



TheECONOMY

The Fed: A House Divided on Its Approach to Inflation

The Fed's decision to maintain interest rates wasn't unanimous at its July Federal Open Market Committee (FOMC) meeting. Three members dissented in favor of a quarter-point rate increase. According to the meeting minutes, many participants expect that inflation will subside in the latter half of the year, while several members were vocal that additional policy tightening would be required if inflationary pressures persisted. The Fed ultimately held benchmark interest rates steady, citing tighter financial conditions as a reason for refraining from a rate hike at this time.

The Fed reached its interest rate decision one day prior to the release of the Q2 gross domestic product (GDP) report. GDP growth slowed to 1.5% from 2.1% in the prior quarter. The slowdown in GDP growth is attributable in part to rising imports and a larger trade deficit stemming from increasing demand of foreign-made chips as part of the AI boom. Despite the moderation of GDP growth, consumer spending increased 3.2% in Q2 after growing by only 0.5% in Q1. Data from the most recent GDP report suggests that the resilience of the U.S. consumer persists. Despite elevated energy costs and an uncertain geopolitical backdrop, consumers continued to spend more on goods and services.

In addition to the most recent GDP report, the Fed will have additional inflationary data to inform its interest rate decision at its September meeting. The recent difference in opinions among the bank presidents is an indication of the uncertainty and growing tension around the best approach to battling inflation which remains above the Fed's 2% target. If inflation levels don't show signs of easing before the September meeting, there is the possibility for the Fed votes to be even more divisive.

Treasury Yields

Maturity	8/17/26	7/15/26	CHANGE
3 Month	3.782%	3.777%	0.005%
6 Month	3.899%	3.882%	0.017%
1-Year	3.973%	3.960%	0.013%
2-Year	4.175%	4.135%	0.041%
3-Year	4.253%	4.181%	0.072%
5-Year	4.375%	4.262%	0.112%
10-Year	4.722%	4.547%	0.175%
30-Year	5.306%	5.079%	0.227%

Source: Bloomberg

Agency Yields

Maturity	8/17/26	7/15/26	CHANGE
3 Month	3.660%	3.650%	0.010%
6 Month	3.720%	3.710%	0.010%
1-Year	3.790%	3.800%	-0.010%
2-Year	4.208%	4.171%	0.037%
3-Year	4.281%	4.218%	0.063%
5-Year	4.409%	4.309%	0.100%

Source: Bloomberg

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

Maturity	8/17/26	7/15/26	CHANGE
1 Month	3.705%	3.706%	-0.001%
3 Month	3.842%	3.876%	-0.035%
6 Month	4.033%	4.069%	-0.037%
9 Month	4.172%	4.196%	-0.024%

Source: Bloomberg

Current Economic Releases

Data	Period	Value
GDP QoQ	Q2 '26	1.50%
U.S. Unemployment	Jul '26	4.10%
ISM Manufacturing	Jul '26	55.6
PPI YoY	Jul '26	4.70%
CPI YoY	Jul '26	3.40%
Fed Funds Target	Aug 20, 2026	3.50% - 3.75%

Source: Bloomberg

Source: Bloomberg. Data as of Aug 20, 2026. 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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