



A View from the Piedmont: *Our Weekly Commentary on Money, Credit, Exchange Rates & Geopolitics*

Tariff Diplomacy and the Global Fairway

- ▲ The U.S.-EU trade deal set 15% tariffs on most EU exports, averting escalation but leaving broader tensions unresolved as focus shifts to China.
- ▲ Strategic alliances are evolving into large-scale foreign investment in U.S. infrastructure, energy, and defense—often backed by federal loan guarantees.
- ▲ Durable goods orders held up better than expected, but core capital goods declined for a third straight month, signaling weaker investment amid tariff uncertainty.
- ▲ June housing data disappointed; rising inventories, especially at the high end, are weighing on construction and broader consumption.
- ▲ Labor market signals are mixed: initial claims fell, but continuing claims rose, pointing to slower rehiring and softer momentum.
- ▲ Conflicts in Israel-Gaza and Thailand-Cambodia briefly shook markets, but cease-fires and trade diplomacy have eased immediate concerns.
- ▲ **Markets now anticipate a September rate cut; this week's data deluge—payrolls, PCE, ISM, and the FOMC—will shape the Fed's next move.**

Driving Toward China

President Trump was not merely playing through at his Scottish golf resort last week—he was laying down the contours of a new trade regime. The U.S.-EU deal announced Sunday sidesteps a tariff spike just before the August 1 deadline, setting a 15% baseline tariff on most EU exports, including autos. That is a gentler

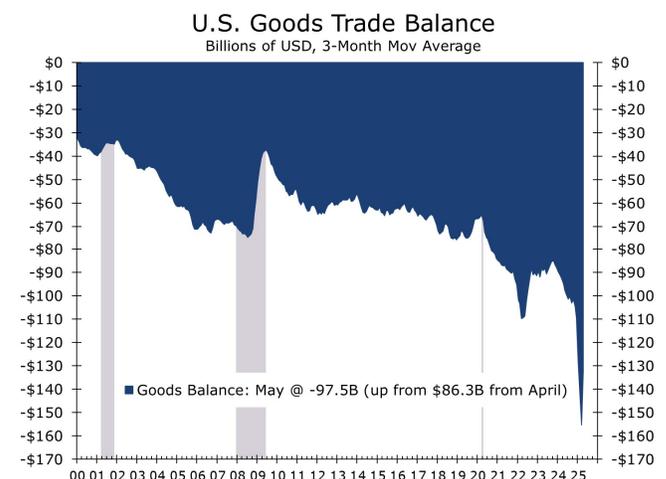
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swing than the 25% some had feared, but it still embeds lasting friction into the U.S.-Europe trade relationship.

Trump is not just negotiating trade—he is improving the lie ahead of the next big shot.

The bigger game remains China. As we noted in *The CAVU Compass*, Trump's approach to trade diplomacy is less about bilateral wins and more about setting the global lie ahead of a final showdown. By locking in terms with allies—Japan, Vietnam, Indonesia, and now the EU—Trump is creating a global framework designed to isolate Beijing and force its hand on critical minerals, semiconductors, and intellectual property enforcement. China is currently engaged in talks ahead of the August 1 deadline and is widely expected to strike a deal.

The structure of Trump's trade deals is evolving into a new form of *strategic cooperation*—not simply tariff relief, but access to U.S. markets in exchange for meaningful investment in American infrastructure and industrial capacity.



Source: Census Bureau



The message is clear: allies may keep their trading lanes open if they support America’s re-industrialization. Countries are embracing the strategy as the most pragmatic way to manage China’s rise. There is broad recognition that the United States must remain a credible counterweight to an increasingly assertive Beijing. While foreign leaders appear to be speaking Trump’s language, the negotiated terms are more even-handed than they may seem.

That help increasingly takes the form of large capital commitments—many of them supported by U.S. loan guarantees—to fund energy infrastructure, logistics, and defense supply chains. A prime example is the push to unlock vast reserves of natural gas in northern Alaska. Multiple bilateral discussions with Japan and South Korea have centered on financing export terminals, pipelines, and processing hubs to bring Alaskan LNG to Asia. Similar arrangements are in discussion for critical mineral processing, semiconductor packaging, and submarine cable networks. Energy is also a key pillar of the EU deal and is intended to reduce dependence on Russian natural gas.

This is industrial policy at global scale. The new model is part trade deal, part energy alliance, and part security compact. It redefines globalization as conditional access—with terms enforced not just by tariffs, but by capital flows and strategic alignment.

Tariffs are likely to settle in at a 15% base rate on all imports to the United States, lower rates on U.S. exports, and higher rates on strategic sectors such as steel, aluminum, semiconductors, and electric vehicles. Investment pledges—largely structured as loans or loan guarantees—allow the administration to claim that most of the long-term financial benefit remains in the United States. Interest payments are not profits.

Both the Japan and EU deals were par fours—difficult, but straightforward plays from the fairway. The China deal, however, is shaping up to be a long par five—narrow, uphill, and fraught with hazards. The outcome will define not just the trade balance, but the structure of the global economy for decades to come.

Trade and the Treasury Market: Sand Traps Ahead

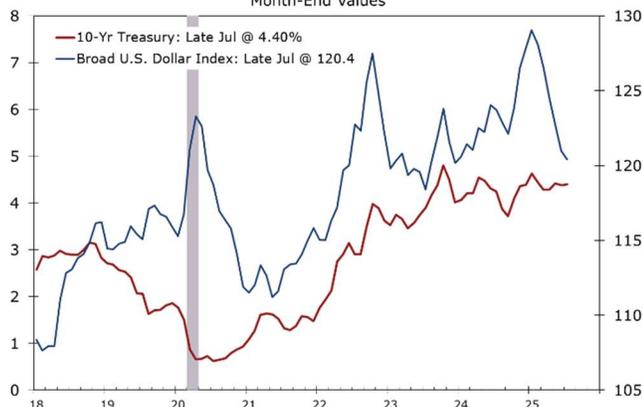
Markets greeted the EU trade deal with cautious optimism. Treasury yields initially moved higher overnight as risk sentiment improved, but the rally quickly faded. The long end of the curve remains vulnerable to supply concerns and lingering inflation risks, with the 10-year note briefly testing support near 4.5%. While the deal provided a modest lift to the dollar, the broader trend remains downward as the Fed edges closer to a dovish pivot and the terms of trade continue to deteriorate.

The U.S. remains the cleanest scorecard in the clubhouse—and likely to remain so.

Tariff revenues are climbing, but so are investor concerns about policy unpredictability and inflation passthrough. The flurry of recent trade agreements has reduced—but not eliminated—uncertainty. The dollar’s recent weakening reflects this shift, as global investors begin to question how long the U.S. can remain the cleanest scorecard in the clubhouse.

We remain confident that the dollar will hold its status as the world’s reserve currency for the foreseeable future. While increased foreign direct investment may require producers abroad to export more to the U.S. to finance those flows, the investment itself—and the

Broad Dollar Index vs 10-Yr Treasury
Month-End Values



Source: Federal Reserve Board



economic growth it spurs—will ultimately boost returns on dollar-denominated assets. We expect near-term softness but anticipate dollar strength to return within 18 to 24 months.

Housing Loses Momentum

June’s existing home sales fell 2.7% to a 3.93 million annual pace, nearing post-GFC lows. The median existing home price climbed to a record \$435,300, but that reflects a lack of inventory at the low end, not resurgent demand. Supply remains more than adequate at the upper end of the market. New home sales edged up just 0.6% to a 627,000 pace and are down 6.6% from a year ago. Builders are leaning on incentives and price cuts to sustain sales, but inventories of completed new homes continue to climb—now at their highest level since 2009. A substantial backlog of homes under construction also persists.

Single-family permits have declined for four straight months, underscoring increased caution among builders. Higher-end inventory is accumulating, while first-time buyers remain constrained by affordability and high mortgage rates. We expect sidelined buyers to return as rates move closer to 6%, but a sustained recovery is unlikely until the labor market stabilizes. New hiring and job switching have both slowed sharply over the past year, reducing mobility for both renters and homeowners.

Business Investment: Chipping Away

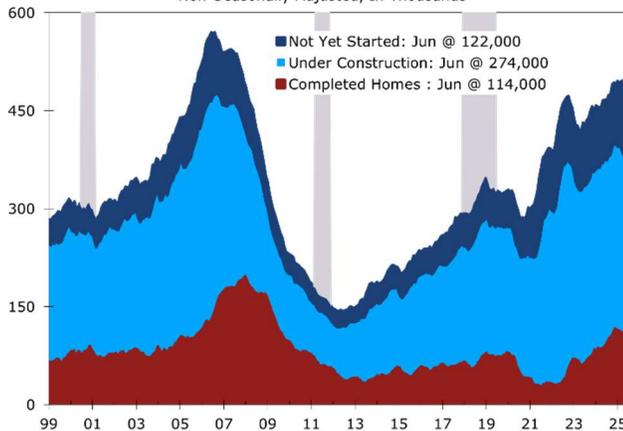
Durable goods orders fell 9.3% in June, which was less than expected and only partially reversed the prior month’s 16.5% spike driven by a surge in commercial aircraft orders. Capital goods orders excluding aircraft and defense fell a larger-than-expected 0.7%, marking the third consecutive monthly decline. Business equipment shipments also slipped, suggesting that Q2 business investment will be soft following a strong Q1.

Policy uncertainty is clearly weighing on capital spending. Trade deals—especially provisions requiring reshoring to receive tariff relief—may eventually support investment, but in the short term they are raising costs and clouding visibility. Until the fairway clears, expect firms to play it safe and lay up.

Initial jobless claims dipped to 215,000—better than expected—but continuing claims rose to 1.96 million, signaling a slower pace of hiring. Quits are down, long-term unemployment is up, and recent federal layoffs—enabled by a Supreme Court ruling—are beginning to register. AI adoption may also be dampening hiring, even as it boosts productivity longer term.

The softening trend will not prompt an emergency cut, but it adds weight to the dovish case. Wage growth has cooled, and a weak July payrolls report or uptick in the jobless rate could tip the Fed further toward easing. Unemployment may remain low in the near term due to tighter immigration and a surge in retirements.

Inventory of New Homes for Sale
Non-Seasonally Adjusted, In Thousands



Source: Census Bureau

Core Capital Goods Orders
Nondefense, Excluding Aircraft, SA 3-Month Moving Averages



Source: Census Bureau



Geopolitics: Pressure Points, Limited Market Reaction

Two geopolitical flashpoints dominated headlines last week but left financial markets largely unmoved.

In the Middle East, renewed rocket fire from Hamas prompted fresh Israeli airstrikes in Gaza, escalating a conflict already marked by deep humanitarian strain. Civilian casualties are rising, and critical infrastructure in Gaza remains decimated. U.S. and regional mediators—including Egypt and Qatar—are pushing to restart talks, though the prospects for a durable cease-fire remain slim. Washington has urged Israeli restraint, citing risks to regional energy flows and the fragile stability underpinning the Abraham Accords.

Hamas continues to pursue a strategy aimed at maximizing civilian casualties and leveraging global media to generate sympathy abroad. The group’s stated objective—the eradication of Israel—stands in stark contrast to the portrayal in many widely circulated images, including two this weekend that were factually misleading. One featured a child with cerebral palsy, falsely presented as a typical Gaza victim; the other showed a child receiving long-term medical care in Italy for unrelated reasons.

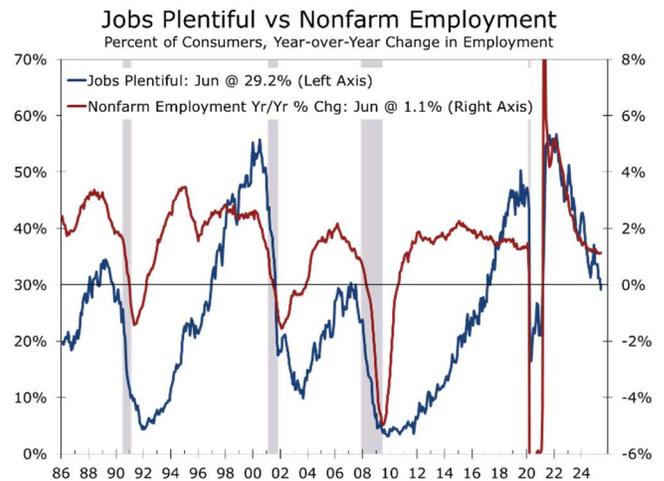
Israel has consistently found itself on the defensive in the global PR war, with critical coverage emerging before it even responds to attacks. That dynamic has prompted Israel to take more assertive steps to deliver aid, including parachuting in humanitarian supplies—provided by other governments—via IDF aircraft. There is no viable resolution to the conflict that allows Hamas to remain in power, and the longer Hamas holds control, the more the people of Gaza are likely to suffer. That view is not unique to Israel; it is shared by the majority of Arab governments in the region.

In Southeast Asia, Thailand and Cambodia agreed to an unconditional cease-fire after five days of deadly clashes along their contested border. The conflict, rooted in a century-old dispute over ancient temple sites, displaced more than 300,000 civilians and claimed at least 35 lives—mostly noncombatants. A breakthrough came after President Trump made a

cease-fire a precondition for further trade talks, threatening a 36% reciprocal tariff on Thai and Cambodian exports. The deal was brokered in Kuala Lumpur by Malaysian Prime Minister Anwar Ibrahim, with quiet support from both U.S. and Chinese officials.

Despite the use of drones, naval assets, and heavy weaponry, markets barely reacted. Risk assets held steady, oil prices remained stable, and Treasury yields stayed within recent ranges.

The muted response reflects a familiar pattern: unless geopolitical shocks directly threaten global supply chains or major energy corridors, markets are inclined to look through them. Still, the growing use of trade tools to influence regional conflict outcomes is a trend worth watching—particularly as tariff diplomacy increasingly doubles as security policy.



Source: Conference Board and Bureau of Labor Statistics (BLS)

The Turn: Tight Lies and Tighter Margins

This week will tell us a lot—about where the economy stands, where it’s headed, and how much room the Fed has to maneuver.

Wednesday’s FOMC meeting will anchor the week, with Powell expected to strike a more cautious tone. Thursday brings the June PCE inflation report and the Employment Cost Index. Friday delivers the July payrolls report, ISM manufacturing data, and consumer sentiment.



Markets are also watching trade. August 1 marks the formal implementation date for the new tariff regime. Last-minute exemptions are still possible, but the direction is set: more trade friction, more policy uncertainty, and greater reliance on industrial strategy over free trade.

On the earnings front, over 150 S&P 500 firms will report—including Apple, Amazon, Microsoft, and Meta. Corporate commentary on hiring, pricing, and investment will provide critical insight into how companies are adjusting to higher costs and slower demand.

The Fed may be nearing a rate cut, but this is no easy putt. The economic recovery remains intact—but vulnerable. Tariff policy is distorting inflation signals, business investment is fading, and the labor market is losing altitude. With each deal struck, the stakes grow higher for the U.S.-China endgame—and the global fairway narrows.

This Week's Scorecard: Key Data on the Tee

Tuesday, July 29 – Opening Shots

- **Advance Goods Trade Balance (June)**
Expect a widening deficit as exports slow and imports remain elevated ahead of tariff implementation.
- **Wholesale Inventories (June, preliminary)**
Inventories likely dipped slightly, playing it safe from the rough. A larger drop would cause forecasters to scale back Q2 GDP estimates.
- **S&P Case-Shiller Home Price Index (May)**
Price declines should deepen, especially in Florida and Texas; softness is broadening nationally.
- **JOLTS (June)** -- Openings are expected to fall. Many firms are posting phantom openings while remaining reluctant to hire. Watch the quits rate closely.
- **Consumer Confidence (July)**
Modest rebound anticipated due to easing tariff concerns and stronger equities, though a softer job market could cap gains.

Wednesday, July 30 – The Mid-Round Turn

- **ADP Employment (July)**
Following last month's miss-hit, expect a partial recovery—about +55,000—plus possible revisions.
- **Q2 Advance GDP**
We expect a 2.6% annualized gain, driven by strong net exports and moderate consumption growth. Atlanta Fed's GDPNow is tracking 2.4%, which is also the consensus forecast.
- **Pending Home Sales (June)**
A slight uptick is likely, reflecting a pullback in mortgage rates and marginally improved purchase applications.
- **2:00 PM – FOMC Statement**
- **2:30 PM – Chair Powell Press Conference**

Thursday, July 31 – Staying in the Fairway

- **Employment Cost Index (Q2)**
Expected to rise 0.8%, with annual wage growth easing to 3.5%. A slight fade from earlier strength.
- **Personal Income & Spending (June)**
Income +0.3%, spending +0.2%. Core and headline PCE expected at +0.3%, though a softer read is possible on core.

Friday, August 1 – A Crucial Approach

- **Nonfarm Payrolls (July)**
Hiring restraint and seasonality are in play. Job growth expected to slow to +90,000, reflecting continued caution on the part of private employers and a likely pullback in federal, state and local government payrolls. The unemployment rate may tick up to 4.2%, with average hourly earnings continuing to decelerate.
- **ISM Manufacturing Index (July)**
Still under par at below 50. Defense and tech are driving modest strength, while construction and consumer sectors struggle



weakness in consumer goods and construction-related industries.

- **Construction Spending (June)**
Residential and commercial weakness continues, though infrastructure may provide a lift from the sand trap.
- **University of Michigan Consumer Sentiment (July, final)**
Sentiment should edge higher with steadier inflation expectations and market gains—but survey polarization remains a hazard.

Final Putt: A Narrow Fairway Ahead

As the Fed eyes the back nine, the course ahead grows more complex. This is not merely the halfway point—it is the start of a tougher stretch where precision matters, hazards multiply, and the margin for error narrows. How we navigate this stretch will not just determine the score this round—it will shape the course we play going forward.

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