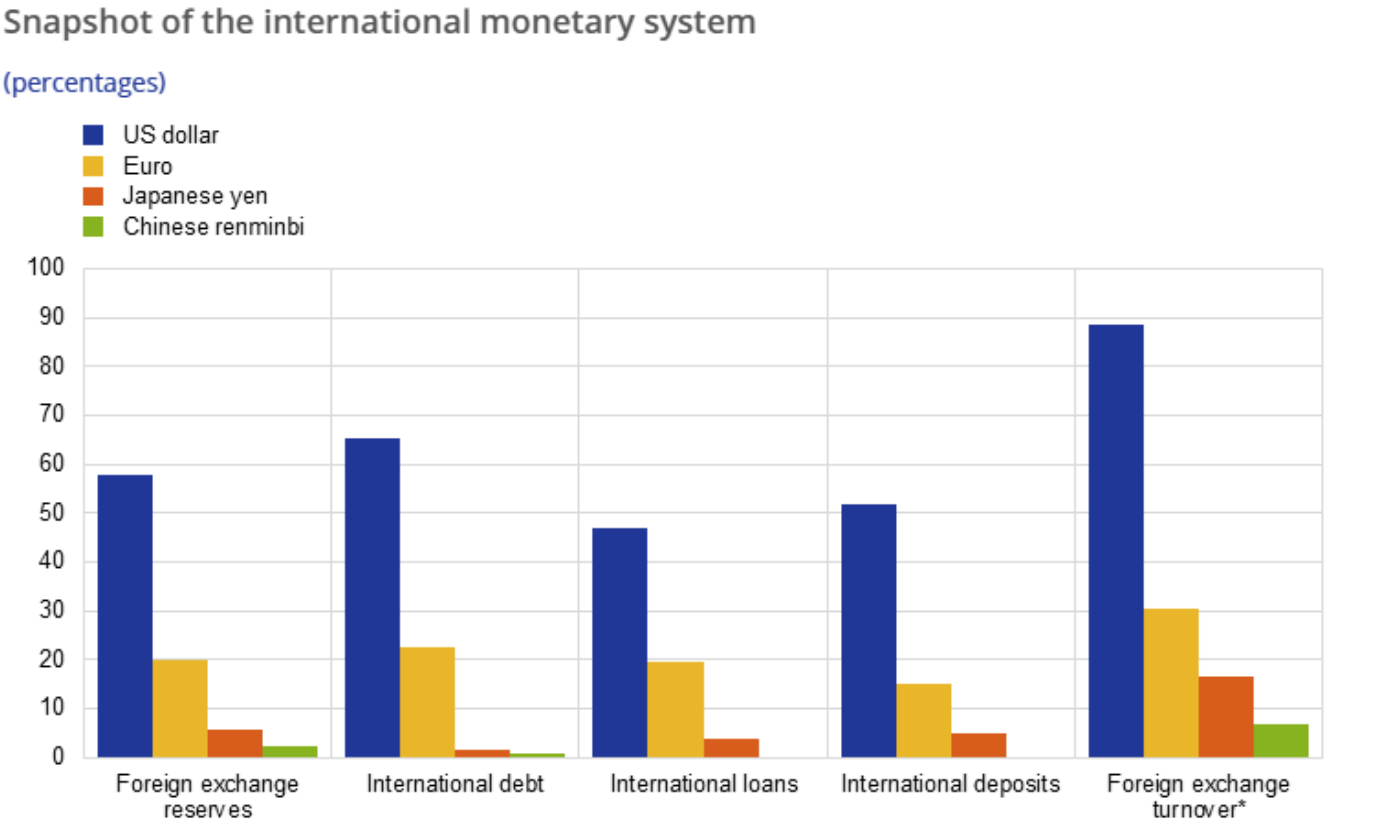
The Bretton Woods Accord – the USD is as good as Gold, July 1944

- During the interwar years, the collapse of the gold standard and competitive currency devaluations destabilized the world economy. In the 1930s, nations used tariffs, quotas, and currency depreciation to gain advantages from others. These policies deepened the Great Depression and fueled geopolitical instability.
- At the end of WWII, the U.S. emerged as the dominant global economic power and pushed for a dollar-based system anchored in stability and open trade. Bretton Woods Accord is the international monetary framework established at the United Nations Monetary and Financial Conference, held in July 1944 in Bretton Woods, New Hampshire. Attended by 44 Allied nations, the conference sought to design a post–World War II economic order that would promote financial stability, rebuild war-torn economies, and prevent the protectionism and monetary chaos that had contributed to the Great Depression and global conflict.
- The U.S. held the largest gold reserves and was economically dominant at the end of WWII. Countries agreed to a fixed but adjustable exchange rate system. The dollar was convertible into gold at $35 per ounce and each participating country pegged its currency to the U.S. dollar. Currencies were allowed to fluctuate within a narrow band (±1%) but could be adjusted in cases of "fundamental disequilibrium[1]." The Dollar became the Reserve Currency.
- The International Monetary Fund (IMF) was established to provide short-term balance-of-payments assistance and oversee exchange-rate stability. The World Bank (International Bank for Reconstruction and Development) was also created to finance postwar reconstruction and long-term development.
- The Accord encouraged trade liberalization but allowed nations to impose controls on short-term capital flows to protect domestic stability.
- The Bretton Woods Accord basically designed an adjustable pegged global currency system based on the U.S. dollar which was convertible to gold. This combines the stability of a gold anchor with the flexibility of international monetary policy.

[1]If the exchange rate approached the edges of this band, central banks were expected to intervene (by buying or selling their own currency or dollars) to push it back toward parity. This system provided stability for trade and investment while allowing a little flexibility for daily fluctuations.

U.S. Dollar remains the dominant reserve currency



Sources: BIS, IMF, CLS Bank International, Ilzetzki, Reinhart and Rogoff (2019) and ECB staff calculations.
Notes: The latest data on foreign exchange reserves, international debt, international loans and international deposits are for the fourth quarter of 2024. Foreign exchange turnover data are as of April 2022 (the latest available data as they come from a triennial survey). *Since transactions in foreign exchange markets always involve two currencies, foreign exchange turnover shares add up to 200%.

https://www.ecb.europa.eu/press/other-publications/ire/html/ecb.ire202506.en.html#toc2

Role of the U.S. Dollar

- The world's demand for safe and liquid reserve assets (mostly U.S. dollars) is met primarily in two ways. First is through international trade deficits: where the U.S. imports more than it exports, it pays trading partners in dollars. Those dollars accumulate abroad where they are held as reserves or recycled into U.S. Treasury securities. This is how foreign central banks and sovereign wealth funds build up dollar reserves. Second is through U.S. fiscal deficits or debt issuance when the U.S. government runs persistent budget deficits which are financed by issuing U.S. treasury securities. Foreign governments, banks, and investors in turn buy treasuries since they are deemed to be liquid and safe. This makes available a constant supply of dollar-denominated assets (cash and securities) globally.
- In a dollar-centric global architecture, the U.S. dollar liquidity matters because:
  - It is the "reserve currency" and accounts for about 60% of global foreign exchange reserves. Countries need dollars to stabilize their currencies, intervene in currency exchange markets, and backstop their financial systems.
  - Over 50% of world trade is invoiced and settled in dollars as the "trade currency", even when the U.S. is not a direct party.
  - Emerging-market economies borrow heavily in dollars; disruptions in dollar liquidity can trigger crises (e.g., Asian Financial Crisis of 1997 and dollar shortage in March 2020).
  - U.S. Treasuries are deemed as the safest, most liquid asset in the world and function as global "collateral" for repo markets, cross-border lending, and financial intermediation.

The Anchor Currency

- Since 1980, the U.S. has had a permanent savings deficit[1], but with the dollar being the core of the global financial system, the U.S. has the privilege that its debt is priced in U.S. dollars. If the dollar weakens, U.S. citizens experience virtually no ill effects while the rest of the world experiences the devaluation of its dollar assets.
- Although the relative importance of the U.S. has declined due to the rise of other trading blocks, the dollar's central role is still unaffected. The dollar is still the dominant currency for the issuance of bonds and the holding of official reserves. The dollar's dominance in the financial markets today is much greater than the dominance of the US economy.
- The central role of the anchor currency drives a persistent demand. This results in a permanent currency overvaluation and uncompetitive export position. Financially, the deficit is not a domestic issue per se since it is typically financed in U.S. dollars. However, a permanently strong dollar position undermines the competitive position of the U.S. export industry with negative consequences for domestic business activity and labor market.
- The dollar's central role is also a problem for the rest of the world, since the U.S. is a major source of disturbances from time to time. This was evident when the Bretton Woods system came to an end in 1971 and, more recently, during the great financial crisis in 2008. The essence of the problem is that U.S. policymakers have two responsibilities. On the one hand, the U.S. must protect its domestic interests. On the other, the U.S. is responsible for global financial stability. However, because of domestic politics and during conflicting priorities, the U.S. will always elect to protect its domestic interests.

[1]National savings (private saving plus government saving) is consistently insufficient to cover domestic investment needs. Conventionally, ongoing budget deficits decrease national savings which reduces domestic investment and increases borrowing from abroad. Interest rates play a key role in how the economy adjusts. The reduction in national savings raises domestic interest rates, which dampens investment and attracts more capital from abroad. The external borrowing that helps to finance the budget deficit is reflected in a larger current account deficit, creating a linkage between the budget deficit and the current account deficit. The reduction in domestic investment (which lowers productivity growth) and the increase in the current account deficit (which requires that more of the returns from the domestic capital stock accrue to foreigners) both reduce future national income, with the loss in income steadily growing over time. Under the conventional view, the costs imposed by sustained deficits tend to build gradually over time, rather than occurring suddenly.

The Triffin Dilemma – 1960s

- This Dilemma was first expressed by Robert Triffin in the early 1960s, describing a structural contradiction that emerges when a single nation's currency is used as the world's dominant reserve and settlement medium (such as the USD). Triffin noticed the tension between the domestic monetary policy needs of the issuing country and the global liquidity demands of the international monetary system.
- For the global economy to function smoothly, international trade and finance require a sufficient supply of the reserve currency. To meet this demand, the U.S. must provide dollar-liquidity to the rest of the world, which in practice occurs through persistent balance-of-payments deficits[1]. These deficits distribute dollars abroad, enabling other countries to accumulate reserves and facilitate cross-border trade and investment. The persistent supply of dollars through deficits inevitably erodes confidence in the currency over time. As foreign dollar holdings (such as U.S. Treasuries) escalate, doubts grow about the U.S.'s ability to honor its obligations and maintain the currency's value, particularly when those obligations exceed the nation's gold or productive capacity.
- If the United States continues to run deficits to meet the world's liquidity needs, it undermines faith in the dollar as a stable store of value. If it instead reins in deficits to preserve confidence, it risks depriving the global economy of the liquidity required to sustain growth and stability. Thus, the system places the reserve-issuing country, the U.S., in a perpetual balancing act.
- In essence, the dilemma lays bear the inherent instability of the Bretton Woods' reserve currency system pegged to the USD in which the stability of the world's monetary order depends on the domestic policy of the U.S. The very success of a reserve currency in meeting global needs would have to wrestle with the trade-off between liquidity provision and currency stability.

[1]A balance-of-payments deficit means a country's total payments to other countries exceed its total earnings from other countries. This imbalance indicates more money is flowing out of the country than is coming in, and it can be caused by factors like high imports, low exports, or a decrease in foreign investment.

Nixon – Rise of the Fiat Currency, August 1971

- By the 1960s, the U.S. fiscal and external accounts were increasingly strained. Persistent trade deficits reflected the growing competitiveness of Europe and Japan, while U.S. overseas military commitments and aid programs drained resources. The combination of these deficits created an "overhang" of dollars held abroad relative to America's gold reserves.
- The Vietnam War and President Johnson's Great Society programs fueled significant fiscal deficits. To finance these costs, the U.S. expanded its money supply, creating more dollar liabilities for foreign holders.
- Expansionary monetary policy stoked domestic inflation. Foreign governments and market participants began doubting the U.S. commitment to maintain the gold peg and convertibility. As speculation against the dollar mounted, central banks increasingly demanded gold in exchange for their dollar holdings.
- By 1971, America no longer held sufficient reserves to cover the outstanding international claims on the dollar. Faced with dwindling gold reserves, persistent foreign claims on U.S. gold, and speculative pressure, President Nixon suspended dollar convertibility to gold as agreed to under the Bretton Woods Accord. This marked the transition to a fiat money regime and the end of the Bretton Woods structure.
- Due to the collapse of the Bretton Woods system of fixed exchange rates with currencies allowed to float, the dollar devalued against major currencies, and gold soared in value. This ushered in the new era of flexibility at the price of volatility.
- The world shifted from a system anchored in tangible gold reserves to one based on fiat currency - money whose value derives from government decree and public trust rather than intrinsic backing.
- The succession of a U.S. fiat currency allowed the Federal Reserve to deploy monetary policy more aggressively. Interest rates, open market operations, and quantitative easing became the tools for managing the economy. This flexibility, however, also opened the door to cycles of credit expansion, asset bubbles, and leverage at scales previously impossible under a gold-backed system.
- This is not a U.S.-only condition. International capital markets expanded rapidly, and cross-border financial flows deepened. Sovereigns, corporations, and households across the world could borrow more readily, often denominated in dollars. Paradoxically, ending the gold standard reinforced the dollar's role as the world's reserve currency. The U.S. Treasury market became the safe and liquid asset that central banks and investors demanded. The emergence of the "petrodollar" system - where oil and other commodities were priced in U.S. dollars in 1973-1974 - cemented this role.

The Plaza Accord - 1985

- In the early 1980s, the Paul Volcker Fed raised interest rates aggressively to combat inflation. This attracted foreign capital inflows with strong global demand for U.S. Treasury securities At the same time, the Reagan era expansionary U.S. fiscal policy of tax cuts combined with heavy defense spending widened federal budget deficits and further fueled the demand for dollar-denominated assets. This combination pushed the dollar higher. American exports became increasingly uncompetitive and worsened the U.S. trade deficit, while foreign exporters, especially Japan and West Germany, enjoyed significant surpluses. This imbalance generated rising protectionist pressures in the U.S. Congress and created trade tensions with key allies.
- The Plaza Accord, signed on September 22, 1985, at the Plaza Hotel in New York City, was a landmark international agreement between five major economies—the U.S., Japan, West Germany, France, and the UK. The Accord was designed to address growing concerns about global trade imbalances and the overvaluation of the U.S. dollar. It committed these nations to coordinated intervention in currency markets with the goal of depreciating the U.S. dollar relative to the Japanese yen and the German Deutsche Mark. Japan and West Germany pledged to allow their currencies to appreciate. Further, these two countries committed to boost domestic demand, thereby reducing their dependence on exports. The U.S. promised to reduce its budget deficit and pursue more sustainable fiscal policies. Central banks, meanwhile, agreed to coordinated foreign exchange interventions, selling dollars and buying yen and Deutsche Marks to drive down the dollar's value.
- Within two years of the agreement, the U.S. dollar fell by roughly 40 percent against the yen and the Deutsche Mark. U.S. exports became more competitive, and the trade balance showed modest improvement.
- But…the sharp appreciation of the yen hurt Japanese exporters. In response, Japan pursued an expansionary monetary policy. This contributed to a massive price increase in real estate and stock market prices. The resulting asset bubble would burst in the early 1990s, leading to Japan's "Lost Decades."

The Mar-a-Lago Accord – Nov 2024 - A roadmap for Trump 2.0

- The Accord is a proposed blueprint for restructuring global trade, monetary, and security relations under a second Trump administration. This was written by the Chair of the Council of Economic Advisors, Stephen Miran, in an essay titled "A User's Guide to Restructuring the Global Trading System" before he was part of the Trump administration and more recently a member of the Fed. The idea is that the structural demand for dollars and U.S. Treasury securities drives up the value of the currency, worsens America's trade deficit, and undermines domestic manufacturing. In this framing, dollar "hegemony" is less a privilege than a Triffin-style liability: America supplies liquidity to the world through deficits, but in doing so, it erodes its own productive base. The proposed Accord is therefore presented as a remedy to this "fundamental disequilibrium."
- The Accord contemplates a managed depreciation of the U.S. dollar, achieved through a mix of tools. Tariffs would serve as both leverage and protection, deterring imports while coercing trading partners into accepting a weaker dollar. Monetary interventions and exchange-rate guidance would help push the currency lower, while fiscal policies would complement the strategy by rebalancing domestic demand. At the same time, it proposes to transform foreign holdings of U.S. Treasuries by overseas creditors to convert part of their debt holdings into ultra-long bonds or non-tradeable bonds as compensation for losses due to dollar depreciation. This would mitigate refinancing risks for the U.S. while effectively "locking in" foreign participation under less flexible terms. Further, the Accord proposes charging fees to foreign central banks that hold U.S. debt to share the costs of reserve currency status.
- Many allies depend on U.S. security guarantees, and the Accord proposes tying military protection and trade access to economic concessions, thereby redistributing the costs of reserve-currency status. The Accord seeks not just a currency adjustment but a wholesale renegotiation of America's global role, pressing partners to shoulder more of the economic and strategic burden.
- The Accord recognizes the Triffin Delima and took a chapter from the Plaza Accord to overcome the fact that the U.S. cannot indefinitely sustain the strains of dollar dominance without adjustment. It channels Triffin's insight that a reserve-currency system built on American deficits will eventually prove untenable. Where Bretton Woods relied on multilateral rules and Plaza relied on coordination, the Mar-a-Lago proposal represents an era of assertive economic nationalism, using America's leverage to reset terms in its own favor. This blueprint underscores the search for a new equilibrium in the global monetary order with its ramifications and ending unknowable.
- To prevent inflation and preserve confidence, the Accord would need to coordinate U.S. monetary and fiscal policy (e.g., manage interest rates, debt issuance, Federal Reserve actions) alongside the currency realignment.
- In reality, the U.S. wants to maintain all the benefits of having a reserve, anchor, and trading currency status without all the negative, corrosive side effects that come with the status and privilege.

https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

The strength of the USD – Network effect

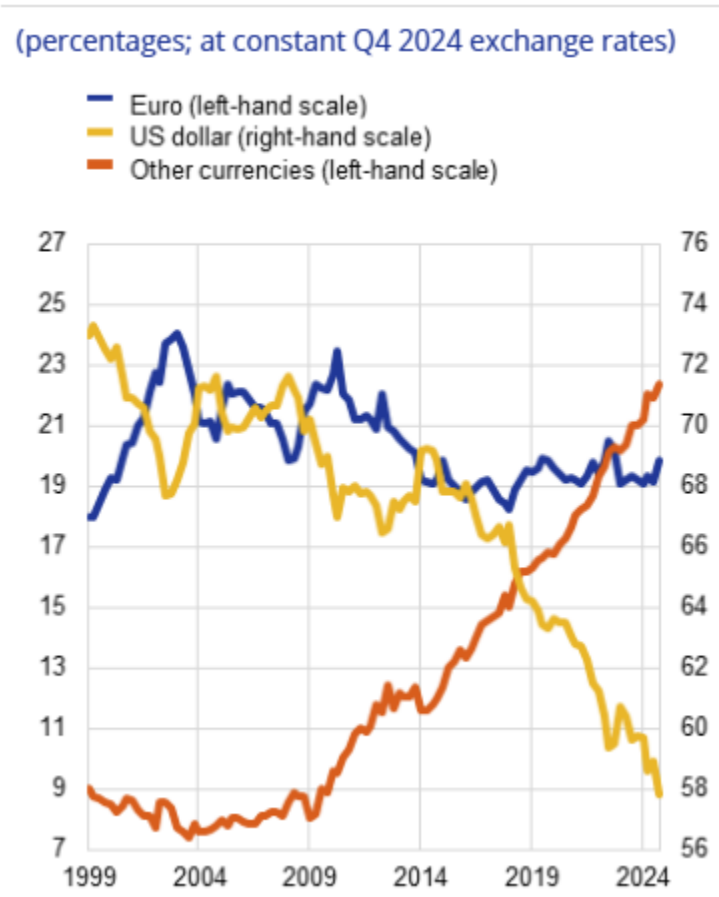
- The dollar's dominance is supported by
  - decades of deep open financial and product markets,
  - a commitment by the US to multilateralism and commitment to offer a defense umbrella to the largest liberal economies,
  - a reliable and stable monetary and fiscal policy framework,
  - operating under the rule of law and
  - limited government market interventions.

- Almost all of these pillars of support for a dominant reserve currency is being questioned as the U.S. turned more inward with an America First agenda.

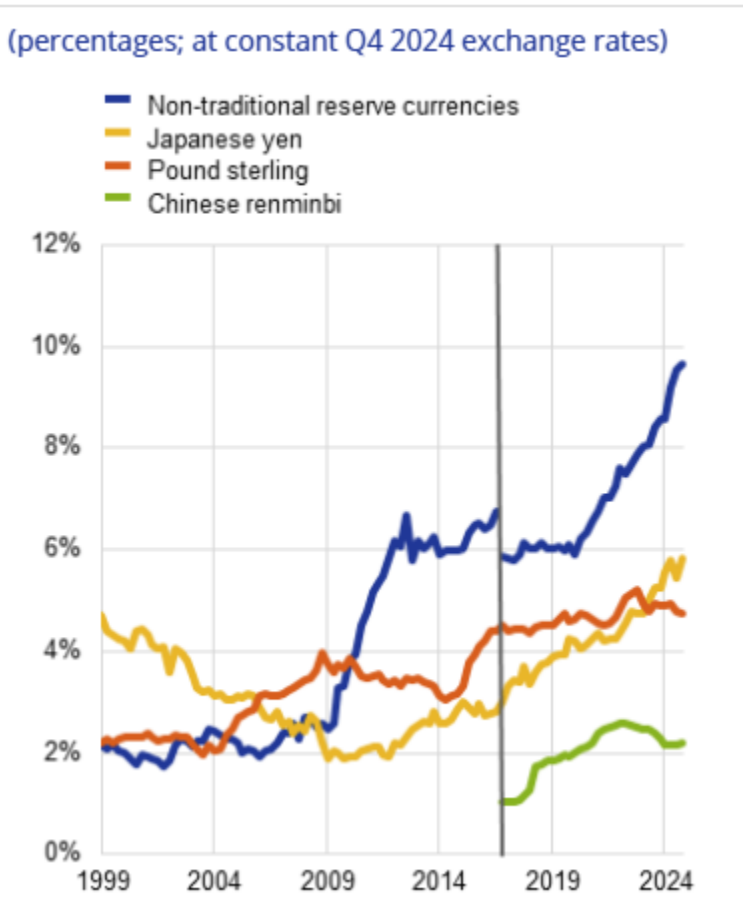
- Diversifying away from the USD as the reserve, anchor and trading currency and the most obvious evidence is the rise of gold price unabated since last year

Central Banks are diversifying away from USD as the reserve currency

Share of USD in global foreign reserves



Share of other currencies in global foreign reserves



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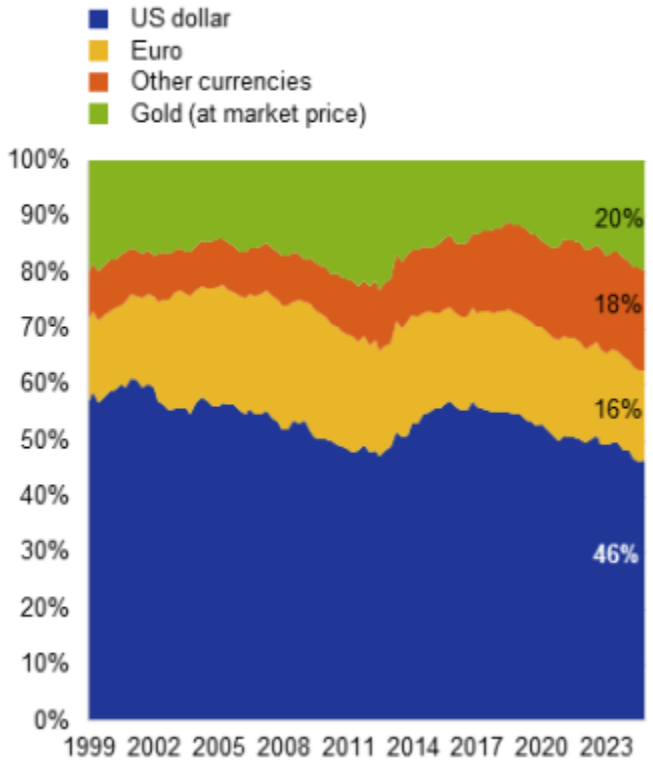
Global Reserve Diversification – at the cost of the USD

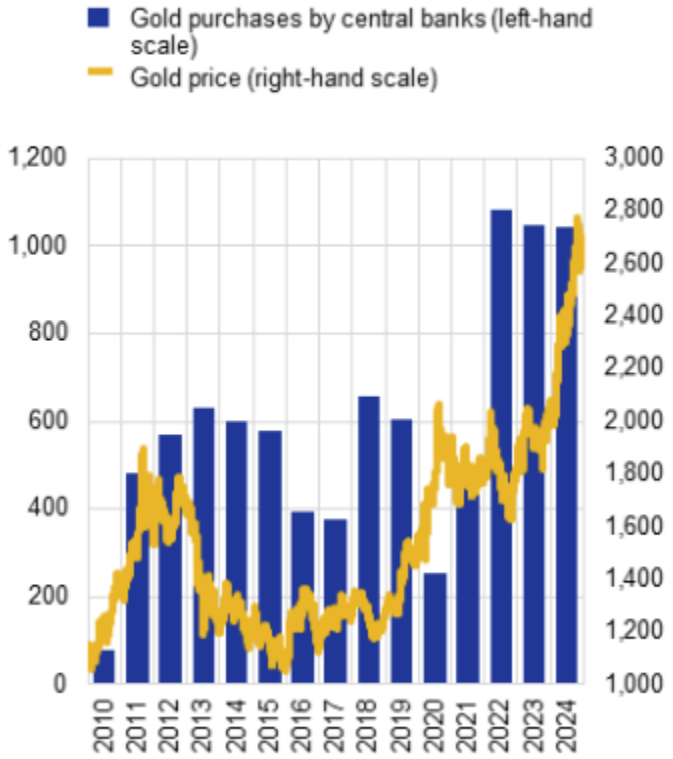
Composition of global official reserve

(percentages, at current market prices)



Central bank gold purchases and the price of gold

(tonnes; US dollars per troy ounce)



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Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act)

- The GENIUS Act was signed into law by President Trump on July 18, 2025. According to the White House, this Act intends to pave the way for the U.S. to lead the global digital currency revolution by:
  1. prioritizing consumer protection - creates the first-ever Federal regulatory system for stablecoins, ensuring their stability and trust through strong reserve requirements
  2. strengthening the U.S. dollar's reserve currency status - driving demand for U.S. Treasuries, stablecoins will play a crucial role in ensuring the continued global dominance of the U.S. dollar as the world's reserve currency
  3. bolstering national security - subjects stablecoin issuers to the Bank Secrecy Act, thereby clearly obligating them to establish effective anti-money laundering and sanctions compliance programs with risk assessments, sanctions list verification, and customer identification, also improving the Treasury Department's ability to combat illicit stablecoin activities by enhancing its sanctions evasion and money laundering enforcement capabilities.
- The GENIUS Act aims to:
  1. generate increased demand for U.S. debt and cement the dollar's status as the global reserve currency by requiring stablecoin issuers to back their assets with Treasuries and U.S. dollars.
  2. play a key role in attracting more digital asset activity to the country by providing clear rules and promoting responsible innovation in the stablecoin market.
- The Act intends to make America the undisputed leader in digital assets, bringing massive investment and innovation to the U.S.

https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-signs-genius-act-into-law/#:~:text=MAKING%20AMERICA%20THE%20LEADER%20IN,protect%20consumers%20from%20deceptive%20practices

Stablecoin Objectives – Defends Financial Dominance & Funds the U.S. Deficit

- A USD stablecoin is backed one-to-one by U.S. dollars or short-term U.S. Treasuries effectively creating a digital wrapper around each dollar. This allows non-U.S. individuals, businesses, and governments to hold and transact in dollars without relying on the U.S. banking system directly.
- Preserve Current Status - More people globally will have access to dollar instruments especially where local banks don't offer dollar accounts. This strengthens the network effects of the dollar - the more people use USD stablecoins, the harder it becomes for rival currencies to displace the dollar.
- Funds U.S. Deficit - The larger the stablecoin market grows, the more demand there is for short-term Treasuries. This deepens global dependence on U.S. debt markets, lowering borrowing costs for the U.S. government.
- Trading Currency Status - In global trade, the dollar is already the main invoicing currency. Stablecoins make it cheaper and faster to settle cross-border payments in USD compared to traditional systems (SWIFT, correspondent banking). If oil, commodities, or e-commerce platforms begin settling in USD-stablecoins, it entrenches the dollar as the default unit of account in new digital markets. This prevents alternative systems.
- De-Dollarization – BRICS+ are exploring alternatives to dollar settlement. If global demand for USD-stablecoins rises faster than demand for non dollar-stablecoins or commodity-backed tokens, the U.S. effectively wins the digital currency race and reverses or significantly slows the de-dollarization efforts.
- Preserving U.S. Sanction Power - U.S. dominance in the global financial system partly rests on control over dollar clearing. If U.S.-regulated stablecoins become global standards, they extend U.S. jurisdiction into digital payments. This allows the U.S. to maintain visibility and leverage over global money flows, even outside the banking sector, and retain sanction power and reach.

Definition
Digital currency - Any form of money that exists only in electronic form, not physical notes or coins. Online bank balance is a digital currency but not a cryptocurrency.
Crypto currency - A type of digital currency that uses cryptography, decentralization, and blockchain technology for issuance, validation, and transfer. This is typically permissionless (anyone can use the network) and not issued by a government or bank.
Stablecoins - Digital currencies that run on cryptocurrency rails (blockchains).

Stablecoin - Domestic Use Cases

- A T-Bill–backed stablecoin is, in essence, a private-sector digital dollar: a token circulating on blockchain rails, redeemable 1:1 for U.S. dollars, and fully collateralized by short-term U.S. Treasury bills and repos. These coins are designed to be as safe and liquid as possible, tracking the value of the dollar while being instantly transferable across digital platforms.
- Americans already have a robust array of payment methods (e.g., credit cards, debit cards, ACH transfers, Fedwire, FedNow, Vemo, Paypal, etc.). There appears to be little use case for stablecoins, especially when stablecoins pay no interest and are not explicitly federal guaranteed. For now, stable coins are not intended to replace day-to-day consumer payments but enable new forms of settlement, programmability, and market infrastructure.
- For now, their uses in retail cases can be stablecoin embedded in gaming ecosystems, loyalty networks, or social platforms where in-app tokens need to interoperate with real money. A consumer might use stablecoins for programmable micropayments to purchase digital assets, tip creators, or unlock subscription content. Debit and credit system is too expensive for small recurring payments such as streaming a few cents per minute for digital content.
- For institutions, it is more about 24/7 settlement rather than being tied to banking hours. Stablecoins enable continuous global settlement, making them a natural unit of account for institutional investors operating around the clock.
- One can envision in the not distance future in a digital and tokenized economy that all financial transactions including investment trading are effected on chain where all assets are tokenized. In such an environment, only digitized cash or stablecoin can access the system.

Stablecoin – Foreign or Cross-Boarder Use Cases

- Stablecoins provide a means of accessing and transacting in dollars without requiring participation in the U.S. banking system. For households in inflation-prone economies, small and medium enterprises engaged in international trade, and institutions seeking programmable liquidity, stablecoins serve as a hedge against local currency risk, a low-cost payments rail, and a gateway into decentralized financial markets. Many households, businesses, and financial institutions outside the U.S. face barriers to opening dollar-denominated accounts, transacting through the U.S. banking system, or holding physical cash. Against this backdrop, U.S. dollar stablecoins—digital tokens backed by safe assets such as U.S. Treasury bills—have emerged as a parallel channel for acquiring and using dollars.
- Cross-border payments via correspondent banking, SWIFT, and wire transfers are associated with high costs, long settlement times, and regulatory frictions. Each transaction typically passes through multiple intermediary banks, each extracting fees and subjecting the transfer to compliance checks. Small and medium enterprises (SMEs) in emerging markets, freelancers, and remittance senders often face prohibitive transaction costs. Stablecoins mitigate these frictions by enabling near-instant settlement on global blockchains at a fraction of the cost. A remittance sent in stablecoins settles in minutes, at low transaction fees, and is accessible to the recipient through a mobile wallet. For SMEs engaged in international trade, stablecoins provide a direct payment rail to suppliers or buyers, circumventing correspondent banking networks. In effect, stablecoins transform cross-border payments into a peer-to-peer transaction, with blockchain serving as the clearing system.
- In high-inflation or volatile currency environments, households seek alternatives to preserve purchasing power. Historically, dollarization occurred through cash holdings or offshore accounts. Stablecoins now offer a digital substitute: easily acquired, easily stored, and globally transferable. The adoption of USD stablecoins has accelerated as local populations attempt to escape currency depreciation and access a channel for bypassing capital restrictions.

"Programmable liquidity" means money or capital that can move automatically according to pre-defined rules encoded in software (typically smart contracts). Instead of liquidity being manually deployed—say, a treasurer wiring cash or a central bank adjusting reserves—programmable liquidity executes based on conditions or triggers.

The Federal Reserve Mandates – a Brief History

During World War II, the U.S. Treasury and the Federal Reserve ("Fed") coordinated their support for the war effort. The federal government financed massive war expenditures through borrowing, and the Fed agreed to maintain artificially low interest rates on government debt to reduce borrowing costs. This policy continued after the war, even as the economy transitioned into peacetime. By the late 1940s, inflation had surged, particularly during the Korean War mobilization, creating growing tension between the Treasury and the Fed, which wanted to regain control over monetary policy. The 1946 Employment Act directed the federal government, which included the Fed, to broadly promote "maximum employment, production, and purchasing power." But it was really the 1951 Treasury–Federal Reserve Accord which finally ended the pegging of government bond yields at low levels by the Fed and freed it to set interest rates independently to fight inflation. Since then, the Fed has evolved into a model of "instrument independence" which provided the Fed with the freedom to use monetary policies to achieve its objectives. The 1978 Humphrey–Hawkins Act amended the Federal Reserve Act and made explicit that monetary policy should pursue maximum employment and stable prices (the "Dual Mandate").

Under the1977 Federal Reserve Reform Act, Congress amended the Federal Reserve Act and added Section 2A.This was in response to the economic turmoil of the 1970s (stagflation, high unemployment, volatile inflation). Section 2A, for the first time, gave the Fed a statutory mandate: "The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Finally, the 2022 Dodd Frank Act gives the Fed the power to lend in "unusual and exigent circumstances" to prevent systemic collapse. Over time, these subsequent legislations inferred a "third mandate" - to maintain financial stability for the economy and the smooth functioning of markets; the overall health of the economy.

The Fed Independence – Confidence & Trust

- Federal Reserve Board independence means the central bank can set interest rates and conduct monetary policy without direct interference from the White House or Congress, allowing the Fed to prioritize long-term price stability, full employment, and financial system integrity over short-term political goals. This independence is critical for credibility. Markets and the public must believe the Fed will act to control inflation (i.e., the price stability mandate) and support the economy based on data and not politics.

- The Fed's autonomy remains a key pillar of U.S. economic leadership and global dollar dominance. The dollar is the world's dominant reserve and trading currency. It is used in about 90% of foreign exchange transactions and over 50% of global trade. Global central banks and sovereign wealth funds hold $7 to $8 trillion in U.S. Treasury securities because they trust the Fed to maintain price stability and policy consistency (i.e., without political influence). Federal Reserve independence is crucial to the strength of the U.S. dollar and the preservation of U.S. financial hegemony because it ensures long-term credibility, stability, and global trust in America's monetary system. If markets believe the Fed will protect the dollar's value, they are more likely to hold dollar-denominated assets and use the dollar for the anchor, trade, and reserve currency

- History shows that, when central banks are politicized, inflation risks rise and confidence weakens. In the early 1970s, President Richard Nixon pressured the Federal Reserve Chair, Arthur Burns, to keep interest rates low to boost the economy ahead of the 1972 election. Burns, fearing Nixon and desiring reappointment, largely complied. The result was a highly expansionary monetary policy at a time when inflationary pressures were already building due to Vietnam War spending, the end of the gold standard, and supply shocks. Instead of curbing inflation, the Fed enabled it to spiral upward. The Nixon-Burns era demonstrated how short-term political influence over the Fed can lead to long-term economic pain and inflation instability.

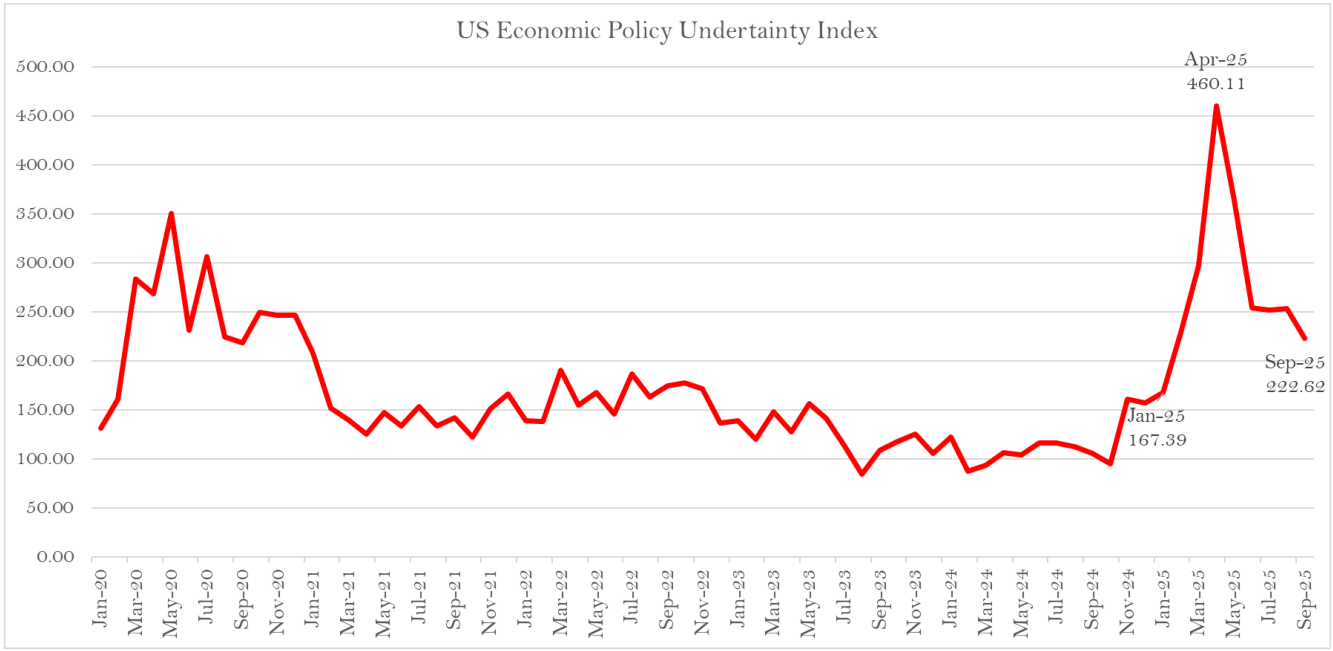
The Fed Independence – Confidence & Trust

- Over the decades, presidents have often attacked the Fed's independence, mostly by demanding easier credit to juice up the economy, especially in preparation for elections. Fed independence rests on its credibility and thus trust in the U.S. financial system. Maintaining independence is critical for the long-term strength, influence, and benefits of this country.

- Independence is domestically important to the U.S. financial system. This allows the Fed to raise interest rates even when it's politically unpopular. It maintains credibility in fighting inflation and keeps long-term borrowing costs lower for households, firms, and the government. Market participants know that the Fed will act based on economic data, not election cycles. This anchors bond yields and mortgage rates, keeping the cost of capital predictable. During significant economy and market turmoil, Fed independence gives it the authority to act as the lender of last resort, which underpins banking confidence. In theory, without Fed independence, it could be forced to monetize deficits by printing money to support government spending. That would undermine bond market trust, raise yields, and destabilize the entire financial system. Independence makes policy more continuous and predictable, avoiding wild swings with every election.

- Independence is globally important to the U.S. dollar based system. The dollar's dominance rests, not just on the size of the U.S. economy, but also on global trust that the Fed won't debase the currency for political expediency. Central banks, sovereign wealth funds, and corporations hold USD because they believe in its stability across administrations. USD is the anchor for global finance since U.S. Treasuries are deemed the world's "risk-free" asset. That premium depends on confidence that inflation won't erode value. Fed independence ensures Treasuries remain attractive, keeping global demand strong and U.S. borrowing costs lower. Investors buy and store U.S. assets because they trust the Fed will not be pressured into currency debasement. This "confidence premium" lowers U.S. borrowing costs substantially. Since Bretton Woods, the Fed has acted as a de facto global central bank (e.g., dollar swap lines to other central banks). This role depends on its credibility and autonomy, allowing the U.S. dollar to remain as the major reserve, trading, and anchor currency to the world. Ultimately, this is a central element to U.S. world hegemony with important levers (e.g., weaponizing the dollar is an important soft power to reach geopolitical aims) and significant U.S. benefits.

Economic Policy Uncertainty Index – Continues to improve



To measure the U.S. policy-related economic uncertainty, this index consists of three types of underlying components.

(1) The newspaper-based component is an index of search results from 10-large newspapers. From these papers, a normalized index is constructed of the volume of news articles discussing economic policy uncertainty. It also utilizes data from two other sources: the number of federal tax code provisions set to expire and disagreement among economic forecasters.

(2) Reports by the Congressional Budget Office (CBO) that compile lists of temporary federal tax code provisions create annual dollar-weighted numbers of tax code provisions scheduled to expire over the next 10 years, giving a measure of the level of uncertainty regarding the path that the federal tax code will take in the future.

(3) The Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters utilizes dispersion between individual forecasters' predictions about future levels of the Consumer Price Index, Federal Expenditures, and State and Local Expenditures to construct indices of uncertainty about policy-related macroeconomic variables.

Source: Atlanta Fed – FRED, Philip Chao,

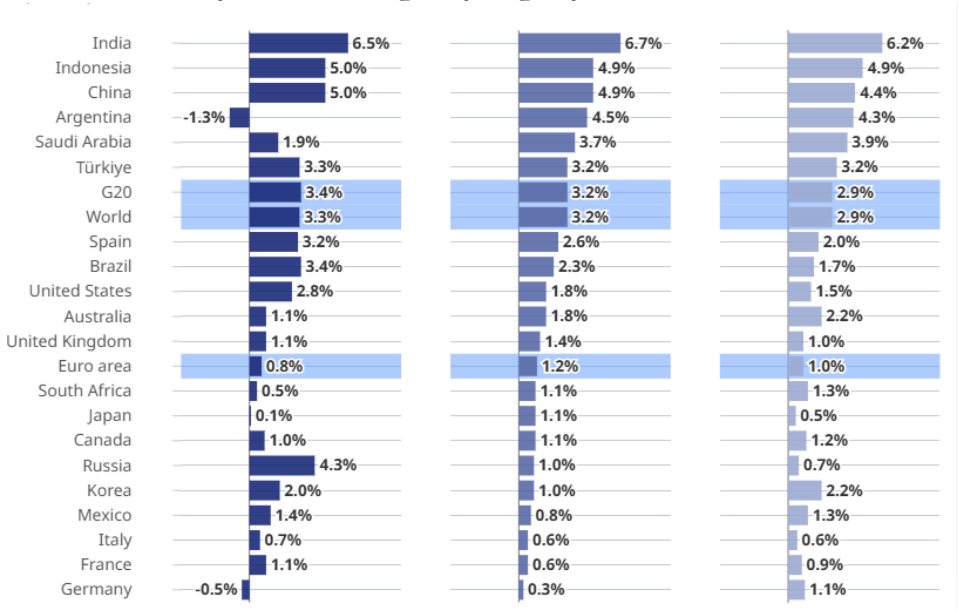
OECD – September 2025 Interim Economic Outlook

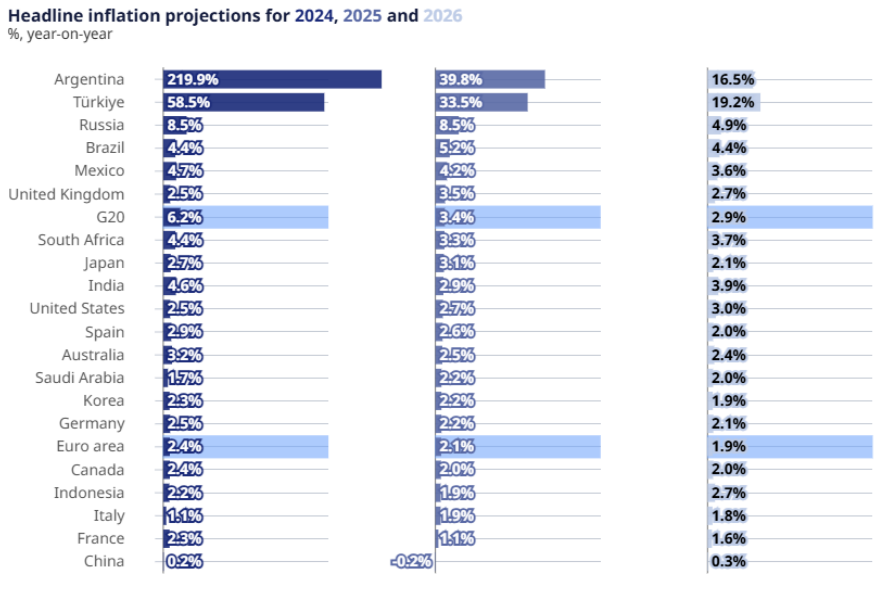
- Global growth proved more resilient than expected in the first half of 2025, especially in many emerging markets but also in the United States. Industrial production and trade were buoyed by front-loading ahead of higher tariffs. U.S. tariffs on imports from almost all countries have increased since May, reaching an estimated effective rate of 19.5% at the end of August, the highest since the mid-1930s. While the full impact of tariff increases is still unfolding, early signs of effects are visible in consumer behavior, labor markets, and prices. Labor markets are softening, with higher unemployment and fewer job openings in some economies, while disinflation has stalled in many economies as food prices rose and services inflation remained persistent. Looking ahead, downside risks loom large: further tariff hikes, increased concerns about fiscal risks, and renewed inflation pressures could all weigh on growth. Financial market repricing, including volatile crypto-assets, could pose additional financial stability concerns. On the upside, easing trade restrictions or faster advances in AI could support stronger outcomes.
- Significant risks to the economic outlook remain. Further increases in bilateral tariff rates, a resurgence of inflationary pressures, increased concern about fiscal risks, or substantial risk repricing in financial markets could all lower economic growth relative to the baseline. High and volatile crypto-asset valuations also raise financial stability risks given growing interconnectedness with the traditional financial system. On the upside, reductions in trade restrictions or faster development and adoption of artificial intelligence technologies could strengthen growth prospects.

Source: OECD 2025 09
https://www.oecd.org/en/publications/oecd-economic-outlook-interim-report-september-2025_67b10c01-en.html

OECD – GDP & Inflation by Member Countries

- Global GDP growth is projected to slow from 3.3% in 2024 to 3.2% in 2025 and 2.9% in 2026, as higher tariffs and ongoing policy uncertainty slow down investment and trade. In the United States, growth is projected to fall sharply from 2.8% in 2024 to 1.8% in 2025 and 1.5% in 2026 owing to higher tariff rates, moderating net immigration, and reductions in the federal government workforce. China also sees a notable growth deceleration, from 4.9% in 2025 to 4.4% in 2026, as front-loading unwinds, higher tariffs take effect, and fiscal support fades, while the euro area GDP growth experiences a smaller but steady slowdown, from 1.2% in 2025 to 1.0% in 2026, with increased trade frictions and geopolitical uncertainty somewhat offset by stronger public investment and easier credit conditions.
- Inflation in most G20 economies is projected to fall as economic growth and labor markets continue to soften. Headline inflation is expected to decline from 3.4% in 2025 to 2.9% in 2026, while core inflation in advanced G20 economies remains broadly stable, easing only slightly from 2.6% to 2.5%.

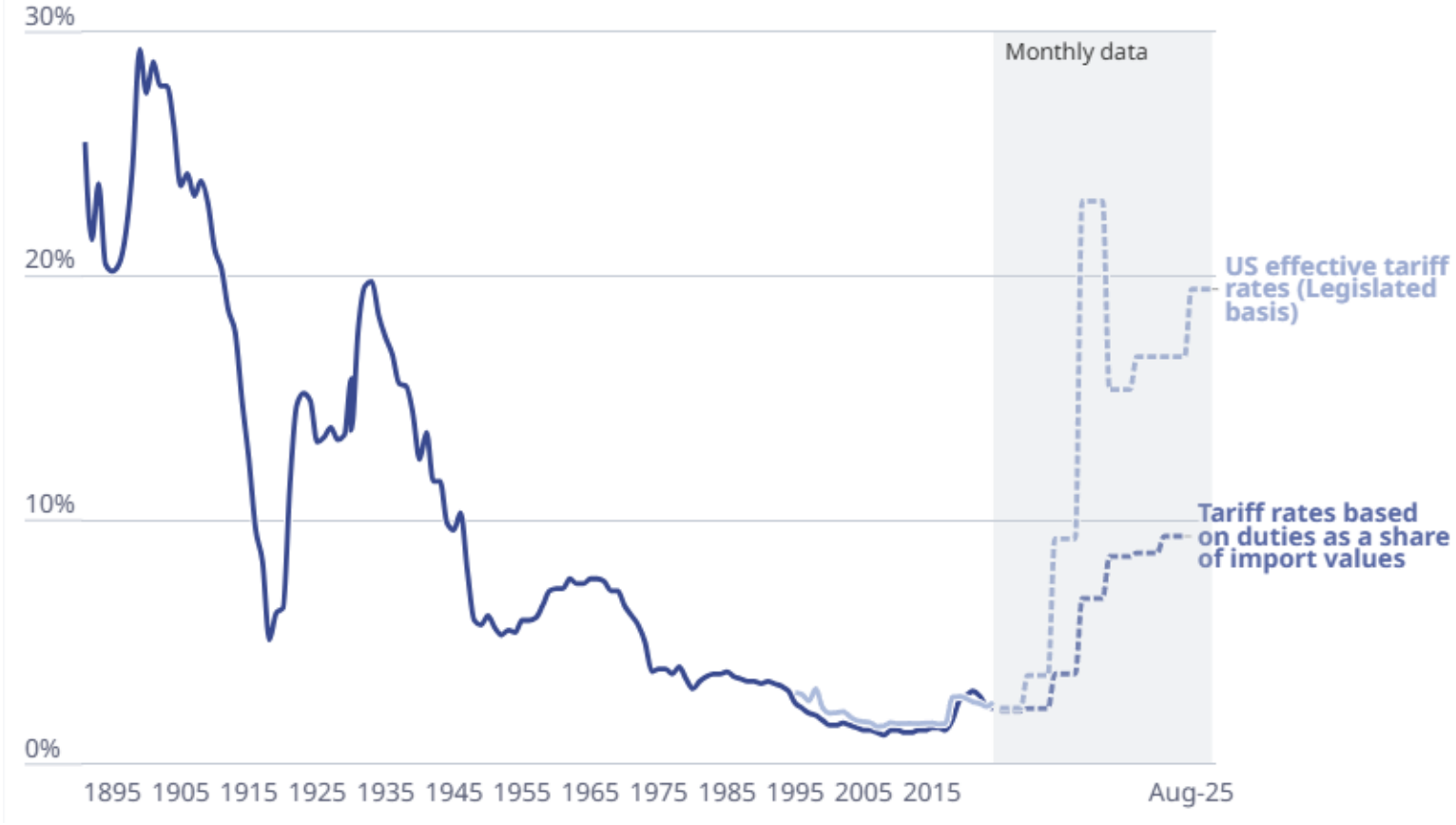




Source: OECD 2025 09
https://www.oecd.org/en/publications/oecd-economic-outlook-interim-report-september-2025_67b10c01-en.html

OECD – September 2025 US Effective Tariff Rate (%)

The full impact of tariff increases is still unfolding with many measures being introduced gradually and firms initially absorbing some of the costs through their margins. The effects of higher tariffs, however, are becoming increasingly evident.



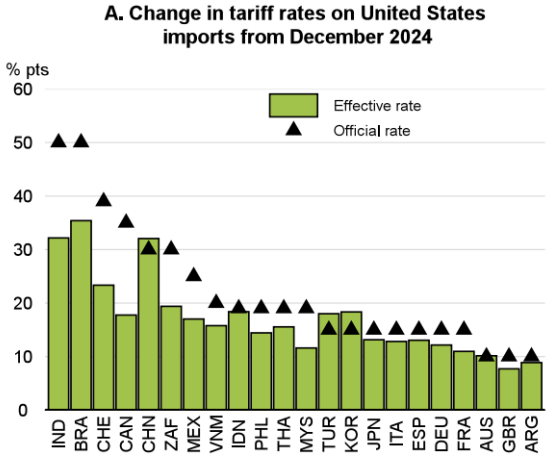
Summary Highlight: US Chip Design and China rare earth dominance

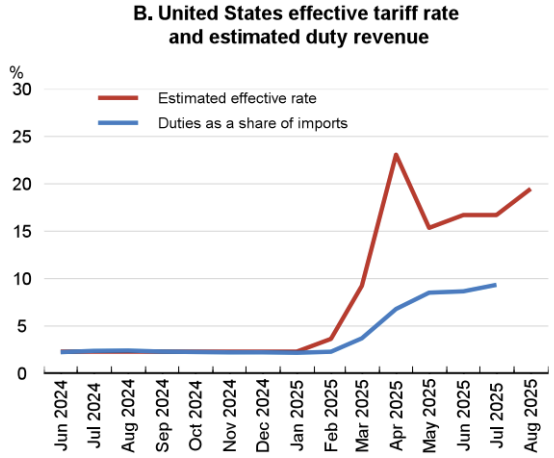
	United States – Chip Design & Chokepoints	China – Rare Earth Mining & Refining & Chokepoints
Strategic Role	"Brain" of the digital economy — designs power computing, AI, defense systems	"Bones" of the tech economy — materials essential for electronics, EVs, defense
Global Share	~64% of global semiconductor design revenues (2021)	~70% of global rare earth mining output; ~85–90% of processing/refining
Core Advantage	Semiconductor design IP, chip architectures, EDA software, AI GPU design (Nvidia, AMD, Qualcomm).	Rare earth mining (~70% of global supply) and refining/processing (~85–90% of capacity).
Strategic Narrative	"Protect national security and maintain tech lead" — forward-looking, preventive control.	"Safeguard strategic resources, respond to foreign containment" — retaliatory, leverage-based control.
Strength	Intellectual property, chip architecture, design ecosystem (Nvidia, Qualcomm, AMD, Broadcom)	Processing & separation of rare earths (Nd, Dy, Tb, etc.), magnet production (~93% global share)
Value Chain Position	Upstream intellectual leadership (design, EDA software, IP licensing)	Midstream chokepoint (refining, alloying, magnet production)
Dependency Exposure	Relies on foreign foundries (TSMC, Samsung) and critical mineral supply chains (rare earths, cobalt, lithium)	Relies on foreign chip designs, advanced lithography equipment, and high-end AI GPUs
Leverage Mechanism	Can block access to chip designs, advanced GPUs, semiconductor equipment, and software updates — cutting off adversaries from leading-edge compute.	Can restrict exports of gallium, germanium, graphite, rare earths, and magnets — critical feedstocks for electronics, EVs, aerospace, and defense.
Control Point in Value Chain	Upstream intellectual chokepoint — without U.S. IP, even advanced fabs cannot produce leading chips.	Midstream material chokepoint — even if mined elsewhere, most rare earths need Chinese separation/refining capacity.
Allied Dependencies	Allies (Taiwan, SKorea, Japan, Netherlands) depend on U.S. IP, so Washington's chokepoints extend extraterritorially.	Global manufacturers (U.S., EU, Japan) depend on Chinese rare earths/magnets — China's chokepoints ripple through EVs, wind turbines, defense systems.
Exposure / Vulnerability	Relies on foreign foundries (TSMC, Samsung) and material supply chains (rare earths, cobalt, lithium).	Relies on foreign chip design, EDA tools, and high-end semiconductor equipment (EUV lithography, AI chips).
Export Control Leverage	Restricts design tools, software, AI chips, semiconductor equipment exports	Restricts raw/processed materials (gallium, germanium, graphite, rare earths, magnets)

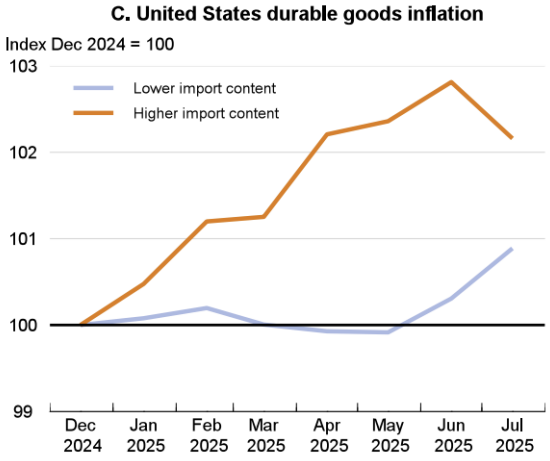
U.S.-China Great Power Competition – using trade as a weapon

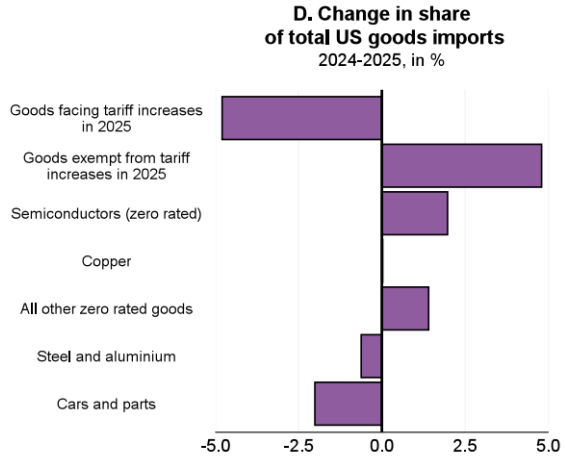
	U.S. Advanced Chip Restrictions/Dual Use	China's Rare Earth Restrictions/Dual Use
Objective	To slow China's advancement in high-end semiconductor technology, particularly for AI	To gain leverage in the tech war by restricting a critical input that the US and its allies depend on, and potentially retaliate for US restrictions
Narrative	Protects allies and global stability by preventing adversaries from gaining military advantage.	Protects sovereignty, prevents "exploitation" by hostile powers, and responds to U.S. containment.
Focus Technologies	Chips, AI, quantum, aerospace software, biotech.	Rare earths, critical minerals, drones, data, AI models.
Tone	Proactive, often initiates new rounds of controls (rule-setter).	Reactive, often mirrors or retaliates to U.S. restrictions (rule-resister).
International Impact	Uses dual-use framing to rally allies and extend extraterritorial reach.	Uses dual-use framing to pressure global supply chains (materials) and remind others of China's leverage.
Targeted products	Advanced computing chips and semiconductor manufacturing equipment.	Rare earth minerals (specifically 12 out of 17), rare earth magnets, and related equipment.
Method of control	Extraterritorial application of regulations on foreign-made products containing U.S. technology, software, or equipment.	Direct licensing and approval process for export of Chinese-origin materials and equipment.
Jurisdiction	U.S. asserts jurisdiction over foreign companies and their products if they use U.S. technology anywhere in the supply chain, as seen in the Foreign Direct Product Rule (FDPR).	China asserts jurisdiction over its own materials and equipment, and requires approval for foreign products that use them, even in trace amounts.
Mechanism	Regulation is enforced through a mechanism that regulates the sale of foreign-made products incorporating US technology, i.e., the FDPR	Regulation is enforced through a new licensing framework that requires approval for export of specific materials and equipment.
Impact on China	Restricts China's ability to domestically manufacture cutting-edge chips	Affects China's ability to export rare earth elements and related products, but it also aims to strengthen its own chip industry by making advanced chips more accessible internally
Global Impact	Disrupts the global semiconductor supply chain by limiting China's access to key tools and technology, which can slow the development of new chips globally	Creates a potential bottleneck for the global chip supply chain, as China controls a large share of rare earth mining and processing. This could lead to shortages and higher prices for magnets and other components used in chips and other high-tech products
Enforcement	Requires foreign companies to obtain a license to sell US-derived products to China.	Foreign companies must get approval from Beijing to export products containing Chinese rare earths or made with Chinese rare earth equipment.
Effectiveness	Potentially limited by China's ability to develop its own chip-making capabilities over time	Could significantly impact global chip production, defense and auto manufacturing, as many companies rely on China for rare earth materials

OECD - Higher Tariff Gradual Feeding Through the Real Economy









Panels A and B - 2025 estimated effective tariff rates are based on applicable rates to products and countries, weighted by country specific product shares of U.S. imports in 2024. Estimates of duties payable are by the U.S. Census Bureau and expressed as a share of total import values, inclusive of cost, insurance, and freight. Compliance rates with the U.S., Canada, Mexico agreement are assumed to be 50% for Canada and Mexico, whilst compliance in cars and parts is assumed to be 25% in Canada and 20% for Mexico. Higher rates of compliance would reduce the estimated tariffs for these countries. In **Panel C**, prices are based on the personal consumption expenditures deflator and using import content by products from Barbiero and Stein (2025). **Panel D** shows the difference between the average value share in 2024 and the average share in the first six months of 2025.

Source: Bureau of Economic Analysis; Barbiero and Stein (2025), "The Impact of Tariffs on Inflation", Current Policy Perspective, 25-2, Federal Reserve Bank of Boston; US Census Bureau; USITC; the White House; and OECD calculations.

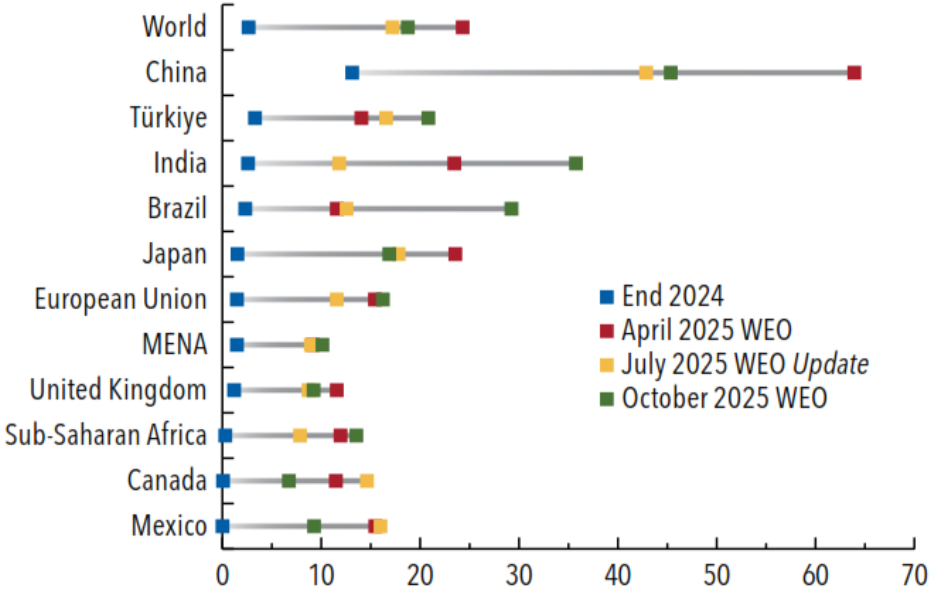
IMF - Macro Outlook, October 2025

- 6 months after Liberation Day, the good news is that the negative impact on the global economy is at the modest end of the range. Thanks to the (1) agility of the private sector, which front-loaded imports in the first half of the year and speedily recognized supply chains to redirect trade flows and (2) the negotiation of trade deals with the U.S. by various countries, which by and large kept the trading system open, the tariff surge seems to have no effect on global growth.
- PREMATURE – The U.S. effective tariff rate remains high at about 19%, and trade tensions continue to cast a shadow over the global economy, with trade policy uncertainties remaining high. The effects of these tensions could well increase over time as firms gradually pass the tariffs on to customers as trade rebounds more permanently and the global economy gradually becomes less efficient. Past experience suggests that it may take a long time before the full picture emerges.
- INCORRECT – Other important forces are shaping a complex outlook. In the U.S., strict immigration policies are reducing labor supplied by foreign–born workers, another negative supply shock. So far, this has been offset by an equivalent decline in labor demand which leaves the unemployment rate mostly unchanged. In China, the hardest hit country by U.S. tariffs, growth is projected to decline only modestly, owing to (1) a sharp depreciation of the real effective exchange rate, (2) a front-loaded surge in exports towards Asian and European partners, and (3) some fiscal expansion. In the euro area, fiscal expansion in Germany has played a role in boosting growth. Emerging market and developing economies have benefited from the easier financial conditions on the back of a depreciated dollar.
- INCORRECT – The tariff shock is dimming lackluster growth prospects. Global grow is projected to slow in the second half of this year, with only partial recovery next year. Despite a steady first half, the outlook remains insufficiently bright, with risks tilted to the downside.
- RISKS - (1) AI boom – Market optimism about new technology – the internet then, AI now – is pushing up stock valuations, fueling a tech-centered investment boom, and sustaining consumption on the back of strong capital gains. This could push the neutral rate up. Lofty profit expectations will ultimately be unmet. A significant market repricing could impact aggregate wealth and consumption and spill over to broader financial markets. (2) China prospects remain weak. After 4 years, the property section is still not on solid footing while the economy teeters on the verge of a debt-deflation cycle. Further, it is hard to see how strong exports can be sustained. The signs are mounting that large-scale subsidies to the manufacturing sector have reached their limit and are contributing to significant misallocation of resources in the economy. Then, there are significant strains on many countries' public finance. With lower growth, higher interest rates, more debt, and the need to boost military spending, the fiscal equation is becoming more challenging to solve which leaves countries vulnerable. Finally, trust in central banks and their ability to deliver price stability and keep inflation expectations anchored are being questioned.

https://www.imf.org/-/media/Files/Publications/WEO/2025/October/English/text.ashx

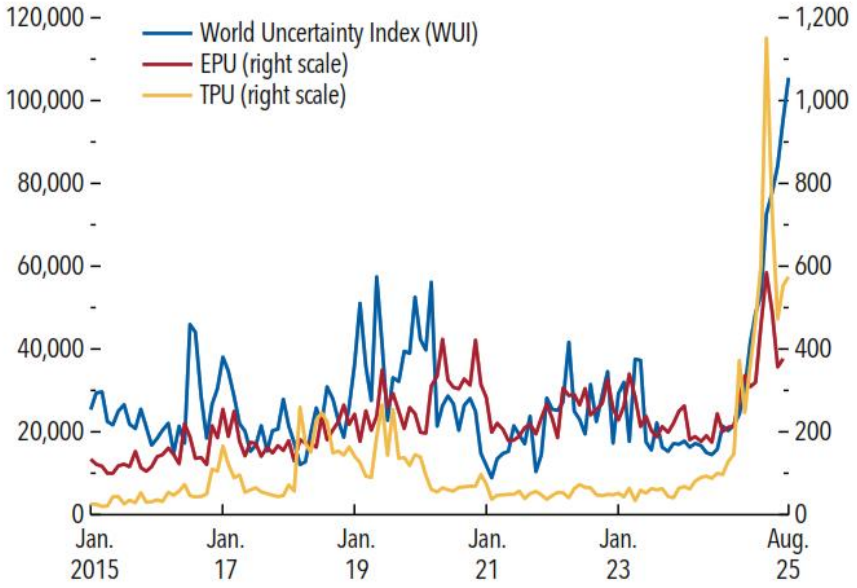
IMF – Effective Tariff Rates & Uncertainties

U.S. Effective Tariff Rates by Country (%)



Sources: U.S. International Trade Commission; WTO-IMF Tariff Tracker; and IMF staff calculations.
Note: The effective tariff rate is a weighted average of announced statutory rates. MENA = Middle East and North Africa; WEO = World Economic Outlook; WTO = World Trade Organization.

Overall, Economic Policy, and Trade Policy Uncertainty (index)



Sources: Ahir, Bloom, and Furceri 2022; Caldara and others 2020; Davis 2016; and IMF staff calculations.
Note: The uncertainty measures are news- and media-outlet-based indices that quantify media attention to global news related to overall uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU).

https://www.imf.org/-/media/Files/Publications/WEO/2025/October/English/text.ashx

IMF World Economic Report – October 2025

	PROJECT 2025 GROWTH RATE					PROJECT 2026 GROWTH RATE			
			Lower		Higher				
IMF WEO REPORT DATE	Oct-24	Jan-25	Apr-25	Jul-25	Oct-25	Jan-25	Apr-25	Jul-25	Oct-25
WORLD	3.2	3.3	2.8	3.0	3.2	3.3	3.0	3.1	3.1
ADVANCED ECONOMIES	1.8	1.8	1.4	1.5	1.6	1.8	1.5	1.6	1.6
UNITED STATES	2.8	2.1	1.8	1.9	2.0	2.1	1.7	2.0	2.1
EURO AREA	0.4	1.4	0.8	1.0	1.2	1.4	1.2	1.2	1.1
EMERGING & DEVELOPING ECONOMIES	4.2	4.3	3.7	4.1	4.2	4.3	3.9	4.0	4.2
CHINA	5.2	4.6	4.0	4.8	4.8	4.5	4.0	4.2	4.8
INDIA	8.2	6.5	6.2	6.4	6.6	6.5	6.3	6.4	6.6
LOW-INCOME DEVELOPING COUNTRIES	4.1	4.6	4.2	4.4	4.4	4.6	5.2	4.4	4.4

The global economy is adjusting to a landscape reshaped by new policy measures. Some extremes of higher tariffs were tempered, thanks to subsequent deals and resets, but the overall environment remains volatile. Also, temporary factors that supported activity in the first half of 2025 - such as front-loading - are fading. As a result, global growth projections in the October Outlook are revised upward relative to the April Outlook but continue to mark a downward revision relative to the pre-policy-shift forecasts. According to the IMF Global growth is projected to slow from 3.3 percent in 2024 to 3.2 percent in 2025 and 3.1 percent in 2026. Inflation is projected to continue to decline globally, though with variation across countries (above target in the United States) - with risks tilted to the upside - and subdued elsewhere.

Risks are tilted to the downside. Prolonged uncertainty, more protectionism, and labor supply shocks could reduce growth. Fiscal vulnerabilities, potential financial market corrections, and erosion of institutions could threaten stability. Policymakers are urged to restore confidence through credible, transparent, and sustainable policies. Trade diplomacy should be paired with macroeconomic adjustment. Fiscal buffers should be rebuilt. Central bank independence should be preserved. Efforts on structural reforms should be redoubled.

https://www.imf.org/en/publications/weo

2025Q3 Stocks & Bonds Performance & 60/40

Benchmark Index (2025Q3)	TR 2025Q3	TR YTD	TR Annlzd 3 Yr
DJ Industrial Average	5.53	10.05	18.94
S&P 500	8.12	14.83	24.94
S&P 500 Growth	9.80	19.53	28.98
S&P 500 Value	6.20	9.68	19.58
Russell Mid Cap	5.33	10.42	17.69
Russell Mid Cap Growth	2.78	12.84	22.85
Russell Mid Cap Value	6.18	9.50	15.51
Russell 2000	12.39	10.39	15.21
Russell 2000 Growth	12.19	11.65	16.68
Russell 2000 Value	12.60	9.04	13.56
NASDAQ 100	9.01	18.10	32.10

Benchmark Index (2025Q3)	TR 2025Q3	TR YTD	TR Annlzd 3 Yr
Bloomberg US Agg Bond	2.03	6.13	4.93
Bloomberg US Corp IG + HY	2.59	6.93	7.73
Bloomberg Municipal	3.00	2.64	4.74
Bloomberg High Yield Corporate	2.54	7.22	11.09
Bloomberg Gbl Agg Ex USD Hdg USD	0.49	2.26	5.22
Bloomberg EM Local Currency Broad	2.18	16.47	10.56
Bloomberg EM Hard Currency Agg	3.16	9.74	11.00

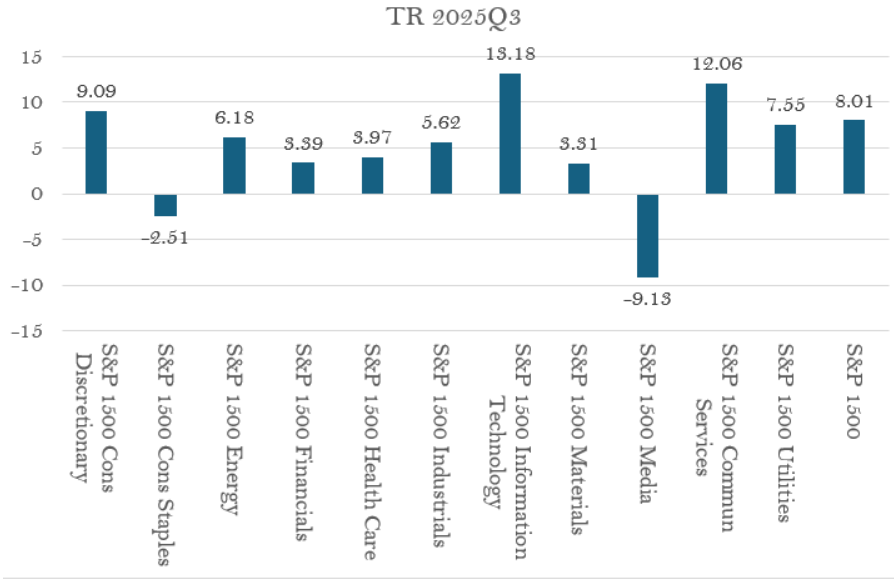
US 60/40 Portfolio 20245Q3	TR 2025Q3	TR YTD 2025Q3	TR Annlzd 3 Yr
S&P 500 TR	8.12	14.83	24.94
Bloomberg US Agg Bond	2.03	6.13	4.93
60/40 Portfolio	5.69	11.35	16.93
International 60/40 Portfolio			
MACI ACWI ex USA All Cap	7.06	26.67	21.08
Bloomberg Glnl Agg Ex USD	0.49	2.26	5.22
60/40 Portfolio	4.43	16.91	14.73

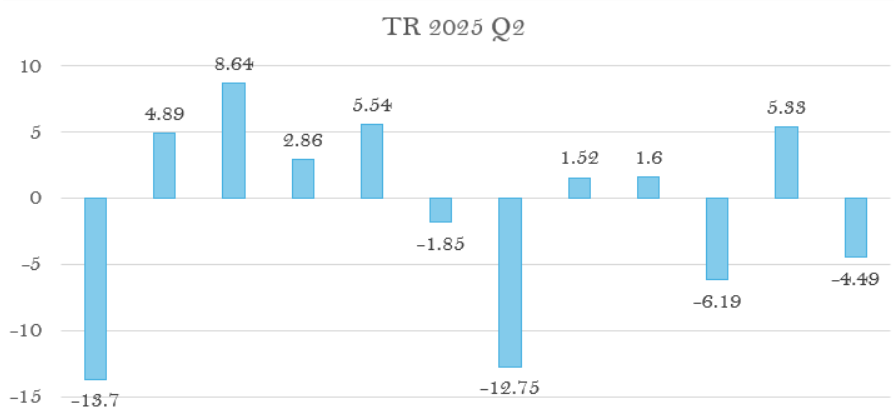
Benchmark Index U$ (2025Q3)	TR 2025Q3	TR YTD 2025Q3	TR Annlzd 3 Yr
S&P 1500 Cons Discretionary	9.09	4.66	20.01
S&P 1500 Cons Staples	-2.51	3.57	10.69
S&P 1500 Energy	6.18	5.96	10.88
S&P 1500 Financials	3.39	12.15	22.48
S&P 1500 Health Care	3.97	2.21	6.33
S&P 1500 Industrials	5.62	17.13	24.91
S&P 1500 Information Technology	13.18	21.92	39.62
S&P 1500 Materials	3.31	8.40	12.40
S&P 1500 Media	-9.13	-7.76	5.82
S&P 1500 Commun Services	12.06	24.25	38.22
S&P 1500 Utilities	7.55	17.60	13.57
S&P 1500	8.01	14.07	24.12

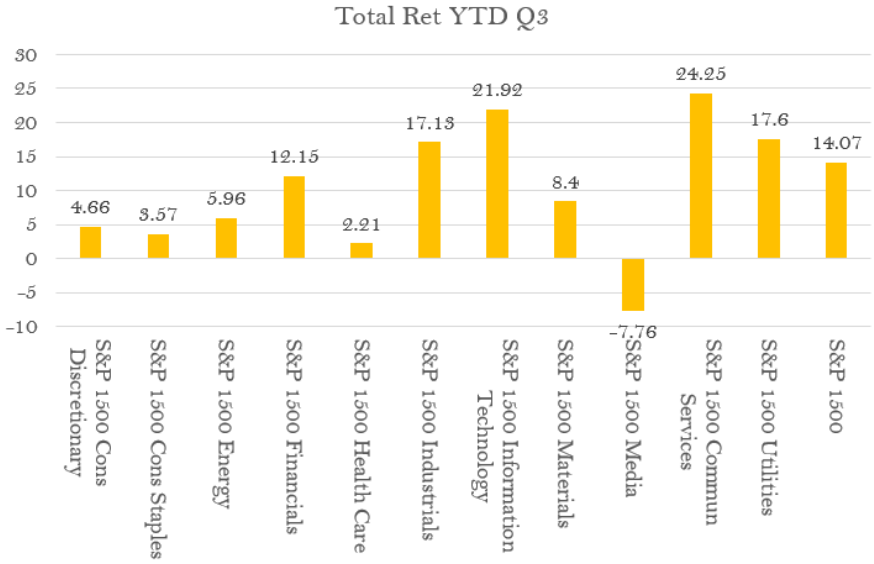
Benchmark Index (2025Q3)	TR 2025Q3	TR YTD	TR Annlzd 3 Yr
MSCI ACWI ex USA All Cap	7.06	26.67	21.08
MSCI EAFE	4.83	25.72	22.33
MSCI Europe	3.66	28.22	23.69
MSCI AC ASEAN	6.61	13.10	12.09
MSCI EM	10.95	28.22	18.81
MSCI Frontier Emerging Market	12.42	33.45	20.53
MSCI Australia	3.47	15.99	16.06
MSCI Brazil	8.44	40.36	10.62
MSCI Canada	9.92	27.38	21.64
MSCI China	20.76	41.85	19.69
MSCI France	3.22	25.17	21.32
MSCI Germany	-1.12	33.64	31.88
MSCI Hong Kong	9.08	31.87	9.96
MSCI India	-6.63	-0.51	11.45
MSCI Italy	8.45	47.83	43.10
MSCI Japan	8.18	21.11	21.65
MSCI Korea	12.83	57.61	21.07
MSCI Mexico	13.52	48.65	20.14
MSCI UK All Cap	4.97	25.47	21.68
	7.82	18.75	23.02

Source: Morningstar Direct, Experiential Wealth 06-30-2025

S&P 1500 Sector Performance – 2025Q3







Source: Morningstar Direct, Experiential Wealth

Investment Style Summary 2025Q3

	2025 Q3 TR		
	Value	Blend	Growth
Large	-0.52	0.54	1.51
Mid	-1.67	-1.42	-0.74
Small	-0.97	-0.39	0.16

	2025 YTD TR Q3		
	Value	Blend	Growth
Large	9.68	14.33	18.53
Mid	9.50	10.42	12.84
Small	9.04	10.39	11.65

	2025 Q3 TR		
	Value	Blend	Growth
Large	6.20	8.12	9.80
Mid	6.18	5.33	2.78
Small	12.60	12.39	12.19

Source: Morningstar Direct, Experiential Wealth 06-30-2025

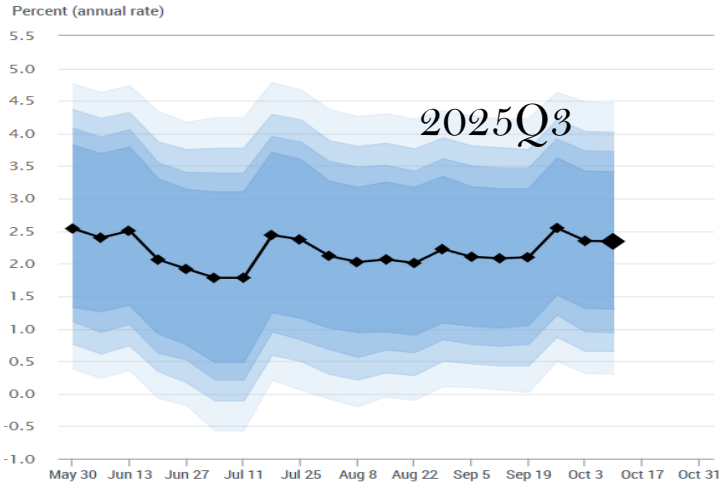
U.S. Economy – 2025Q2 GDP & Q3 Projections

	2025 (s.a.)	
	Q1	Q2
Gross domestic product (GDP)	**-0.6**	**3.8**
Personal consumption expenditures	**0.6**	**2.5**
Goods	0.2	2.2
Durable goods	**-3.4**	2.3
Nondurable goods	2.2	2.2
Services	0.8	2.6
Gross private domestic investment	**23.3**	**-13.8**
Fixed investment	7.1	4.4
Nonresidential	9.5	7.3
Structures	**-3.1**	**-7.5**
Equipment	21.4	8.5
Intellectual property products	6.5	15.0
Residential	**-1.0**	**-5.1**

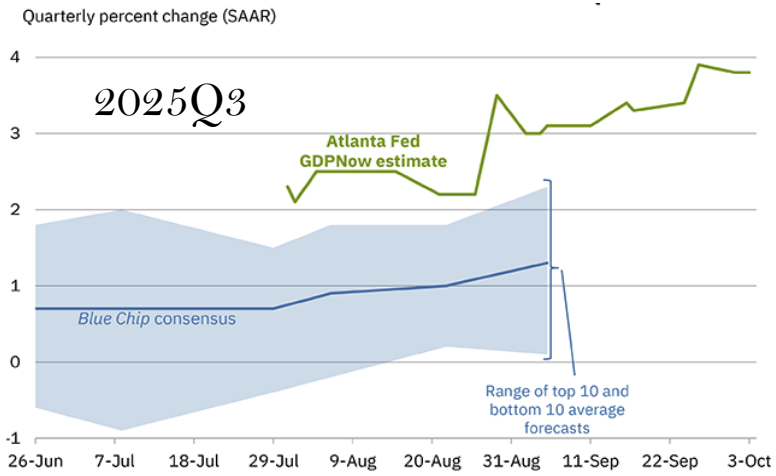
	2025 (s.a.)	
	Q1	Q2
Net exports of goods and		
Exports	0.2	**-1.8**
Goods	6.3	**-4.7**
Services	**-9.7**	3.5
Imports	38.0	**-29.3**
Goods	52.0	**-35.0**
Services	**-5.8**	**-1.2**
Government consumption	**-1.0**	**-0.1**
Federal	**-5.6**	**-5.3**
National defense	**-6.9**	0.9
Nondefense	**-3.8**	**-13.0**
State and local	1.9	3.1
Disposable personal income	5.8	5.3

Source: BEA, Philip Chao

New York Fed Nowcast



Atlanta Fed GDPNow



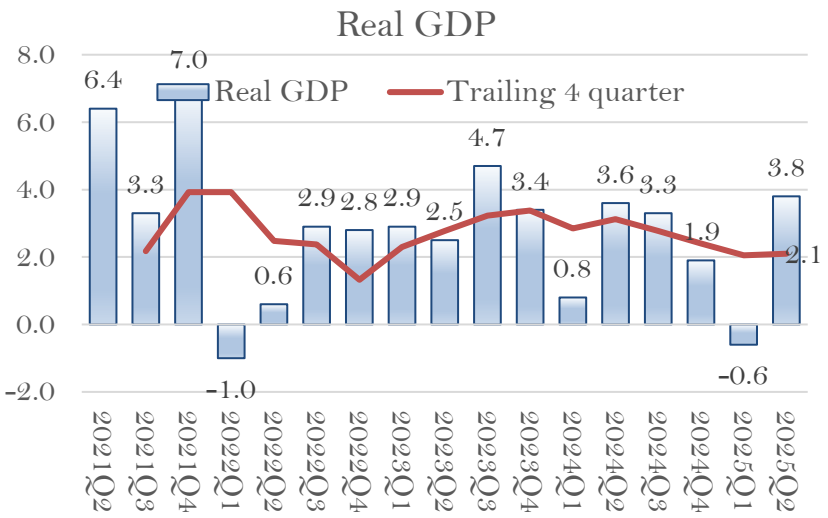
The New York Fed Staff Nowcast stands at 2.3% for 2025:Q3, with the 50% probability interval at [1.3, 3.4]% and the 80% interval at [0.3, 4.5]%. The Staff Nowcast stands at 2.2% for 2025:Q4.

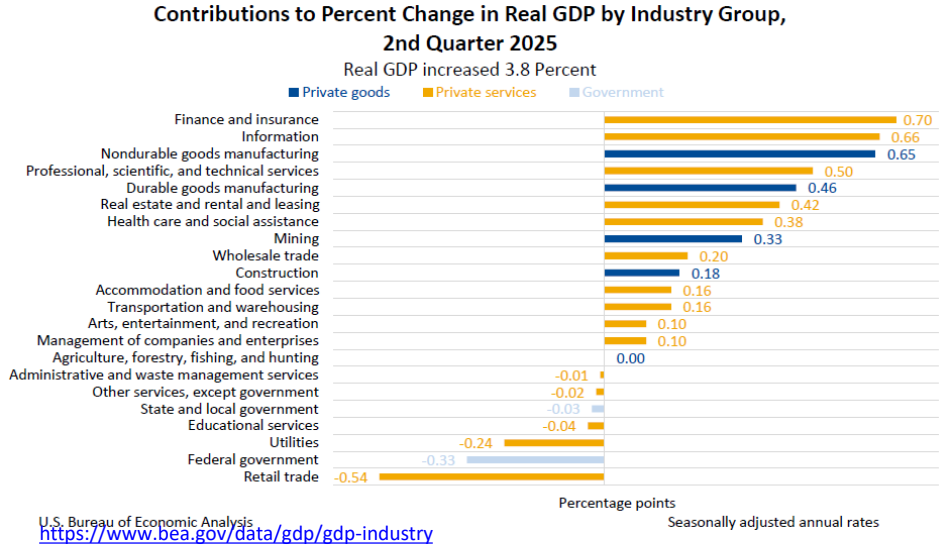
https://www.newyorkfed.org/research/policy/nowcast#/nowcast

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2025 is 3.8% on October 7, unchanged from October 1 after rounding.

https://www.atlantafed.org/cqer/research/gdpnow

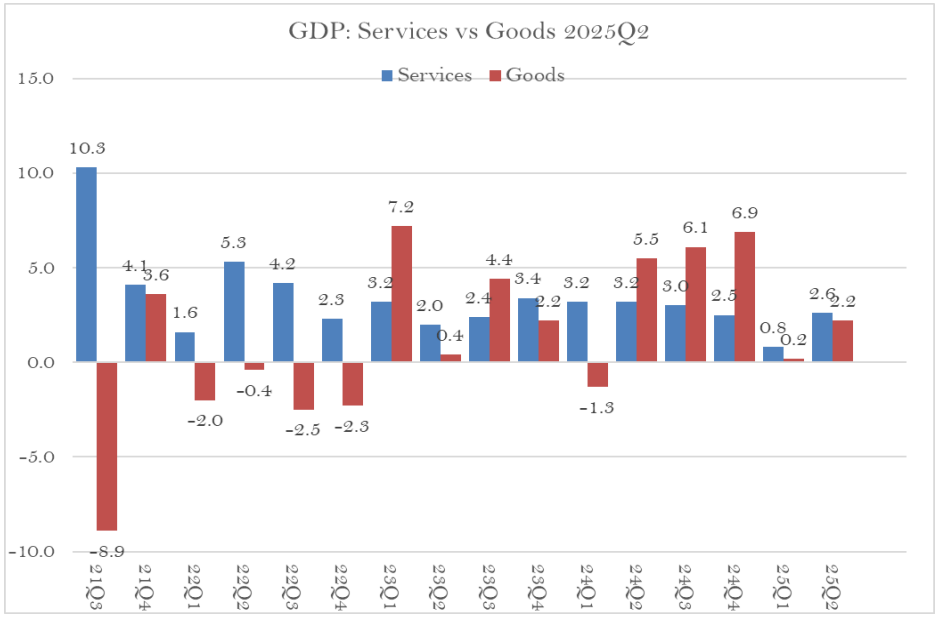
Services remain the driver of the economy in Q2



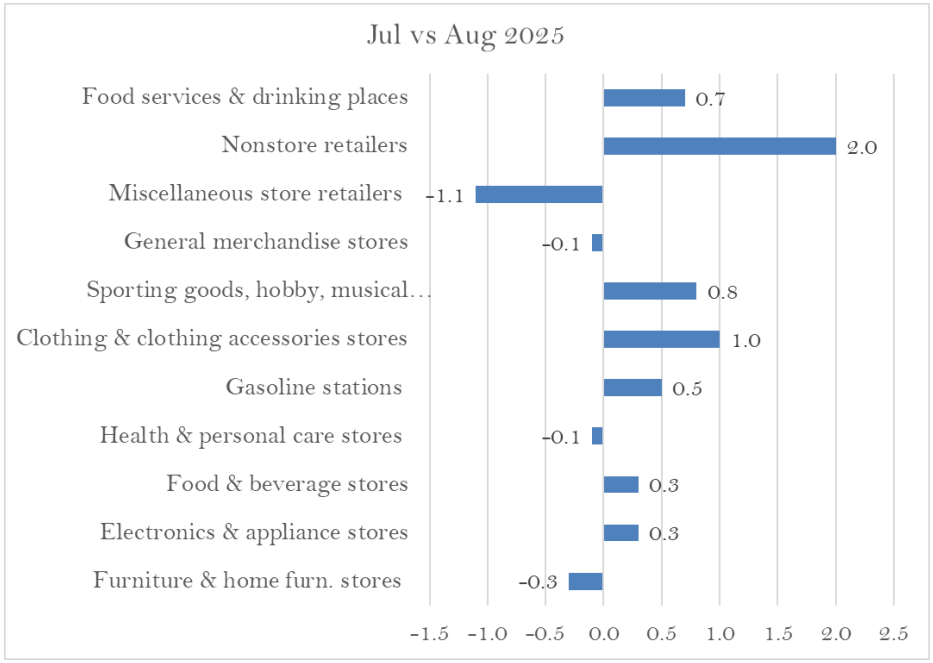


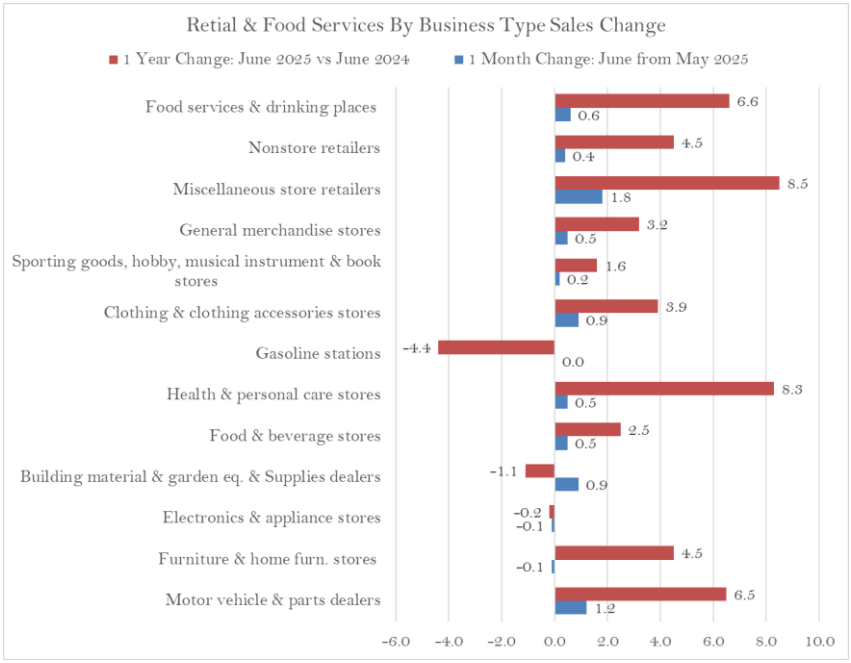
https://www.bea.gov/data/gdp/gdp-industry

Real GDP increased at an annual rate of 3.8 percent in the second quarter of 2025, according to the third estimate. In the first quarter, real GDP decreased 0.6 percent. The increase in real GDP in the second quarter primarily reflected a decrease in imports, which are a subtraction in the calculation of GDP, and an increase in consumer spending. These movements were partly offset by decreases in investment and exports. Real final sales to private domestic purchasers, the sum of consumer spending and gross private fixed investment, increased 2.9 percent in the second quarter, revised up 1.0 percentage point from the previous estimate.



Retail sales continue to support the economy - August 2025

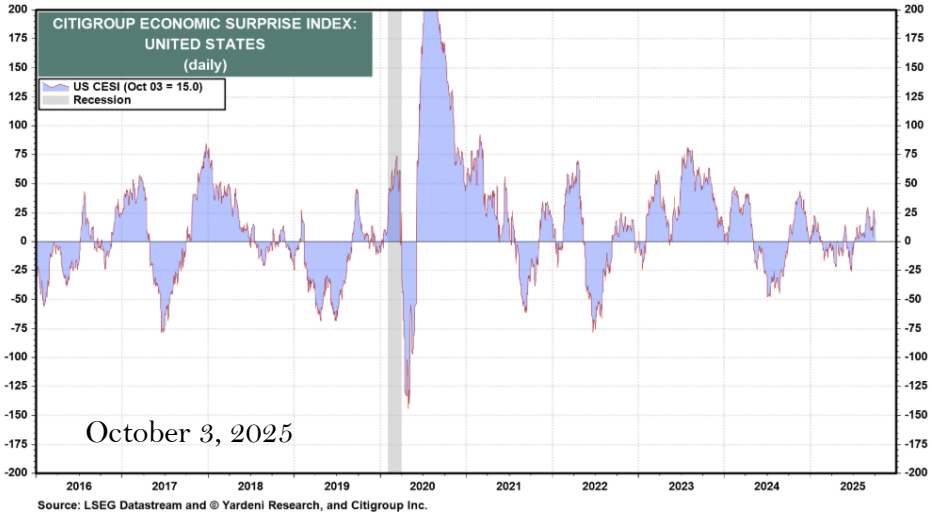




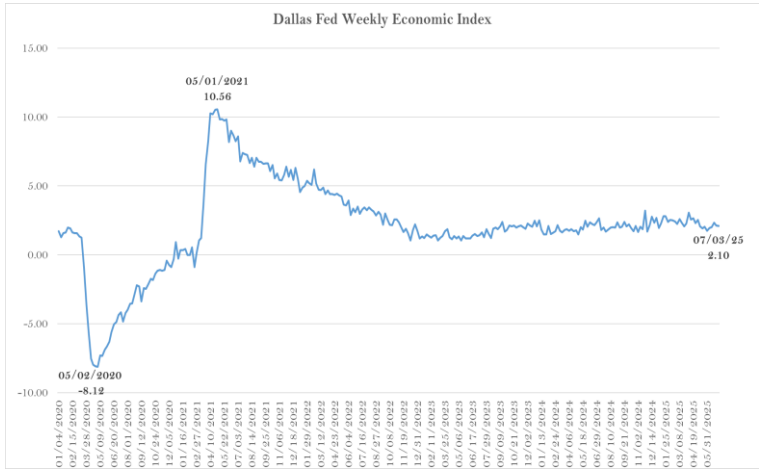
Source: https://www.census.gov/retail/marts/www/marts_current.pdf & Philip Chao

Retail trade sales were up 0.6 percent (±0.4 percent) from July 2025, and up 4.8 percent (±0.5 percent) from last year. Non-store retailers were up 10.1 percent (±1.2 percent) from last year, while food service and drinking places were up 6.5 percent (±1.8 percent) from August 2024.

High Frequency Economic Data



https://yardeni.com/charts/citigroup-economic-surprise/

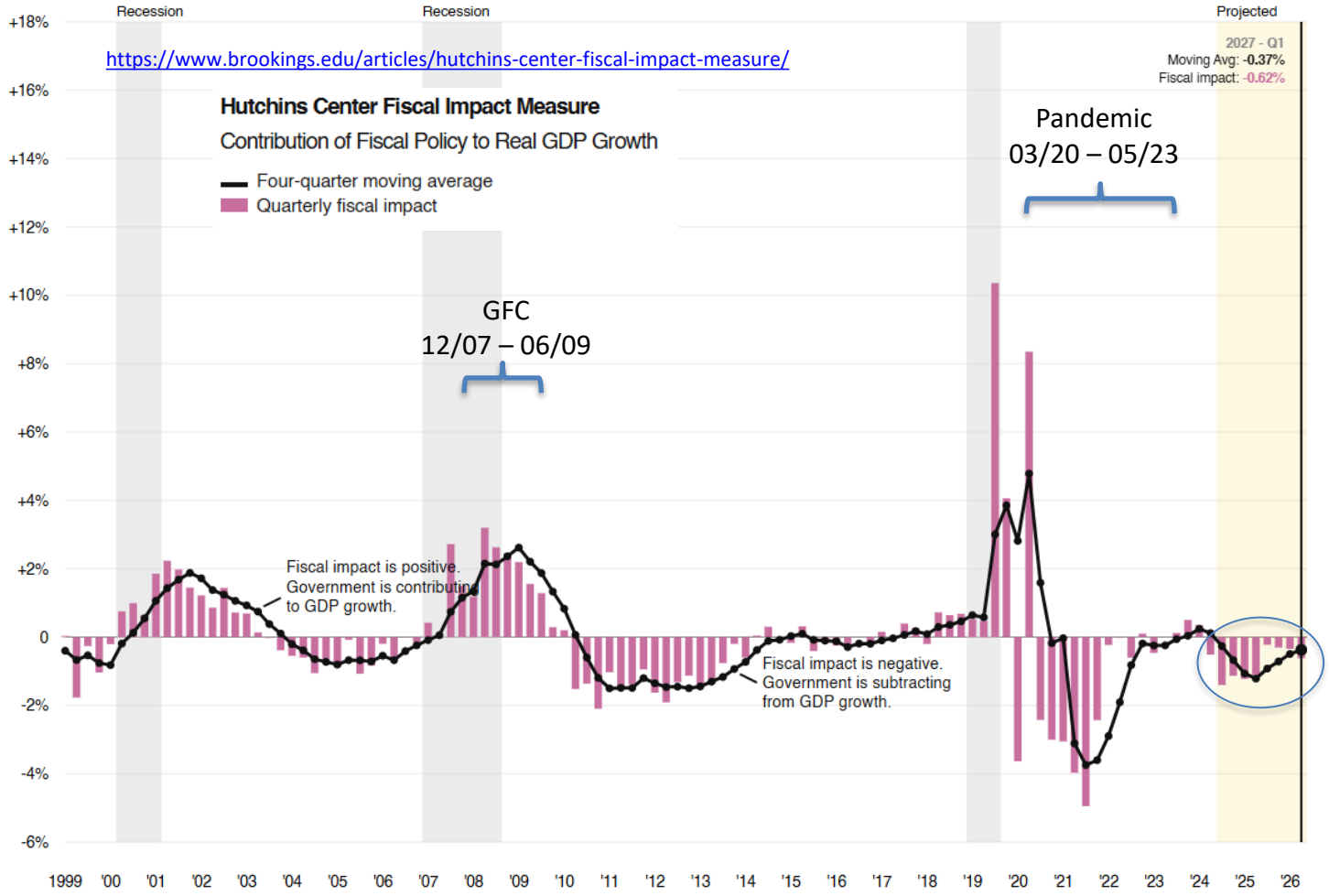


Source: Federal Reserve Bank of Dallas, Philip Chao as of 06-28-2025
https://www.dallasfed.org/research/wei

Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, is now back to neutral. (We prefer "exceeding" expectations). As a trend, going forward the expectation is more likely to be somewhat exceeding than disappointing. This is a sign of the economy exceeding a bit more than the market's expectation. Since the summer of 2025, the economy seems to be rebounding somewhat.

Dallas Fed's Weekly Economic Index (WEI) provides a signal of the state of the U.S. economy based on data available on a daily or weekly frequency. It represents the common component of 10 different daily and weekly series covering consumer behavior, the labor market, and production. The WEI is currently 2.1 percent, scaled to four-quarter GDP growth, for the week ended June 28 and 2.34 percent for June 21. The 13-week moving average is 2.26 percent. This is compared with 1.99 percent four-quarter GDP growth through the first quarter of 2025. This suggests the economy remains moderate and is not heading for a contraction.

Brookings Financial Impact Measure



The sharp decline in the forecast of the FIM over the next four quarters reflects the effects of tariffs and heightened uncertainty surrounding tariffs and other federal policies, including those related to federal grants to universities and other non-profits. The FIM is marked down by one percentage point for each of the next four quarters as a rough approximation of their magnitude. This projection also assumes that the provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that are set to expire at the end of 2025 are extended. As of July 4, the extension is approved. Other provisions of the Big Beautiful Bill (which was passed after this projection) have not been included.

https://www.brookings.edu/articles/the-hutchins-centers-fiscal-impact-measure/

National Federation of Independent Business (NFIB) – August 2025

Survey suggests that businesses are more positive in August than July. Key Findings Include:

- In August, there was a notable improvement in overall business health. When asked to rate the overall health of their business, 14% reported excellent (up 1 point), and 54% reported it as good (up 2 points). 27% reported the health of their business as fair (down 4 points), and 4% reported poor (unchanged).
- The percent of small business owners reporting labor quality as the single most important problem for their business remained at 21%, continuing to rank as the top problem.
- In August, 32% (seasonally adjusted) of all owners reported job openings they could not fill in the current period, down 1 point from July. The last time unfilled job openings fell below 32% was in July 2020.
- The net percent of owners expecting higher real sales volumes rose 6 points from July to a net 12% (seasonally adjusted). This component contributed the most to the Optimism Index's increase.
- A net 0% (seasonally adjusted) of owners viewed current inventory stocks as "too low" in August, up 3 points from July.
- The net percent of owners raising average selling prices fell 3 points from July to a net 21% (seasonally adjusted), the lowest reading of this year.
- The frequency of reports of positive profit trends improved 3 points to a net negative 19% (seasonally adjusted). August's reading was the best since March 2023.
- In August, the average rate paid on short maturity loans was 8.1%, down 0.6 points from July and the lowest reading since May 2023.
- Twenty-three percent of all owners reported borrowing on a regular basis, down 2 points from July. The last time the percent of business owners borrowing on a regular basis was below 23% was in November 2021.

https://www.nfib.com/news/press-release/new-nfib-survey-small-business-optimism-improves-again-136 /

National Federation of Independent Business (NFIB) – August 2025

https://www.nfib.com/surveys/small-business-economic-trends/
https://www.nfib.com/wp-content/uploads/2025/07/NFIB-SBET-Report-June-2025.pdf

SMALL BUSINESS OPTIMISM INDEX COMPONENTS

Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	14%	1	*
Plans to Make Capital Outlays	22%	1	*
Plans to Increase Inventories	1%	2	*
Expect Economy to Improve	36%	14	*
Expect Real Sales Higher	6%	-1	*
Current Inventory (too low)	-3%	2	*
Current Job Openings	33%	-3	*
Expected Credit Conditions	-4%	0	*
Now a Good Time to Expand	16%	5	*
Earnings Trends	-22%	0	*
Total Change		21	

Based on a Survey of Small and Independent Business Owners

OPTIMISM INDEX

The Small Business Optimism Index rose 0.5 points in August to 100.8, nearly 3 points above the 52-year average of 98. Of the 10 Optimism Index components, four increased, four decreased, and two were unchanged. The increase in those expecting real sales to be higher contributed the most to the rise in the Optimism Index. While optimism increased in August, the level of uncertainty fell. The Uncertainty Index fell 4 points to 93, although it was the 11th highest reading in over 51 years. The decline was due to a decrease in uncertainty about financing expectations and planned capital expenditures.

Outlook

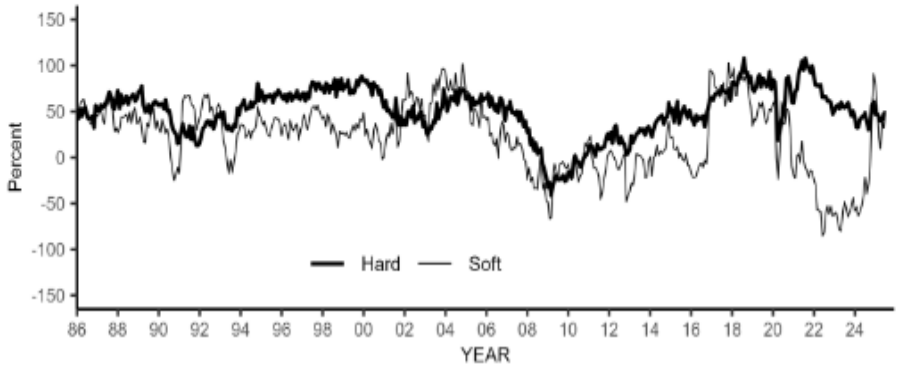
The net percent of owners expecting better business conditions fell 2 points from July to a net 34% (seasonally adjusted). Historically this is a very positive reading. In August, 14% (seasonally adjusted) reported that it is a good time to expand their business, down 2 points from July. Compared to readings during economic expansions, this is not a strong reading.

NFIB Survey – Still Uncertain, August 2025

OPTIMISM INDEX COMPONENTS

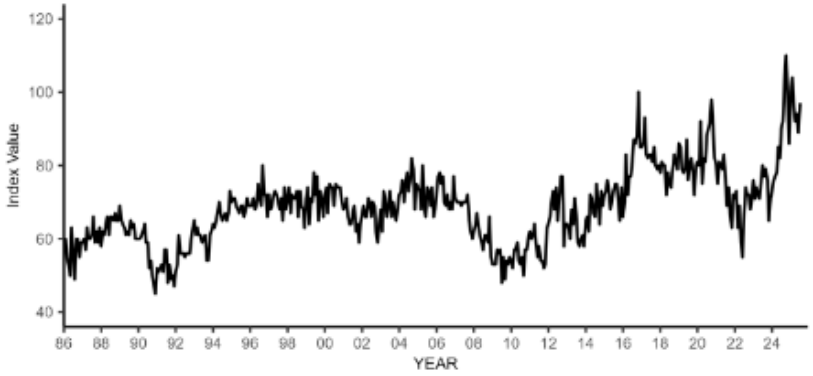
Hard: Job Creation Plans, Job Openings, Inventory Plans, Earnings, Capital Expenditure Plans

Soft: Expected Business Conditions, Outlook for Expansion, Expected Real Sales, Expected Credit Conditions, Inventory Satisfaction



UNCERTAINTY INDEX

Sum of "Don't Know" & "Uncertain" Answers on 6 Questions



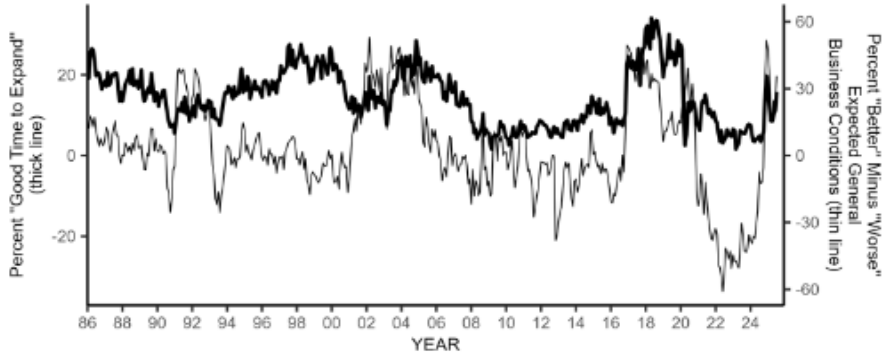
SMALL BUSINESS OUTLOOK

OUTLOOK

Good Time to Expand and Expected General Business Conditions

January 1986 to July 2025

(Seasonally Adjusted)



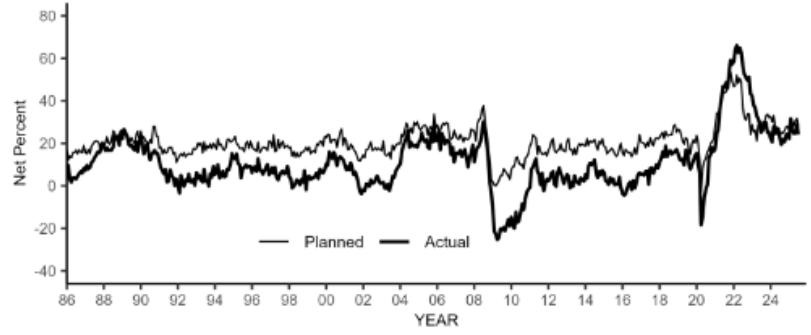
SMALL BUSINESS PRICES

PRICES

Actual Last Three Months and Planned Next Three Months

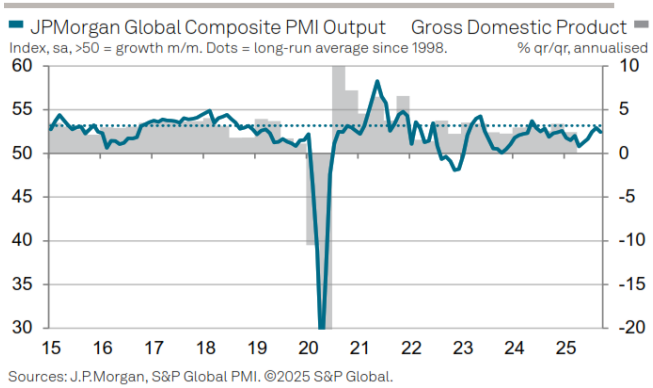
January 1986 to July 2025

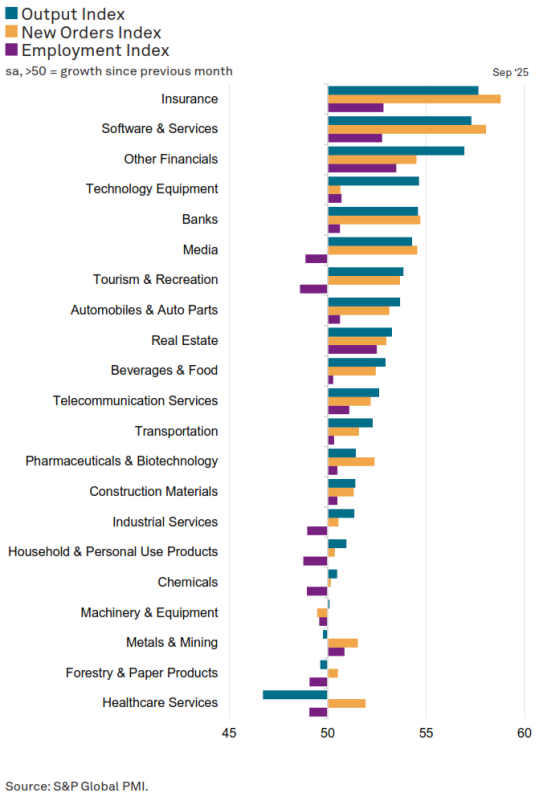
(Seasonally Adjusted)



https://www.nfib.com/news/monthly_report/sbet/

Global PMI September 2025





The September data from across the world signaled a slight loss of growth impetus across the manufacturing and services sectors. The mild economic upturn was also insufficient to create meaningful job creation, with employment levels unchanged compared to the prior survey month. The Global Composite Index posted 52.4 in September, down from August's 14-month high of 52.9. The global service sector continued to outperform its manufacturing counterpart in September, although rates of output expansion eased in both categories. The Services Business Activity Index posted 52.8, compared to 50.8 for the Manufacturing Output Index.

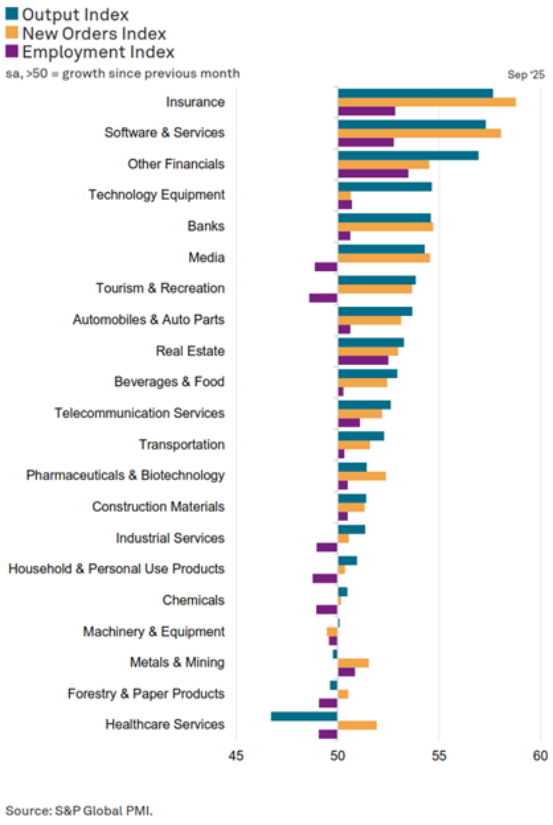
S&P Global Sector PMI data shows 18 of the 21 monitored sectors recorded output growth. Two of the three sectors to buck the wider trend of expansion, namely Forestry & Paper Products and Metal & Mining, were based in the broader Basic Materials category. The rates of contraction were only fractional. Healthcare Services registered the sharpest decline of the 21 monitored sectors and was the one that was the most marked in three years. As a result, the broader Healthcare category ranked bottom for the third time in four months.

Demand strength was more broad-based in September, with 20 of the 21 monitored sectors recording positive order inflows, the most in over three-and-a-half years. Where a drop in orders was recorded - in the Machinery & Equipment sector - the rate of contraction was only slight overall. On the jobs front, there were signs of hesitancy around hiring decisions as monthly changes to employment levels, up or down, were often only modest. Other Financials – which includes consumer financial services, specialty financials and investment services - recorded the sharpest rise in headcounts, while Tourism & Recreation signaled the most aggressive cuts.

https://www.pmi.spglobal.com/Public/Release/PressReleases?language=en

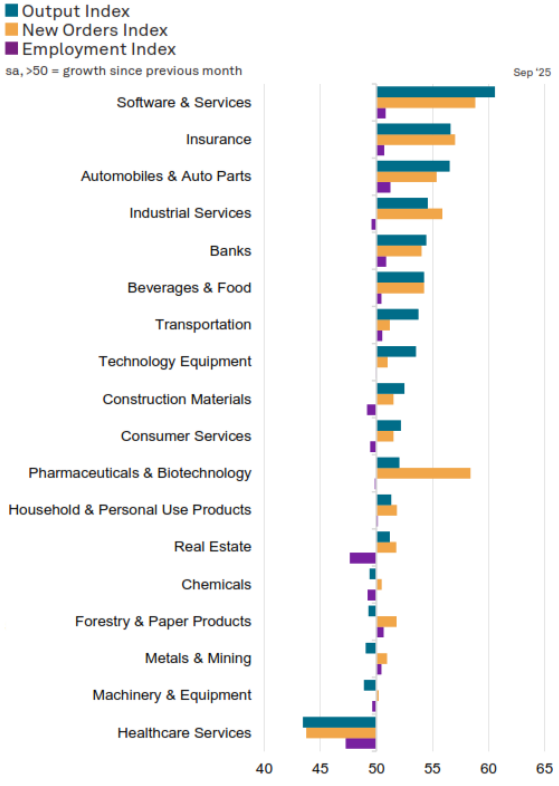
Global PMI September 2025 by Sector

S&P Global Sector PMI



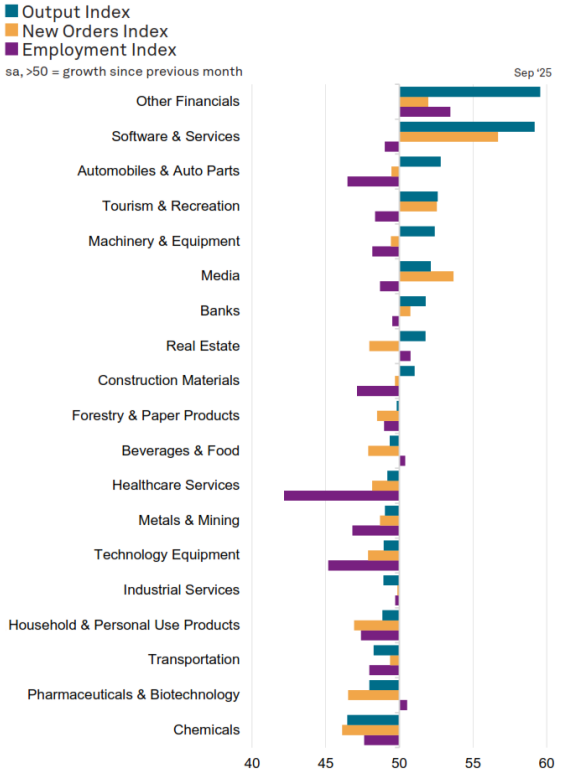
Source: S&P Global PMI.

S&P Global Asia Sector PMI



Source: S&P Global PMI.

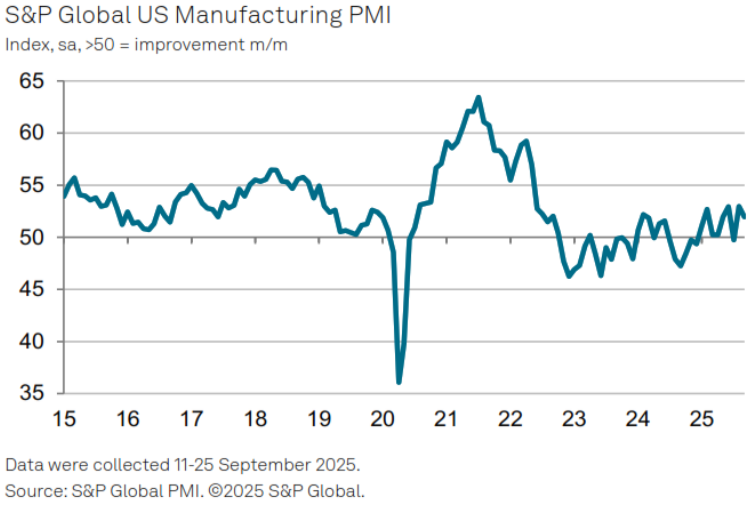
S&P Global Europe Sector PMI

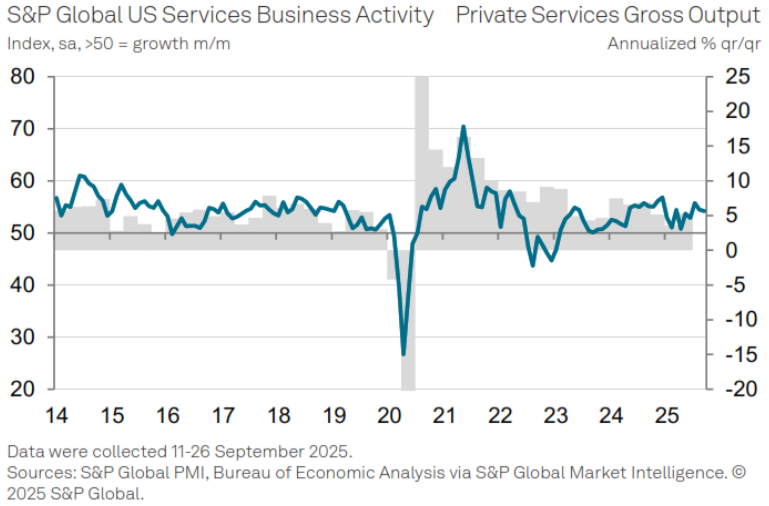


Source: S&P Global PMI.

https://www.pmi.spglobal.com/Public/Release/PressReleases?language=en

S&P Global US PMI Still Shows Strength…but slowing 09-2025





- The seasonally adjusted U.S. Manufacturing PMI Index recorded 52.0 in September. That was down from 53.0 in the previous month and thus signaled a weaker rate of expansion of the manufacturing economy. New order book growth softened as tariffs continued to weigh on exports. Tariffs and broader policy uncertainty also dampened firms' assessments of the business outlook, but expectations of manufacturing production reshoring and hopes of better demand in the year ahead meant sentiment remained positive overall. Cost pressures meanwhile were again elevated, with tariffs reportedly the dominant factor pushing up overall purchase prices. Whilst firms sought to pass on higher supplier costs to clients, competitive pressures and signs of faltering demand meant output charge inflation softened to an eight-month low.

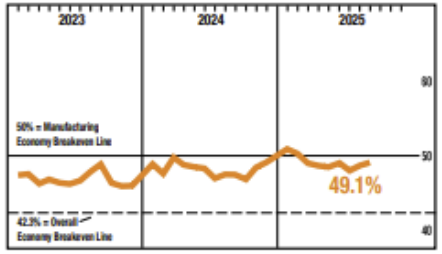
- September's S&P Global PMI survey of U.S. private service sector companies signaled a further, but nonetheless weaker, expansion of business activity. Slower growth was linked to a softer expansion of new work, despite an improvement in foreign demand for the first time in six months. Meanwhile, sentiment regarding the outlook strengthened, linked in some instances by firms to lower interest rates. However, hiring activity increased only marginally amid some reluctance to replace leavers. On the price front, cost pressures remained elevated, driven principally by tariffs and higher salary payments. In response, service providers raised their own selling prices but at the slowest rate in five months. The headline S&P Global U.S. Services PMI Business Activity Index recorded 54.2 in September, down from 54.5 in August. The index has now signaled continuous service sector expansion for 32 months. Furthermore, over the third quarter, average monthly growth was the best recorded over a calendar quarter in 2025 so far. The index has now fallen for two months in a row, representing a slowdown from July's year-to-date peak. This reflected a similar softening of sales growth to a three-month low amid some reports that tariffs and broader uncertainty had limited gains in overall market demand.

https://www.pmi.spglobal.com/Public/Release/PressReleases?language=en

ISM Report on Business 09-2025 – PMI (50% + is expansion)

MANUFACTURING
PMI® at 49.1%

The U.S. manufacturing sector contracted in September for the seventh consecutive month after two months of expansion preceded by 26 months of contraction. The Manufacturing PMI® registered 49.1 percent in September, a 0.4-percentage point increase compared to the 48.7 percent recorded in August. Of the five subindexes that directly factor into the Manufacturing PMI®, two (Production and Supplier Deliveries) are in expansion territory, the same number as in August.



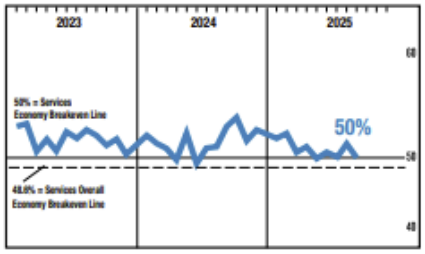
Manufacturing at a Glance

INDEX	Sep Index	Aug Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	49.1	48.7	+0.4	Contracting	Slower	7
New Orders	48.9	51.4	-2.5	Contracting	From Growing	1
Production	51.0	47.8	+3.2	Growing	From Contracting	1
Employment	45.3	43.8	+1.5	Contracting	Slower	8
Supplier Deliveries	52.6	51.3	+1.3	Slowing	Faster	2
Inventories	47.7	49.4	-1.7	Contracting	Faster	5
Customers' Inventories	43.7	44.6	-0.9	Too Low	Faster	12
Prices	61.9	63.7	-1.8	Increasing	Slower	12
Backlog of Orders	46.2	44.7	+1.5	Contracting	Slower	36
New Export Orders	43.0	47.6	-4.6	Contracting	Faster	7
Imports	44.7	46.0	-1.3	Contracting	Faster	6
Overall Economy				**Growing**	**Faster**	**65**
Manufacturing Sector				**Contracting**	**Slower**	**7**

*Number of months moving in current direction. ISM® *Manufacturing PMI® Report* data has been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

SERVICES
PMI® at 50%

In September, the Services PMI® registered 50 percent, a 2-percentage point decrease compared to the August reading of 52 percent. A reading above 50 percent indicates the services sector economy is generally expanding; below 50 percent indicates it is generally contracting. The past relationship between the Services PMI® and the overall economy indicates that the Services PMI® for September (50 percent) corresponds to a 0.4-percentage point increase in real gross domestic product (GDP) on an annualized basis.



Services at a Glance

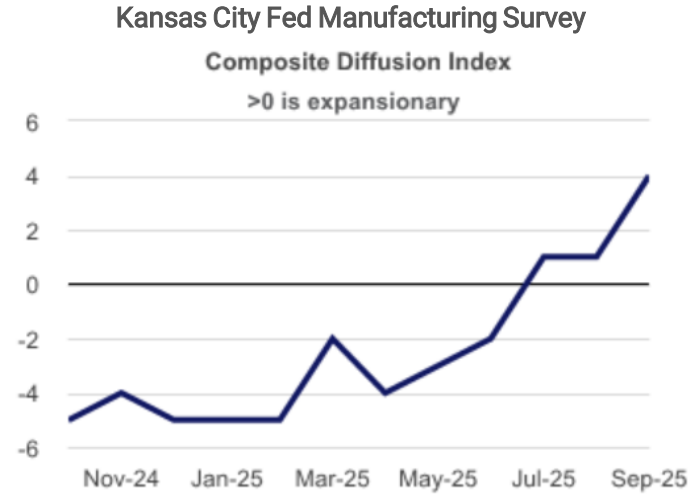
INDEX	Sep Index	Aug Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	50.0	52.0	-2.0	Unchanged	From Growing	1
Business Activity	49.9	55.0	-5.1	Contracting	From Growing	1
New Orders	50.4	56.0	-5.6	Growing	Slower	4
Employment	47.2	46.5	+0.7	Contracting	Slower	4
Supplier Deliveries	52.6	50.3	+2.3	Slowing	Faster	10
Inventories	47.8	53.2	-5.4	Contracting	From Growing	1
Prices	69.4	69.2	+0.2	Increasing	Faster	100
Backlog of Orders	47.3	40.4	+6.9	Contracting	Slower	7
New Export Orders	46.5	47.3	-0.8	Contracting	Faster	3
Imports	49.2	54.6	-5.4	Contracting	From Growing	1
Inventory Sentiment	55.7	55.5	+0.2	Too High	Faster	29
Overall Economy				**Growing**	**Slower**	**64**
Services Sector				**Unchanged**	**From Growing**	**1**

*Number of months moving in current direction. ISM® *Services PMI® Report* data has been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

Source: https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

Manufacturing Activities Continue to be Mixed – 09-2025

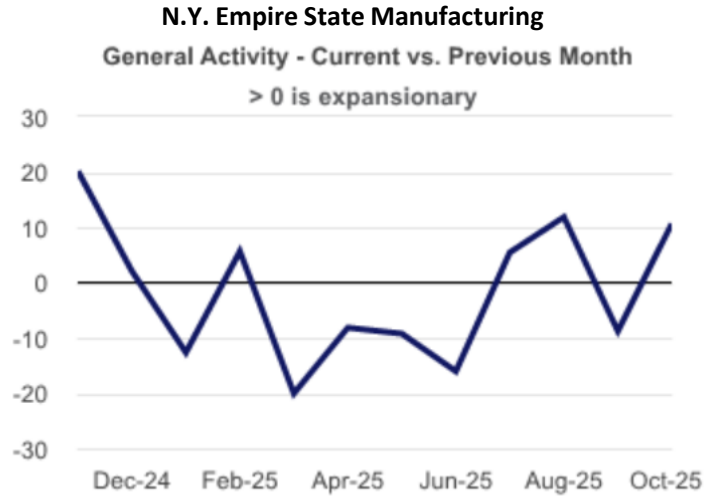
The California Composite Index rose to 57.3 in the fourth quarter, up from 55.4 in the third. Expectations have been on a modest upward march since bottoming out following the "Liberation Day" tariff announcement in April; still, the reading remains low compared with last year's levels. While the postponement of higher tariffs has lifted expectations of higher growth in the last quarter of the year, the uncertainty created by policy changes, price hikes, and increasingly cautious customers continue to weigh on purchasing managers' minds.



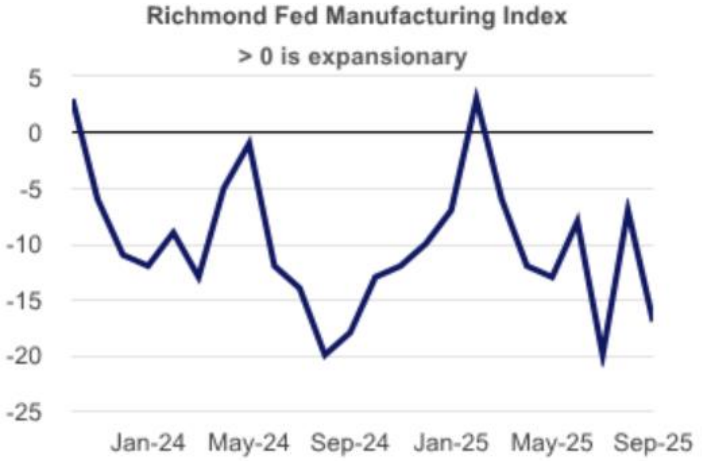
Tenth District factory activity increased in September, according to the Kansas City Fed's Manufacturing Survey. The composite diffusion index rose from 1 in August to 4 in September. Current business conditions improved modestly. The production index increased from 0 to 4, on net, while the volume of new orders index ticked lower from 5 to 2. Employment also improved. The number of employees index jumped to 7 in September from 0 in August. The average employee workweek index was steady at 3. Price growth moderated. The prices paid for raw materials index inched lower from 43 to 40, on net.

https://www.kansascityfed.org/surveys/manufacturing-survey/tenth-district-manufacturing-continued-to-decrease-june-2025/

Manufacturing Activities Continue to be Mixed – 09-2025

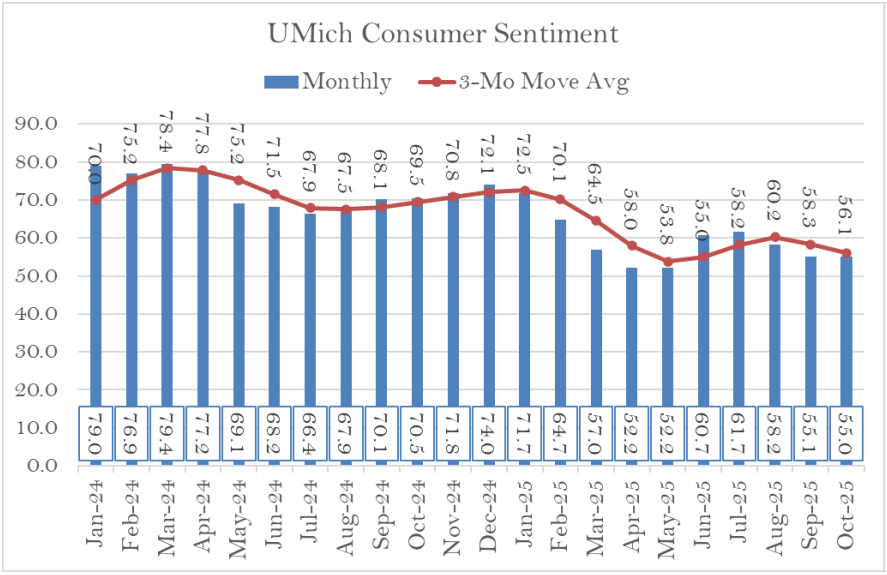


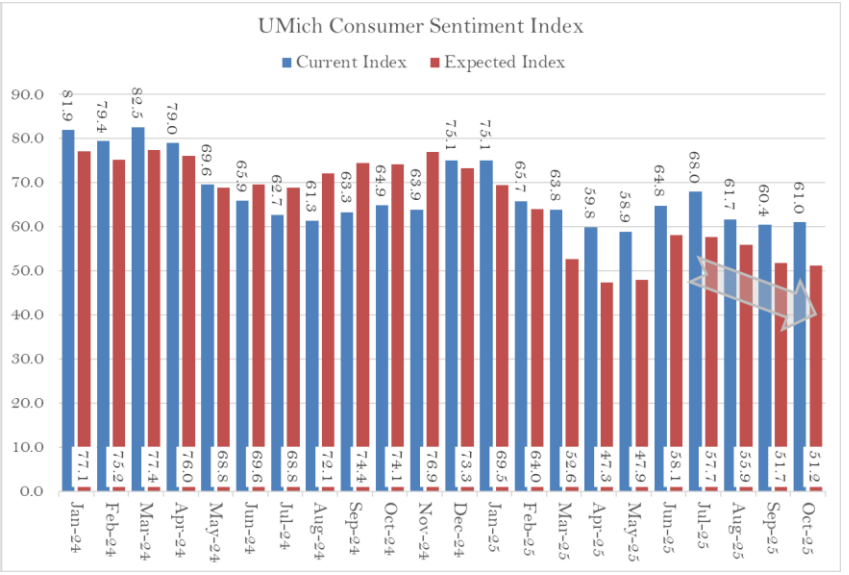
Manufacturers in New York are mostly back on track, according to the October Empire State Manufacturing Survey. The top-line general business conditions index rebounded from a sharp decline last month to return almost all the way back to the intra-year high that was achieved in August. The top-line increase from -8.7 to 10.7 was accompanied by improved demand metrics and, perhaps more notably, the most optimism about the six months ahead since January. Current and planned hiring also appear to be back on track. The most significant blemish comes from the prices paid and received indexes, both of which increased, consistent with the hotter-than-expected increases observed nationally late this summer.



According to the Richmond Fed's Manufacturing Survey, Fifth District manufacturing activity weakened again in September. The headline diffusion index dropped from -7 in August to -17 in September. All three component indexes weakened in the month, moving further into negative territory. After surging in August, prices paid inched lower in September.

UMich Consumer Sentiment – October 2025



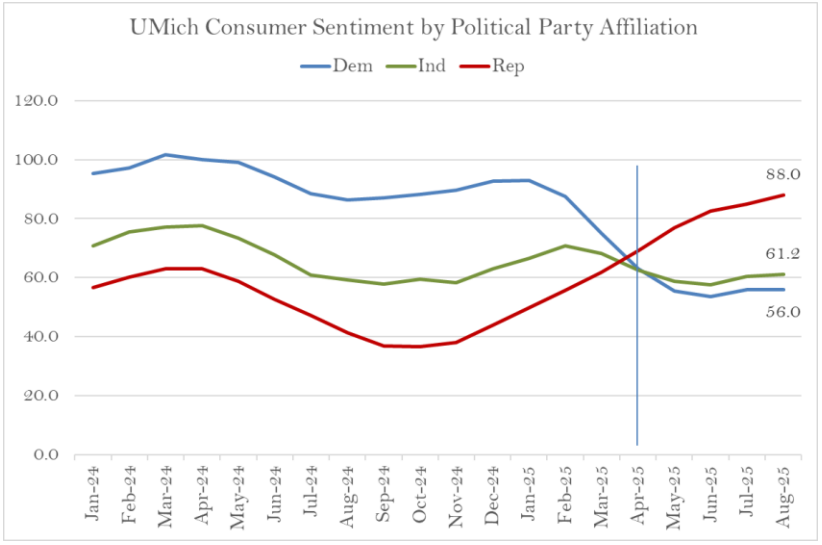


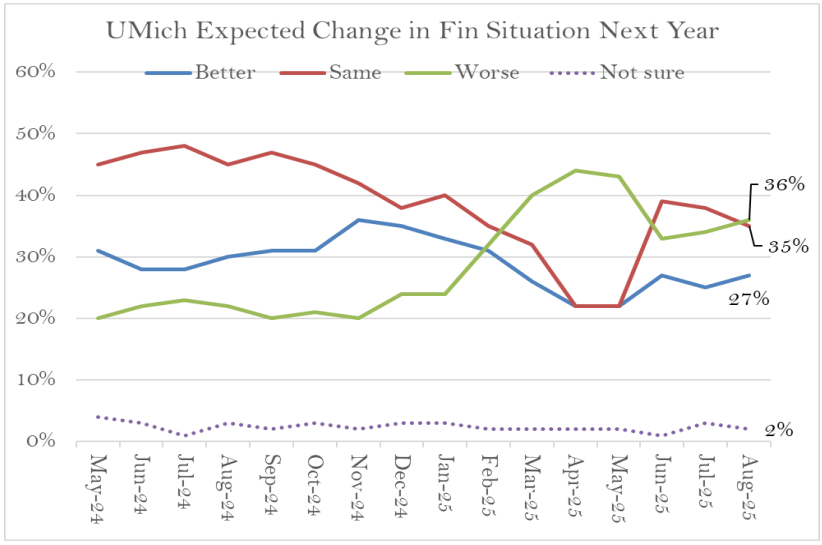
Source UMich and Philip Chao

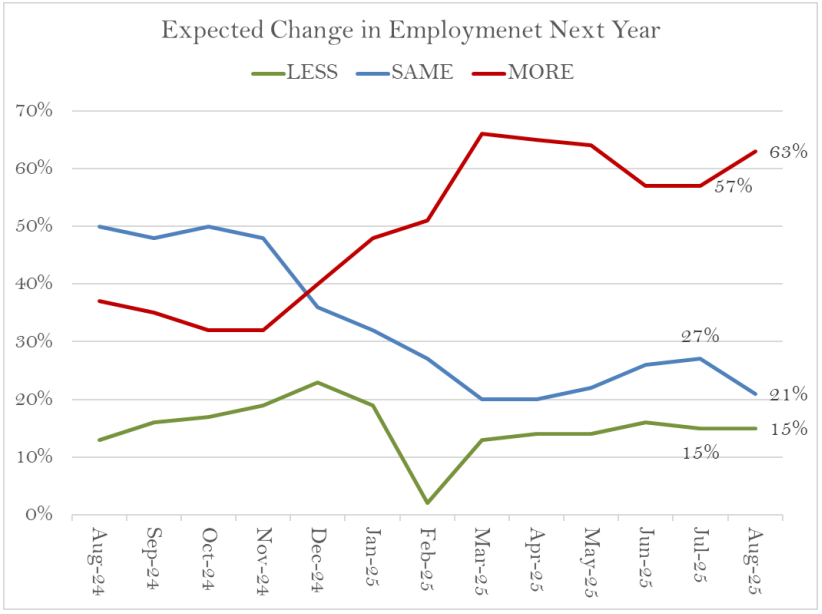
- The University of Michigan consumer sentiment index remains historically low. It dipped to 55 in October from 55.1 in September, according to the preliminary report. High inflation expectations remain a weight.
- Compared with September, expectations led the decline, sliding from 51.7 to 51.2. Consumers' assessments of current conditions rose from 60.4 to 61. Note that expectations account for 60% of the top-line index while current conditions account for 40%.
- Year-ahead inflation expectations dipped from 4.7% in September to 4.6% in October. Consumers remain fearful that tariffs will result in materially higher prices, although their fears have moderated since high tariffs were initially announced.
- Confidence dipped slightly in the second half of September, so the report suggests a slight increase in confidence in the first half of October compared with late September.

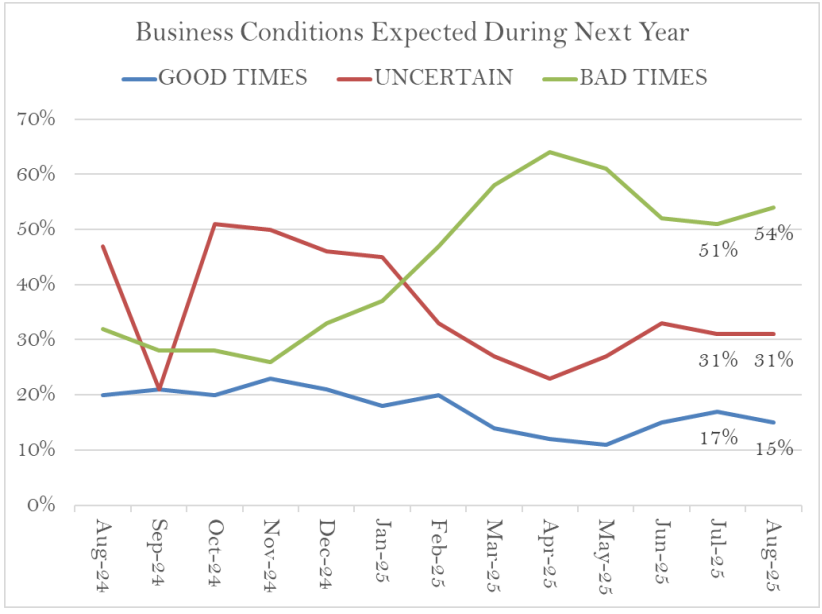
https://www.economy.com/economicview/indicator/usa_csent/University-of-Michigan-Consumer-Sentiment-Survey

UMich Consumer Survey – August 2025





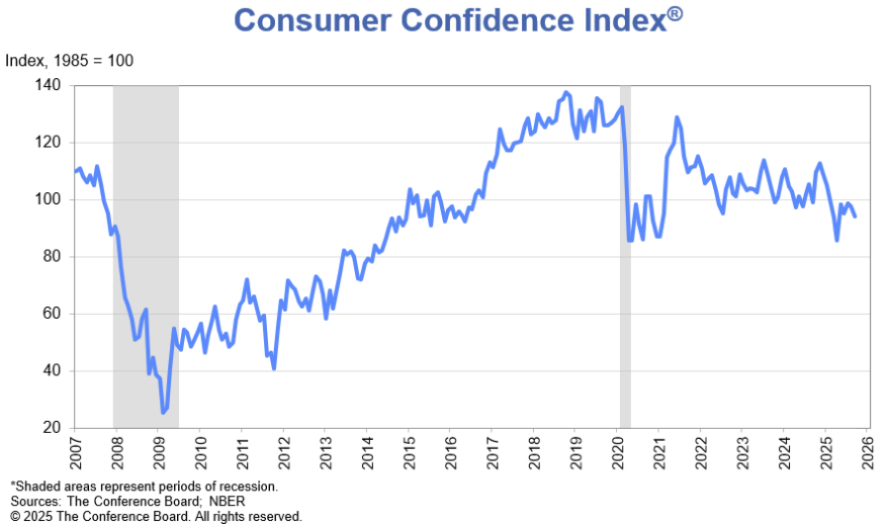




https://data.sca.isr.umich.edu/tables.php#

Source UMich and Philip Chao

Conference Board – Consumer Confidence - 09-2025



The Conference Board Consumer Confidence Index® declined by 3.6 points in September to 94.2, down from 97.8 in August. The Present Situation Index—based on consumers' assessments of current business and labor market conditions - fell by 7.0 points to 125.4. The Expectations Index - based on consumers' short-term outlook for income, business, and labor market conditions - decreased by 1.3 points to 73.4. Expectations have been below the threshold of 80 that typically signals a recession ahead since February 2025. The cutoff date for preliminary results was September 21, 2025. Consumer confidence declined to the lowest level since April 2025. The present situation component registered its largest drop in a year. Consumers' assessments of business conditions were much less positive than in recent months, while their appraisals of current job availability fell for the ninth straight month to reach a new multiyear low.

Consumers were a bit more pessimistic about future job availability and future business conditions, but optimism about future income increased, mitigating the overall decline in the Expectations Index. References to tariffs declined this month but remained elevated and continued to be associated with concerns about higher prices. Nonetheless, consumers' average 12-month inflation expectations inched down, to 5.8% in September from 6.1% in August. This is still notably above 5.0%, the level at the end of 2024. Consumers' views of their Family's Current and Future Financial Situation both weakened in September. Notably, consumers' views of their current financial situations recorded the largest one-month drop since July 2022. The share of consumers thinking that a recession is very likely over the next 12 months rose slightly in September to the highest level since May. In addition, more consumers thought that the economy was already in recession.

https://www.conference-board.org/topics/consumer-confidence

Conference Board – Consumer Confidence 09-2025

PRESENT SITUATION

Consumers' assessments of current business conditions deteriorated in September.

- 19.5% of consumers said business conditions were "good," **down from 21.8% in August**.
- 15.4% said business conditions were **"bad," up from 14.6%.**

Consumers' views of the labor market cooled further in September.

- 26.9% of consumers said jobs were "plentiful," **down from 30.2% in August.**
- 19.1% of consumers said jobs were "hard to get," unchanged from last month.

EXPECTATION 6-MONTHS HENCE

Consumers were a bit more pessimistic about future business conditions in September.

- 18.7% of consumers expected business conditions to improve, **down from 20.2%** in August.
- 22.3% expected business conditions to worsen, also **down from 23.5%.**

Consumers were more worried about the labor market outlook in September.

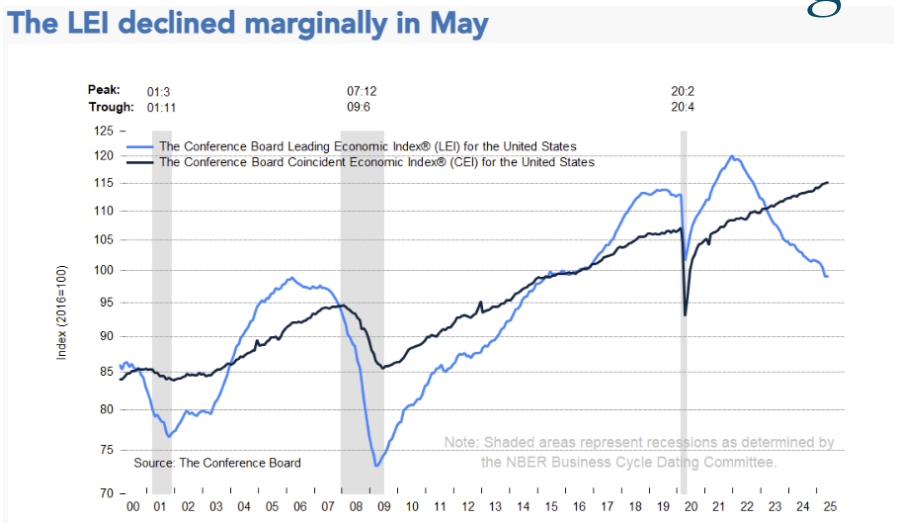
- 16.1% of consumers expected more jobs to be available, **down from 17.9%** in August.
- 25.6% anticipated fewer jobs, **down slightly from 25.9%.**

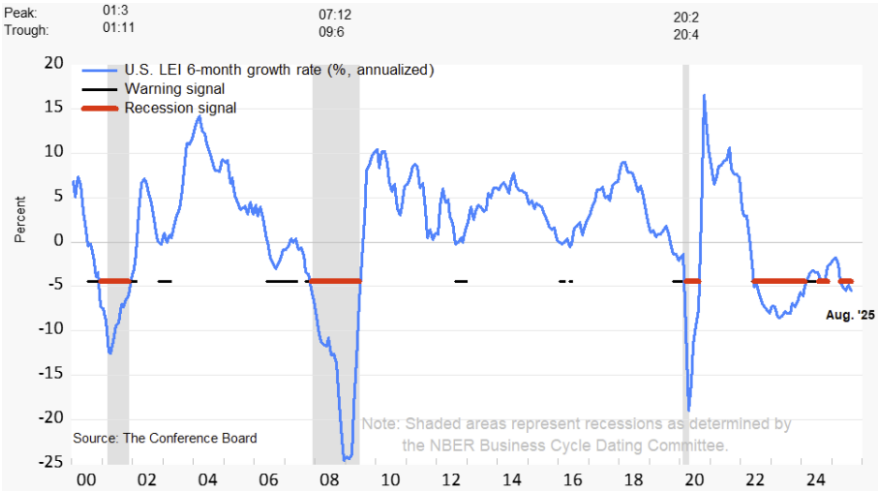
Consumers' outlook for their income prospects was slightly more positive in September.

- 17.6% of consumers expected their incomes to increase, **down from 18.8% in August**.
- 11.7% expected their income to decrease, **down from 13.3%.**

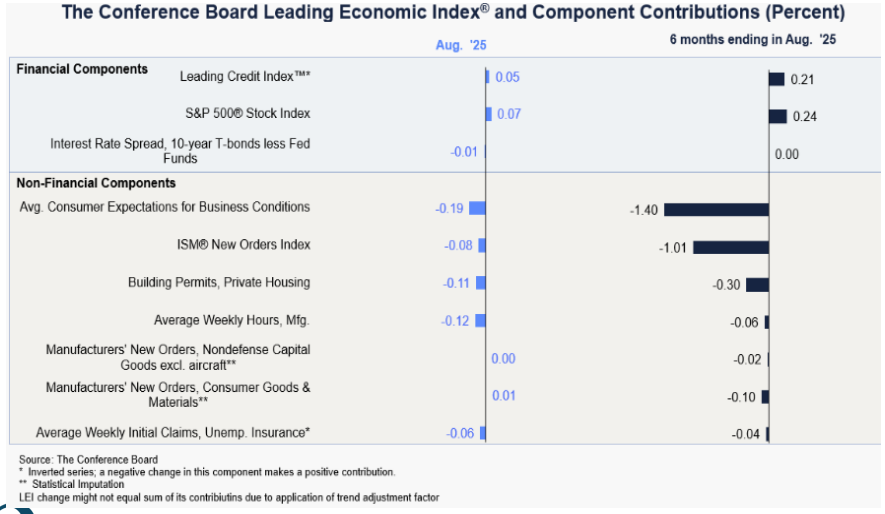
https://www.conference-board.org/topics/consumer-confidence

Conference Board Leading Indicators 09-2025





U.S. LEI declined by 0.5% in August to 98.4 , after a small 0.1% increase in July. The LEI fell by 2.8% over the 6-months between February and August 2025, a faster rate of decline than its 0.9% contraction over the previous 6-month period (August 2024 to February 2025).



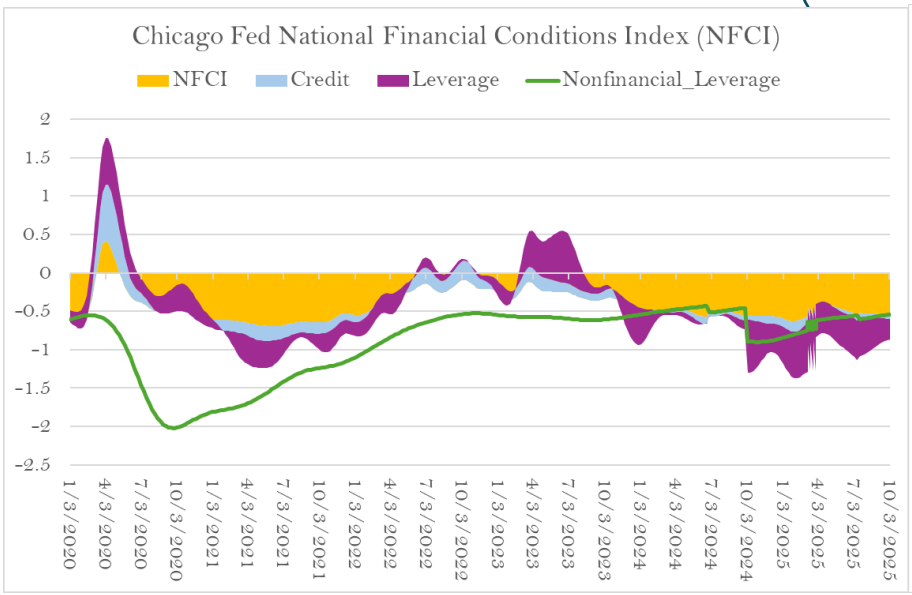
Widespread weakness among the LEI's components and a negative growth rate over the past six months triggered the recession signal in August.

The chart illustrates the so-called 3Ds - duration, depth, and diffusion - for interpreting a downward movement in the LEI. Duration refers to how long the decline has lasted. Depth denotes the size of decline. Duration and depth are measured by the rate of change of the index over the most recent six months at an annualized rate. Diffusion is a measure of how widespread the decline is among the LEI's component indicators—on a scale of 0 to 100, a diffusion index reading below 50 indicates most components are weakening.

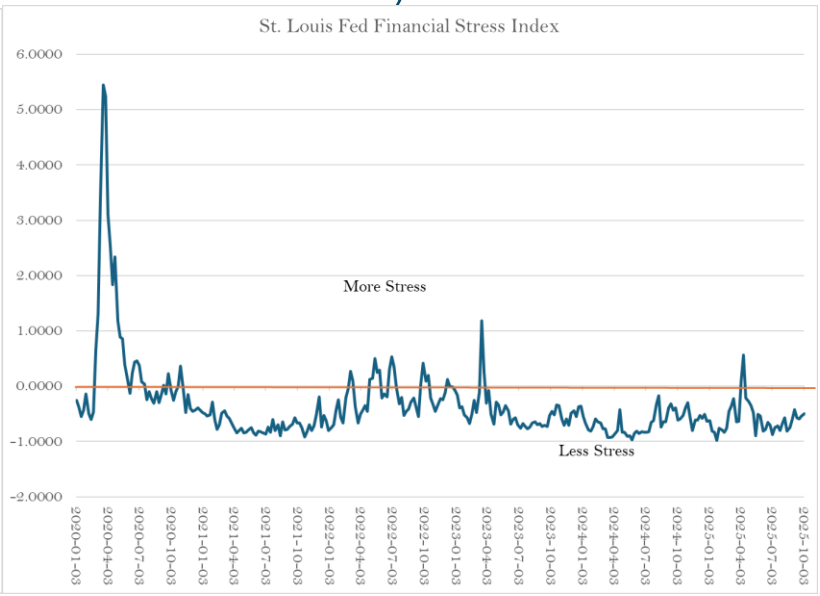
The 3Ds rule signals an impending recession when: 1) the six-month diffusion index lies at or below 50, shown by the black warning signal lines in the chart and 2) the LEI's six-month growth rate (annualized) falls below the threshold of −4.1%. The red recession signal lines indicate months when both criteria are met simultaneously—and thus that a recession is likely imminent or underway.

Source: https://www.conference-board.org/topics/us-leading-indicators

Financial Condition & Stress (less stress below 0)



Source: https://www.chicagofed.org/publications/nfci/index, Philip Chao

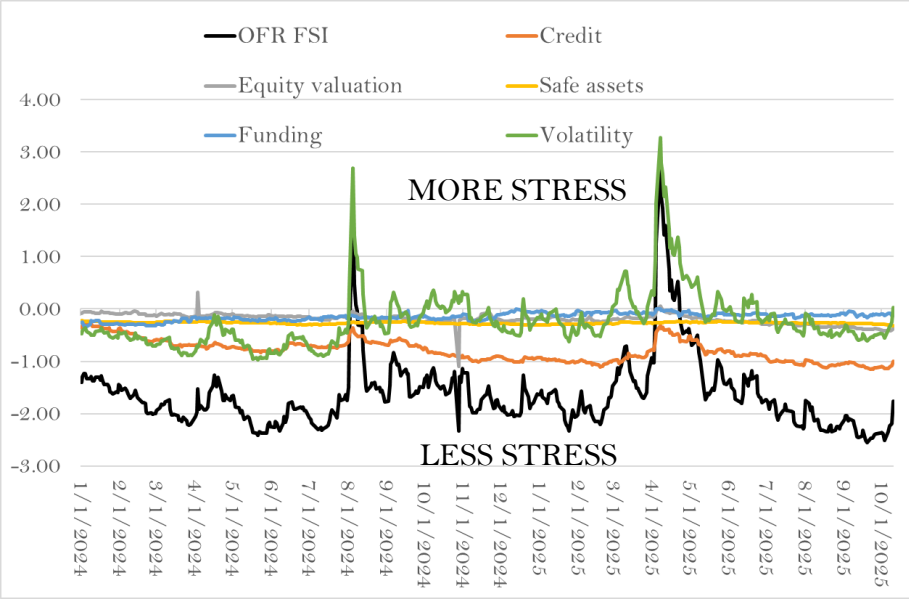


Source: https://fred.stlouisfed.org/series/STLFSI4, Philip Chao

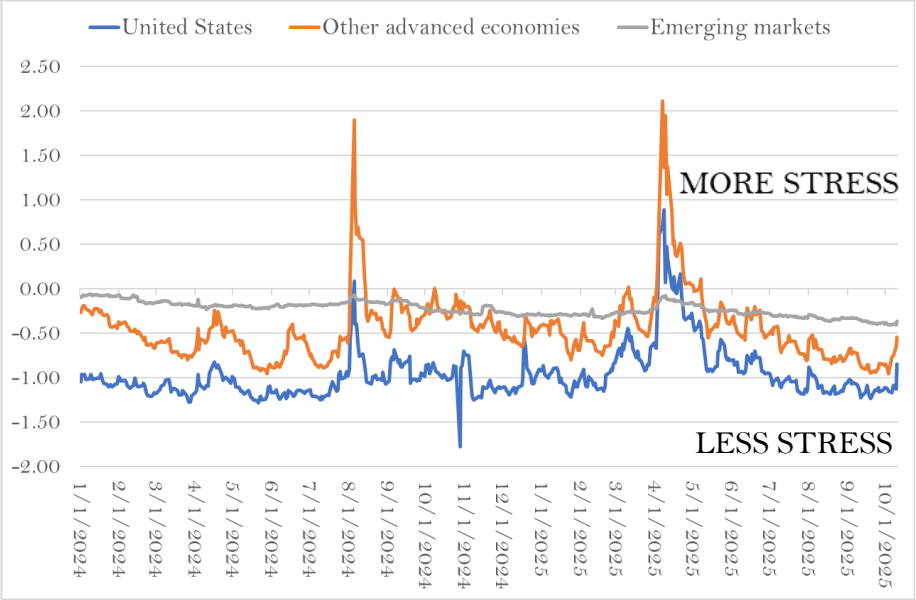
The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. Because U.S. economic and financial conditions tend to be highly correlated, we also present an alternative index, the adjusted NFCI (ANFCI). This index isolates a component of financial conditions uncorrelated with economic conditions to provide an update on financial conditions relative to current economic conditions. The NFCI decreased to –0.55 in the week ending October 3. Risk indicators contributed –0.27, credit indicators contributed –0.16, and leverage indicators contributed –0.10 to the index in the latest week.

The St. Louis Federal Reserve Bank's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads, and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together. A zero value is viewed as representing normal financial market conditions. Values below zero suggest below-average financial market stress, while values above zero suggest above-average financial market stress. The Index continues to show below-average financial market stress.

Financial Stress



Source: FSI, Philip Chao



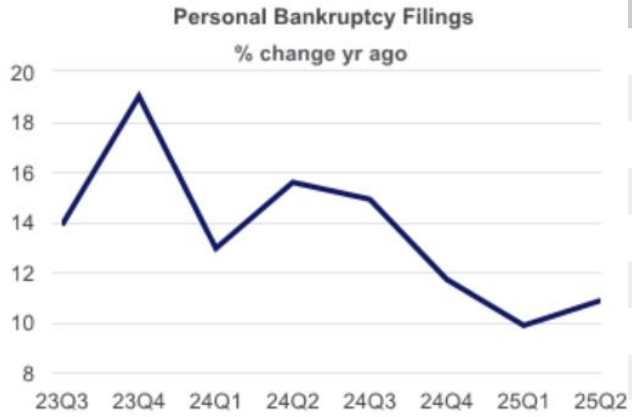
Source: FSI, Philip Chao

https://www.financialresearch.gov/financial-stress-index/#ae

The OFR Financial Stress Index (OFR FSI) is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: **credit, equity valuation, funding, safe assets,** and **volatility**.
Overall financial stress in the U.S. continues to remain below the neutral "0" value. All categories except volatility have spiked up since the end of March 2025.

The FSI also shows stress contributions by three regions: United States, other advanced economies, and emerging markets.
Other advanced economies: Variables measuring stress from advanced economies other than the United States, including primarily the eurozone and Japan
Emerging markets: Variables measuring stress from emerging markets
Overall, global financial stress continues to remain below the neutral "0" value.

Bankruptcy Filings



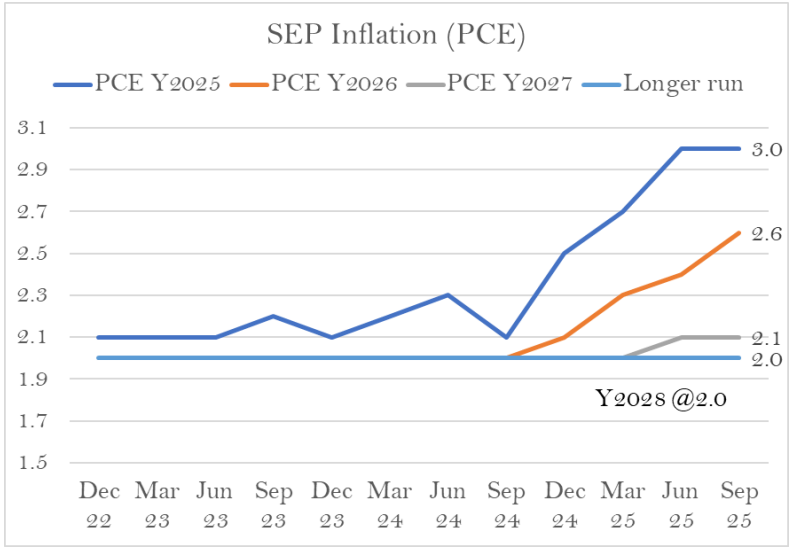
Bankruptcy filings, % change yr ago, 3-mo ending, NSA								
	25Q2	25Q1	24Q4	24Q3	24Q2	24Q1	23Q4	23Q3
Total personal	10.9	9.9	11.7	14.9	15.6	12.9	19.0	13.9
Chapter 7	16.0	13.8	18.2	20.6	19.1	16.8	23.1	16.0
Chapter 11	23.7	63.3	28.6	30.1	9.6	-21.0	13.8	-26.8
Chapter 13	2.9	4.1	2.8	7.2	10.5	7.9	13.9	11.3
Total business	-4.6	3.3	6.5	14.5	37.8	34.6	53.2	37.7
Chapter 7	10.3	13.1	17.2	17.7	32.6	27.2	39.0	36.3
Chapter 11	-18.9	-5.5	-7.1	15.0	36.6	42.5	84.7	43.3
Chapter 13	-26.9	-19.0	-13.4	-5.7	52.8	35.7	32.9	17.0

Bankruptcy filings remain low, but the trend is unfavorable as household finances are under pressure on many fronts, including high and rising prices, the growing impact of past increases in interest rates, the depletion of savings during the pandemic, especially among lower-income households, and the moderation in job availability. Historically, non-business filings have risen in the second quarter nearly without exception as holiday spending takes a toll on household finances. This happened to a greater degree than last year, pushing up year-over-year growth.

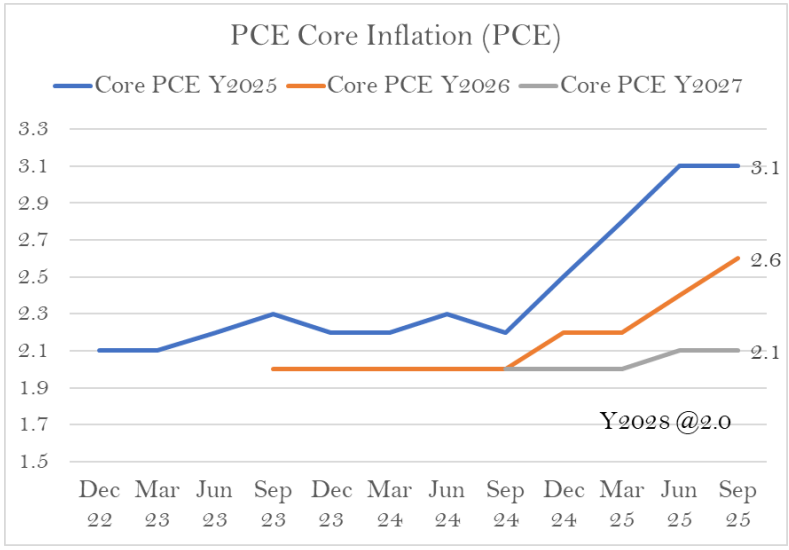
The upward trend in filings, after adjusting for seasonal movements, highlights that the impact of past interest rate increases is only hitting consumer finances with a lag and that Federal Reserve rate cuts late last year have, at best, only slowed the process. More than 80% of consumer debt has fixed rates, and the share was even higher at the start of the rate increases in early 2022. However, this does not insulate new debt or credit card balances. It also highlights the stress created by high inflation over the past few years and fears that inflation will reaccelerate because of increased tariffs. The exhaustion of savings done during the pandemic, especially at the lower end of the income distribution, is also lifting filings. Mitigating factors for consumers include high wealth and growth in real incomes. However, stresses are growing, so the question for the outlook is not whether filings will increase further, but by how much and how fast.

Source: Moody's Economics 2025 09

Summary of Economic Projections – Inflation



Source: Federal Reserve 2025 06, Experiential Wealth



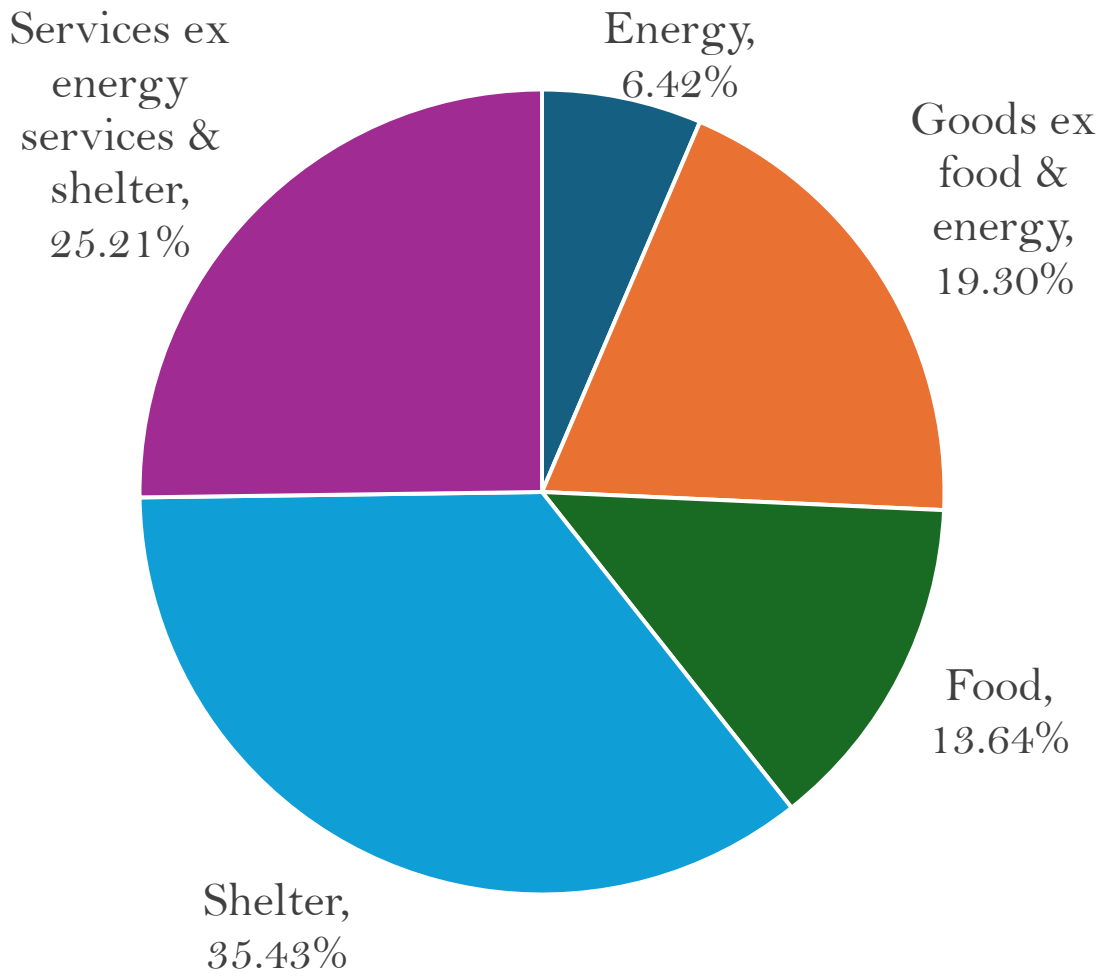
Source: Federal Reserve 2025 06, Experiential Wealth

In the latest SEP, the average member expects Personal Consumption Expenditure (PCE) inflation to move UP for 2025 and 2026. This suggests that, although the Fed believes the current policy remains restrictive, inflation projections for 2025, 2026, and 2027 moved a bit higher. The big challenge is that a lot of front loading of imported goods occurred prior to the imposition of tariffs and the desires by corporations to hold off on fully passing on tariffs to the consumers are causing data distortion. The FOMC is waiting to see if the hard data in the next couple of months will show any sign of price increases before making a rate decision.

At the same time, projections for Core PCE (ex-food and energy) inflation also moved higher for 2025, from 2.8% to 3.1%. PCE is projected to return to the 2% target in 2028.

These updated dot plots for inflation suggest that the Fed will likely remain cautious and move at a cautious pace, even under tremendous political pressure to cut rates from the White House. Thus far, hard data suggests some slowing in the economy and the labor market may be a bit less robust, but inflation remains a distance away from its 2% target. It is the distance away from the neutral point for both mandates (price stability and full employment) that will be closely scrutinized.

CPI Basket & Component Contributions (August 2025)



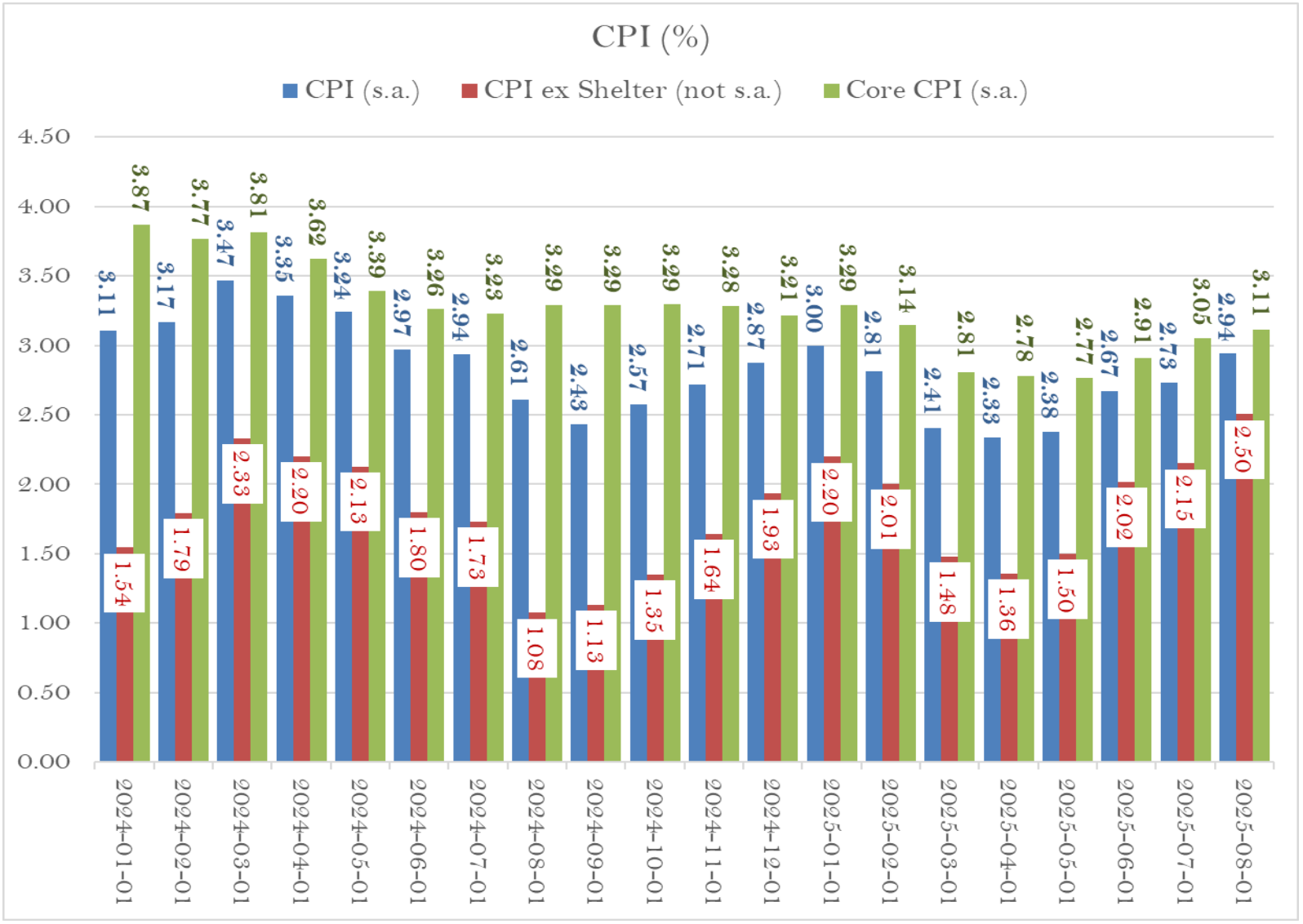
https://www.bls.gov/news.release/cpi.t01.htm, Philip Chao

CPI (s.a.) Changes from Preceding Months

	Seasonally adjusted changes from preceding month								Un-adjusted 12-mons Ended
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Aug
	2025	2025	2025	2025	2025	2025	2025	2025	2025
All items	0.5	0.2	-0.1	0.2	0.1	0.3	0.2	0.4	2.9
Food	0.4	0.2	0.4	-0.1	0.3	0.3	0	0.5	3.2
Food at home	0.5	0	0.5	-0.4	0.3	0.3	-0.1	0.6	2.7
Food away from home(1)	0.2	0.4	0.4	0.4	0.3	0.4	0.3	0.3	3.9
Energy	1.1	0.2	-2.4	0.7	-1	0.9	-1.1	0.7	0.2
Energy commodities	1.9	-0.9	-6.1	-0.2	-2.4	1	-1.9	1.7	-6.2
Gasoline (all types)	1.8	-1	-6.3	-0.1	-2.6	1	-2.2	1.9	-6.6
Fuel oil	6.2	0.8	-4.2	-1.3	0.9	1.3	1.8	-0.3	-0.5
Energy services	0.3	1.4	1.6	1.5	0.4	0.9	-0.3	-0.2	7.7
Electricity	0	1	0.9	0.8	0.9	1	-0.1	0.2	6.2
Utility (piped) gas service	1.8	2.5	3.6	3.7	-1	0.5	-0.9	-1.6	13.8
All items less food and energy	0.4	0.2	0.1	0.2	0.1	0.2	0.3	0.3	3.1
Commodities less food and energy commodities	0.3	0.2	-0.1	0.1	0	0.2	0.2	0.3	1.5
New vehicles	0	-0.1	0.1	0	-0.3	-0.3	0	0.3	0.7
Used cars and trucks	2.2	0.9	-0.7	-0.5	-0.5	-0.7	0.5	1	6
Apparel	-1.4	0.6	0.4	-0.2	-0.4	0.4	0.1	0.5	0.2
Medical care commodities(1)	1.2	0.1	-1.1	0.4	0.6	0.1	0.1	-0.3	0
Services less energy services	0.5	0.3	0.1	0.3	0.2	0.3	0.4	0.3	3.6
Shelter	0.4	0.3	0.2	0.3	0.3	0.2	0.2	0.4	3.6
Transportation services	1.8	-0.8	-1.4	0.1	-0.2	0.2	0.8	1	3.5
Medical care services	0	0.3	0.5	0.5	0.2	0.6	0.8	-0.1	4.2
Footnotes									

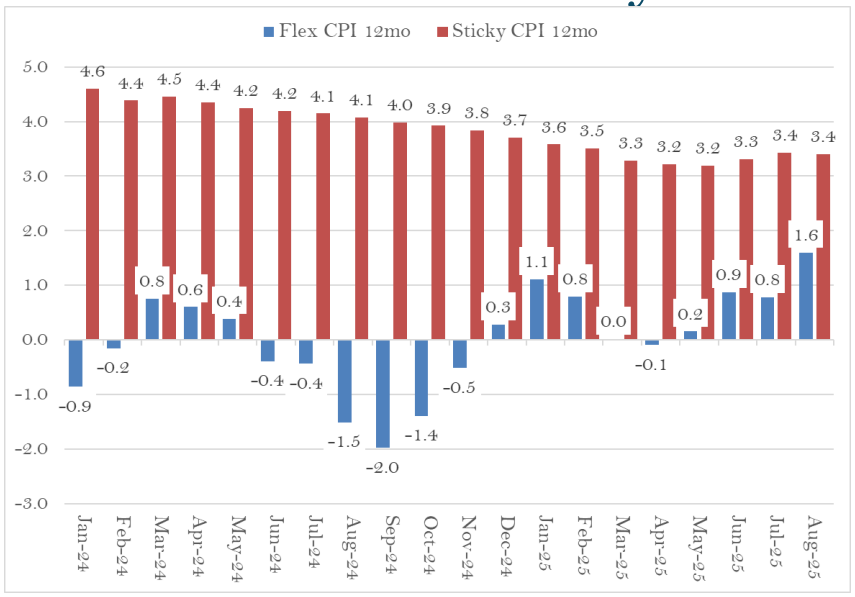
Source: BLS Monthly CPI report Table A

CPI by Categories



Source: BLS CPI Table7, Philip Chao

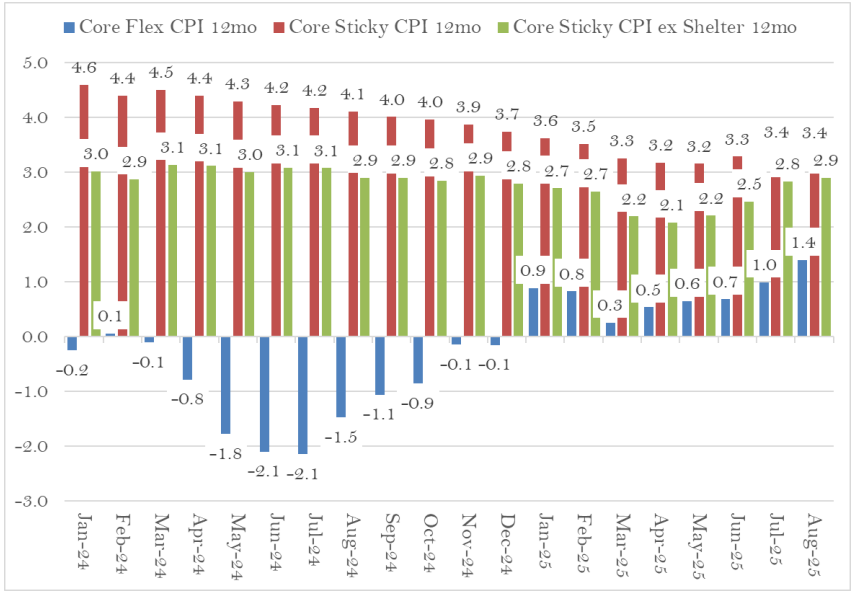
CPI – Flex and Sticky



Source: https://www.atlantafed.org/research/inflationproject/stickyprice, Philip Chao

The Atlanta Fed divides the published components of the monthly CPI (45 categories derived from the raw price data) into their "sticky-price" and "flexible-price" aggregates[1]. The evidence indicates that the flexible-price measure is much more responsive to changes in the economic environment while the sticky-price variant appears to be more forward looking. Sticky price setters understand that it will be costly to change prices; as such, they will want their price decisions to account for inflation over the periods between their infrequent price changes.

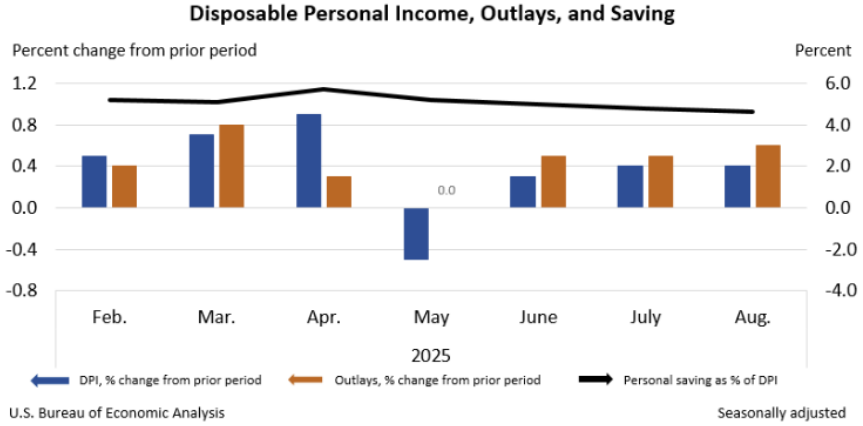
Flex and sticky are further divided into core and non-core. Core excludes energy and food prices. Historically, flexible price and flexible core price CPI have shown much more volatility than the alternative sticky-price and sticky core price measures.

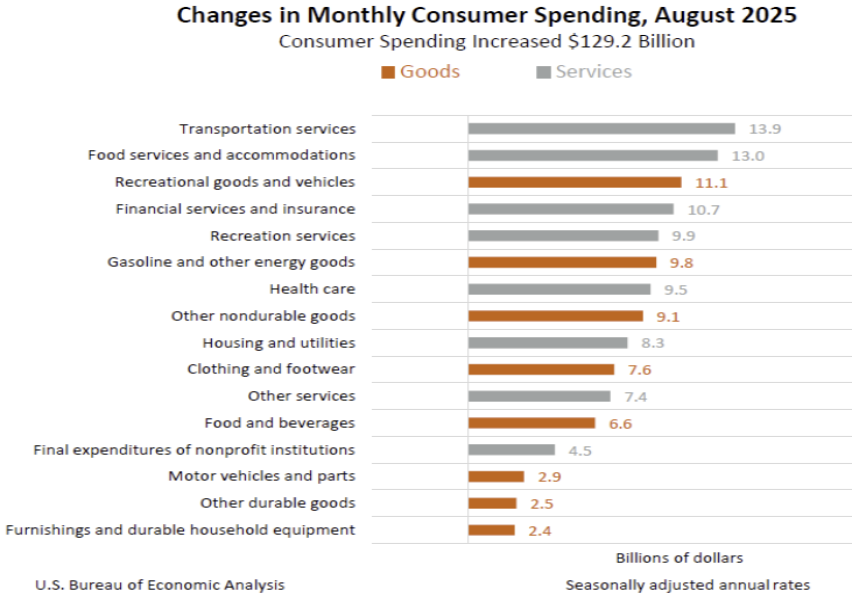


The Atlanta Fed's sticky-price consumer price index (CPI)—a weighted basket of items that change price relatively slowly—rose **3.6** percent (on an annualized basis) in August, following a **4.6** percent increase in July. On a year-over-year basis, the series is up **3.4** percent. On a core basis (excluding food and energy), the sticky-price index rose **3.6** percent (annualized) in August, and its 12-month percent change was **3.4** percent.
The flexible cut of the CPI—a weighted basket of items that change price relatively frequently—increased 7.9 percent (annualized) in August, and on a year-over-year basis, the series is up 1.6 percent.
In conclusion, "core" inflation is persistently above the Fed's 2% target rate. With the imposition of tariffs against all trading nations, there remains an upside bias to inflation, especially core inflation into 2026.

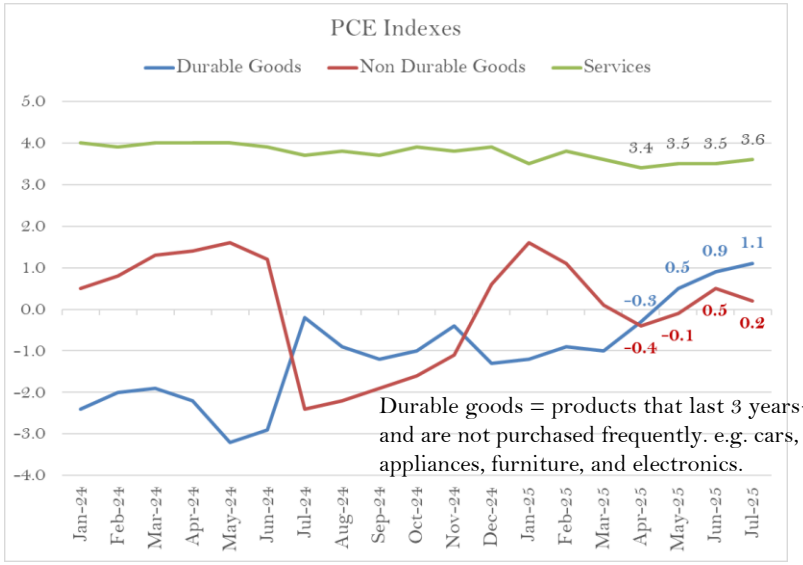
[1] https://www.atlantafed.org/-/media/documents/research/inflationproject/stickyprice/sticky-price-cpi-supplemental-reading.pdf

PCE Inflation Remains Elevated – August 2025

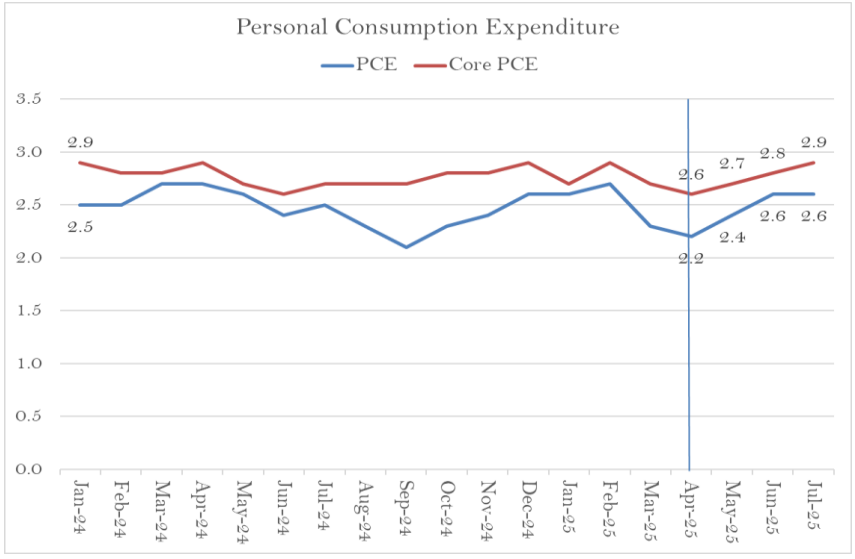




Personal income increased $95.7 billion (0.4% monthly rate) in **August**. Disposable personal income (DPI)—personal income less personal current taxes—increased $86.1 billion (0.4%) and personal consumption expenditures (PCE) increased $129.2 billion (0.6%). Personal outlays—the sum of PCE, personal interest payments, and personal current transfer payments—increased $132.9 billion in August. Personal saving was $1.06 trillion (4.6%).



Durable goods = products that last 3 years+ and are not purchased frequently. e.g. cars, appliances, furniture, and electronics.



EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Trimmed Mean PCE Inflation

The Trimmed Mean PCE inflation rate over the 12 months ending in August was 2.7 percent. According to the BEA, the overall PCE inflation rate was 2.7 percent on a 12-month basis, and the inflation rate for PCE excluding food and energy (PCE ex F&E of Core) was 2.9 percent on a 12-month basis. The tables below present data on the Trimmed Mean PCE inflation rate and, for comparison, overall PCE inflation and the inflation rate for PCE excluding food and energy. The tables give annualized one-month, six-month, and 12-month inflation rates.

One-month PCE inflation, annual rate

	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug
PCE	0.2	2.0	2.2	3.5	2.0	3.2
PCE ex F&E	1.2	2.3	2.8	3.2	2.9	2.8
Trimmed mean	2.7	2.7	2.0	3.6	1.7	2.8

Six-month PCE inflation, annual rate

	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug
PCE	2.9	2.7	2.8	2.8	2.5	2.2
PCE ex F&E	2.9	2.7	3.0	3.1	3.0	2.5
Trimmed mean	2.9	2.7	2.7	2.8	2.6	2.6

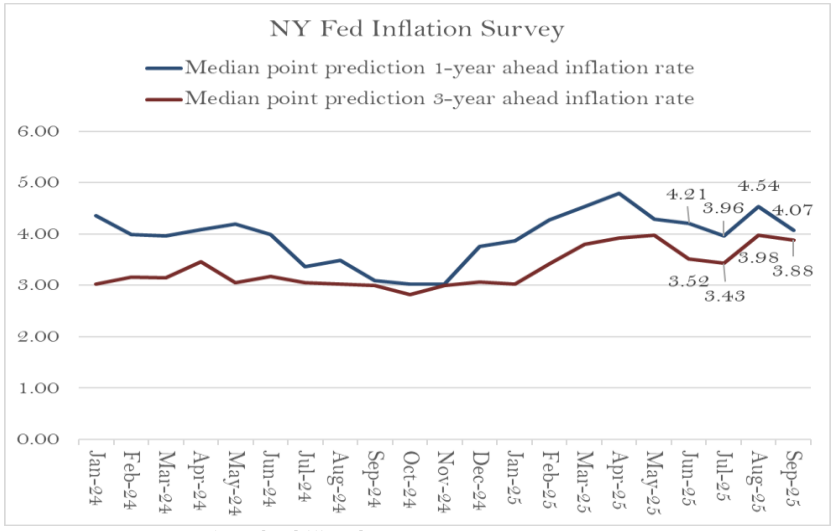
12-month PCE inflation

	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug
PCE	2.4	2.3	2.5	2.6	2.6	2.7
PCE ex F&E	2.7	2.6	2.8	2.8	2.9	2.9
Trimmed mean	2.6	2.6	2.6	2.7	2.7	2.7

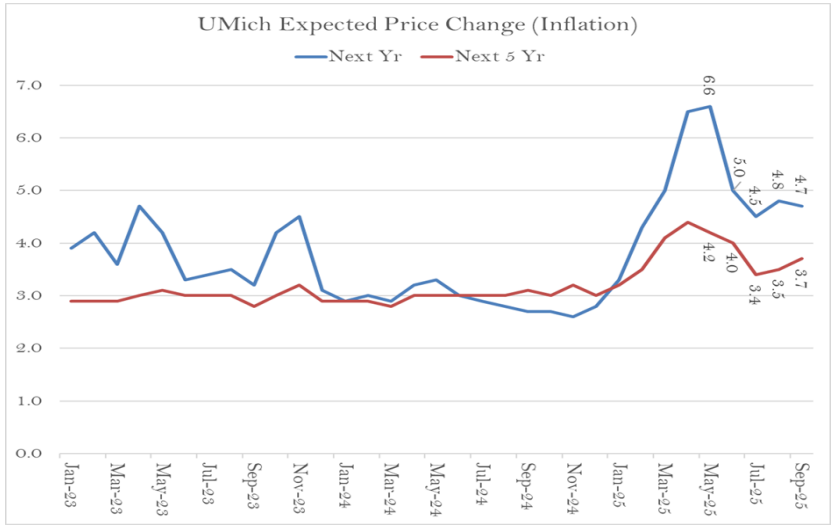
[1] https://www.dallasfed.org/~/media/documents/research/papers/2005/wp0506.pdf

Source: https://www.dallasfed.org/research/pce#current

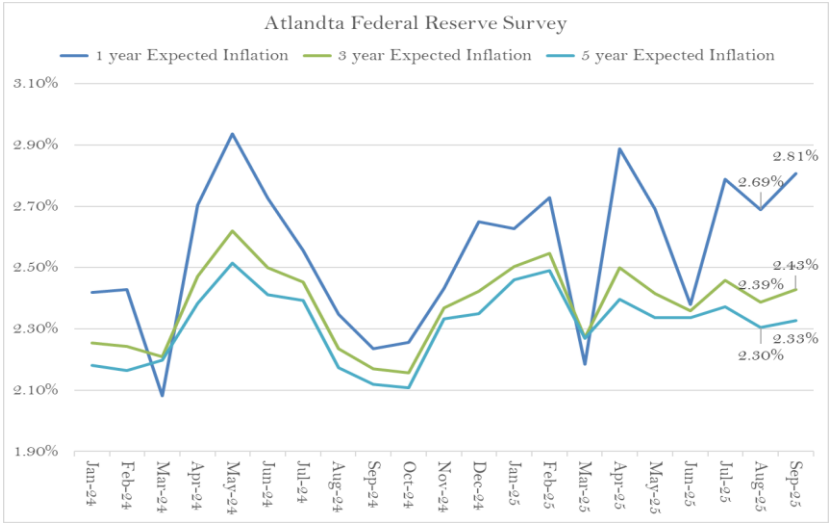
Survey-Based Inflation Expectation



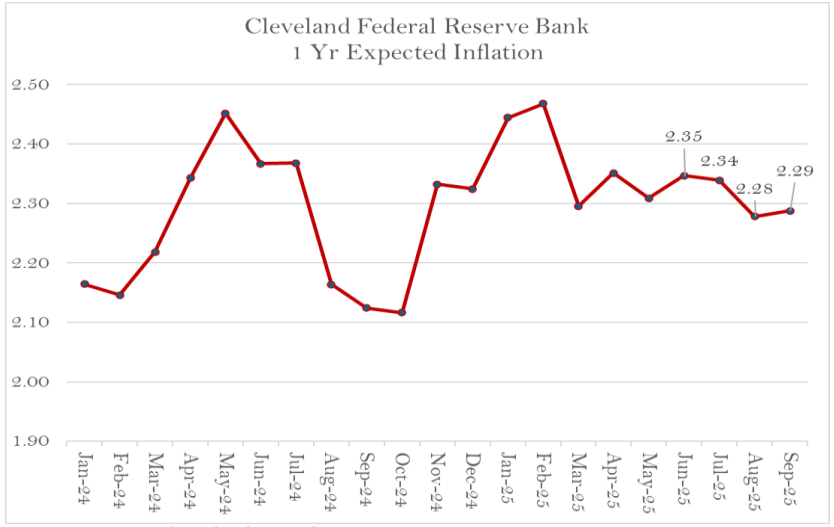
Source: New York Fed, Philip Chao
https://www.newyorkfed.org/microeconomics/sce#/inflexp-1



Source: University of Michigan, Philip Chao
http://www.sca.isr.umich.edu/tables.html



Source: Atlanta Fed, Philip Chao
https://www.atlantafed.org/research/inflationproject/bie



Source: Cleveland Fed, Philip Chao
https://www.clevelandfed.org/-/media/files/webcharts/inflationexpectations/inflation-expectations.xlsx?sc_lang=en

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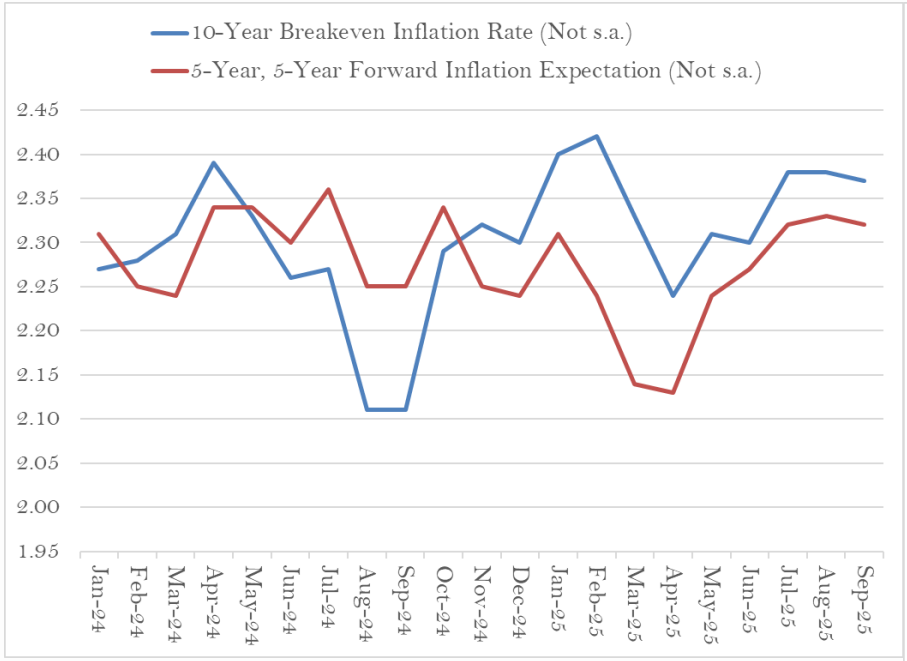
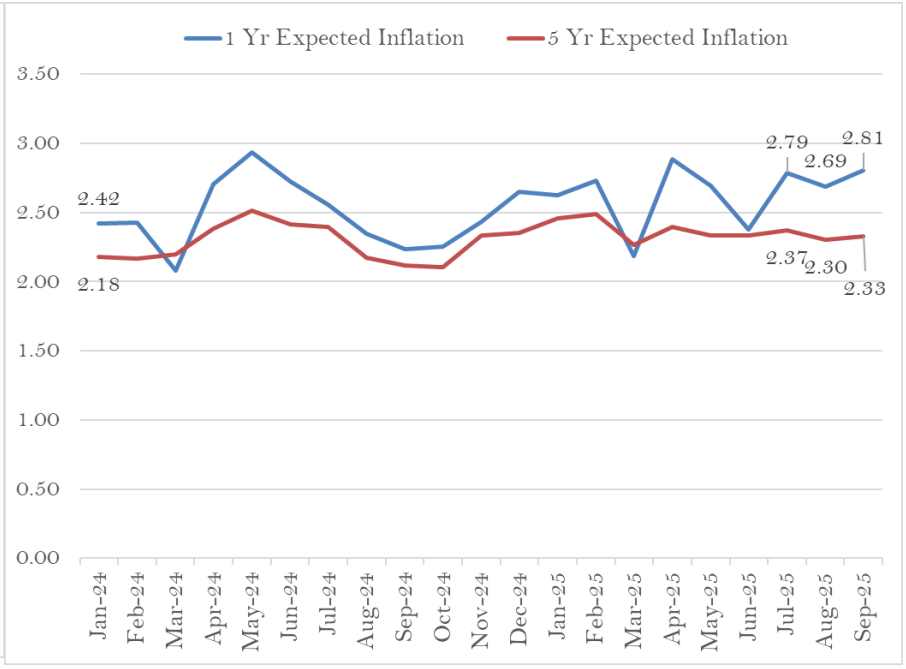
Market-Based Inflation Expectation – September 2025





Source: FRED, Philip Chao

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Global Inflation & Central Bank Rates

	Interest Rates (%)		
Country/Region	Current	Previous	Change
Australia	3.60%	3.85%	8/12/2025
Brazil	15.00%	14.75%	6/18/2025
Canada	2.50%	2.75%	9/17/2025
Chile	4.75%	5.00%	7/29/2025
China	3.00%	3.10%	5/20/2025
Czech Republic	3.50%	3.75%	5/7/2025
Denmark	1.75%	2.00%	6/5/2025
Europe	2.15%	2.40%	6/5/2025
Hungary	6.50%	6.75%	9/24/2024
India	6.00%	6.25%	4/9/2025
Israel	4.50%	4.75%	1/1/2024
Japan	0.50%	0.25%	1/24/2025
Mexico	7.50%	7.75%	9/25/2025
New Zealand	2.50%	3.00%	10/8/2025
Norway	4.00%	4.25%	9/18/2025
Poland	4.50%	4.75%	10/8/2025
Russia	17.00%	18.00%	9/12/2025
Saudi Arabia	4.75%	5.00%	9/18/2025
South Africa	7.00%	7.25%	7/31/2025
South Korea	2.50%	2.75%	5/29/2025
Sweden	1.75%	2.00%	9/23/2025
Switzerland	0.00%	0.25%	6/19/2025
Türkiye	40.50%	43.00%	9/11/2025
United Kingdom	4.00%	4.25%	8/7/2025
United States	4.25%	4.50%	9/18/2025

https://www.global-rates.com/en/interest-rates/central-banks
https://www.cbrates.com/
https://tradingeconomics.com/country-list/inflation-rate

	Interest Rates (%)		
Country/Region	Current	Previous	Change
Australia	3.60%	3.85%	8/12/2025
Brazil	15.00%	14.75%	6/18/2025
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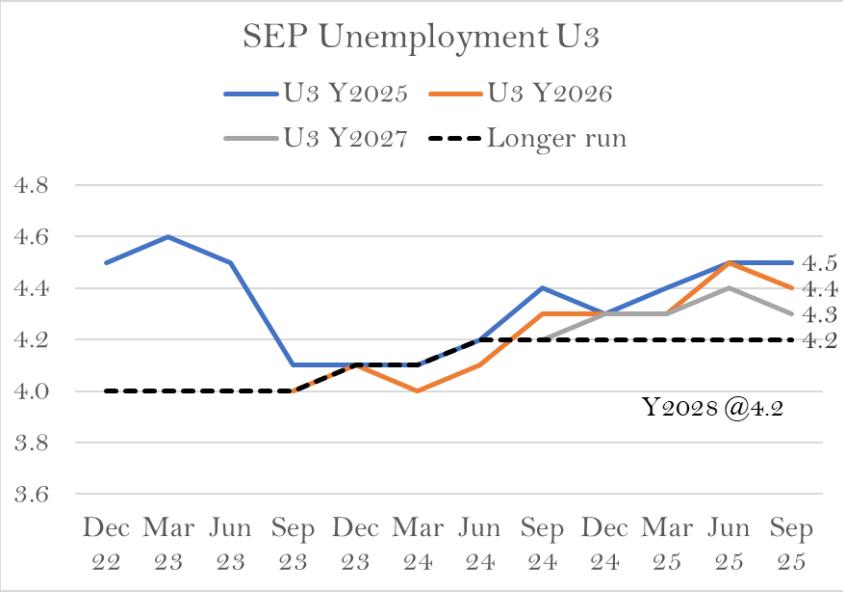
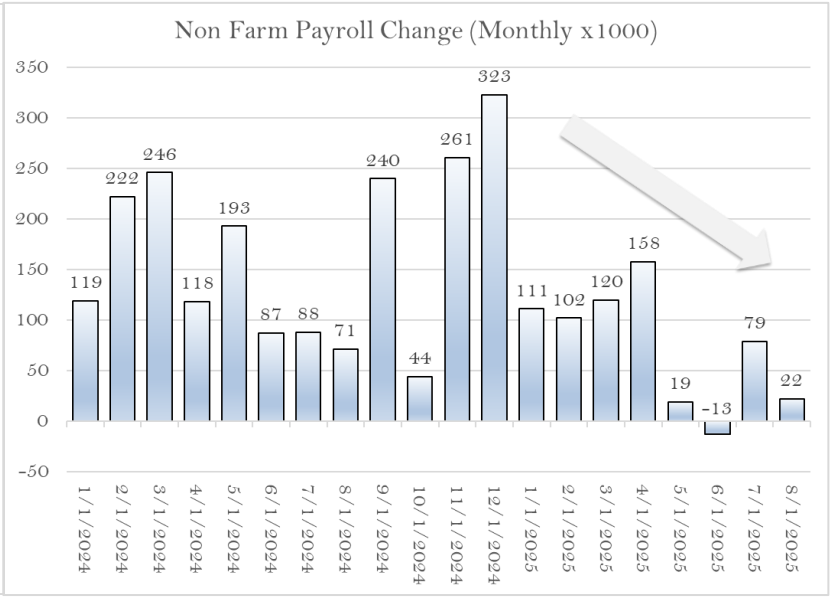
Chile	4.75%	5.00%	7/29/2025
China	3.00%	3.10%	5/20/2025
Czech Republic	3.50%	3.75%	5/7/2025
Denmark	1.75%	2.00%	6/5/2025
Europe	2.15%	2.40%	6/5/2025
Hungary	6.50%	6.75%	9/24/2024
India	6.00%	6.25%	4/9/2025
Israel	4.50%	4.75%	1/1/2024
Japan	0.50%	0.25%	1/24/2025
Mexico	7.50%	7.75%	9/25/2025
New Zealand	2.50%	3.00%	10/8/2025
Norway	4.00%	4.25%	9/18/2025
Poland	4.50%	4.75%	10/8/2025
Russia	17.00%	18.00%	9/12/2025
Saudi Arabia	4.75%	5.00%	9/18/2025
South Africa	7.00%	7.25%	7/31/2025
South Korea	2.50%	2.75%	5/29/2025
Sweden	1.75%	2.00%	9/23/2025
Switzerland	0.00%	0.25%	6/19/2025
Türkiye	40.50%	43.00%	9/11/2025
United Kingdom	4.00%	4.25%	8/7/2025
United States	4.25%	4.50%	9/18/2025

Summary of Economic Projections – Unemployment



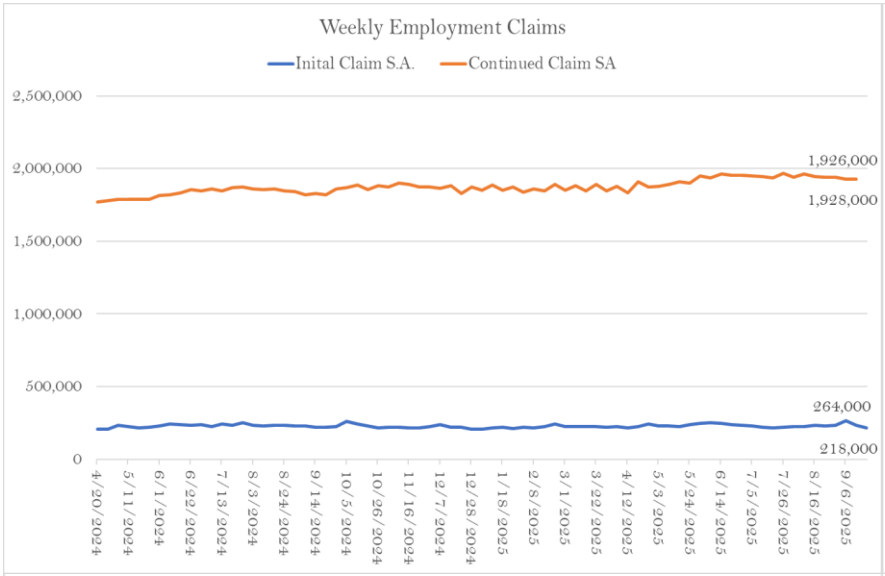


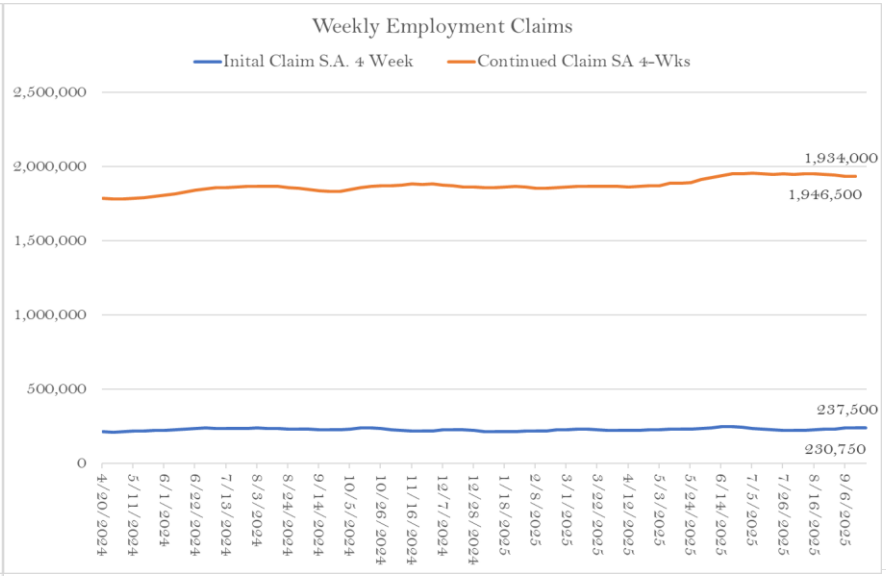
Total nonfarm payroll employment changed little in August (+22,000) and has shown little change since April. The unemployment rate, at 4.3 percent, also changed little in August. A job gain in health care was partially offset by losses in federal government and in mining, quarrying, and oil and gas extraction.

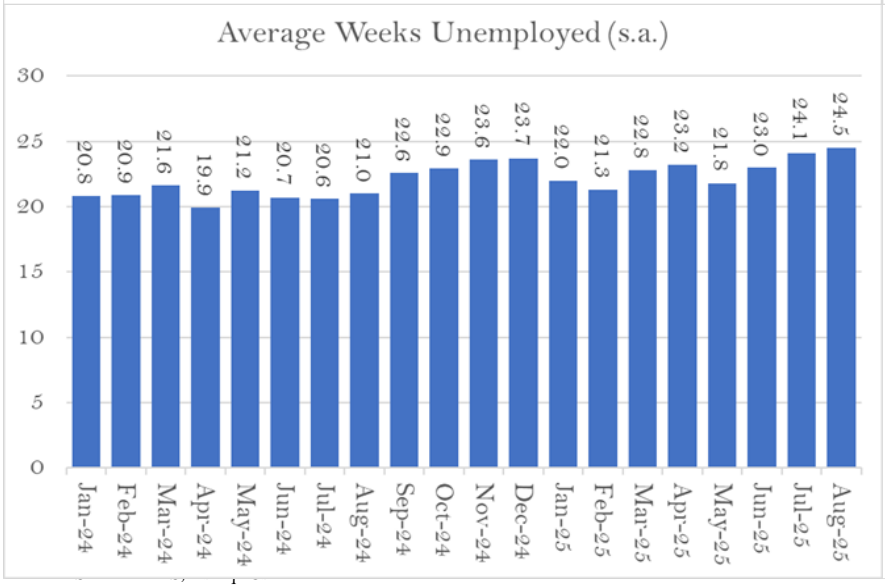
Due to the shutdown of the government, no more current data is available.

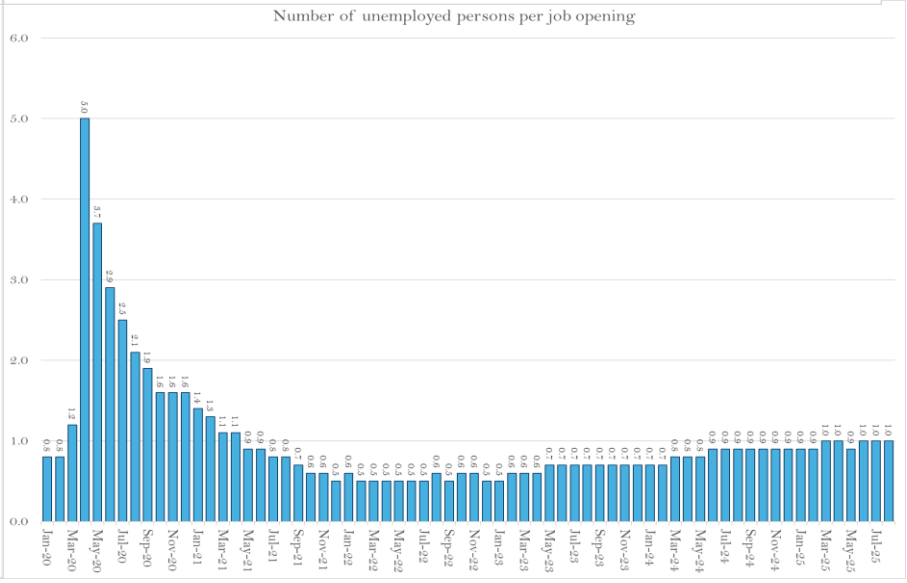
https://www.bls.gov/ces/data/employment-situation-table-download.htm
Source: BLS, Philip Chao

Labor Market Data









https://www.bls.gov/news.release/empsit.toc.htm

https://www.bls.gov/charts/job-openings-and-labor-turnover/unemp-per-job-opening.htm

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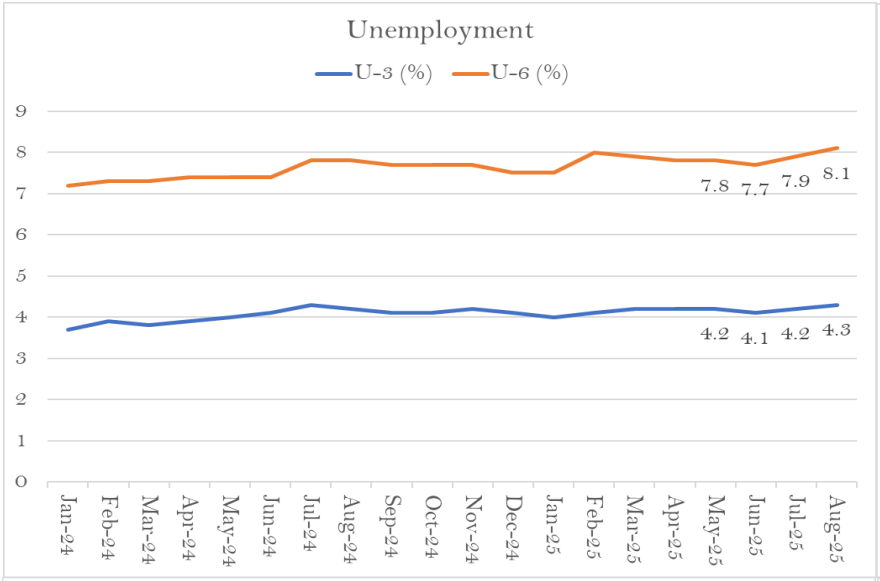
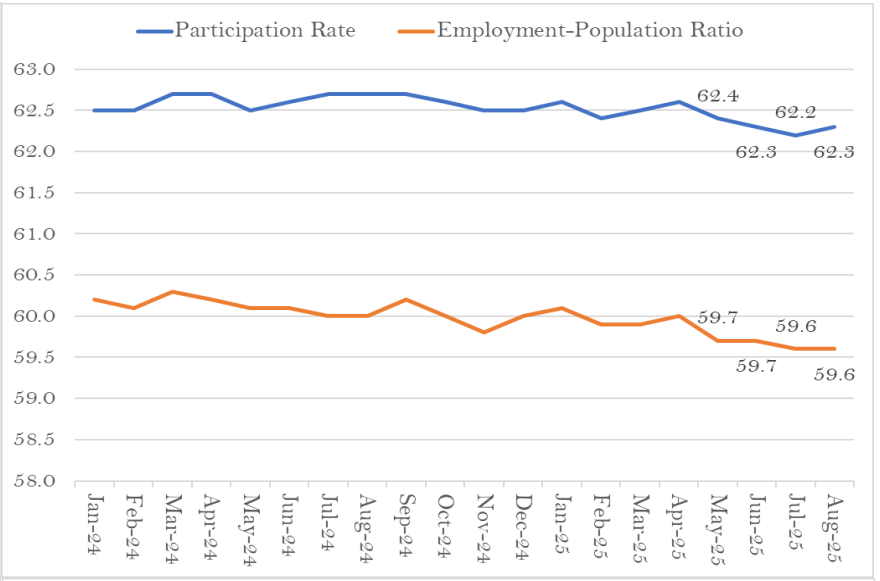
Data Reliability Called Into Question

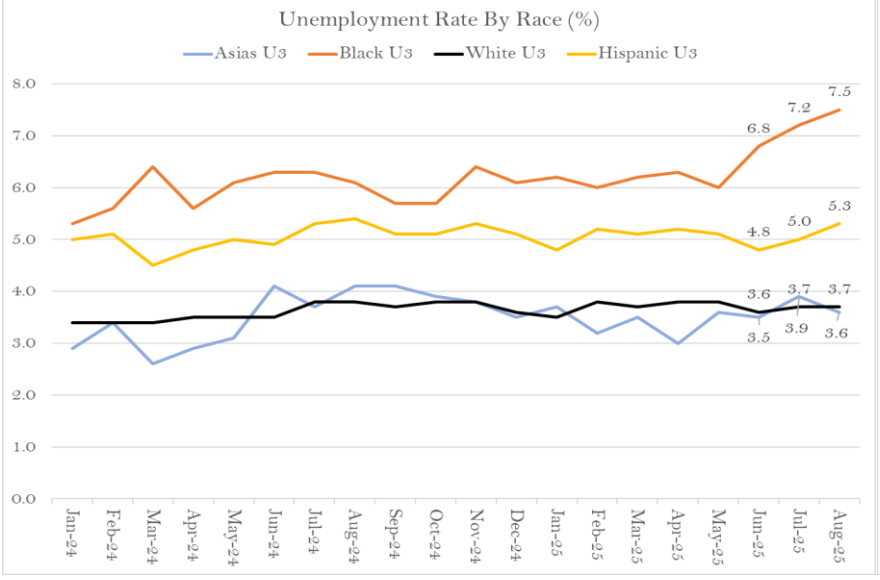
The **systematic "overcounting" of employment data** (later corrected downward in benchmark revisions) happens because the **Current Employment Statistics (CES)** survey is an *estimate*, not a full census, and several statistical, structural, and economic dynamics can cause the initial figures to be too high. **Main contributing factors are**:

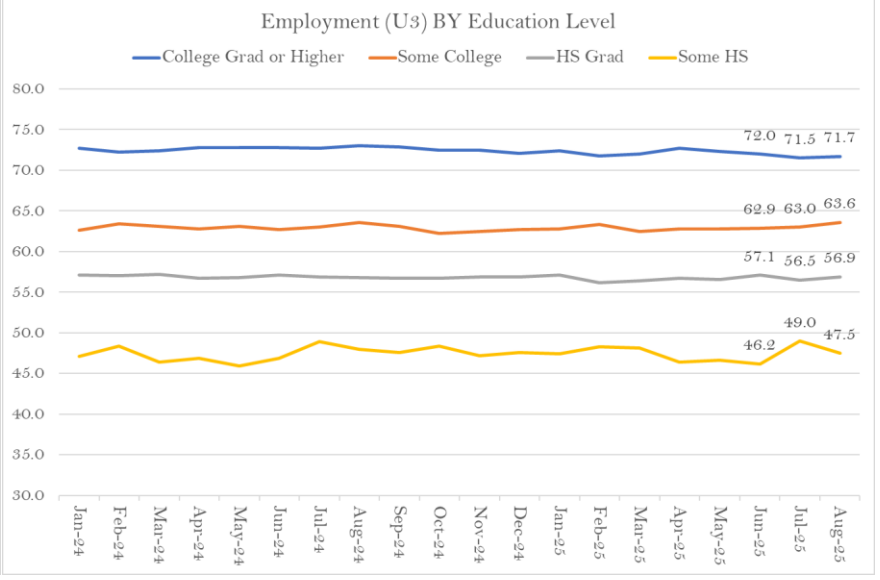
1. **Survey Design and Sampling Error -** The CES survey covers about 122,000 businesses and government agencies, representing ~666,000 worksites — only a sample of the universe of U.S. employers. BLS has to estimate for the rest of the economy; if the sample is biased (e.g., larger firms reporting more quickly or industries with stronger hiring being overrepresented), job growth can be overstated. Small-firm hiring/closures often lag in the survey data, leading to *upward bias* during downturns when small businesses are closing but not yet reflected.
2. **Birth/Death Model (New Firms vs. Closures) -** BLS uses a "birth-death" model to estimate the net effect of business openings and closings between benchmark updates. The model is based on historical patterns. In periods of rapid change (pandemic recovery, tech layoffs, interest-rate shocks), the model can overestimate new business formation and underestimate closures.
3. **Timing Differences -** The CES survey publishes estimates monthly, but the **QCEW (Quarterly Census of Employment and Wages)** — based on unemployment insurance tax records — is the "near-census" used to benchmark once per year. Because CES estimates rely on faster-arriving data, they can be wrong in the interim. The benchmark revision later reconciles them.
4. **Industry Volatility and Misclassification -** Rapidly changing industries (tech, gig economy, start-ups) are harder to measure in real time. If BLS classifies workers as "employed" when they are more like contractors (or vice versa), initial counts can be inflated. Misreporting by employers (payroll systems, classification errors) can cause miscounts.
5. **Seasonal Adjustment Issues -** BLS applies seasonal adjustments to account for normal hiring/firing cycles (retail in holidays, summer jobs, education layoffs). If structural changes (e.g., permanent remote work, post-pandemic shifts in hiring patterns) alter these cycles, seasonal adjustment formulas can systematically bias employment upward.
6. **Response Bias -** Larger firms with better reporting systems tend to respond faster, while struggling or closing businesses often fail to respond. This creates a skew toward **surviving businesses** counting and overstating jobs.
7. **Economic Turning Points -** Historically, BLS employment estimates are most unreliable at **turning points** (e.g., recessions, post-COVID rebound, late-cycle slowdowns). Models assume continuity with the past, but if layoffs or closures accelerate suddenly, they're missed until later benchmarking.

More Employment Data – August 2025



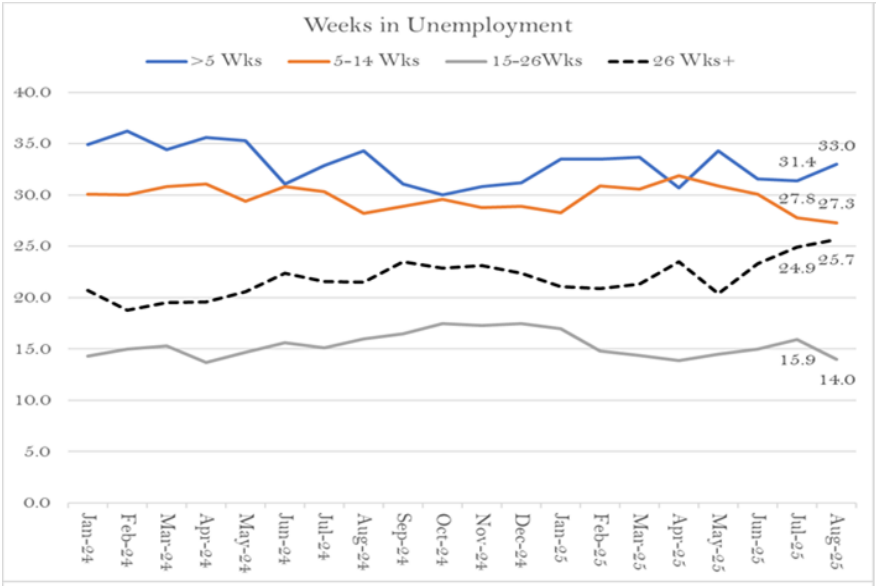


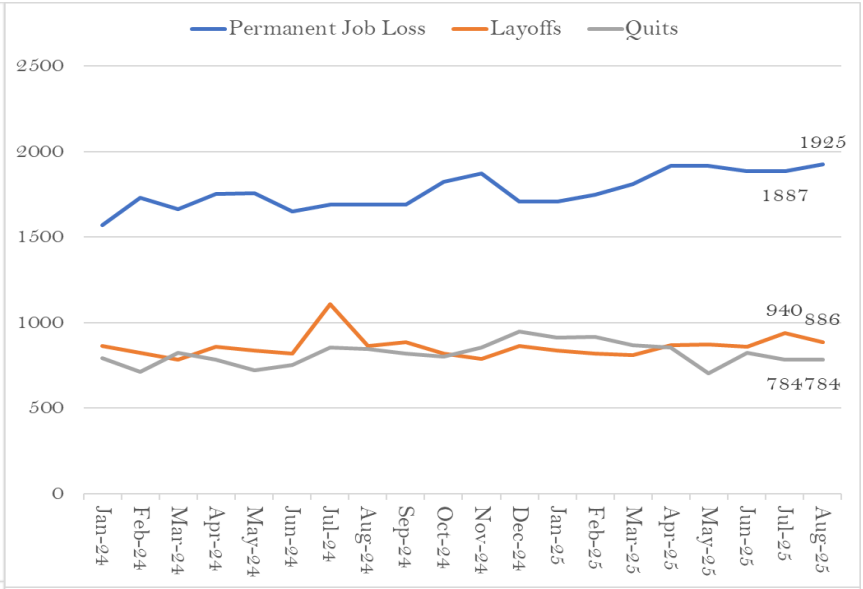


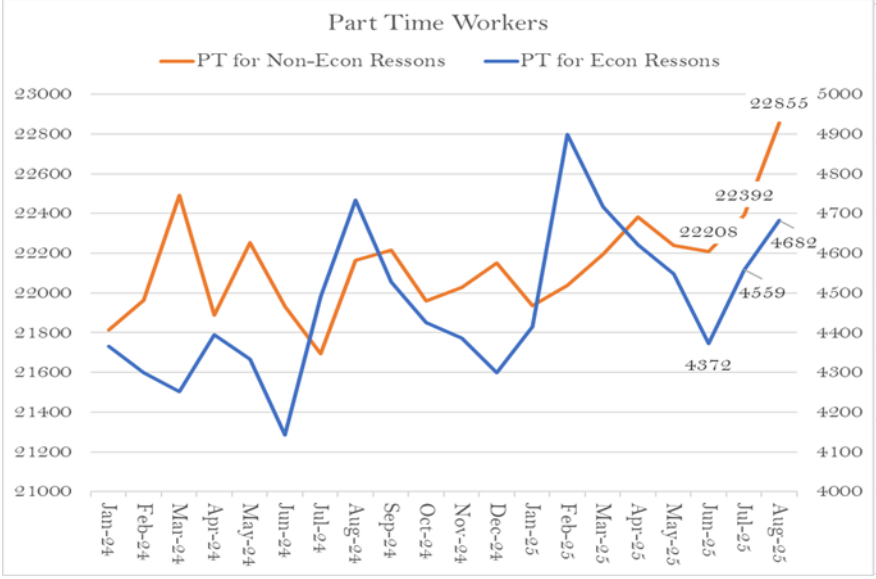


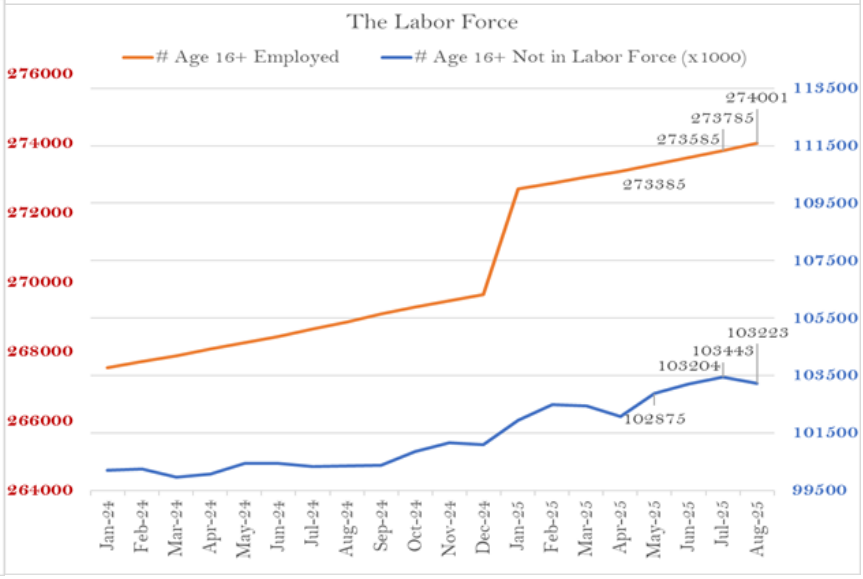
Source: BLS & Philip Chao

Unemployment Data – August 2025









Source: BLS & Philip Chao

NFIB: Small Business Economic Trends - The Labor Market

ACTUAL EMPLOYMENT CHANGES

Net Percent ("Increase" Minus "Decrease") in the Last Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	9	13	8	-12	-16	-16	-11	-12	-6	-2	-2	-5
2021	0	-3	-2	1	-5	-2	-6	-8	-1	-2	-1	1
2022	-1	1	-2	-2	-4	-2	-4	-8	-4	-2	-3	1
2023	2	4	2	-2	-4	-2	-2	-4	-2	-3	-2	-2
2024	0	-1	-2	0	-2	-5	-3	-6	-4	-3	-1	-3
2025	1	-3	-1	1	-2	-8	-2	-5				

QUALIFIED APPLICANTS FOR JOB OPENINGS

Percent Few or No Qualified Applicants

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	49	52	47	41	37	43	44	46	50	48	47	48
2021	46	51	51	54	57	56	57	60	62	58	56	57
2022	55	57	55	55	61	60	57	57	57	55	54	51
2023	52	54	53	55	55	54	56	54	57	55	50	49
2024	49	51	48	51	51	51	49	56	52	46	48	49
2025	47	48	47	47	48	50	48	43				

JOB OPENINGS

Percent With Positions Not Able to Fill Right Now
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	37	38	35	24	23	32	30	33	36	33	34	32
2021	33	40	42	44	48	46	49	50	51	49	48	49
2022	47	48	47	47	51	50	49	49	46	46	44	41
2023	45	47	43	45	44	42	42	40	43	43	40	40
2024	39	37	37	40	42	37	38	40	34	35	36	35
2025	35	38	40	34	34	36	33	32				

HIRING PLANS

Net Percent ("Increase" Minus "Decrease") in the Next Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	19	21	9	1	8	16	18	21	23	18	21	17
2021	17	18	22	21	27	28	27	32	26	26	25	28
2022	26	19	20	20	26	19	20	21	23	20	18	17
2023	19	17	15	17	19	15	17	17	18	17	18	16
2024	14	12	11	12	15	15	15	13	15	15	18	19
2025	18	15	12	13	12	13	14	15				

https://www.nfib.com/wp-content/uploads/2025/09/NFIB-SBET-Report-August-2025.pdf

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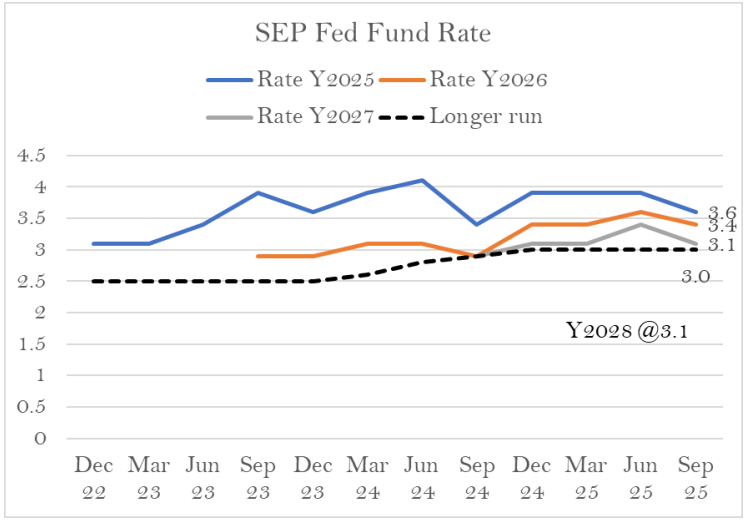
JOLTS – Monthly change by Sector, August 2025

	Job openings			Hires			Total separations		
Category (x1000)	Jul-25	Aug-25	Change	Jul-25	Aug-25	Change	Jul-25	Aug-25	Change
Total	7208	7227	19	5240	5126	**-114**	5221	5111	**-110**
Total private	6401	6457	56	4918	4805	**-113**	4907	4781	**-126**
Mining and logging	14	20	6	17	19	2	21	23	2
Construction	303	188	**-115**	331	353	22	316	351	35
Manufacturing	438	409	**-29**	301	305	4	306	313	7
Durable goods	262	259	**-3**	170	171	1	171	181	10
Nondurable goods	176	150	**-26**	131	134	3	135	132	**-3**
Trade, transportation, and utilities	1096	1149	53	1017	926	**-91**	1026	946	**-80**
Wholesale trade	194	191	**-3**	162	119	**-43**	176	127	**-49**
Retail trade	548	603	55	583	572	**-11**	582	580	**-2**
Transportation, warehousing, and utilities	353	355	2	272	235	**-37**	268	239	**-29**
Information	180	172	**-8**	86	77	**-9**	91	85	**-6**
Financial activities	404	390	**-14**	209	212	3	213	210	**-3**
Finance and insurance	305	282	**-23**	147	148	1	150	149	**-1**
Real estate and rental and leasing	99	108	9	62	64	2	63	61	**-2**
Professional and business services	1274	1235	**-39**	1032	1015	**-17**	1059	1076	17
Private education and health services	1429	1523	94	781	779	**-2**	699	763	64
Private educational services	131	145	14	92	90	**-2**	90	96	6
Health care and social assistance	1297	1378	81	689	689	0	609	667	58
Leisure and hospitality	995	1092	97	948	917	**-31**	979	817	**-162**
Arts, entertainment, and recreation	115	106	**-9**	150	169	19	180	132	**-48**
Accommodation and food services	880	986	106	798	748	**-50**	799	686	**-113**
Other services	267	280	13	195	201	6	198	197	**-1**
Government	807	770	**-37**	321	321	0	315	331	16
Federal	138	77	**-61**	24	24	0	34	35	1
State and local	668	693	25	297	297	0	280	296	16
State and local education	246	247	1	159	144	**-15**	146	135	**-11**
State and local, excluding education	423	446	23	138	153	15	134	161	27

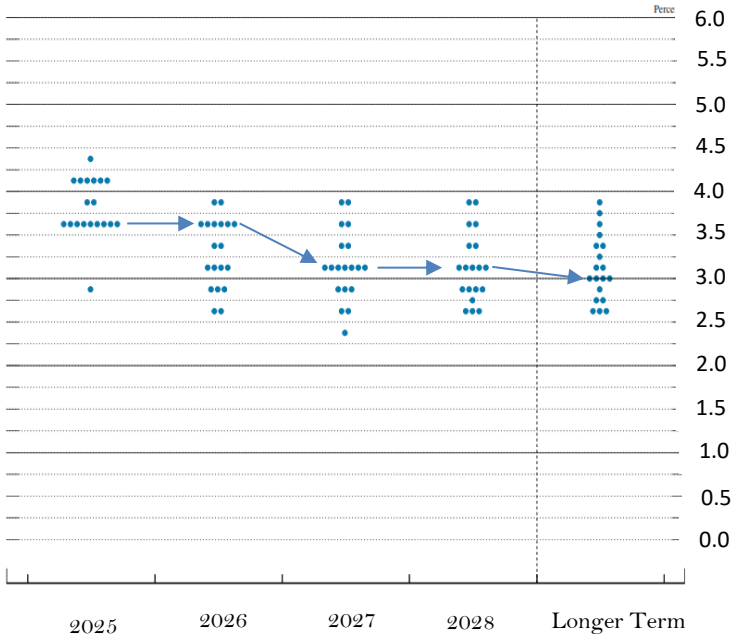
https://www.bls.gov/news.release/jolts.a.htm

Source: BLS, Philip Chao 2025 08

Summary of Economic Projections (SEP) – Fed Fund Rate



Source: FOMC 2025 06, Experiential Wealth



The median (among all FOMC members) rate projection for 2025 is at 3.6%. This is consistent recognition that inflation remains a challenge and there is ongoing tariff related economic uncertainty. For 2026, the projection moved from 3.6% down to 3.4%, suggesting that tariffs are likely a one-time price adjustment, and 2027 is projected back to 3.1% from 3.4%.

Cutting the Fed Funds rate by 25bp to 4% to 4-1/4% range and expecting the rate to be 3-1/2% to 3-3/4% means 2 more cuts by the end of 2025. The revising of employment data and survey data suggest increasing risks to the downside. The Fed is also taking the majority view that price stability risk is muted even though inflation is not back to the 2% target.

This dot chart is based on incoming data and each regional bank survey. Investors should not solely rely on these dots as the definitive destination of the FOMC for any year. Each member makes his/her best estimate based on respective regional economics and survey data to forecast rate policy. Nonetheless, the dot plot offers a window into what members are expecting currently. This is also why data and economic condition will continue to influence rate trajectory.

Be cautious that one is not overly reliant on the dot plot, especially in today's highly uncertain economic and geopolitical environment. These dots would continue to adjust.

The good odds of maintaining a soft-landing remain intact: no recession expected.

Chair Powell 9-23-2025 Prepared Remarks

2025 Economic Outlook Luncheon - The Greater Providence Chamber of Commerce, Warwick, Rhode Island

- In the labor market, there has been a marked slowing in both the supply of and demand for workers—an unusual and challenging development. In this less dynamic and somewhat softer labor market, the downside risks to employment have risen. The recent pace of job creation appears to be running below the "breakeven" rate needed to hold the unemployment rate constant.
- Inflation has eased significantly from its highs of 2022 but remains somewhat elevated relative to our 2 percent longer-run goal. Goods prices, are driving the pickup in inflation. Incoming data and surveys suggest that those price increases largely reflect higher tariffs rather than broader price pressures. Disinflation for services continues, including for housing. Near-term measures of inflation expectations have moved up, on balance, over the course of this year on news about tariffs. Beyond the next year or so, however, most measures of longer-term expectations remain consistent with our 2 percent inflation goal.
- Recent data show that the pace of economic growth has moderated. In recent months, it has become clear that the balance of risks has shifted, prompting the Committee to move its policy stance closer to neutral rate (r*) at the September 2025, meeting. The overall economic effects of the significant changes in trade, immigration, fiscal and regulatory policy remain to be seen. A reasonable base case is that the tariff-related effects on inflation will be relatively short lived—a one-time shift in the price level. Tariff increases will likely take some time to work their way through supply chains. As a result, this one-time increase in the price level will likely be spread over several quarters and show up as somewhat higher inflation during that period. A "one-time" increase does not mean "all at once." Tariff increases will likely take some time to work their way through supply chains.
- Near-term risks to inflation are tilted to the upside and risks to employment to the downside. Two-sided risks mean that there is no risk-free path. When the goals are in tension like this, the Committee framework calls for balancing both sides of the dual mandate.

https://www.federalreserve.gov/newsevents/speech/powell20250923a.htm

Market Interest Rate Expectation – 2025 Q2 vs Q3

Shifts to lower rates sooner

07-01-2025 Meeting Rate Probabilities

Meeting	200-225bp	225-250bp	250-275bp	275-300bp	300-325bp	325-350bp	350-375bp	375-400bp	400-425bp	425-450bp
Jul-26	0.10%	1.30%	6.50%	17.70%	**28.10%**	26.50%	14.60%	4.50%	0.70%	
Jun-26		0.30%	3.30%	13.3%	**27.10%**	**30.20%**	18.60%	6.20%	1.00%	0.10%
Apr-26			0.60%	5.90%	20.70%	**33.50%**	26.80%	10.50%	1.80%	0.10%
Mar-26				2.30%	15.80%	**34.20%**	31.70%	13.40%	2.50%	0.10%
Jan-26					4.20%	25.20%	**41.50%**	23.70%	5.10%	0.30%
Dec-25						9.90%	**46.40%**	34.80%	8.40%	0.60%
Oct-25							12.70%	**55.90%**	28.80%	2.60%
Sep-25								18.50%	**73.20%**	8.30%
Jul-25									20.70%	**79.30%**

10-10-2025 Meeting Rate Probabilities

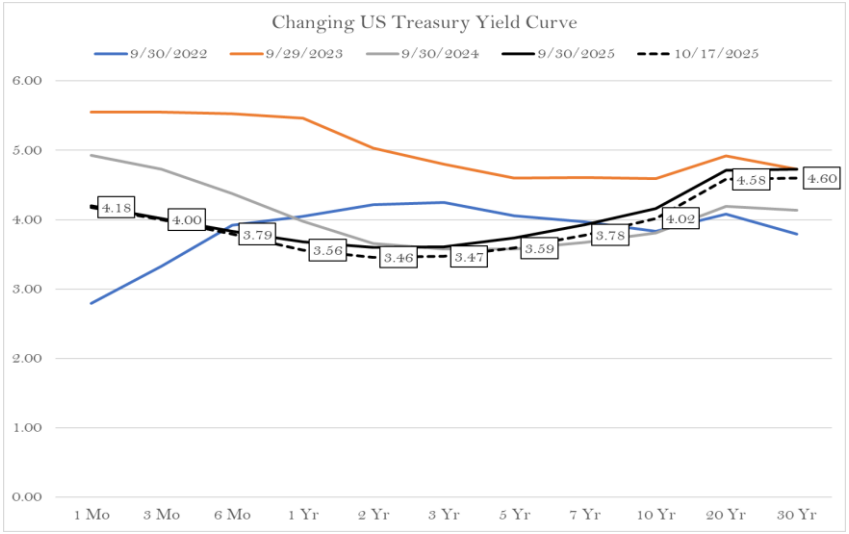
Meeting	175-200bp	200-225bp	225-250bp	250-275bp	275-300bp	300-325bp	325-350bp	350-375bp	375-400bp	400-425bp
Oct-26	0.10%	0.90%	5.10%	16.00%	**28.40%**	29.00%	16.10%	4.10%	0.30%	
Sep-26		0.40%	3.50%	13.80%	28.00%	**31.00%**	18.20%	4.80%	0.30%	
Jul-26			1.10%	8.20%	24.40%	**34.60%**	24.00%	7.10%	0.50%	
Jun-26				3.30%	18.70%	36.60%	**30.60%**	10.10%	0.70%	
Apr-26					5.70%	28.20%	**42.60%**	21.80%	1.70%	
Mar-26						21.10%	**47.70%**	29.00%	2.30%	
Jan-26							44.70%	**51.00%**	4.20%	0.10%
Dec-25								**91.70%**	8.10%	0.10%
Oct-25									**98.30%**	1.70%

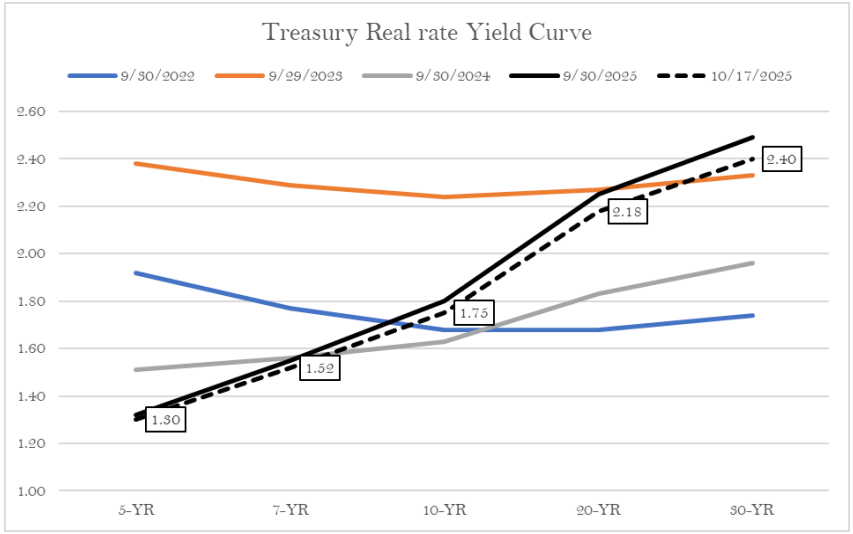
Source: CME, Philip Chao

The total number of projected rate cuts is 2 more for the year, or a total of 75bp rate cut in 2025.

https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

Yield Curve – inverted but anticipating more cuts to come





- September 17 is the first 25bp rate cut since the last 25bp cut on December 18, 2024.
- There is a marked slowing in both the supply of and demand for workers—an unusual and challenging development. In this less dynamic and somewhat softer labor market, the downside risks to employment have risen. The recent pace of job creation appears to be running below the "breakeven" rate needed to hold the unemployment rate constant.
- Recent data show that the pace of economic growth has moderated. In recent months, it has become clear that the balance of risks has shifted, prompting the Committee to move its policy stance closer to neutral rate (r*). The overall economic effects of the significant changes in trade, immigration, fiscal, and regulatory policy remain to be seen. A reasonable base case is that the tariff-related effects on inflation will be relatively short lived - a one-time shift in the price level.
- This is viewed as a proactive step to ease financial conditions even though inflation remains stubbornly above the 2% target. Moreover, it is likely the beginning of a new round of rate cuts to come.

FOMC Members' Median Economic Projections (June 18, 2025)

The projection range reported as compared to the last quarter shows generally higher GDP ranges through 2026. At the same time, the unemployment rates ranges are tighter. In the case of core inflation, the range has increased for 2025 and 2026 on both ends. For core inflation, the lower end has risen by 0.1 while the high end of the range has lowered by 0.2, but the range has increased by 0.1 on both ends for Y2026. Now, the 2% inflation target is NOT expected to be reached until 2027. As such, the Fed Funds Rate remains mostly unchanged from Junes' estimate.

Summary Economic Projection	Y2025		Y2026		Y2027		Longer run	
Real GDP (Median)	Low	High	Low	High	Low	High	Low	High
Jun 25	1.2	1.5	1.5	1.8	1.7	2.0	1.7	2.0
Sep 25	1.4	1.7	1.7	2.1	1.8	2.0	1.7	2.1
Unemployment Change (Median)	Y2025		Y2026		Y2027		Longer run	
Jun 25	4.4	4.5	4.3	4.6	4.2	4.6	4.0	4.3
Sep 25	4.4	4.5	4.4	4.5	4.2	4.4	4.0	4.3
PCE Inflation (Median)	Y2025		Y2026		Y2027		Longer run	
Jun 25	2.8	3.2	2.3	2.6	2.0	2.2	2.0	2.0
Sep 25	2.9	3.0	2.4	2.7	2.0	2.2	2.0	2.0
Core PCE Inflation (Median)	Y2025		Y2026		Y2027		Longer run	
Jun 25	2.7	3.0	2.1	2.4	2	2.1		
Sep 25	2.9	3.4	2.3	2.7	2	2.2		
Fed Funds Rate	Y2025		Y2026		Y2027		Longer run	
Jun 25	3.9	4.4	3.1	3.9	2.9	3.6	2.6	3.6
Sep 25	3.9	4.5	3.1	3.9	2.9	3.6	2.6	3.6

Higher
No Change
Lower

The New Fed's 5-Year Monetary Framework

DUAL MANDATES AFFIRMATION - The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from Congress of promoting maximum employment, stable prices, and moderate long-term interest rates.

MONETARY POLICY STRATEGIES - Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Monetary policy plays an important role in stabilizing the economy in response to these disturbances. The FOMC is prepared to use its full range of tools to achieve its dual mandates, particularly if the federal funds rate is constrained by its effective lower bound.

FULL EMPLOYMENT MANDATE - FOMC views maximum employment as the "highest level of employment that can be achieved on a sustained basis in a context of price stability". The maximum level of employment is not directly measurable and changes over time owing largely to non-monetary factors that affect the structure and dynamics of the labor market. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the FOMC's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain, and be subject to revision.

PRICE STABILITY MANDATE - The Committee reaffirms its judgment that "inflation at the rate of 2 percent", as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's dual mandates. The Committee is prepared to act forcefully to ensure that longer term inflation expectations remain well anchored.

FINANCIAL SYSTEM STABILITY - Sustainably achieving dual mandates depends on a stable financial system. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

UPDATING THE FRAMEWORK - The FOMC's employment and inflation objectives are generally complementary. However, if the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the extent of departures from their goals and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate. The Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability.

How has the Fed Long Term Framework Changed?

- On August 27, 2020, the FOMC issued updates to its Statement on Longer-Run Goals and Monetary Policy Strategy.
- Three policy emphases were listed as follows:
  - On maximum employment, the FOMC emphasized that maximum employment is a broad-based and inclusive goal and reports that its policy decision will be informed by its "assessments of the shortfalls of employment from its maximum level." The original document referred to "deviations from its maximum level."
  - On price stability, the FOMC adjusted its strategy for achieving its longer-run inflation goal of 2 percent by noting that it "**seeks to achieve inflation that averages 2 percent over time**." To this end, the revised statement states that "following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."
  - The updates to the strategy statement explicitly acknowledge the challenges for monetary policy posed by a persistently low interest rate environment. Here in the United States and around the world, monetary policy interest rates are more likely to be constrained by their effective lower-bound than in the past.
- Five years later and seeing a significant rise in inflation and a complete departure from the "zero interest rate policy" (ZIRP) that was associated with the global financial crisis and the more recent COVID pandemic, the updated framework is back to balancing the risks of the dual mandate of price stability and full employment, and now with a slight emphasis on the full employment mandate than inflation averaging.
- In the foreseeable future, it is likely that the Fed will be using the balance of risk approach to discuss policy making. This means that the Fed will likely speak of relative deviation from the 2% inflation target vs. deviation from full employment (which is ill-defined by Congress and the Fed). This will be that much more challenging with (1) political pressure and (2) a stagflationary economic environment where inflation remains above the 2% target with an anemic economy that does not support full employment. An increase in rates would contain inflation but be unfriendly to the general economy and likely agitate unemployment further. Vice versa, dropping interest rates too much would help the economy but likely fuel inflation further away from the 2% target rate.
- Additionally, the insatiable fiscal expansion will undoubtedly cause market forces to demand higher interest rates along the yield curve, which would increase the cost of borrowing and continue the vicious cycle. There are limited actions available to the Fed to contain this phenomenon especially if this is further accelerated by de-dollarization and diversification away from USD as the trading and leading reserve currency in the longer run.

American "Keiretsu" – the AI connections- danger ahead?

- There is a sense of left- and right-pocket nature to the recent OpenAI capital raise. OpenAI is raising capital. Upon receipt, the capital would be spent on partners who in turn grant OpenAI their stock, credit, or warrant. This can amplify systemic risk in an AI equity bubble.
- What is going on from announced transactions are:
  - Cross-Ownership/Circular Financing – OpenAI raises at sky-high valuations and immediately plows money into Oracle, AMD, or Broadcom. Those partners see their own stock values rise (because of future revenue promises). This, in turn, validates OpenAI's high valuation, even though the cash is recycled inside a closed circle. This can overstate true external demand. Valuations float on cross-deal optics with potentially unsustainable free cash flow creating real risks in a highly valued market.
  - Leverage without Transparency - Multi-hundred-billion-dollar commitments to data centers or chip purchases often stretch across years but get marketed as current assets or partnerships. For example, AMD granting OpenAI 10% equity exposure (via warrants) looks like a gain for OpenAI, but only if AMD's valuation keeps inflating on the back of the OpenAI deal. It's synthetic equity leverage. This is hidden leverage where small shocks in one firm's stock (AMD, Oracle, Broadcom) could cascade back to the entire OpenAI's linked firms..
  - Capacity Commitments Exceed Real Demand - 17 GW of AI capacity is more than what New York City consumes. That build-out assumes exponential AI usage growth. If actual monetizable demand lags (corporations/consumers unwilling to pay at scale), the sector is left with stranded assets. The over-capacity plus sunk costs could cause earnings misses which lead to a rapid repricing of the "AI growth story."
  - Cross-Subsidy and Illiquidity - Partners grant stock warrants or favorable terms in exchange for multi-decade spending commitments. That's effectively barter financing, and it is not liquid nor cash-generating. If the AI hype cycle slows, OpenAI can't easily unwind these illiquid cross-positions. This means the trapped capital can't cover the massive cash burn.
  - Herding Risk in Equity Markets - Tech and AI indices (NASDAQ, SOX) are heavily weighted toward Nvidia, AMD, Broadcom, Oracle, Microsoft, etc. By tying themselves together, these firms correlate their risks. If one misses revenue because OpenAI spending slows, it can trigger sector-wide re-ratings. Thus, the AI bubble becomes more synchronized and less diversified which would likely cause a much sharper downturn when sentiment shifts.
- With about $7 trillion of the total market cap of about $45 trillion in the U.S., a blowup in the AI segment about its ability to meet future expectations will have significant transmission effects on the rest of the market.

Our Thinking (not advice) remains the same…

- So far in 2025, stocks have done better than most have expected along with gold and bonds in genera. How much was this based on fundamentals and how much is driven by AI and related/supporting industries and the beginning of a rate cutting cycle (always a positive contributor to risk assets.)
- With negation or threats continuing between the U.S. and its two neighbors, Canada and Mexico as well as China, any moment could give rise to another trade related shock. This also means market volatility remains ever present along with implications to earnings and the real economy and consumers.
- We expect the economy to slow during this final quarter and a pickup during the first half of next year due to the fiscal stimulus from OBBBA, and thereafter, the economy will likely slow down again. Inflation is expected to move somewhat higher, but this will not be sustained since it is reflecting more a one-time price adjustment. This suggests a price reset upward for imported goods in the next 12 months and thus bumps up the inflation rate. Thereafter, inflation likely will settle down (base effect takes over), but we'll see a yoyoing effect, which makes the ride a bit uncomfortable. Nonetheless, the voters (especially the lower 50% income group) will feel the most pain for the price adjustments and loss of some entitlement benefits.
- The overall global economic picture is improving as uncertainties subside with trade deals finalizing. With more stability, we can all plan forward better.
- We continue to advocate for quality and caution in portfolio construction and management:
  1) Affirm investment objectives and time horizon and make sur the portfolio aligns properly,
  2) Separate short term (1- to 3-year) assets for liquidity needs from long-term assets (4 years+),
  3) Upgrade each holding within its asset class to the highest quality where possible,
  4) Park assets in safe and liquid assets (6 months plus of income) for short-term liquidity needs, without the need to sell long-term assets to raise cash,
  5) Diversify away from a super concentration in U.S. (home bias) assets and U.S. dollar dominance as well as styles, sectors, and asset classes, including hard assets.

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