

**August 25, 2025**

Powell's Jackson Hole speech this week shifted the conversation in ways that reminded me of those pivotal Fed moments from decades past. His carefully chosen words about "downside risks to employment" weren't just central banker speak, they signaled a fundamental recalibration that seasoned observers have been anticipating.

The market's immediate response tells the real story. Small caps came alive as rate-sensitive sectors shook off their slumber, while tech names faced some well-deserved scrutiny. This rotation feels familiar, it echoes 1995, when the Fed's initial easing cycle broadened market leadership beyond the technology darlings of that era. Markets rarely repeat, but they sure do rhyme.

Powell's emphasis on the dual mandate reflects something deeper about current economic crosscurrents. The labor market shows puzzling contradictions, unemployment climbing to 4.2% while job openings stay elevated. This suggests structural shifts rather than simple cyclical weakness. These nuanced employment conditions gave the Fed intellectual cover for its dovish pivot, pushing September rate cut odds to 90% from 75%.

The Chairman's tariff commentary deserves attention. His assertion that tariff effects remain "clearly visible" but will likely prove "short-lived" reflects some interesting economic realities. Barron's analysis shows effective tariff rates running around 9% rather than the headline 15%, thanks to various exclusion programs and companies absorbing price pressure through margin compression rather than passing costs to consumers. This corporate cost absorption, combined with selective exclusions, gives the Fed more room to maneuver.

Treasury markets responded as expected to Powell's dovish shift, yields declined modestly and the curve steepened. The measured bond market reaction suggests investors maintain healthy skepticism about how aggressively the Fed will actually cut rates, recognizing that tariff-driven inflation pressures might prove stickier than current corporate absorption strategies can handle indefinitely.

NVIDIA earnings on Wednesday August 27th represent the final act in this earnings season's Magnificent Seven drama. Consensus expects \$1.00 per share versus \$0.68 from the same quarter last year, solid growth, but clearly moderating from the explosive rates we've seen. The company's central role in AI infrastructure means its results will significantly influence sentiment around tech valuations and whether this AI investment theme has staying power.

The semiconductor giant faces heightened China tensions, with reports that NVIDIA has told component suppliers to halt H20 chip production amid Beijing's push for domestic alternatives. These geopolitical complexities add uncertainty to an already challenging earnings backdrop.

Market technical conditions suggest healthy broadening participation. The equal-weighted S&P 500's outperformance versus its market-cap weighted cousin indicates leadership diversification, always a constructive development for sustained advances. This broadening mirrors successful bull market phases from previous decades, when narrow initial leadership eventually expanded to encompass value and cyclical sectors.

Regional banks, private equity firms, and transportation companies all caught a bid from rate cut optimism, reflecting investor positioning for lower rates. These sectors' sensitivity to monetary policy makes them reliable barometers of Fed expectations, and their recent strength confirms market conviction about accommodation ahead.

Looking ahead, investors need to balance optimism about easier monetary policy against persistent structural challenges. Corporate America's ability to absorb tariff costs through margin compression has natural limits, and this AI investment boom faces inevitable maturation pressures. Yet the confluence of Fed accommodation, broadening market participation, and continued technological innovation creates compelling upside potential.

Tom Lee of Fundstrat Global Advisors projects the S&P 500 reaching 7,000 by year-end, bold, but not unreasonable given historical precedent for market performance during Fed easing cycles. Such projections require scrutiny, as they assume sustained corporate earnings growth, continued consumer resilience, and successful navigation of geopolitical tensions. While ambitious, Lee's forecast reflects the powerful combination of monetary accommodation and technological advancement that has historically driven extended bull phases.

The current market environment will reward both discipline and patience. As the Fed embarks on its easing cycle, investors who combine fundamental and technical analysis with historical perspective should profit from the evolving landscape ahead.

**CJ Brott, Chairman Emeritus**

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