Market Perspectives

September 2025

TURTLE CREEK

Fed rate cut fuels another positive month for stocks.

Index	MTD	QTD	YTD	2024	2023	2022
S&P 500	3.65	8.12	14.83	25.02	26.29	-18.11
Dow Jones Industrial Average	2.00	5.67	10.47	14.99	16.18	-6.86
Russell 2000	3.11	12.39	10.39	11.54	16.93	-20.44
NASDAQ Composite	5.68	11.41	17.93	29.57	44.64	-32.61
Europe, Australia, & Far East (EAFE)	1.96	4.83	25.72	4.35	18.85	-14.05
MSCI Emerging Markets	7.18	10.95	28.22	8.05	10.27	-19.78
Bloomberg Barclays U.S. Aggregate Bond	1.09	2.03	6.13	1.25	5.53	-13.04

As of 9.30.2025; Returns in percent

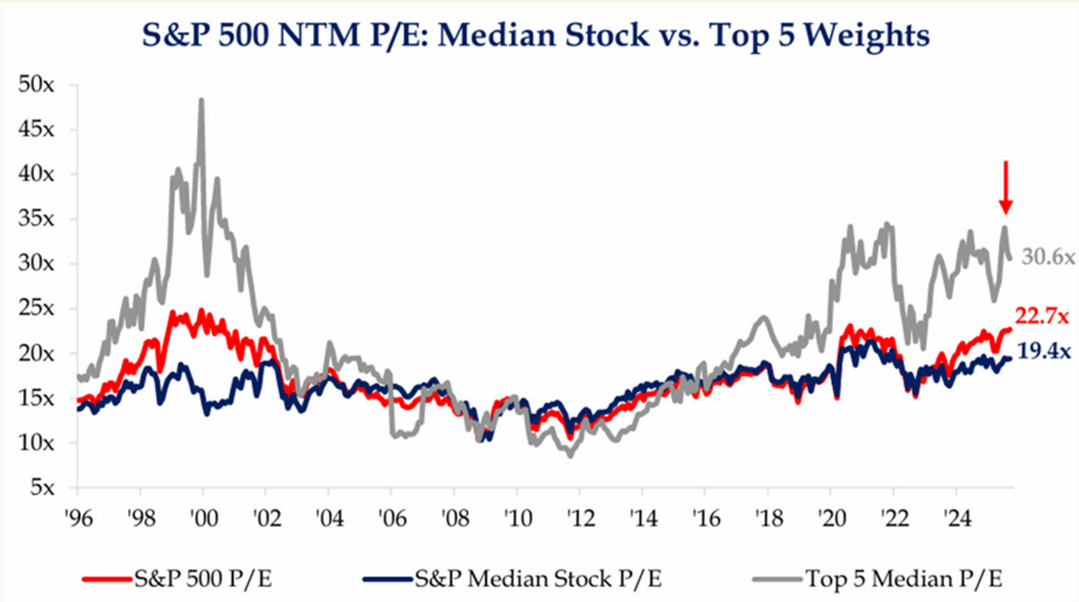
FINANCIAL MARKET PERFORMANCE

US equities continued their rally in September: the S&P 500 gained 3.7% (its fifth-straight monthly gain), the Nasdaq Composite gained 5.7% (its sixth-straight monthly gain), and The Russell 2000 gained 3.1% (its fifth-straight monthly gain) to a new record high, surpassing its November 2021 peak. However, the gains were concentrated in larger cap names, as the equal-weight S&P 500 trailed the cap weighted index by just under 3.0%. The Mag 7 and Big Tech complex were mixed during the month, while Tesla gained 33.2% and Alphabet jumped 14.2% to lead the group.

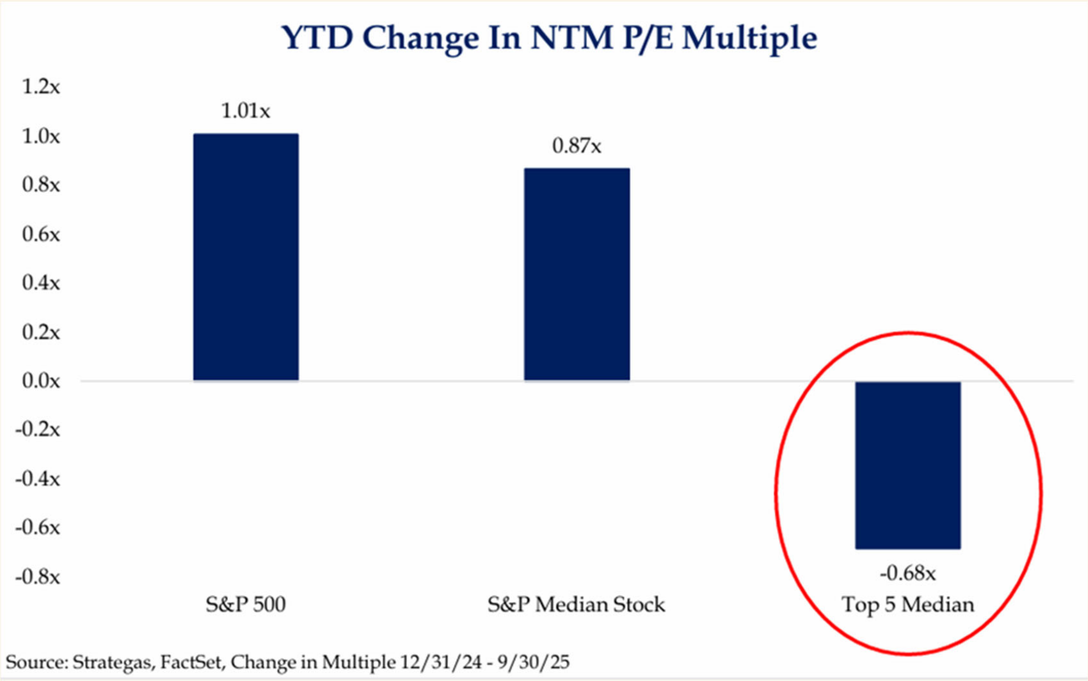
Foreign equities also performed well during the month, as the MSCI EAFE index rose 2.0% and the MSCI Emerging Markets index gained 7.2%. Continued weakness in the US Dollar, which has now fallen 11% since its January 2025 peak, coupled with optimism over the ongoing trade wars drove these markets during August.

Bond values rose as interest rates fell during the month, with the Bloomberg US Aggregate Bond index gaining 1.0%. Specifically, the 10-year Treasury yield declined by 10 bps during the month while the 30-year Treasury yield dropped by 19 bps. The September Fed meeting, which resulted in a 25 bp cut in the Fed Funds rate and saw Fed members signal another 50 bp in cuts before year end, drove rates lower. Gold was up 10.2%, a third-straight monthly gain (+17% in the 3rd quarter) and hit fresh record highs. Bitcoin futures were up 5.5% and WTI crude was down 2.6%, a second-straight monthly decline based on fears of rising global supply.

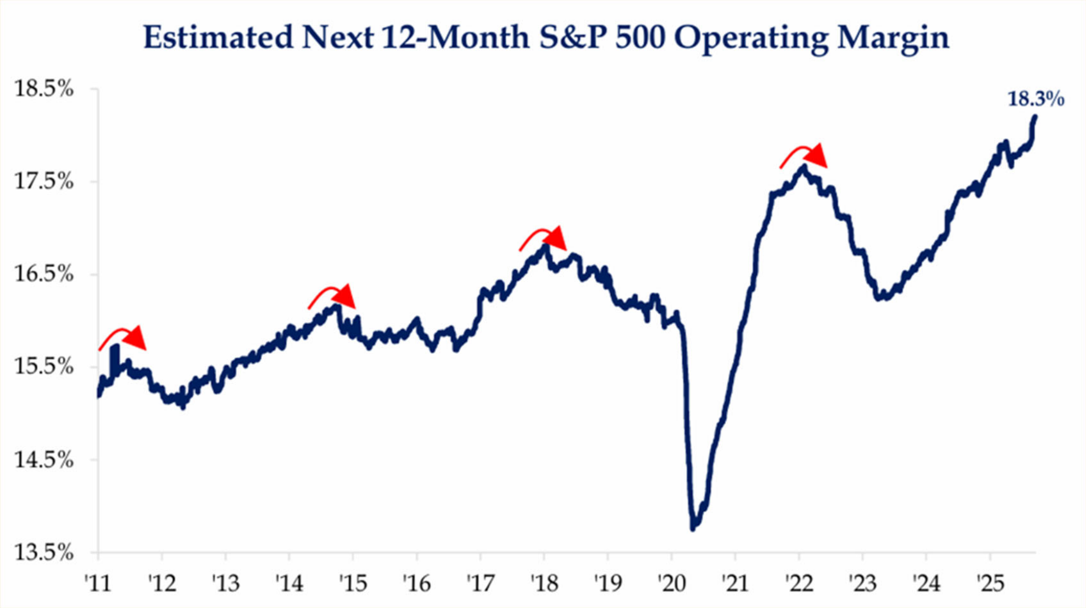
Despite trading at a lofty 23x forward earnings, the S&P 500 appears relatively healthy today for two notable reasons. The first being the broadening out of the market. Even though the largest companies led performance in September and for much of the year, the top 5 stocks have seen their forward P/E multiples compress YTD while the rest of the market has seen their multiples expand (see below).



Source: Strategas As of 9.30.25



The second reason is the strength in corporate earnings – a theme we've emphasized throughout the year. After producing robust Q2 earnings growth of roughly 12% YoY, Q3 earnings are expected to grow 8.8% YoY, while revenues are set to grow 5.7% YoY. This is the result of solid global economic growth as well as operating margin expansion which are expected to grow to a healthy 18.3% over the next 12 months. Prudent expense management is a key driver of this trend.



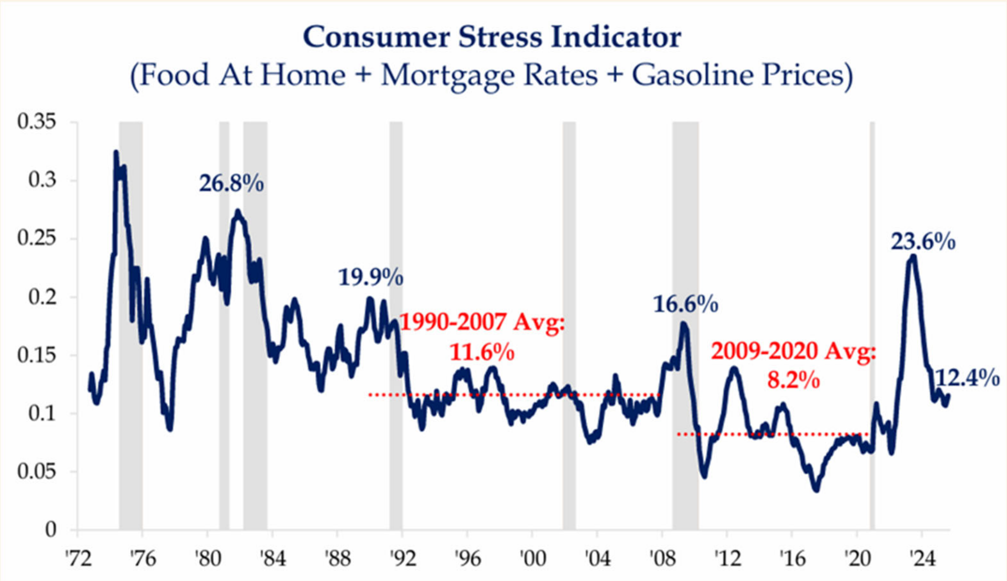
Source: Strategas; As of 9.30.25

PERFORMANCE DRIVERS

Equity gains in August were driven by multiple tailwinds. The strong economy narrative gained momentum from positive developments across several indicators including (i) consumer resilience, (ii) improved trade and economic policy clarity, (iii) corporate capex, (iv) bank lending and (v) credit trends. August payrolls disappointed, but initial jobless claims fell to the lowest level in two months, while the unemployment rate and wage growth remain at historically strong levels. Inflation also remains relatively elevated, but some economists argued that this data reflects strength in areas like consumer spending, while tariff-linked inflation has been more modest than expected.

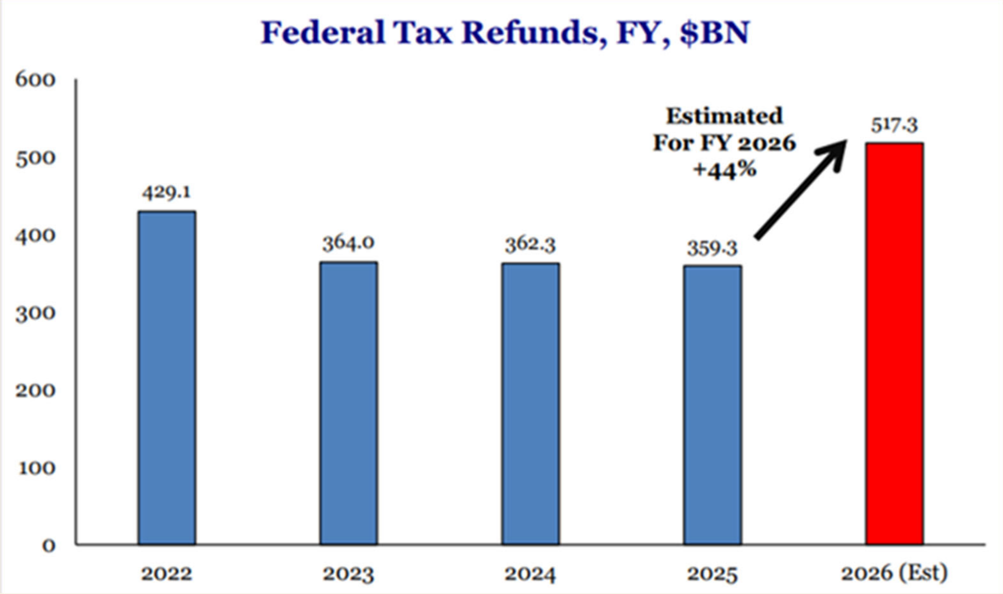
The key factor driving markets, though, was the widely expected Fed rate cut which occurred at the September FOMC meeting. The meeting ended with a 25 bp rate cut, while the updated rate projections from Fed governors reflected an additional 50 bp cut by year end and some better than expected trends around employment and economic growth. Analysts highlighted historically bullish trends for stocks going into rate cutting cycles, including JPMorgan, which noted the Fed has cut rates with equity markets within 1% of record highs 16 times in history, which has been followed by an average return of nearly 15% over the next year.

Notably, the lower rate environment coupled with falling inflation is a significant positive for consumers who drive 70% of US economic growth. The chart below demonstrates the significant improvement in the Consumer Stress Indicator as a result of these trends.



Source: Strategas; As of 9.30.25

Another positive for consumers is the tax relief provided by the recently passed One Big Beautiful Bill, which is expected to provide up to $150 Bn of stimulus in early 2026.



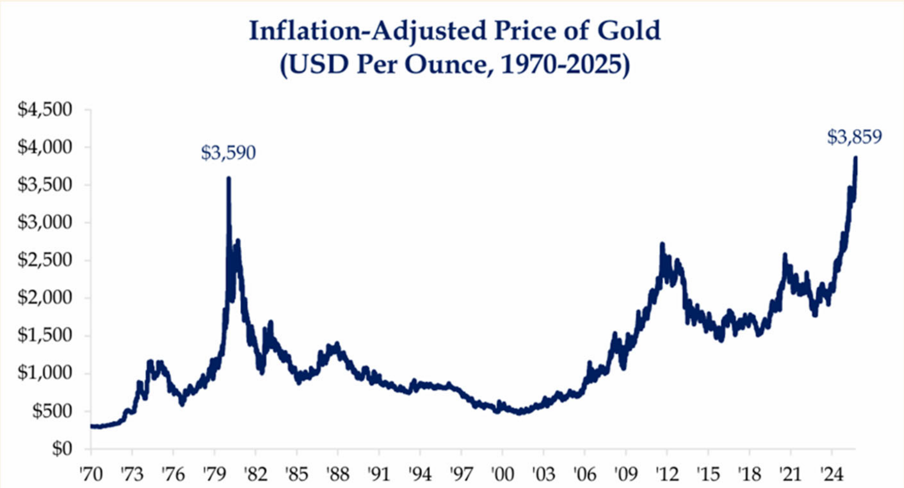
Source: Strategas As of 9.1.25

THE BEARISH NARRATIVE

Despite another monthly gain for stocks, a number of bearish pieces remain in focus. Labor market weakness remains a key downside risk. The September Consumer Confidence survey showed the narrowest labor market differential (measures the gap between those who see jobs as plentiful vs. hard to get) since early 2021, including the fewest who see jobs plentiful since early 2017. August core CPI was in line, but analysts have warned the downward pressure on core PCE has stalled and faces seasonal upside risks into year-end.

Tariffs had been out of the spotlight until the end of the month, when President Trump announced a range of sectoral tariffs (pharma, heavy trucks, select furniture, foreign made films). Reports also said the Trump administration is considering plans to push foreign semiconductor manufacturers toward a 1:1 mandate to match foreign-produced chips with domestic-made processors. Earlier this month, a federal appeals court ruled most of Trump's tariffs are illegal, though Trump appealed to the Supreme Court, which is expected to make a decision in early November.

Also, and we may sound like a broken record here, but the implications of the dramatic rise in Gold over the past couple of years are concerning. The poor US fiscal situation coupled with concerns about the viability of fiat currencies, including the US Dollar, Yen, Euro, and others, has driven central banks, institutional investors, and consumers into Gold. The yellow metal is now trading at its highest level in history, on both a nominal and inflation-adjusted basis.

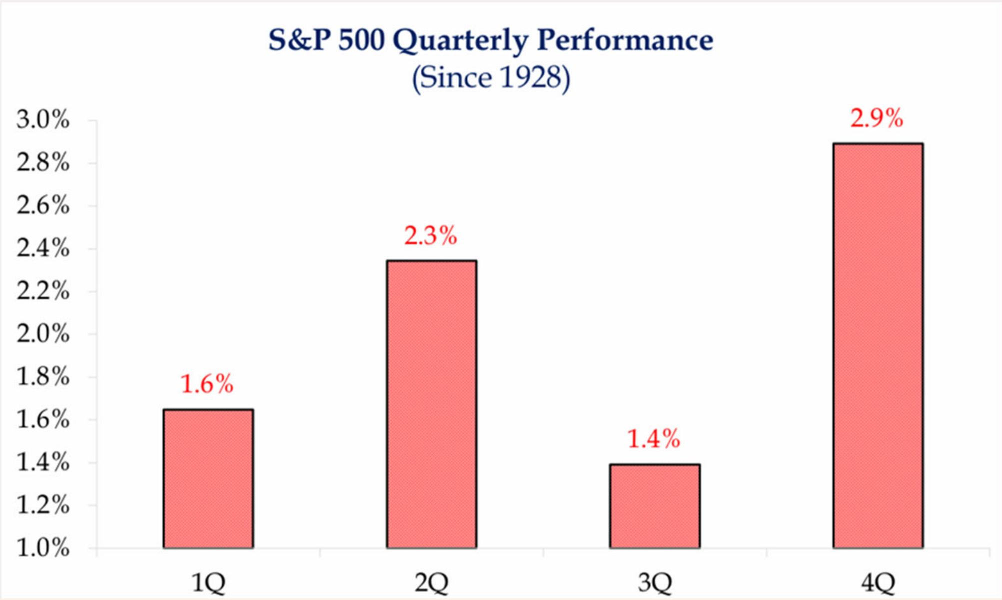


Source: Strategas As of 9.30.25

One final potentially bearish note – as of midnight on 10/1/25, the US government entered a shutdown. An ongoing debate between Congressional Republicans and Democrats over spending levels, specifically around the extension of COVID-era subsidies to the Affordable Care Act, resulted in an inability to agree on how to fund the government as the new fiscal year begins. One negative result of this action is a potential delay in the release of key economic data, particularly Friday's scheduled September payrolls report. Also, concerns have emerged regarding the impact on government employees. It has been estimated that up to 750,000 workers could be furloughed each day of a shutdown, resulting in total daily compensation loss of roughly $400 million. However, historical precedent offers some reassurance. Past shutdowns have averaged only 8 days, and the impact to the economy once the shutdown ends is negligible. Also, note that during the past 5 shutdowns, the S&P 500 has actually risen. So, if history holds, we should get through this relatively unscathed.

WHAT TO EXPECT & INVESTMENT PORTFOLIO IMPLICATIONS

The year has thus far produced excellent results in both stock and bond markets. The trend continues to be favorable as we enter the 4th quarter, given strong corporate earnings growth, the likelihood of even lower Fed Fund rate by year end, and positive seasonality (Q4 is historically the best quarter for the S&P 500 with an average gain of 2.9% since 1928 – see below). However, we still believe that portfolio diversification is the best strategy for long-term investors. A healthy mix of stocks & bonds, US & foreign investments, as well as publicly traded and private investments is a prudent approach.



Source: Strategas As of 9.30.25

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