First Citizens Wealth™ Making Sense

Basis Points | August 12, 2025

Keeping an Open Mind

1. Sound and Fury

Recent economic data are offering as much noise as signal, making it difficult for investors and policymakers to adhere to a cogent macro narrative. The nationwide unemployment rate is at a low 4.2%. But two weeks ago, the Labor Department revised down recent payroll growth by over a quarter-million jobs, hiring demand appears weak, and more Americans are claiming jobless benefits. On prices, inflation is running well above target, even though apparent tariff effects haven't yet pushed aggregate inflation higher.[1] Nonetheless, this morning's inflation data was not hot enough to upset markets. Clarity is often elusive when trying to sum up an entire economy that serves 350 million people. But the noisiness of late is unusual, and it reinforces our view that key economic data are still up in the air. We expect this to continue to drive market volatility.

2. Dueling Mandates

This leaves policymakers in a particularly unenviable position. July's Fed decision already came as a rare split vote, with two governors voting against the majority in favor of a rate cut. At that meeting, Fed Chair Jerome Powell signaled a preference for holding rates steady because the labor market appeared intact. **But after the weak August 1 jobs report, the narrative changed.** The Fed is tasked by Congress with a so-called "dual mandate" to promote maximum employment and stable prices.[2] An ongoing question at least since 2020 has been which of these two goals might take precedence if they were ever in conflict. **The awkward reality is that inflation has been above the stated 2% target for over four years and has accelerated in recent months.** After this morning's Consumer Price Index report showed a 3.1% core inflation rate, markets rallied with confidence that a rate cut will happen in September. There are still more labor and inflation data releases to come before then, and conflict between the two Fed mandates could make it more difficult for investors to price the rates outlook and may drive volatility in both bond and equity markets.

3. Unfazed

US equity markets are moving past current economic and policy uncertainty and are trading near all-time highs. Second-quarter earnings season was robust, with 81% of companies beating expectations, but markets also punished companies that missed by more than usual.[3] **The second quarter's year-over-year earnings growth rate is pacing at 11.8%, materially higher than the 4.9% expected before earnings season began.** Yet equity market valuations, particularly for large-cap technology stocks, are elevated. But with current and

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[1] Prices for certain imported goods such as furniture and electronics have risen sharply in recent months.

[2] The 1977 amendment to the Federal Reserve Act actually tasks the Fed with three mandates: "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." 12 U.S.C. § 225a.

[3] Source: FactSet

expected profit margins for most S&P 500 companies expanding, today's higher multiples may be justified.

4. Term Premium Floor

Fixed income volatility has been muted. Although yields across the curve moved lower over the last several days, yields remain attractive. **Term premium – the extra yield investors require for longer-dated bonds to compensate for inflation, debt, and interest-rate risk – is likely putting a floor underneath longer-term interest rates.** Municipal bonds have underperformed year-to-date compared to Treasuries and corporate bonds, which our fixed income team attributes largely to technical supply factors.