Weekly Market Perspectives

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"The market setup coming into the Fed's two-day meeting this week has been largely 'risk-on' from a stock perspective, particularly as investors appear primed for not only a September rate cut, but possibly a couple of additional cuts before year-end. However, it may only take a surprise reacceleration in inflation over the coming months or continued softness in the labor market to sour the good vibes investors are currently feeling amid expectations of successive Fed rate cuts against a backdrop of still healthy economic conditions."

Are Investors Overplaying The Federal Reserve's Hand?

The S&P 500 Index, NASDAQ Composite and Dow Jones Industrials Average all recorded fresh all-time highs last week, with the S&P 500 Index finishing its fifth positive week in the previous six. The NASDAQ Composite closed out a second straight week of gains, while the Dow posted its first positive week in three. Shaping last week's market gains was cooler-than-expected August producer inflation, slightly hotter-than-expected consumer inflation, a rise in jobless claims and investor reactions to earnings reports from Adobe and Oracle.

The Federal Reserve's rate decision and Chair Powell's statements post-meeting this Wednesday could help set the stage for how stocks finish September.

Last week in review:

- The S&P 500 Index and NASDAQ Composite gained +1.6% and +2.0%, respectively. Oracle jumped +25.5% on the week after reporting outsized revenue growth in its cloud infrastructure business, while Adobe finished the week flat, but showed positive earnings takeaways from its artificial intelligence applications.
- The Dow rose roughly +1.0% and the Russell 2000 Index gained +0.3%.
- U.S. Treasury prices were mostly firmer across the curve as yields fell. Gold rose roughly +1.5%, the Dollar Index finished the week slightly lower, and West Texas Intermediate (WTI) crude posted a gain despite OPEC+ agreeing to boost production.
- The August core Producer Price Index (PPI) came in cooler than expected, with a deceleration in final demand goods. However, some tariff-related categories, like electronics, saw increased prices. That said, the headline Consumer Price Index came in a little hotter-than-expected last month, while the core measure (ex-food and energy) was in line with forecasts. Tariff-related categories were mixed, with shelter costs playing the largest role in keeping CPI elevated.
- In its annual review, the Bureau of Labor Statistics revised nonfarm payrolls lower by 911,000 jobs for the period between April 2024 and March 2025. The job revisions were on the high end of estimates and add to current concerns about softer labor trends.
- A preliminary look at September University of Michigan consumer sentiment fell versus August levels, with economic views among lower- and middle-income consumers falling materially. Roughly 60% of consumers in the survey provided unprompted comments about tariffs, with concerns about labor markets and inflation also cited. September one-year ahead inflation expectations remained unchanged at +4.8%.
- In Washington, the White House pressured Europe to place 100% tariffs on India and China to help prompt Russia to end its war in Ukraine, and a federal court granted a preliminary injunction blocking President Trump's move to fire Fed Governor Lisa Cook. As a result, the Trump administration appealed the decision.

The market wants three Fed rate cuts by year-end. But are investors overplaying the Fed's hand?

The Federal Reserve will meet on Tuesday and Wednesday, delivering not only a closely watched updated policy statement and likely fed funds rate cut for the first time since December, but an updated Summary of Economic Projections.

As the Fed assembles this week, we believe the market and economic backdrop remains constructive and supportive of equity prices, with some obvious mixed dynamics investors need to consider. On one hand, corporate investment tied to Artificial Intelligence and cloud computing is strong, and consumer spending overall is resilient, with banks reporting stable credit conditions. August inflation data showed manageable tariff effects, and bond markets have remained rather subdued over recent weeks. On the other hand, job conditions are softening, consumer sentiment is again weakening on tariff and inflation concerns, and Washington noise continually simmers, but mostly in the background for investors. Thus, the market setup coming into the Fed's two-day meeting this week has been largely "risk-on" from a stock perspective, particularly as investors appear primed for not only a September rate cut, but possibly a couple of additional cuts before year-end. However, it may only take a surprise reacceleration in inflation over the coming months or continued softness in the labor market to sour the good vibes investors are currently feeling amid expectations of successive Fed rate cuts against a backdrop of still healthy economic conditions.

Helping to support a rate cut this week includes a series of weaker-than-expected reports on the labor market and roughly in-line inflation data from last week. We believe the Federal Reserve has some space to adjust policy rates lower on Wednesday despite still elevated inflation levels to help support labor markets, which are clearly weakening. That's essentially the main message investors expect to be reflected throughout the policy statement and Fed Chair Powell's press conference on Wednesday. But from there, that's where the certainty ends on forward policy, at least for us.

Market odds heavily skew toward the fed funds rate ending the year at 3.50% to 3.75%, or 75 basis points lower than where it stands today. This implies a steady drumbeat of 25 basis point rate cuts over the next three Fed meetings, including this week's meeting. Notably, the last three quarterly Summary of Economic Projection reports have shown a median fed funds rate at the end of 2025 standing at 3.9%. By the end of 2026, current market odds imply the fed funds rate will sit at 2.75% to 3.00%, or 150 basis points lower than current levels. It will be interesting to see how Fed rate projections evolve this week, particularly as an increasing number of policymakers have reflected a more dovish tone in speeches since the last projections update. And while labor markets have certainly softened over recent months, the question investors will be asking Mr. Powell on Wednesday is if they have softened enough to imply a steady pace of rate cuts through year-end and potentially beyond, understanding inflation remains elevated. And speaking of inflation, last week's data showed tariff effects creeping in below the surface, with increases in services inflation, food and energy that remain elevated, areas that Fed policy can't easily bring down.

Bottom line: This week's Fed update will hold key information about how policymakers want to frame the economic environment post rate cut (i.e., the policy statement), how Fed officials see their economic forecasts evolving as a result (i.e., Summary of Economic Projections), and how Fed Chair Powell personally views conditions as well as dynamics shaping Fed headlines outside of the economy (i.e., press conference). In our view, there will be no shortage of information for investors to glean from this week's Fed meeting, and as a result, help determine if the market has current rate cut expectations through year-end geared correctly.

The week ahead:

- In addition to the Fed's rate decision, statement, updated economic projections and Chair Powell's press conference following the meeting, markets could react to other, more complicated factors swirling around the Fed at the moment. Given Powell's term as Chair ends in May 2026, shifting dynamics around his potentially eroding influence within the FOMC, additional governor dissents and political pressure from the administration to lower rates may color the market's interpretation of this week's policy update.
- On the economic docket, August retail sales (Tuesday) will be the key release, with industrial production, housing, and trade data all on the docket. And speaking of trade, U.S. and China officials resumed talks on trade and other matters in Madrid, Spain, on Sunday and will continue their discussions on Monday.
- Finally, headlines will begin to turn to the fast-approaching September fiscal deadline where Congress must pass a government funding bill by September 30. Thus, prospects for a government shutdown will likely be on the back of investors' minds as we move closer to month-end. Republicans could look to vote on a clean continuing resolution this week that would fund the government through November 20. However, the bill will likely fall short of receiving the seven Democratic votes needed to pass in the Senate, and a bipartisan agreement still looks out of

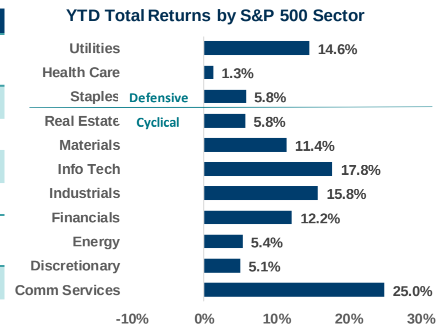
reach. That said, we expect some form of a funding agreement to eventually pass through Congress, and any potential market volatility associated with a shutdown (should one occur) to be temporary.

Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 6,584	1.6%	2.0%	13.0%	28.2	25.7	1.1	1.4
Dow Jones Industrial Average: 45,834	1.0%	0.7%	9.1%	24.1	22.3	1.6	1.9
Russell 2000 Index: 5,957	0.3%	1.3%	8.5%	62.3	44.2	1.2	1.3
NASDAQ Composite: 22,141	2.0%	3.2%	15.2%	40.5	38.4	0.6	0.7
Best Performing Sector (weekly): Info Tech	3.1%	3.3%	17.8%	44.1	34.2	0.5	0.8
Worst Performing Sector (weekly): Consumer Staples	-0.2%	0.3%	5.8%	25.4	23.1	2.4	2.5

Source: Factset. Data as of 09/12/2025

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.4%	1.3%	6.5%
West Texas Intermediate (WTI) Oil: $62.67	0.7%	-2.6%	-13.5%
Spot Gold: $3,643.09	1.6%	5.7%	38.8%
U.S. Dollar Index: 97.55	-0.2%	-0.2%	-10.1%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 3.57%	3 bps chg	-5 bps chg	-68 bps chg
10-year U.S. Treasury Yield: 4.06%	-3 bps chg	-16 bps chg	-52 bps chg

Source: Factset. Data as of 09/12/2025. bps = basis points



Source: S&P Global, Factset. Data as of 09/12/2025

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Diversification does not assure a profit or protect against loss.

There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

International investing involves certain risks and volatility due to potential political, economic, social, or currency instabilities and different financial and accounting standards. These risks are enhanced for **emerging markets**.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the largest 2000 securities in the Russell 3000.

The **S&P 500 Information Technology Index** comprises those companies included in the S&P 500 that are classified as members of the Global Industry Classification Standard (GICS) information technology sector.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The **Consumer Price Index** (CPI) is an inflation indicator that measures the change in the total cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly by the Commerce Department and is also commonly referred to as the cost-of-living index.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the U.S. that measures how consumers feel about the economy, personal finances, business conditions, and buying conditions.

Producer Price Index (PPI) measures change in the prices paid to U.S. producers of goods and services. It is a measure of inflation at the wholesale level. The index is published monthly by the U.S. Bureau of Labor Statistics (BLS).

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