

DATE: August 15, 2025

TITLE: Tariffs, Inflation Ghosts, and China's Slowdown – What Markets Are Missing

TRANSCRIPT:

**Q1: Eric, this week felt calm on the surface—but the macro undercurrents were anything but. Can we start with the U.S. inflation data? What stood out?**

**Eric:**

Yes—this week delivered a stealth shock.

The Producer Price Index (PPI) came in hotter than anyone expected. Headline PPI rose 0.9% month-on-month—the biggest jump in three years—and 3.3% year-on-year. Core PPI wasn't far behind, up 0.6% m/m and 3.7% y/y.

What's striking is the composition. Services inflation jumped 1.1%, while goods inflation rose 0.7%, driven by food, metals, and industrial inputs. These are broad-based, structural price pressures—not a one-off blip.

Markets barely blinked, but they should have. This is a clear sign that tariffs are feeding into the supply chain, and companies are no longer absorbing the costs—they're passing them on.

**Q2: That's a big deal. So, are we seeing a shift in market expectations on rates?**

**Eric:**

Definitely.

The front end of the Treasury curve nudged higher, and the market started repricing rate cuts. We're still seeing expectations for easing later this year, but aggressive cuts are now less likely.

And here's the real kicker: the inflation surprise came just as White House officials were calling for 150 to 400 basis points of rate cuts! That's not just implausible—it's disconnected from the data.

Fed officials, to their credit, pushed back. The Chicago Fed warned about sticky services inflation, and Atlanta Fed President Bostic said no near-term change was warranted due to the still-strong labor market.

Bottom line: this inflation print was a reality check for both policymakers and markets.

**Q3: Let's pivot to China. There was a barrage of weak data this week—how bad is it?**

**Eric:**

China is struggling—badly.

Industrial production rose just 5.7% y/y, the slowest pace in eight months. Retail sales? Up just 3.7%, the weakest since December. And the property sector continues to deteriorate—home prices fell 0.3% m/m, construction starts plunged 19.4%, and property investment is down 12% y/y.

The government's 5% GDP target is now seriously in doubt. Consensus forecasts are falling towards 4.6% for the full year, and some are calling 4.0% for Q4. That's a big gap—and it matters globally.

They've started easing restrictions and offering subsidies and loan incentives, but the consumer is cautious, and household savings are elevated. The policy response so far feels piecemeal. It's not enough.

**Q4: So how have markets responded to all this? Hot inflation, weak China, policy confusion... what's the mood?**

**Eric:**

That's the surprising part. Equities are climbing.

The S&P 500 hit another record, the Nasdaq posted its 19th record high of the year, and even global indices like the MSCI ACWI touched all-time highs.

But look beneath the surface and you'll see cracks. There's been rotation—tech took a breather, with Microsoft, Nvidia, and Alphabet down, while the Russell 2000 surged 2%.

Credit markets are tight, and the dollar's drift lower is feeding inflation risk. Meanwhile, gold and crypto are back in focus. Ethereum in particular has gone parabolic—up on speculative flows and as a hedge against monetary confusion.

So, despite the calm surface, investors are quietly repositioning for a stickier inflation regime.

**Q5: You mentioned crypto and gold. Can you elaborate on why those assets are catching a bid again?**

**Eric:**

Sure.

The U.S. dollar is falling, and that has two key consequences: it fuels inflation, and it pushes capital toward real assets.

A 10% drop in the dollar can add 40 to 50 basis points to inflation. That matters, especially with tariff pass-through now in play.

So investors are flocking to the classic inflation hedges. Gold is holding firm, and crypto—especially Ethereum—is rallying, not just on sentiment, but on belief that monetary credibility is weakening.

It's a reflection of uncertainty more than confidence.

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