Weekly Economic Brief

Collaboration with The Investing Group (TIG)

by Saied Toossi | Week of August 31, 2026

Last week started with Treasury Secretary Scott Bessent declaring an "Economic D-Day" against Iran by threatening its trade partners with sanctions. When asked why the administration was issuing threats rather than taking meaningful action, he suggested that doing so would "blow up the global financial system," perhaps a tacit admission of the limits of further economic pressure. China, one of Iran's largest trading partners, further complicated matters by rejecting what it called "illicit unilateral sanctions" and reiterated that it would pursue its own interests. The Trump Administration is unlikely to risk another trade war with China over Iran ahead of the midterms and President Xi Jinping's visit to Washington next month.

The week ended with Federal Reserve Chair Kevin Warsh delivering the keynote address at the Jackson Hole Economic Policy Symposium. Warsh refrained from providing explicit forward guidance, but stressed that he did not view financial conditions as restrictive while emphasizing that inflation remains uncomfortably high. Short-term yields climbed following the decidedly hawkish address as market-implied odds of a September rate hike rose to 60%, while long-term yields remained persistently elevated, buoyed by a mix of inflation worries, fiscal concerns, and geopolitical volatility.

Personal Income and Outlays data reinforced the narrative of persistent price pressures. The headline inflation rate for July as measured by the Personal Consumption Expenditures price index held at 3.7%. The core measure, which excludes volatile food and energy components, also held steady at 3.3%. Real income growth continued to be weighed down by higher inflation in July, and was flat on a year-over-year basis.

While inflation remains elevated, other indicators point to slowing economic momentum ahead. Consumer spending slowed in July after a strong second quarter. The second estimate of Q2 GDP confirmed a 1.5% annualized growth rate, down from 2.1% in Q1, with stronger consumer spending offsetting lower government expenditures, decelerating business investment, and a larger trade deficit. Consumer sentiment also retreated in August after nearing its pre-Iran War highs in July.

Week ahead for economic data: Friday's August employment report will be the centerpiece of this week's releases after preliminary benchmark revisions revealed lower payrolls growth in the 12 months through March 2026. A strong jobs report would raise the likelihood of a Fed rate hike in September, while a second month of weak or negative payrolls growth may cast further doubt on what the FOMC may do absent more explicit forward guidance. Until then, JOLTS data and ADP private payrolls will offer further labor market context, while speeches by FOMC officials will help shape interest rate expectations.
