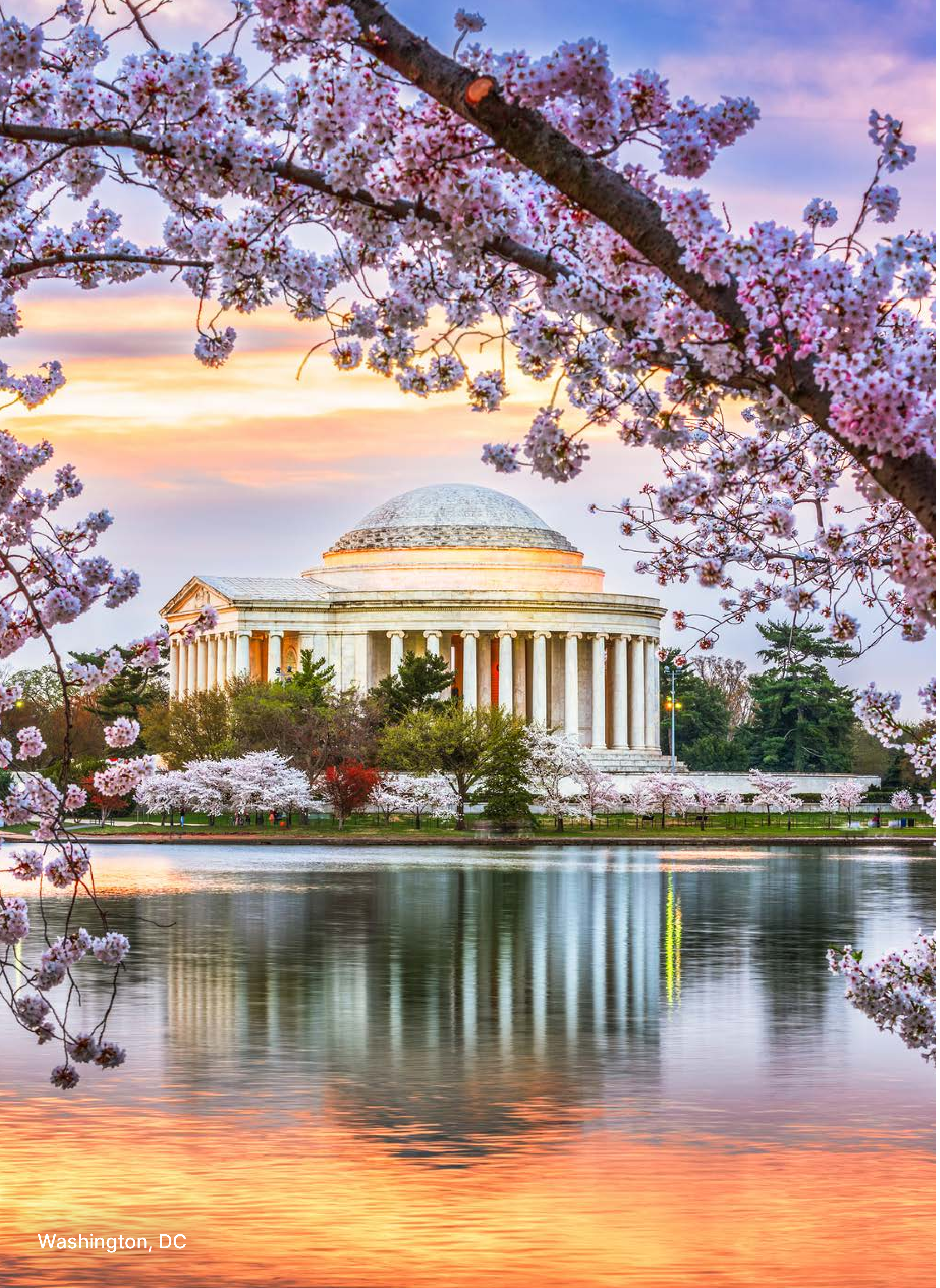


WEEK OF AUGUST 4, 2025

Market Navigator

U.S. equities declined last week as weak employment data, new tariffs, and hawkish Federal Reserve (Fed) rhetoric weighed on investor sentiment. Losses were broad, led by small-caps and health care. Big technology was mixed and defensive sectors outperformed. Treasuries rallied, steepening the yield curve, as softer labor trends drove interest rate cut bets despite firm Fed messaging and a stable auction supply.

Quick Hits

1. **Beyond the headlines:** What does mixed economic data mean?
2. **Report releases:** The unemployment rate rose to 4.2 percent in July.
3. **Financial market data**: Investors were risk averse because of tariffs and weak jobs data.
4. **Looking ahead:** Data this week will focus on trade, service, business confidence, and inflation.

Beyond the Headlines: What's Left After the Trade Deals?

Recent economic reports have painted a mixed picture of the U.S. economy, leaving many investors unsure what comes next. Although there have been encouraging signs of resilience, indicators of slowing momentum are emerging.

Consumer Confidence Rebounds, but Durable Goods Are Choppy
Consumer confidence rebounded in July, with surveys showing that Americans were more optimistic about inflation and job prospects. This bounce, which came after several months of wavering sentiment, could support consumer spending in the near term; however, durable goods orders, a critical gauge of business investment, have been volatile. Gains in April and June were offset by a surprising decline in May, highlighting uneven demand in manufacturing and transportation sectors.

Adding to the uncertainty, the Bureau of Labor Statistics commissioner who oversees the employment report was fired, raising questions about consistency and reliability in future labor data.

GDP Surprises to the Upside
The economy grew at a stronger-than-expected pace in the second quarter, with GDP rising 3 percent. Personal consumption remained solid, albeit slightly below forecasts. This growth, combined with improving productivity, suggests the economy still has forward momentum despite tighter financial conditions.

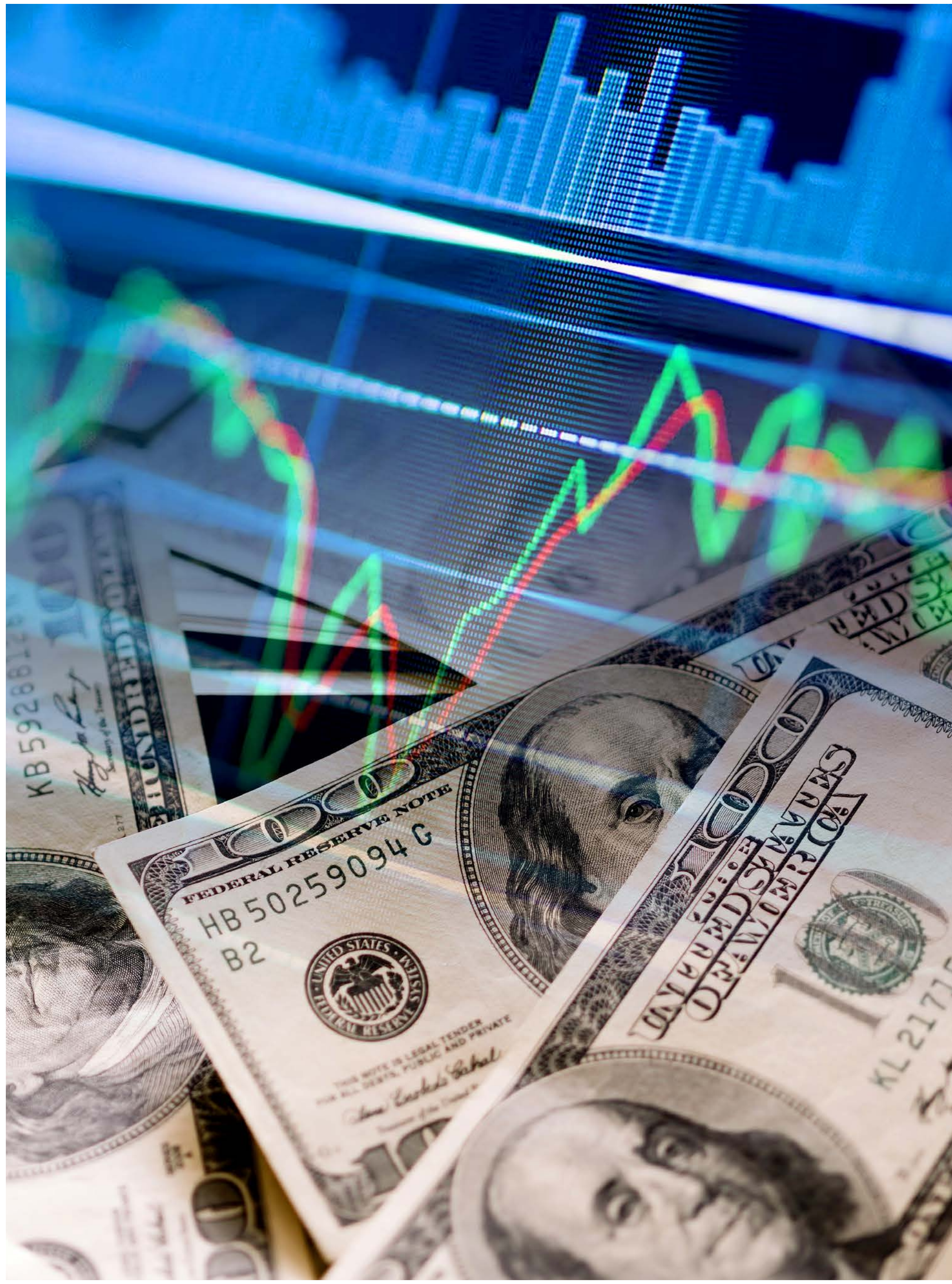
Soft Spots in Housing and Jobs
Not all data has been upbeat. Existing home sales remained weak in June because of elevated mortgage rates and limited inventory. And, though the July jobs report showed growth, it also revealed troubling signs. Payrolls rose by just 73,000—far below expectations—and previous months were revised significantly lower. Adding to the uncertainty, the Bureau of Labor Statistics commissioner who oversees the employment report was fired, raising questions about consistency and reliability in future labor data.

Inflation Trends Lower, but Fed Remains Cautious
Inflation has continued to cool, helping ease pressure on consumers. Although core inflation remains above the Fed's target, it is trending in the right direction. Nonetheless, the central bank has maintained a cautious tone, suggesting that though rate cuts are likely, it seeks clearer confirmation that inflation is sustainably under control.

Markets React to Trade Progress
Markets have responded positively to recent trade developments. Last week's announcements of deals with Indonesia, the Philippines, and Japan helped lift stocks, and a fresh agreement with the European Union provided a boost to start the week. Although the overall tariff environment remains elevated, the terms of these deals were less disruptive than feared, providing more clarity for companies and more confidence for investors.

Looking Ahead
With earnings season underway, most companies are beating lowered expectations. Those that miss, however, are being punished. As trade policy firms up and inventory buffers run low, the true impact of tariffs on corporate profits will become clearer.

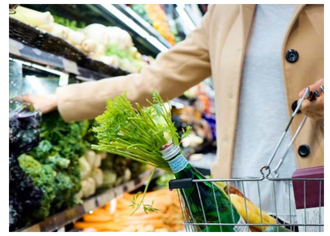
What This Means for You
Given elevated valuations, it's a good time to review your portfolio. Although exposure to large-cap technology firms may still offer growth, small-cap, mid-cap, and international holdings could help diversify broader risk. Staying balanced and patient remains critical in this uncertain environment.



Report Releases: July 28–August 1, 2025

Conference Board Consumer Confidence Index
June (Tuesday)

Consumer confidence improved slightly more than expected.
- Expected/prior month consumer confidence: 96.0/95.2
- Actual consumer confidence: 97.2

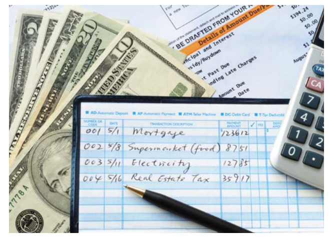


Federal Open Market Committee (FOMC) Rate Decision
July (Wednesday)

As expected, the FOMC kept interest rates unchanged.
- Expected/prior federal funds rate upper limit: 4.50%/4.50%
- Actual federal funds rate upper limit: 4.50%

Personal Income and Spending
June (Thursday)

Personal income and spending improved after falling short of expectations in May.
- Expected/prior month personal income monthly change: +0.2%/–0.4%
- Actual personal income monthly change: +0.3%
- Expected/prior month personal spending monthly change: +0.4%/+0.0%
- Actual personal spending monthly change: +0.3%



Employment Report
July (Friday)

Hiring picked up after slowing notably in June. The unemployment rate rose from 4.1 percent to 4.2 percent.
- Expected/prior change in nonfarm payrolls: +104,000/+14,000
- Actual change in nonfarm payrolls: +73,000

>> The Takeaway

- Consumer confidence rose in June, but personal spending missed expectations.
- Weak employment data came as a surprise after a strong second-quarter GDP report.

Financial Market Data

Equity

U.S. equities declined, reversing prior gains because of soft labor data, renewed trade tensions, and hawkish Fed commentary. The Russell 2000 led the losses, with the S&P 500 and Nasdaq Composite also retreating. Market breadth was negative and equal-weighted indices lagged. Big technology was mixed: Meta Platforms and Microsoft rose on strong earnings, whereas Apple and Amazon fell. Weakness was broad-based and included health care, small-caps, and consumer discretionary. Defensive sectors such as utilities, tobacco, and home builders outperformed. Tariff announcements and comments from Fed Chair Jerome Powell weighed on interest rate cut hopes despite rising concerns over slowing job growth.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	−2.34%	−1.59%	6.85%	16.04%
Nasdaq Composite	−2.16%	−2.23%	7.36%	20.99%
DJIA	−2.92%	−1.23%	3.43%	9.93%
MSCI EAFE	−3.13%	−0.37%	17.85%	14.89%
MSCI Emerging Markets	−2.47%	−1.37%	16.25%	15.87%
Russell 2000	−4.16%	−2.03%	−2.11%	0.46%

Source: Bloomberg, as of August 1, 2025

Fixed Income

Treasuries finished firmer, with a modest steepening in the yield curve as long-end yields declined. The move was driven by weaker-than-expected nonfarm payrolls in July and sharp downward revisions to previous months, reinforcing softening labor trends. Although Fed commentary remained hawkish, market pricing shifted toward an extremely likely September rate cut after the jobs data was released. The 10-year yield fell alongside risk sentiment, whereas front-end rates were more stable. The Treasury's quarterly refunding statement kept auction sizes unchanged, signaling no near-term increase in supply pressure. A broader risk-off tone and tariff announcements also supported bond demand.

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.59%	4.59%	3.79%
U.S. Treasury	0.56%	4.27%	3.09%
U.S. Mortgages	0.52%	4.74%	3.71%
Municipal Bond	0.07%	−0.16%	0.06%

Source: Bloomberg, as of August 1, 2025

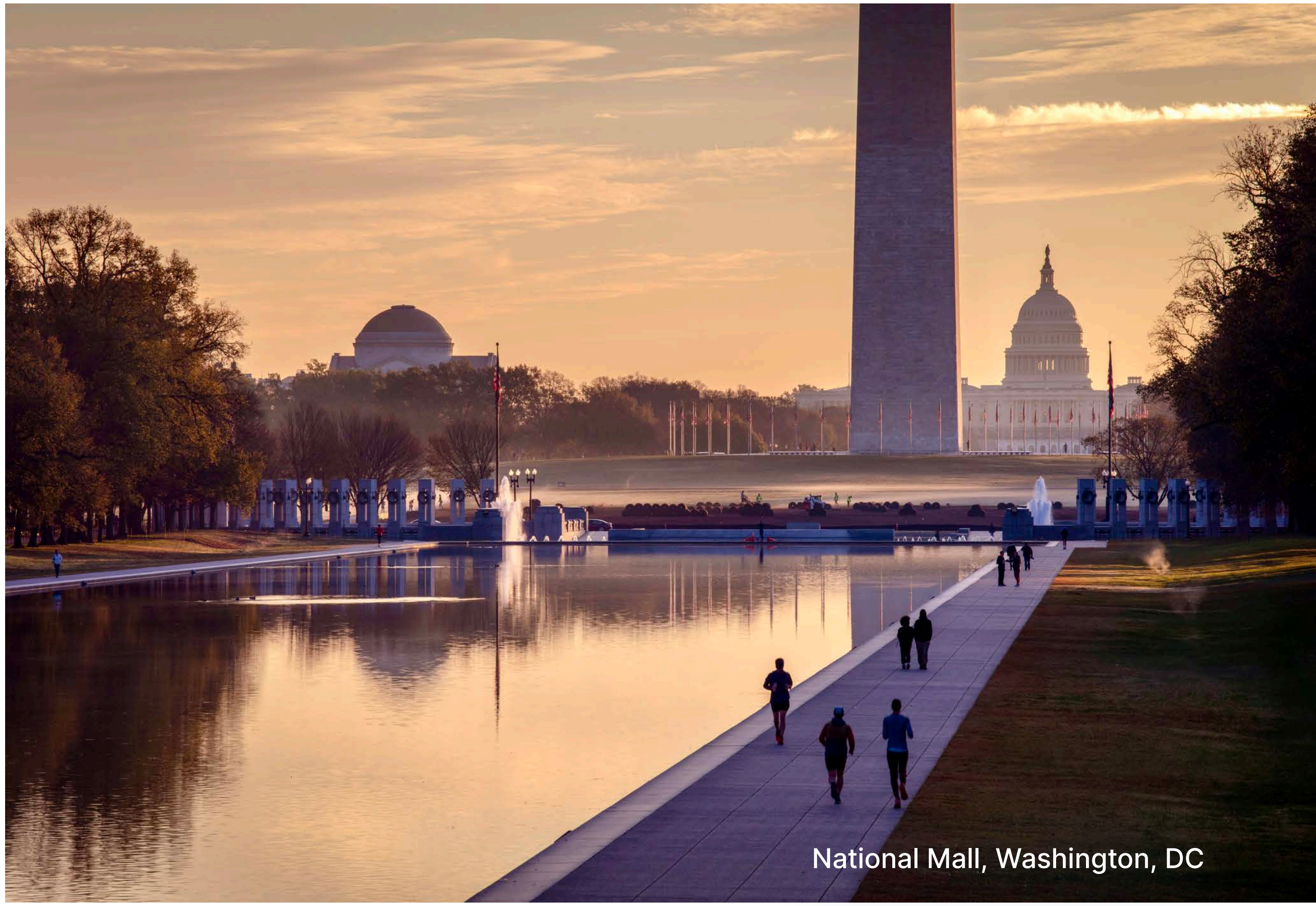
>> The Takeaway

- Stocks fell broadly on soft labor data, trade tensions, and hawkish Fed signals. Small-caps and health care lagged, whereas defensive sectors outperformed.
- Treasuries gained as weak employment data raised odds of a September rate cut. Long yields fell; stable auctions and a risk-off tone supported demand.

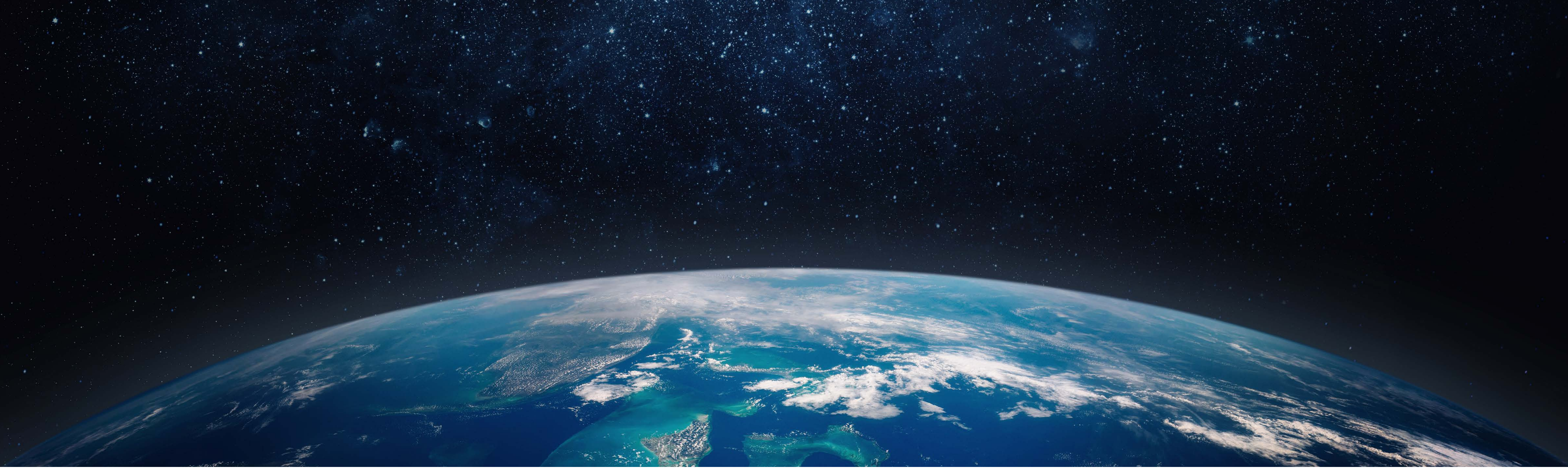
Looking Ahead

It will be a light week for economic data releases. The focus will be on trade, service, business confidence, and inflation.

- The week kicks off Tuesday with the **international trade balance report** for June and the **Institute for Supply Management (ISM) services report** for July. The trade deficit is expected to shrink and service sector confidence is set to improve modestly.
- On Thursday, we expect to see **wholesale trade sales and inventory data** and **one-year inflation expectations** from the New York Fed. In May, wholesale trade saw a drop in sales and an increase in inventories. The New York Fed targeted one-year inflation of 3.02 percent in June; we'll see whether this figure continues its recent trend downward.



National Mall, Washington, DC



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Bonds are subject to availability and market conditions; some have call features that may affect income. Bond prices and yields are inversely related: when the price goes up, the yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by the Investment Research team at Commonwealth Financial Network®.

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