

Please see below for a summary of our latest views:

- President Trump's firing of the head of the Bureau of Labor Statistics (BLS) on the back of poor jobs numbers was foolish. There has never been any credible suggestion that the BLS is a political organisation. The move may also prove counterproductive. Should the jobs data improve in coming months, market participants are likely to discount such improvements, seeing an unseen thumb on the statistical scales. In any event, the biggest single contributor to the jobs data was a reduction in government employees. President Trump fired his top statistician because her organisation confirmed the success of one of the President's signature policies.
  - Still, the labour market in the US is weakening, so it is reasonable to ask why the Federal Reserve has been so slow to cut interest rates, especially given the torrent of abuse that Jay Powell has received from his President. Character may explain much, he is clearly a phlegmatic man capable of withstanding political pressure.
  - The best explanation is more prosaic: progress on inflation has basically stopped. Inflation is unlikely to get to target any time soon. Core PCE – the Fed's preferred measure of underlying inflation – is at 2.8%, higher than a year ago. Outside the 2022/23 inflationary burst, you must go back to 1993 to find it so high. The Atlanta Fed's underlying inflation dashboard tracks an array of other measures and all paint a similar picture.
  - This should not come as a surprise. A recent IMF paper<sup>1</sup> which looked at historic inflationary shocks found that in 60% of instances the inflationary shock was resolved but it took an average of 5 years to do so. In the other 40% inflation either plateaued or reaccelerated.
  - To make matters worse, the Fed can no longer rely on goods deflation to bail out high core services inflation. Core goods inflation was already trending higher before the impact of tariffs. The effective tariff rate is now estimated to be 18.6%<sup>2</sup> which should – alone – increase the price level by 1.8%.
  - There are reasonable theoretical grounds for the Fed looking through the impact of tariffs since they are functionally equivalent to a one-off supply shock. Such an approach is not without risk, as the first order impacts of price rises bleed into other parts of the CPI through wage settlements, COLAs<sup>3</sup> and so forth. Even with the Fed's reluctance to cut rates, history is likely to repeat itself and inflation will prove more intransigent than transitory.
  - Breakevens have responded. The US 10 year stands at 2.4%, the upper end of its trading range. This still looks reasonable value. 10 Year realised inflation has averaged more than 2.4% around 60% of the time over since the turn of the century and, indeed, over the last 100 years or so.
- <sup>1</sup> <https://www.imf.org/en/Publications/WP/Issues/2023/09/13/One-Hundred-Inflation-Shocks-Seven-Stylized-Facts-539159>
  - <sup>2</sup> <https://budgetlab.yale.edu/research/state-us-tariffs-august-7-2025>
  - <sup>3</sup> Cost of Living Adjustments

*\*\*\* Please note that this piece was written prior to the release of the most recent CPI figures.*