September Market Update

August delivered fluctuations in U.S. markets, with rallies and pullbacks driven by shifting Fed policies, durable earnings, and stubborn inflation. The economy remains strong, but consumer spending and labor data show signs to watch, as tariffs push up prices.

With so much change, now's a smart time to check in on what's steering the markets. Below are the key takeaways.

Major U.S. Stock Indices

August's stock market rally was fueled by outsized gains in select tech leaders, with artificial intelligence dominating. Despite resilient economic growth, investor sentiment was tempered by uncertainty arising from tariffs and fiscal policies.

Through it all, headline indices traded in all-time high territory. Overall:

- The S&P 500 gained 1.91%.
- The Nasdaq 100 rose by 0.85%.
- The Dow Jones Industrial Average jumped 3.20%.

Economic Growth

- The U.S. economy surged in the second quarter of 2025 with gross domestic product (GDP) growing at a 3.3% annual rate, topping earlier estimates and reversing a first-quarter contraction. The rebound was fueled by a sharp drop in imports after businesses loaded foreign purchases in Q1 ahead of new tariffs.
- Consumer spending and investment in AI provided additional support in Q2, though private investment fell at the steepest rate since the pandemic. Economists still caution that uncertainty over trade policy, lackluster business investment, and the prospect of inflation could cloud the economic outlook heading into the fall.
- In fact, some forecasts say that U.S. GDP growth will slow to 1.1%-1.4% in 2025. Though corporate earnings remain solid overall, headwinds (or negative factors) are emerging. This is especially a

concern for businesses without strong pricing power (i.e., the ability to determine the price of the good or service).

- Consumer spending is showing signs of cooling as households become more cautious, especially lower- and middle-income consumers.
- Labor market signals are mixed. The unemployment rate remains healthy near 4%, but recent job data revisions deleted 260,000 previously reported positions, raising questions about the job market's strength.

Deflating Sentiment?

- Consumer confidence slipped in August as Americans grew jittery about jobs and rising prices. The Conference Board's index fell to 97.4 from 98.7 in July, with the expectations component dropping to 74.8 — below the 80 threshold that historically signals recession trouble. Job availability concerns have persisted for eight months.
- The Board's Leading Economic Index continued flashing red signals, declining for its fourth consecutive month and triggering recession warnings. The six-month growth rate remains negative at -2.7%, weighed down by weak consumer expectations and shrinking new orders, though partially offset by rising stock prices.
- University of Michigan consumer sentiment also soured, falling to 58.2 in August from 61.7 and snapping a four-month winning streak. Rising inflation fears and deteriorating big-ticket purchase conditions drove the decline, while year-ahead inflation expectations spiked to 4.8% from 4.5%.
- The data will likely weigh heavily on Fed officials at September's pivotal policy meeting.

Fed at Crossroads

- Core Personal Consumption Expenditures (PCE) showed inflation rising to 2.9% year-over-year in July, the highest level since February. While monthly core PCE rose 0.3% as expected, personal income and consumer spending outpaced inflation, rising 0.4% and 0.5%, respectively.
- The Fed held rates steady at 4.25 to 4.5% throughout August, sticking to a data-dependent approach. The next move likely hinges in part on September's inflation and payrolls report.
- Policymakers face a delicate balance, weighing moderating inflation data against ongoing risks tied to trade tensions and fiscal expansion. Markets are anxiously awaiting the first Fed rate cut.

Rapid Change

This is certainly a transitional period. The economy is growing but faces undeniable risks, such as inflation, consumer spending pullback, and policy uncertainty. Portfolios could potentially benefit from an emphasis on quality, resilience, and diversification, favoring sectors with pricing power, stable earnings, low debt, and exposure to AI innovation.

August's numbers confirm U.S. strength but also reveal the importance of managing risk. Heading towards the final quarter of 2025, a patient, disciplined strategy focused on balancing opportunity with protection remains ideal.

As always, if you'd like to discuss the current outlook or adjust your strategy based on recent developments, please reach out to your advisor.

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