

Weekly Market Commentary



WEALTHSHIELD



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Weekly Market Commentary and GRIP Summary

Overview

The week of **September 14–20, 2025** was dominated by the **Federal Reserve’s September FOMC meeting**. Facing softening labour-market indicators and tariffs driving cost pressures, the FOMC cut its benchmark **federal-funds target range by 25 basis points to 4–4¼ %**^[1]—its first reduction since December 2024^[2]. However, the Committee continued to emphasise its dual mandate, stating that it will “carefully assess incoming data” and will adjust policy only as necessary^[3]. The Fed is still running **quantitative tightening** by reducing holdings of Treasury and mortgage-backed securities^[4] and remains focused on bringing inflation back to its 2 % goal^[5]. The **Summary of Economic Projections** showed median forecasts for **real GDP growth of 1.6 % in 2025** and an **unemployment rate of 4.5 %**^[6] with **PCE inflation at 3.0 %**^[7]—slightly higher than June projections. Markets interpreted the meeting as a policy shift toward easing but were surprised by the Fed’s still-cautious tone and limited rate-cut projections.

Economic data released during the week painted a mixed picture. **U.S. retail sales** for August increased **0.6 % month-over-month** and **5 % year-over-year**, beating expectations^[8]. Core retail sales (excluding autos, gas, building materials and food services) rose 0.7 %^[9], suggesting solid consumer spending despite tariffs pushing prices higher^[10]. Beneath the headline, however, the picture is less impressive: the not-seasonally-adjusted retail and control group sales were **up just 0.1 % in August**, one of the weakest August performances on record^[11]. Regions Financial highlighted that this month’s gain reflected a “**friendlier seasonal adjustment**” than July^[12] and that July’s outsized Prime-Day-driven surge in unadjusted sales pulled spending forward^[13]. In other words, seasonal factors – not a re-acceleration in underlying demand – explain much of the headline strength.



Industrial production in August rose **0.1 %**, with manufacturing output up 0.2 %[\[14\]](#); capacity utilization held steady at 77.4 %[\[15\]](#). Conversely, the **Conference Board's Leading Economic Index (LEI)** fell **0.5 % in August**, its largest decline since April, as weak manufacturing orders, soft consumer expectations and rising unemployment claims outweighed positive contributions from stock prices and credit conditions[\[16\]](#). The Conference Board noted that higher tariffs trimmed growth and expects **GDP to slow to about 1.6 % in 2025**[\[17\]](#). **Weekly jobless claims** dropped to **231 000**, reversing the prior week's jump, yet the broader labour market is softening: payrolls gained only 22 000 jobs in August, the unemployment rate sits near a **four-year high of 4.3 %**, and average unemployment duration rose to **24.5 weeks**. Economists suggested the Fed's concerns about the labour market may be overstated, but the data illustrate an economy losing momentum.

Financial markets responded positively to the cut but remain wary of the Fed's hawkish bias. Equity indices rose modestly, and credit spreads narrowed, reflecting improved risk appetite. Bond yields declined at the front end, but the curve steepened slightly, anticipating slower growth yet recognizing that the Fed might not deliver the number of cuts investors hope for. The dollar was mixed, and commodity prices were volatile due to trade policy uncertainty.



GRIP Analysis

Growth

- **Real activity:** The FOMC's latest projections indicate that policymakers expect **real GDP to grow 1.6 % in 2025**^[18]—down from 2.8 % in 2024, consistent with the Conference Board's 1.6 % forecast^[17]. August **retail sales** headlines looked strong (up **0.6 % m/m**^[8]), but the not-seasonally-adjusted data were essentially flat, with total and control group sales up only **0.1 %**^[11]. Regions Financial attributed the apparent strength to a “**friendlier seasonal adjustment**” and noted that July's supersized online promotions (Amazon Prime Day) pulled spending into July^{[12][13]}. Beneath the surface, consumption is increasingly concentrated: Moody's Analytics estimates that the **top 10 % of earners accounted for 49.2 % of total consumer spending in Q2 2025**, up from about 35 % three decades ago. Spending by the bottom 80 % has merely kept pace with inflation, while the top 3.3 % of households—who benefited from asset-price inflation—have done “**much, much, much better**”. This K-shaped consumption pattern means headline retail gains depend on the wealthy and are vulnerable if asset values falter.

Industrial and labour market data: Industrial production increased **0.1 %**^[14], but the LEI's **0.5 % decline** suggests momentum is fading^[16]. The labour market is softening **nonfarm payrolls added only 22 000 jobs in August**, and the **unemployment rate is 4.3 %**. Average unemployment duration (24.5 weeks) is the highest in nearly 3½ years. Without policy support, growth could decelerate further, especially as tariffs dampen trade and investment. - **Conclusion:** Growth is **down** and likely to slow further. While consumers remain relatively upbeat and manufacturing shows nascent improvement, labour-market cracks and falling leading indicators signal fragility. More policy accommodation and pro-growth initiatives are needed to avoid a growth scare.



Risk Appetite

- **Market sentiment:** Equity markets responded favorably to the rate cut, with the S&P 500 posting modest gains and credit spreads tightening; risk assets are pricing in multiple cuts despite the Fed's conservative outlook. Investors believe that policy easing will support asset prices and are positioning for a softer landing.
- **Financial conditions:** A 25-bp cut has modestly loosened financial conditions. The Fed continues to shrink its balance sheet^[4], preventing a more dramatic easing. Bond markets anticipate additional cuts (around 75–100 bps) over the next year^[19], but the Fed's projections show fewer reductions^[20]. The divergence between market expectations and policy guidance is a risk factor; disappointment could trigger volatility.
- **Conclusion: Risk appetite is positive**, but the optimism rests on expectations of further easing. Policy misalignment or renewed inflation shocks could unsettle markets, especially from stretched valuations.



Inflation

- **Current inflation:** August CPI data (released last week) showed consumer prices increasing at the fastest pace in seven months due to tariffs and rising food and apparel costs[21]. However, core measures and the Fed's preferred **PCE inflation** are trending lower. A useful leading indicator for price pressures is energy: the **Brent crude oil** price fell from about **\$72 per barrel in mid-March 2025 to \$67.88 by mid-September**, a roughly **6 % decline over six months**[22][23]. This negative six-month rate of change signals that energy inflation is set to cool further. The FOMC's median projection for **PCE inflation in 2025 is 3.0 %**[7]—close to June estimates—and it expects inflation to decline to **2 % by 2028**[24]. Tariff-driven price pressures and supply-chain disruptions keep inflation above target for now, but underlying momentum and commodity trends point lower.
- **Fed's focus:** Despite falling core inflation, the Fed remains “**strongly committed to returning inflation to its 2 % objective**”[5]. Chair Powell repeated concerns about potential tariff-induced inflation and emphasized that the Committee will continue to watch inflation expectations and wage dynamics. This focus has kept policy tighter than growth data alone would justify.
- **Conclusion: Inflation is down** but still above target, largely because of external policy shocks (tariffs). With leading indicators pointing to slower growth and easing price pressures, the Fed's fixation on lagging inflation data risks overtightening.



Policy

- **Monetary policy:** The FOMC cut rates by 25 bp to **4–4¼ %**[\[1\]](#), citing increased downside risks to employment[\[25\]](#). One governor dissented, preferring a larger 50-bp cut[\[26\]](#). The Committee signaled it would continue to reduce its balance sheet[\[4\]](#) and will base further cuts on incoming data. Markets expect more cuts—perhaps three by mid-2026—but the Fed’s dot plot shows only a modest decline[\[20\]](#). Comments from FOMC members and the **dovish shift** in the statement confirm that a policy pivot has begun, but the Fed remains cautious and anchored to labour-market data.
- **Fiscal policy:** Tariffs enacted earlier in the year remain a drag on growth and inflation, with the LEI report noting that **higher tariffs trimmed growth in the first half of 2025 and will continue to weigh on GDP**[\[17\]](#). Infrastructure and productivity-enhancing investments could offset these headwinds. The Conference Board emphasized that only stock prices and credit conditions supported the LEI[\[27\]](#), while other components—including labor-market measures—are weakening[\[28\]](#). Coordinated fiscal-monetary action, such as **infrastructure spending and fiscal stimulus**, could support growth without igniting excessive inflation.
- **Conclusion: Policy remains too tight** given the slowdown in growth and easing inflation. The Fed’s reliance on lagging indicators (particularly unemployment) risks overtightening; more aggressive cuts are warranted to prevent a growth scare. Fiscal policy should complement monetary easing—through infrastructure spending and targeted tax relief—to stimulate investment and productivity. Alignment of monetary and fiscal policies is essential to unlock the potential of leading indicators and spur the next growth cycle.



Bottom Line

Last week's **FOMC meeting** marked a **tentative policy pivot**, but the Fed's cautious stance and continued emphasis on inflation mean monetary conditions remain restrictive. Economic growth is slowing, the labour market is softening, and leading indicators are deteriorating^[16]. Moreover, the apparent strength in consumer spending is built on seasonal quirks and a narrow base of affluent households^[11]; if asset prices wobble, demand could falter quickly. Yet inflation is moderating, with energy prices falling sharply over the past six months^{[22][23]}, and risk appetite is constructive. **Additional rate cuts**—coupled with **pro-growth fiscal policies** like infrastructure spending—are needed to support the economy and prevent a **growth scare**. Without alignment between monetary and fiscal policy, the Fed's focus on lagging and arguably flawed labour-market data will continue to weigh on the outlook.



Sources

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WEALTHSHIELD

Contact us

 www.wealthshield.co

 info@wealthshield.co

 101 N Tryon St Suite 112
Charlotte, NC 28246

