



TheECONOMY

Uncertainty Continues to Dominate, Though Investors are Keen to Dismiss as Noise

Tariff talk continues to be the driving narrative behind markets, still with no clear outcome in sight. Investors, however, have demonstrated a willingness to brush off the near-daily barrage of tariff announcements as noise, which is evidenced by a gradual decline in volatility since the announcement of tariffs in April. The focus instead seems to have shifted to the longer-term impact of U.S. trade policy on inflation and economic growth, for which expectations are changing as rapidly as the policy itself.

As expected, the Fed did not announce any rate cuts at their June meeting and largely appears to be in wait-and-see mode as more (lagging) data becomes available that would give the board insight into the impact of tariffs and other recent U.S. policy changes. The decision to not cut rates was heavily criticized by President Trump, who has been a very vocal critic of Fed Chair Jerome Powell. The markets are closely watching for signs that the President will attempt to have him replaced, which would be significant both because his replacement would likely be pressured to lower rates, and the political independence of the Federal Reserve is a significant driver of demand for U.S. Treasuries.

In the meantime, the jobs market in the U.S. appears to be resilient. The U.S. unemployment rate decreased to 4.1% in June, and the U.S. economy exceeded market expectations by adding 147,000 jobs. Additionally, the University of Michigan's Consumer Sentiment Index continued to increase in June to 60.7 from a near decade low of 52.2 reported in May; this is the first increase in consumer sentiment reported since December 2024. Both data points are supportive of an overall resilient economy.

However, June non-core CPI, a gauge of inflation, increased to 0.3% MoM, or 2.7% YoY. While this was just slightly below consensus expectations, it does represent an increase from the prior month and shows that inflation remains above target (2%) and is accelerating higher despite still-elevated interest rates. Rising inflation despite an otherwise healthy jobs market further complicates things for the Fed going into their next meeting at the end of July, where they will face another difficult decision in the face of increasing political pressure.

Treasury Yields

| Maturity | 7/15/25 | 6/13/25 | CHANGE |
|----------|---------|---------|---------|
| 3 Month | 4.330% | 4.349% | -0.018% |
| 6 Month | 4.285% | 4.267% | 0.018% |
| 1-Year | 4.111% | 4.058% | 0.053% |
| 2-Year | 3.940% | 3.948% | -0.008% |
| 3-Year | 3.920% | 3.903% | 0.017% |
| 5-Year | 4.041% | 4.000% | 0.042% |
| 10-Year | 4.481% | 4.399% | 0.083% |
| 30-Year | 5.020% | 4.894% | 0.126% |

Source: Bloomberg

Agency Yields

| Maturity | 7/15/25 | 6/13/25 | CHANGE |
|----------|---------|---------|--------|
| 3 Month | 4.210% | 4.180% | 0.030% |
| 6 Month | 4.100% | 4.090% | 0.010% |
| 1-Year | 3.840% | 3.820% | 0.020% |
| 2-Year | 4.006% | 4.004% | 0.002% |
| 3-Year | 3.976% | 3.975% | 0.002% |
| 5-Year | 4.092% | 4.075% | 0.017% |

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

| Maturity | 7/15/25 | 6/13/25 | CHANGE |
|----------|---------|---------|---------|
| 1 Month | 4.351% | 4.359% | -0.009% |
| 3 Month | 4.416% | 4.429% | -0.012% |
| 6 Month | 4.389% | 4.404% | -0.015% |
| 9 Month | 4.363% | 4.376% | -0.014% |

Source: Bloomberg

Current Economic Releases

| Data | Period | Value |
|-------------------|--------------|---------------|
| GDP QoQ | Q1 '25 | -0.50% |
| U.S. Unemployment | Jun '25 | 4.10% |
| ISM Manufacturing | Jun '25 | 49.0 |
| PPI YoY | Jun '25 | 2.30% |
| CPI YoY | Jun '25 | 2.70% |
| Fed Funds Target | Jul 16, 2025 | 4.25% - 4.50% |

Source: Bloomberg

Source: Bloomberg. Data as of July 16, 2025. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.

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