



## Friday's Employment Bombshell

8/4/2025

Friday's employment report produced the greatest downward revision in jobs in over half a century (excluding COVID), This is my interpretation of the fallout:

- Had these revised numbers been posted in real time, the Fed would have lowered interest rates, perhaps by 50 basis points. As readers know, I've long advocated for lowering rates over the past six months. This puts increasing pressure on Powell. His statement that the labor market looks in balance, from Wednesday now looks foolish. Trump will come down on him hard in the coming days. I still believe that he and the Fed are [best served by him stepping down](#).
- Over the years, the response rate to key economic surveys has been declining. I have long advocated that answering the questionnaires sent by the government be mandatory, especially for the all-important employment report. As noted above, had a more complete response been received, interest rates would be lower today.
- I am not going to assign blame or condone the firing of the head of the Department on Statistics. There are many faults with current data that should have been mitigated.

My view following Chair Powell's press conference last week was that Powell was too hawkish, even before we knew about Friday's data.

At the FOMC meeting last week, Powell reported the Fed still sees policy as only "modestly restrictive" even with the fed funds rate sitting a full 1.33 percentage points above its own 3% neutral estimate. That framing is revealing. It tells me Powell quietly believes that  $R^*$ <sup>1</sup> has drifted higher and therefore feels little urgency to cut—yet the data says otherwise.

Services inflation is rolling over, housing disinflation has arrived in both Case-Shiller and FHFA figures, and the last two monthly money-supply prints show year-over-year growth barely above 4%, an anemic pace inconsistent with robust demand.

At the same time, the administration's new 15% blanket tariff on goods is a textbook relative-price shock—a tax that boosts headline CPI without generating the wage-price spiral the Fed is chartered to fight. Monetary theory teaches that you do not tighten in response to such a tariff.

I expect the first 25 basis point rate cut at the September 18<sup>th</sup> FOMC meeting, followed by identical moves in November and December, taking the fed funds rate to 3.58% by year-end. A slower cadence, a "firm but flexible glide-path", keeps the Committee's hawks on board while acknowledging that real activity is cooling; first-half real GDP averaged only 1.2% at an annual rate, and forward indicators such as continuing claims are inching higher.

Equities absorbed Powell's hawkish tone until Friday. Earnings momentum in the AI bellwethers has largely compensated for near-term macro jitters. Meta beat revenue estimates handily and Microsoft delivered earnings 8% above consensus, pushing both stocks higher. These results show AI's productivity dividend arriving, a powerful counterforce to tariff-induced price pressure. Importantly, the Magnificent 7 ex-Tesla trade at a forward P/E in the low

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<sup>1</sup> R-star, also known as the natural rate of interest, is a theoretical real interest rate that neither stimulates nor restricts economic growth. It's the rate where the economy is at full employment and inflation is stable.

30s while the median S&P 500 constituent changes hands at 16–17 times next-year earnings—hardly bubble territory with the 10-year Treasury anchored near 4.25%.

Rotation remains the missing piece. Small-cap and deep-value baskets are priced at historic discounts, yet institutional flows are still pinned to mega cap growth. When the Fed finally validates an easing path, the curve will steepen and financing costs for Main-Street firms will fall; that may be the catalyst for the long-awaited hand-off from the Magnificent 7 to the Russell 2000.

Internationally, the most-favored-nation clauses embedded in World Trade Organization accords mean the U.S. gaining tariff-free access to foreign markets could force the same for other countries, boosting international trade. For now, however, China's industrial recession and Europe's fiscal restraints keep global demand subdued.

Bottom line: Policy is too tight for the real data. Hopefully a Jackson Hole Powell pivot is on the horizon.

**Please see the [WisdomTree Glossary](#) for definitions of terms and indexes.**

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