

Policy Patience Meets Market Pressure: July's Message to the Fed

Overview of the Economy

July revealed a widening gap between Federal Reserve policy inertia and accumulating signs of economic deceleration. At the July FOMC meeting, for the first time since 1932, two sitting governors—Michelle Bowman and Christopher Waller, both Trump appointees—formally dissented in favor of a rate cut. While the Fed ultimately held rates steady at 4.25%–4.50%, the dissent underscored rising internal pressure to pivot while acknowledging the economic uncertainty, especially around tariffs, which remains heightened in the Fed's view.

The second-quarter GDP report was positive for the economy and inflation, with real GDP growth rebounding to an annualized pace of 3 percent and the personal consumption expenditures (PCE) price index slowing to 2.1 percent. However, the months narrative shifted dramatically on Friday August 1 when the Bureau of Labor Statistics reported a strikingly weak payroll number for July: just 73,000 jobs added, well below consensus expectations. Compounding the surprise, May and June payrolls were revised downward by a cumulative 258,000. The unemployment rate ticked up to 4.2%, and labor force participation declined slightly to 62.2%. Wage growth moderated to a 3.9% annual pace, with average weekly hours flat at 34.3.

A 3% real GDP growth rate with 2–3% inflation (i.e. 5–6% nominal) is historically achievable, but it hinges on productivity gains, demographics, and sound policy. The best analogues to similar periods were during Postwar America (1950s–60s) and the late 1990s tech boom — both periods combined growth, moderate inflation, and innovation.

The One Big Beautiful Bill was passed and signed into law along with the signing of the Genius Act (see our Genius Act communication). The Act's primary goal is to establish a federal regulatory framework for U.S. dollar-pegged stablecoins, aiming to legitimize and integrate them into the broader financial system while preserving dollar dominance in digital finance, increasing Treasury demand, and modernizing U.S. financial infrastructure.

Stocks rallied in July while treasuries marginally sold off. Year-to-date, virtually every major asset class now displays positive total return performance YTD. The S&P 500 was up 2.24% in July and 8.58% YTD, the NASDAQ 3.73%, 9.81% YTD, the Aggregate Bond -0.26%, 3.75% YTD, and Treasuries -0.39%, 3.39%.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	0.16	4.72	9.95	12.01	15.57
S&P 500	2.24	8.58	16.31	13.64	15.50
NASDAQ	3.73	9.81	20.90	16.35	18.60
Equity EMMkts.	2.01	17.82	17.97	6.15	16.85
EM Bond Mkt.	0.92	5.91	8.42	3.50	7.36
US Agg. Bond	-0.26	3.75	3.38	1.66	5.03
Municipal Bond	-0.20	-0.55	0.00	2.11	5.13
US High Yield	0.39	4.97	8.53	5.38	7.62
Commodity	-0.45	5.05	9.72	3.09	13.27
COMEX Silver	1.86	25.46	20.78	9.39	27.41
COMEX Gold	-0.07	24.88	33.64	11.31	13.46
Brent Oil	8.68	5.56	-3.24	5.73	36.11
Dollar Index	3.19	-7.88	-4.00	0.30	6.60

Taxable Fixed Income

Taxable fixed income markets ended July on stronger footing despite early-month volatility driven by hotter-than-expected CPI and payrolls data. A more dovish FOMC tone later in the month reversed yield trends, supporting a rally in intermediate and long maturities. Most sectors posted positive returns.

The 2-year Treasury yield fell 24 basis points (bps) to 3.96%, while the 10- and 30-year yields rose to 4.37% and 4.90%, respectively, steepening the curve. Year-to-date, the best total returns came from the 7-year (+4.67%), 10-year (+4.36%), and 5-year (+4.34%) sectors, reversing last year's underperformance in the curve's belly.

Intermediate investment-grade (IG) credit (1–10 years) returned 0.09% in July and 4.55% YTD. The 5–10-year segment led all spread sectors with a 0.24% gain in July and 5.54% YTD return. However, as credit spreads neared historically tight levels—averaging 95 bps—pensions and insurers reduced exposure, reallocating to Treasuries and agencies, particularly in the 5–7-year range where we remain overweight.

July's IG new issuance dropped to \$87.6 billion from \$112.3 billion in June and trailed last July's \$125 billion. Financials, Communications, and Tech dominated the month's supply, but issuance is expected to shift toward Consumer Non-Cyclicals, Energy, and Utilities in August.

Within portfolios, we trimmed select credit holdings and added intermediate Treasuries to remain duration neutral while enhancing liquidity and downside protection.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	% Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	-0.60	0.32	-0.26	3.75	6.03	4.64
US Treasury	-0.68	0.28	-0.39	3.39	5.81	4.19
US Agencies	-0.42	0.31	-0.11	3.33	3.20	4.38
Corporate	-0.32	0.38	0.07	4.24	6.79	5.07
Taxable Muni	-0.53	0.38	-0.16	3.66	7.78	5.08
TM/BABs	-0.64	0.49	-0.15	3.92	8.75	5.61
US Agency MBS	-0.80	0.39	-0.40	3.81	6.01	5.07
Gov/Credit	-0.54	0.32	-0.22	3.72	6.10	4.50
TIPs	0.02	0.10	0.12	4.79	4.34	4.28
AAA Corporate	-0.58	0.34	-0.24	3.30	9.75	4.84
AA Corporate	-0.48	0.34	-0.13	3.65	7.62	4.80
A Corporate	-0.32	0.37	0.05	4.28	6.80	4.94
BBB Corporate	-0.29	0.40	0.12	4.33	6.59	5.24

Tax-Exempt Markets

Municipal bonds posted mixed performance in July as seasonal reinvestment flows were offset by heavier-than-usual new issuance and modest mutual fund outflows. The Bloomberg Municipal Bond Index ended the month slightly negative at -0.20%, bringing the year-to-date return to -0.55%. Intermediate maturities outperformed thanks to a steeper yield curve and roll-down potential.

The 1–30-year curve steepened to nearly 200 bps, driving stronger demand at the front end. Bonds in the 1–2-year range returned +0.5% in July, while long bonds

(22+ years) declined by -1.0%. A bear steepener—marked by a 15 bp rally in 1–5-year maturities and a 20 bp selloff in longer maturities—boosted shorter-dated performance.

General obligation (GO) bonds led with tighter spreads, particularly in high-quality states like North Carolina and Washington, as well as Ohio and Wisconsin. GOs outperformed revenue bonds by 7 bps for the month, continuing a 20 bp outperformance year-to-date. Revenue issuance surged to \$37 billion in July, bringing 2025 totals near \$213 billion—on pace to exceed 2022 and 2023 volumes. Among revenue sectors, healthcare remains a laggard, with a -2.0% YTD return. Single-A credit spreads widened 15 bps, reflecting investor concern over Medicare/Medicaid funding shifts.

Despite heavy supply, the market absorbed issuance well, helped by July's reinvestment flows. Our positioning remains focused on short-to-intermediate maturities (5–9 years), favoring 5% coupon structures for their liquidity, roll-down, and income attributes. The 15–20-year segment also remains attractive, offering 4.00%+ yields in well-structured bonds—levels not consistently seen since 2014.

We continue to emphasize high-quality, self-supporting credits with strong cash flows and low policy risk, while maintaining flexibility to pivot as rate cut expectations become further embedded in valuations.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	-0.58	0.37	-0.20	-0.55	7.03	3.98
1-Yr Muni (1-2)	0.14	0.37	0.51	2.40	1.24	2.65
3-Yr Muni GO (2-4)	0.36	0.37	0.73	2.78	2.29	2.57
5-Yr. Muni GO (4-6)	0.48	0.36	0.84	3.10	3.55	2.74
7-Yr. Muni (6-8)	0.21	0.36	0.57	2.62	4.88	3.29
10-Yr. Muni (8-12)	-0.25	0.36	0.11	1.15	6.23	3.71
15-Yr. Muni (12-17)	-0.96	0.37	-0.60	-1.58	8.16	4.41
30-Yr. Muni (22+)	-1.48	0.40	-1.08	-4.42	11.51	5.02
AAA Muni	-0.65	0.38	-0.27	-0.70	7.16	3.81
AA Muni	-0.52	0.37	-0.14	-0.48	6.91	3.84
A Muni	-0.56	0.38	-0.18	-0.45	7.02	4.24
BBB Muni	-1.09	0.39	-0.70	-1.20	7.94	4.81
Gen. Oblig.	-0.52	0.36	-0.16	-0.44	6.64	3.72
State GO	-0.23	0.37	0.15	0.75	5.59	3.43
Local GO	-0.73	0.36	-0.37	-1.30	7.37	3.93
Revenue	-0.62	0.38	-0.23	-0.65	7.26	4.10
California	-0.47	0.37	-0.11	-0.72	6.86	3.79
New York	-0.78	0.38	-0.39	-1.22	7.47	4.06

Equities

Equity markets posted another month of gains in July, with the S&P 500 rising to fresh all-time highs. However, leadership narrowed as the month progressed. While small-cap indices initially outperformed, the shift toward policy-sensitive megacaps intensified after the FOMC decision and labor market disappointment. The NASDAQ 100 gained nearly 4% in the final trading sessions of the month.

Investor positioning appears increasingly one-sided. Valuations are now at or above levels last seen during the dot-com era for many growth stocks, yet volatility has remained suppressed. The policy outlook by CEOs and CFOs now matters more than earnings beats as markets have priced in a dovish Fed pivot. Any delay or disappointment in that trajectory could trigger a repricing.

Precious Metals and Digital Assets

Gold posted a strong advance in July, closing the month at \$3,286 per ounce and surging an additional \$75 on August 1 to reach \$3,366 after a weaker-than-expected jobs report rekindled expectations for Fed easing. The rally highlighted gold's continued relevance as both an inflation hedge and a stabilizer amid policy uncertainty.

As of July 1, 2025, gold will officially be classified as a Tier 1, high-quality liquid asset (HQLA) under the Basel III banking regulations. That means U.S. banks can count physical gold, at 100% of its market value, toward their core capital reserves. No longer will it be marked down by 50% as a "Tier 3" asset, as it was under the old rules. This is a seismic shift in how regulators perceive gold, and it's a long-overdue recognition of what many of us have known for decades: Gold is money. And it's the kind of money you want to own when the world is on fire.

This regulatory shift legitimizes gold's role as a reserve asset—just as many global central banks are reducing U.S. Treasury holdings and increasing their gold exposure. As structural demand grows, this rebalancing trend could push gold toward significantly higher price levels.

Meanwhile, post the signing of the GENIUS Act, Ethereum ETF's, especially Blackrock's ETHA, hit historic high volumes and inflows. These massive volumes reflect investor confidence in ETHA's central role in an evolving stablecoin infrastructure and regulatory legitimacy. Bitcoin also rose, but ETHA led the rally due to its foundational role with dollar-pegged stablecoins and smart contracts, blockchain and DeFi. Time will tell if we are on track for real monetary innovation or just marketing gimmicks, especially as stablecoins remain pegged to fiat money.

Summary and Strategy Outlook

July underscored the mounting tension between policy patience and market pressure. The Federal Reserve's decision to hold rates steady despite two formal dissents exposed internal divisions and raised questions about political interference. The August 1 jobs report shattered the illusion of labor market strength and triggered the sharpest rally in rates since March. Investors are now repricing the Fed's path—markets are pricing in a 60% probability of a September cut and a near-certainty of action by October. We continue to believe that the balance of risks has shifted: disinflation and labor market deterioration argue for preemptive easing to avoid entrenching a slowdown.

As always, our approach remains grounded in disciplined risk management, opportunistic positioning, and an active mindset attuned to policy shifts and market dislocations.

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