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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

August 18, 2025

"Vision is the art of seeing things invisible." Jonathan Swift

MARKETS

Macro Recap: This week's market activity reflected a delicate balance between growing optimism over potential rate cuts and mixed inflationary output from the consumer and wholesale levels.

The Consumer Price Index (CPI) report, largely in line with expectations, initially fueled a rally. Headline CPI rose 0.2% month-over-month, while core CPI, which excludes volatile food and energy components, climbed 0.3%. These figures held year-over-year headline inflation steady at 2.7%, with core inflation at 3.1%, reinforcing investor confidence in a possible 25-basis-point rate cut at the September FOMC meeting.

However, midweek enthusiasm was slightly tempered by the Producer Price Index (PPI) report. July's headline PPI surged 0.9% month-over-month, with core PPI (excluding food/energy) matching that increase, both significantly higher than June's flat level. This pushed year-over-year headline PPI growth to 3.3% and 3.7% for core, signaling hotter wholesale inflationary pressures.

Retail sales data added another layer to the narrative. U.S. retailers posted a 0.5% month-over-month gain in July, aligning with forecasts but falling short of June's upwardly revised 0.9% increase. Meanwhile, consumer sentiment weakened for the first time in four months, accompanied by a rise in inflation expectations, highlighting the ongoing tug-of-war between economic resilience and inflation concerns.

Equity Recap: Equity markets posted modest gains this week, supported by encouraging inflation data, solid corporate earnings, and a continued rotation into smaller-cap and cyclical stocks. The S&P 500 rose 0.9%, the Nasdaq Composite added 0.8%, and the Dow Jones Industrial Average led the way with a 1.7% increase.

While the Dow remains just 0.2% below its all-time high set last December, both the S&P 500 and Nasdaq have stayed above their late-2024 peaks for seven consecutive weeks, underscoring the strength and resilience of the broader market.

Bond/Rate Recap: U.S. Treasuries saw modest fluctuations this week, driven by the interplay between CPI and PPI data. While expectations for rate cuts remain elevated, they have moderated slightly. The yield on the 2-year Treasury held steady at 3.76%, while the 10-year yield edged higher to 4.33%.

Friday's trading continued to reflect growing market sentiment that the Federal Reserve may lower its benchmark interest rate at its upcoming two-day meeting ending September 17. Futures pricing suggests that most investors anticipate a quarter-point cut next month, with the potential for one or two additional cuts in October and December.

Week Ahead: Investors and economists will turn their focus to Jackson Hole, Wyoming, where the Federal Reserve will host its annual three-day economic policy symposium beginning Thursday. Fed Chair Jerome Powell is scheduled to deliver remarks on Friday.

INDICES

	Aug 11 Open	Aug 15 Close	Weekly Change	Dec 31 2024	YTD Change
DJIA	44,176	44,946	1.7%	42,544	5.6%
S&P 500	6,389	6,450	0.9%	5,882	9.7%
NASDAQ	21,450	21,623	0.8%	19,311	12.0%
Russell 2000	2,218	2,287	3.1%	2,230	2.5%
KBW Bank Indx	141.2	143.0	1.3%	127.5	12.2%
Bitcoin	$118,555	$117,573	-0.8%	$93,714	25.5%
Oil (WTI)	$63.88	$62.80	-1.7%	$71.72	-12.4%
Gold	$3,398	$3,336	-1.8%	$2,625	27.1%
Prime	7.50	7.50	0.00	7.50	0.00
Effective Fed Funds	4.33	4.33	0.00	4.33	0.00
3m Tbill	4.24	4.21	-0.03	4.31	-0.10
2yr UST	3.76	3.75	-0.01	4.24	-0.49
10yr UST	4.28	4.32	0.03	4.57	-0.25
2-10yr UST Spread	52	56	4	33	24
2y AAA Muni/10y UST	62.6%	60.2%	-2.4%	66.5%	-6.3%
10y AAA Muni/10y UST	75.8%	73.8%	-2.0%	68.4%	5.3%
5yr Inflation Forecast	2.47	2.45	-0.02	2.42	0.03

Week Ahead

- **Monday:** Housing Market Index
- **Tuesday:** Housing starts
- **Wednesday:** Release of FOMC minutes from the July 29–30 meeting
- **Thursday:** Leading Economic Index, Existing home sales
- **Friday:** No major reports

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