



Market Update: August 2025

From an investment standpoint, markets have continued to hold up well over the past month, but the story has been far from straightforward. Equity markets remain near record highs, yet much of that strength is still being driven by a small group of mega-cap technology companies. The broader market has been far less convincing, with many sectors trading sideways. This narrow leadership leaves the rally looking somewhat fragile, even as headlines suggest optimism.

The Federal Reserve has once again been at the center of attention. At the annual Jackson Hole symposium, Chair Powell struck a notably more dovish tone than in recent months. He acknowledged that the labor market is showing signs of softening and admitted that tariffs continue to present risks to inflation. While the Fed left rates unchanged at their July meeting, Powell's comments signaled that a September cut is very much on the table. Markets took notice, with expectations for easing rising sharply. What stood out most, however, was the Fed's decision to shift back toward a more flexible inflation-targeting framework. This move suggests they are becoming increasingly focused on balancing growth and inflation, rather than singularly prioritizing price stability.

On the economic front, the data has been mixed. Job growth has slowed, pointing to some easing of labor pressures, but at the same time the consumer has remained resilient. Household spending continues to trend higher, showing that demand is holding up despite the tariff backdrop. Inflation, however, remains sticky. Wholesale and core prices have stayed elevated, raising concerns that price pressures may persist longer than the Fed would like. This combination—softening labor markets alongside firm inflation—has reignited talk of stagflation, something markets haven't had to grapple with in decades.



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Politics have also crept further into the picture. President Trump has escalated his criticism of the Fed and even targeted individual policymakers. While political noise is nothing new, direct attacks on the central bank add a layer of uncertainty that markets prefer to avoid. For now, the Fed appears committed to maintaining its independence, but the friction underscores how charged the policy environment has become heading into the fall.

Looking ahead, we believe the next several weeks will be pivotal. The upcoming jobs report and inflation data will likely determine whether the Fed follows through with a rate cut in September. If we do see easing, markets could find renewed energy for another leg higher. But if inflation proves stubborn or the Fed hesitates, volatility could return quickly. Beyond the Fed, tariff policy remains unresolved, and geopolitical tensions continue to add background risk. These factors will shape whether the second half of the year brings a continuation of the bull market or a more prolonged period of consolidation.

What gives us confidence is the resilience we continue to see in the U.S. consumer and corporate earnings. While there are undeniable headwinds, the economy has repeatedly shown an ability to absorb shocks better than expected. If spending holds steady and earnings remain solid, the current pause in the market may end up being a healthy setup for future gains. Valuations today are more attractive than they were at the start of the year, and if the consumer and earnings hold up, we could be positioned for another upward move.



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