Week in Review | Reinhart Fixed Income
By Madison Investments

August 1, 2025

Employment

The economy added 73,000 jobs in July, below expectations of a 104,000 increase. Revisions to the previous two months subtracted a whopping 258,000 jobs. The unemployment rate, derived from the household survey, rose from 4.1% to 4.2% as employment fell by 260,000 jobs while the labor force declined by just 38,000. Average hourly earnings rose 0.3% for the month and are up 3.9% year-over-year. The labor force participation rate decreased from 62.3% to 62.2%.

Our Take: The most jarring revelation from the July jobs report was the revision to the previous two months numbers. When reported, job creation in both of these months exceeded expectations. This gave the Fed cover to keep rates steady as the employment market, while slowing, was holding in. Now we learn that job creation in May and June was anemic and that there was not much of a rebound in July. Market pricing of the likelihood of a rate cut in September rose dramatically following this report.

The Fed

The Fed kept interest rates unchanged at 4.25%–4.50%. According to the Federal Open Market Committee (FOMC) statement, “growth of economic activity moderated in the first half of the year,” though the labor market remains solid and unemployment “remains low.” Inflation is still “somewhat elevated”, and the Fed noted that “uncertainty about the economic outlook remains elevated,” with risks to both inflation and employment. In his post-meeting remarks, Fed Chairman Jerome Powell said inflation remains above the 2% target, with services prices easing but tariffs pushing up goods prices. He added that the current policy stance is appropriate and that the Fed is well positioned to wait for greater clarity before adjusting policy. Notably, there were two dissenting votes at this meeting. Federal Reserve Governors Michelle Bowman and Christopher Waller voted to lower the federal funds rate by 25 basis points, highlighting the growing divide within the Committee over how long to hold rates at current levels.

Our Take: At the time of their meeting, the Fed majority saw the labor market as solid and growth holding up, allowing the FOMC to wait for more progress on inflation and better clarity around the impact of tariffs. Two dissents highlights the growing internal debate around whether the current restrictive policy is appropriate given slowing economic and employment growth.

Trade

The Trump administration announced multiple trade deals with most major trading partners and extended the delay of reciprocal tariffs on Mexico while negotiations continue. The administration also exempted refined copper from the previously announced 50% tariff. Canada will face higher tariffs. Most of the tariffs announced on April 2nd go into effect today, although most are at lower levels than first announced.

Our Take: The picture of what goods and what nations will face what tariff levels is becoming marginally clearer, and tariffs are about to more broadly come into effect. Consumers and businesses are still facing a lot of uncertainty around tariffs, but their economic effect is likely to become more evident.

Inflation

The core Personal Consumption Expenditures (PCE) Index, the Fed's preferred measure of inflation, rose 0.3% in June and is up 2.8% over the last twelve months.

Our Take: The core PCE index remains stubbornly above the Fed's 2% target. The Fed will get multiple data points on the inflation picture before their next meeting and may be willing to cut rates at future meetings in the wake of slower economic growth. That decision will be made more difficult if inflation is not receding.

GDP

Real GDP rose at a 3.0% annualized pace in the second quarter.

Our Take: Quirky timing differences in net exports and inventories led to a strong Q2 report but also to a weak (-0.5%) Q1 report. Averaging the two quarters, the economy grew at approximately a 1.25% annualized pace in the first half of 2025. This is considerably slower than 2024 growth (2.3%) and supports the argument for lower rates.

Municipals

The Las Vegas Convention and Visitors Authority (LVCVA) reported that tourism declined in June compared to June 2024. LVCVA estimated that nearly 3.1 million people visited the city in June, a decline of 11.3%, and hotel occupancy was 6.5% lower than last year. Officials attributed the decline to "persistent economic uncertainty and weaker consumer confidence."

Our Take: Many tourists are proceeding with caution. The increasing cost to attend shows, attractions and dining establishments has affected the tourism industry in Las Vegas. This is not good news for a city heavily dependent on tourism to generate revenue. Looking ahead, the newly enacted Visa Integrity Fee, which charges international travelers a refundable $250 to enter the United States, could negatively affect Las Vegas tourism later this year.

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A basis point is one hundredth of a percent.

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