



All Eyes on Jackson Hole

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We received a slew of economic data this past week, but the true market mover lies ahead this Friday: Chair Powell's upcoming Jackson Hole address. While inflation data surprised in parts—especially the PPI with its sharp jump in portfolio management fees—the underlying story remains that price pressures are not accelerating in the areas that the Fed watches most closely. In fact, some prominent economists lowered their PCE inflation estimate by five basis points, despite the headline noise. That is a telling sign. It suggests that core inflation, when adjusted for statistical anomalies, is broadly in line with the Fed's path toward easing.

The debate on tariffs is resurfacing, and I continue to emphasize that tariff-induced inflation is a one-time tax-driven price adjustment—not a signal of overheating. The Fed should not respond to it. We've been down this road before. Temporary import price increases, especially when not associated with tight labor markets or monetary expansion, do not merit restrictive policy. Whether Powell reinforces this distinction next week could shape market sentiment for months to come.

Retail sales came in right on target, with a modest upside surprise in the control group. Combined with prior revisions, this could slightly bump up second-quarter GDP from its current 3.1% pace. It's becoming clear that the second quarter was stronger than initially thought—not a boom, but certainly not the soft patch many feared. Jobless claims remain anchored around 220,000, showing labor market resilience despite a slowdown in hiring. Curiously, the volatility we used to see in these weekly jobless prints has disappeared, possibly due to changes in reporting methodology, but the trend is clear: employment remains stable.

The Empire State Manufacturing survey surprised on the upside as well, underscoring a modest rebound in regional activity. Still, these are not game-changing indicators. The Fed will focus more heavily on inflation expectations and forward-looking labor data heading into its September meeting.

And here's where market positioning is becoming more reactive. The small-cap and value segment—especially those dependent on short-term financing—have shown a tight correlation with Fed rate expectations. This is textbook economics: smaller firms borrow short, while larger tech firms, flush with cash or long-term debt, are less sensitive to near-term rate changes. As anticipation for a rate cut builds, small caps rally. If Powell delivers a dovish tone in Jackson Hole, expect a further bid under these names.

Alternative assets like Bitcoin and gold also flickered on the PPI release before pulling back. The thesis remains intact—when real yields fall or short-term rates look likely to decline, non-yielding stores of value benefit. Bitcoin, in particular, is starting to behave more like a macro-sensitive asset tied to liquidity expectations. That trend is likely to continue if rate cuts materialize.

Money supply data, as measured by deposits, is showing soft but not recessionary growth—now below 4% year over year. That's subdued, not contractionary. We're not flashing the kind of warning signals that preceded past recessions. But it does imply that the monetary backdrop remains neutral to slightly restrictive, further strengthening the case for policy easing.

We'll get another jobs report and inflation print before the Fed's September 17 meeting, but this Friday's Jackson Hole speech will set the tone. If Powell acknowledges the cooling in labor markets and the benign trend in core PCE, it opens the door for a 25-basis-point cut. If he stresses the need for more data and downplays recent softness, markets will take it as a hawkish signal, and I expect risk markets to react negatively.

Stay tuned for Friday. That speech will be the fulcrum on which the next leg of this market pivots.

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