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TheECONOMY

Powell's Last Stand

While the Federal Reserve attempts to balance the risks between a weakening labor market and persistent inflation, the market has grown more concerned with the employment situation as of late. Furthermore, political pressure from the White House calling for immediate rate cuts has turned up the volume to a deafening level on this debate. Although economists can make a valid case for the Fed to stay put or lower rates, the growing dissent within the Federal Open Market Committee (FOMC) calling for lower rates is notable and likely to test Chair Jerome Powell's resolve as he continues to preach a cautious approach.

Payroll growth is still positive but notably slowing. The July non-farm payroll report disappointed by creating only 73,000 jobs, well below the 105,000 forecasted. In addition, the unemployment rate ticked up to 4.2%, compared to the prior month's 4.1%. The big news in the jobs report was the downward revision to May and June by a combined 258,000, entirely changing the market's perception of the labor market. This sizable revision drove the average three-month payroll gain from 150,000 to just 35,000. On this alone, there is a case for a rate cut in September. However, many Fed officials believe it still may take time for the full effects of tariffs to be felt in the consumer and producer price indexes.

July's Consumer Price Index provided some level comfort, with headline inflation holding at an annualized 2.7% increase against expectations of 2.8%. Unfortunately, the Producer Price Index painted a bleaker picture, rising an annualized 3.3% against expectations of 2.5%, the latest sign that companies have begun to raise prices to offset rising input costs. While businesses generally absorbed the expenses associated with tariffs, several have cautioned that they may eventually transfer these costs to consumers.

Chair Powell's annual address at the Jackson Hole Economic Policy Symposium on August 22nd carefully opened the door for a rate cut at the next FOMC meeting stating, "the stability of the unemployment rate and other labor market measures allow us to proceed carefully as we consider changes to our policy stance, nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance." Barring an upside-surprise to the next payroll or inflation report, it appears the White House will get its wish of a 25-basis point cut on September 17th.

Treasury Yields

Maturity	8/22/25	7/22/25	CHANGE
3 Month	4.186%	4.307%	-0.122%
6 Month	4.029%	4.227%	-0.197%
1-Year	3.860%	4.055%	-0.195%
2-Year	3.682%	3.833%	-0.152%
3-Year	3.636%	3.780%	-0.144%
5-Year	3.752%	3.885%	-0.133%
10-Year	4.250%	4.344%	-0.094%
30-Year	4.872%	4.917%	-0.046%

Source: Bloomberg

Agency Yields

Maturity	8/22/25	7/22/25	CHANGE
3 Month	4.100%	4.210%	-0.110%
6 Month	3.900%	4.090%	-0.190%
1-Year	3.630%	3.830%	-0.200%
2-Year	3.680%	3.901%	-0.221%
3-Year	3.630%	3.838%	-0.208%
5-Year	3.750%	3.936%	-0.186%

Source: Bloomberg

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

Maturity	8/22/25	7/22/25	CHANGE
1 Month	4.311%	4.345%	-0.034%
3 Month	4.292%	4.411%	-0.119%
6 Month	4.187%	4.375%	-0.188%
9 Month	4.150%	4.351%	-0.200%

Source: Bloomberg

Current Economic Releases

Data	Period	Value
GDP QoQ	Q2 '25	3.00%
U.S. Unemployment	Jul '25	4.20%
ISM Manufacturing	Jul '25	48.0
PPI YoY	Jul '25	3.30%
CPI YoY	Jul '25	2.70%
Fed Funds Target	Aug 22, 2025	4.25% - 4.50%

Source: Bloomberg

Source: Bloomberg. Data as of Aug 21, 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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