Weekly Economic Report

THE EMPLOYMENT SITUATION — AUGUST 2025

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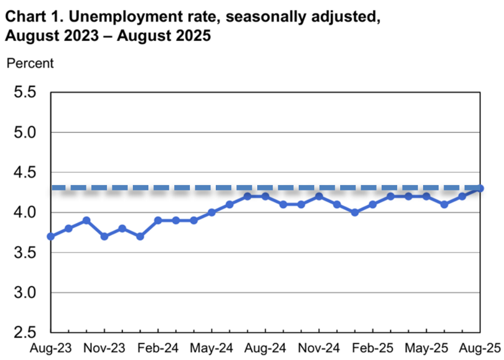
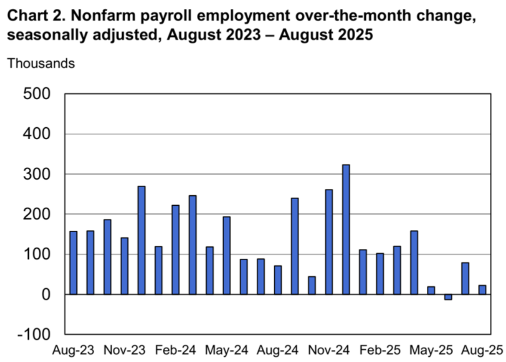
Date: September 7, 2025

1. Overview

In the week ending September 7, 2025, the U.S. labor market data for August revealed further signs of weakness. The unemployment rate rose to 4.3%, reflecting a softening labor market.



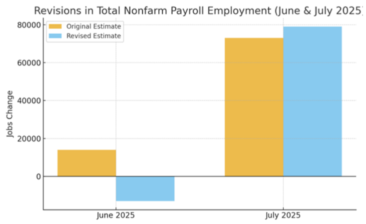


Source: *THE EMPLOYMENT SITUATION — AUGUST 2025*

Total Nonfarm payroll employment increased by only 22,000 jobs, significantly below market expectations.

Moreover, revisions to June and July figures removed a combined 21,000 jobs from previously reported totals, reinforcing concerns about the labor market's momentum. This downward adjustment, coupled with the subdued August numbers, indicates that employment growth has slowed sharply in recent months.

The change in total nonfarm payroll employment for June was revised down by 27,000, from +14,000 to -13,000, and the change for July was revised up by 6,000, from +73,000 to +79,000. With these revisions, employment in June and July combined is 21,000 lower than previously reported. (Monthly revisions result from additional reports received from businesses and government agencies since the last published estimates and from the recalculation of seasonal factors.)



Source: *THE EMPLOYMENT SITUATION — AUGUST 2025*

2. Analysis by Industry

Employment trends varied significantly across sectors.

Sector	**Trend**	**Key Observation**
Total Nonfarm	Volatile growth	Employment rebounded in July 2025 after June's dip. Overall growth is moderate, reflecting a mixed labor market.
Goods-Producing	Weak/declining	Manufacturing and construction continue to drag. Investors may be cautious on industrial, construction, and durable goods stocks.
Private Services	Growing	Gains were led by healthcare (+46.8k), education, and leisure/hospitality (+28k).
Retail Trade	Recovering	Added +10.5k jobs in Aug 2025p, signaling improving consumer activity.
Professional & Business	Weak	Temporary help jobs continue declining, suggesting caution in staffing and consulting
Government	Declining	Down -16k in Aug 2025p, offsetting private sector gains; government contractors may face slower demand.

ESTABLISHMENT DATA
Summary table B. Establishment data, seasonally adjusted

Category	Aug. 2024	June 2025	July 2025[p]	Aug. 2025[p]
EMPLOYMENT BY SELECTED INDUSTRY (Over-the-month change, in thousands)				
Total nonfarm	71	-13	79	22
Total private	33	-27	77	38
Goods-producing	-18	-21	-8	-25
Mining and logging	-1	-2	-5	-6
Construction	23	-2	-1	-7
Manufacturing	-40	-17	-2	-12
Durable goods[1]	-40	-15	5	-19
Motor vehicles and parts	-16.0	-3.0	2.0	-7.3
Nondurable goods	0	-2	-7	7
Private service-providing	51	-6	85	63
Wholesale trade	3.8	-12.1	-8.3	-11.7
Retail trade	-13.3	-5.0	7.2	10.5
Transportation and warehousing	1.7	3.8	6.3	3.6
Utilities	0.8	0.3	0.6	-0.8
Information	-7	-3	-7	-5
Financial activities	6	-6	9	-3
Professional and business services[1]	-32	-24	-10	-17
Temporary help services	-20.5	-10.0	-10.2	-9.8
Private education and health services[1]	65	51	77	46
Health care and social assistance	53.6	58.8	71.6	46.8
Leisure and hospitality	26	-5	6	28
Other services	0	-6	5	12
Government	38	14	2	-16
(3-month average change, in thousands)				
Total nonfarm	82	55	28	29
Total private	46	58	40	29

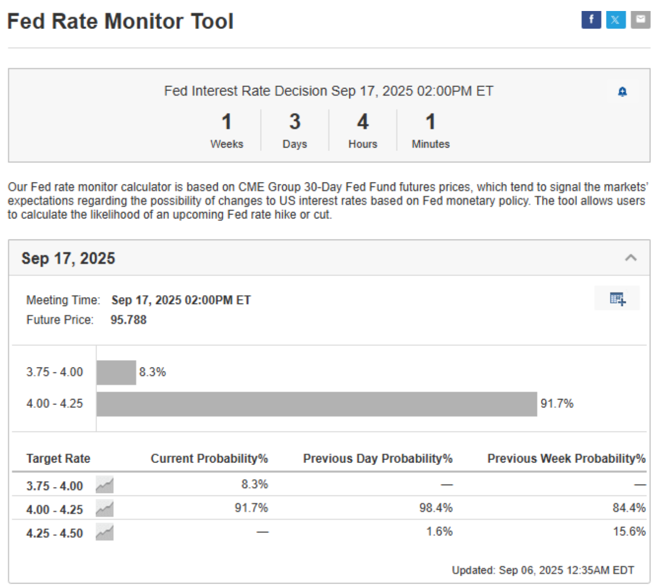
Source: *THE EMPLOYMENT SITUATION — AUGUST 2025*

3. Connection to interest rate

The continued weakness in the U.S. labor market, along with comments from Powell that were seen as dovish, has led to a significant increase in the probability of interest rate cuts aimed at stimulating the economy.

When the Fed adopts a dovish stance and lowers interest rates, it makes U.S. dollar-denominated assets (like government bonds) less attractive to foreign investors compared to those in countries with higher interest rates. This decreased demand for the dollar leads to a fall in its value, and the DXY would likely decline.

The market has now fully priced in one interest rate cut for September, with an 8% probability of two cuts.



Fed Rate Monitor Tool

Fed Interest Rate Decision Sep 17, 2025 02:00PM ET

1 Weeks | 3 Days | 4 Hours | 1 Minutes

Our Fed rate monitor calculator is based on CME Group 30-Day Fed Fund futures prices, which tend to signal the markets' expectations regarding the possibility of changes to US interest rates based on Fed monetary policy. The tool allows users to calculate the likelihood of an upcoming Fed rate hike or cut.

Sep 17, 2025

Meeting Time: Sep 17, 2025 02:00PM ET
Future Price: 95.788

Target Rate	Current Probability%	Previous Day Probability%	Previous Week Probability%
3.75 - 4.00	8.3%	—	—
4.00 - 4.25	91.7%	98.4%	84.4%
4.25 - 4.50	—	1.6%	15.6%

Updated: Sep 06, 2025 12:35AM EDT

Source: *https://www.investing.com/central-banks/fed-rate-monitor*

4. Trading Ideas

(1) Fixed Income (Bonds)

The labor market report indicates a significant weakening trend, supported by a rising unemployment rate and downward revisions to previous job reports. This data, coupled with a dovish Federal Reserve outlook, increases the probability of an interest rate cut. Such an environment is favorable for bond prices, as they typically rise when interest rates decline. The market is currently pricing in a high probability of a September rate cut.

Adopt a long position on U.S. government bonds, specifically longer-dated U.S. Treasuries, as their price movements are highly sensitive to changes in interest rates. This strategy is a direct play on the expected shift in monetary policy.

The iShares 20+ Year Treasury Bond ETF (TLT) is specifically designed to track an index of U.S. Treasury bonds with remaining maturities of 20 years or more. Therefore, TLT is a direct representation of the "longer-dated U.S. Treasuries" mentioned in the trading idea.

Using a bond ETF like TLT is a more efficient, cost-effective, and convenient way to implement a long-duration bond strategy. It achieves the same investment objective—profiting from a drop in long-term interest rates, with superior liquidity and diversification.

(2) Equity Sector Rotation

The report reveals a mixed performance across various industries. Goods-producing sectors and government employment showed declines, while certain private services, notably healthcare, demonstrated resilience. This divergence suggests a need to shift portfolio allocation toward sectors that can withstand or benefit from a slowing economic environment.

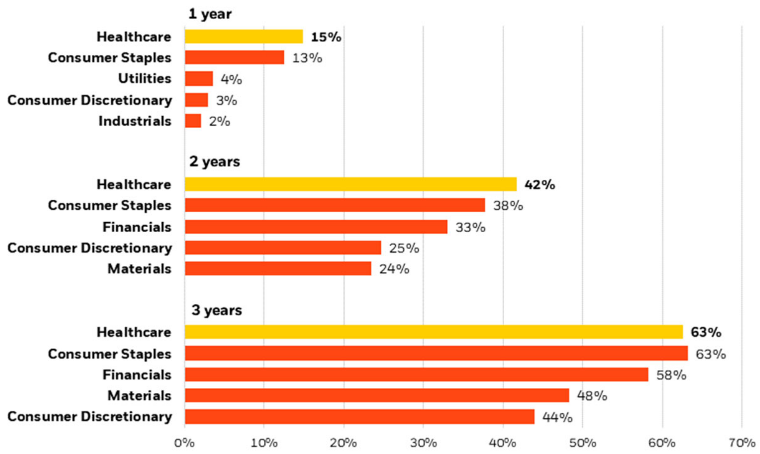
Overweight defensive sectors with stable demand, such as Healthcare and Consumer Staples. These industries are less susceptible to economic downturns. Conversely, a reduction in exposure to cyclical sectors, including Manufacturing and Professional & Business Services, is warranted given their reported weakness.

During economic slowdowns, consumer spending shifts away from discretionary items (like cars and travel) and toward necessities, which props up the earnings of these defensive companies.

During rate cuts, which typically happen in response to a weakening economy, investors often flee from high-risk, economically sensitive cyclical stocks and rotate into the stability offered by defensive sectors.

For example, a BlackRock analysis of six rate-cutting cycles since 1984 found that Healthcare and Consumer Staples were among the top performers in the one- to three-year periods following the first rate cut. This supports the thesis that your proposed rotation is a well-established strategy.

Top five sector performers in 1-3 years from first rate cut



Source: *https://www.blackrock.com/us/individual/insights/stock-opportunities-as-rates-fall*

While rate cuts can benefit some parts of the economy, the banking sector—especially regional banks—is a complex and potentially risky play during a dovish pivot. Their performance is less about a simple "rate-cut good" or "rate-cut bad" thesis and more about the shape of the yield curve.

When the Fed begins cutting rates, it typically targets the short end of the yield curve. This can cause the yield curve to flatten or, in some cases, re-steepen if long-term rates fall less than short-term rates. A dovish policy that brings down short-term rates faster than long-term rates can initially squeeze a bank's Net Interest Margin (NIM), making it less profitable to lend.

A reversal of this trend (rate cuts) would theoretically benefit the value of those assets, but the concern is that a slowing economy could also lead to a rise in loan defaults.

Therefore, while a rate-cutting cycle may eventually be a net positive for banks, they are not typically a primary target in the initial phase of a defensive sector rotation due to the risks associated with a flattening yield curve and potential credit quality concerns in a slowing economy.

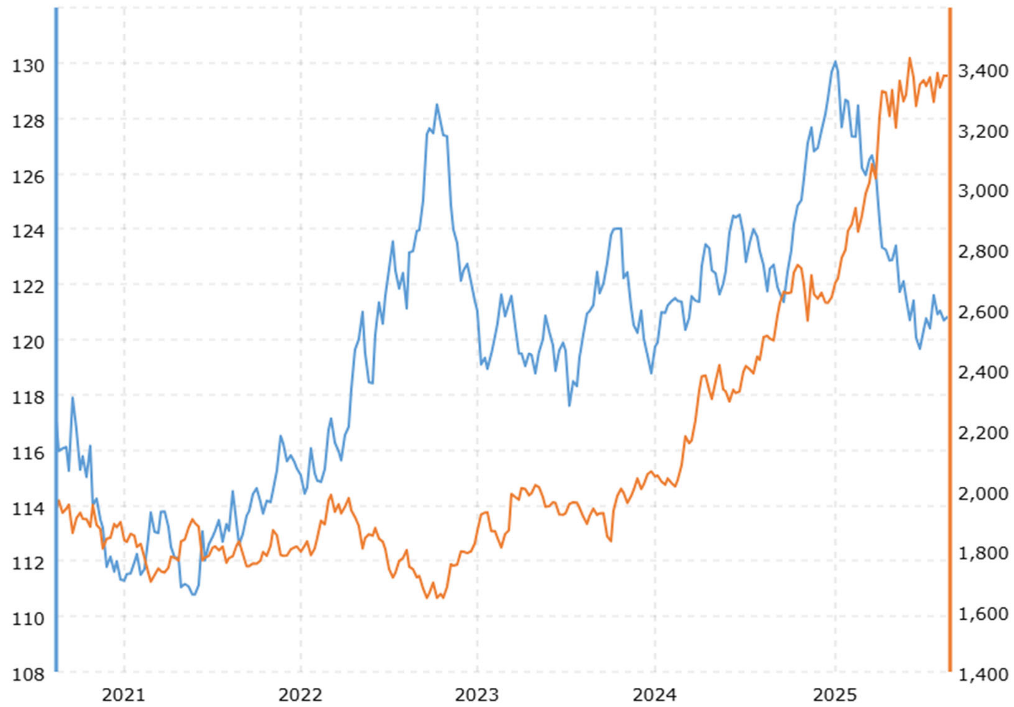
(3) Currency and Commodity Outlook

The outlook for the U.S. dollar is bearish. A dovish Federal Reserve, coupled with a weakening domestic labor market and broader economic slowing, creates a less attractive environment for the dollar.

The dollar's value is always relative to other currencies. If other major economies, particularly China, are showing signs of economic resilience, capital may flow out of the U.S. and into those economies. This would cause their currencies (like the yuan) to strengthen against the dollar. The U.S. Dollar Index (DXY), which measures the dollar's value against a basket of currencies, is the key indicator to watch.

The outlook for commodities is mixed but generally bullish for precious metals . The weakening dollar and economic uncertainty act as key drivers.

Precious Metals (Gold & Silver): The outlook is strongly bullish. Precious metals like gold and silver typically have a strong inverse relationship with the U.S. dollar. A falling dollar makes dollar-denominated commodities cheaper for international buyers using other currencies, boosting demand. Additionally, in an environment of economic uncertainty and low or falling interest rates, gold becomes a more attractive safe-haven asset as it offers a store of value and does not have the "opportunity cost" of holding a non-yielding asset when interest rates are low.



Source: *https://www.macrotrends.net/1335/dollar-vs-gold-comparison-last-ten-years*