Weekly Market Perspectives

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The Fed Resumes Rate Cuts. What Might A Fed Pivot Mean For Stocks Moving Forward?

Major U.S. stock averages again hit new highs last week. Notably, the Russell 2000 Index broke its November 2021 peak for the first time, signaling market participation in the current rally is broadening beyond Big Tech and mega-cap stocks. As expected, the Federal Reserve lowered interest rates for the first time since December. Apple released its annual suite of updated iPhones to generally positive reviews and strong consumer demand out of the gate. This week, several Fed Governors will speak about their views on monetary policy and the rate environment, while PCE inflation and home data line the calendar.

Last week in review:

- The S&P 500 Index and NASDAQ Composite rose by +1.2% and +2.2%, respectively. Each benchmark hit fresh highs and climbed higher for the third straight week.
- The Russell 2000 Index jumped +2.2% and finished higher for the seventh-straight week. A Federal Reserve rate cut last week, expectations for more rate cuts this year (to help ease short-term borrowing costs for small businesses), and stable U.S. economic conditions have placed a tailwind behind small-cap stocks. The Dow Jones Industrials Average rose +1.1% on the week.
- U.S. and global equity funds took in their largest week of flows since December, according to *EPFR Global*. However, retail investor sentiment remains guarded, with those reporting a bearish view on stock returns over the next six months outnumbering those that are bullish on stock returns for the seventh straight week, according to the latest *American Association of Individual Investors Survey*.
- U.S. Treasury prices were weaker across the curve as yields edged higher. Gold posted a modest gain, while the U.S. Dollar Index and West Texas Intermediate (WTI) crude ended mostly flat.
- On the corporate front, Alphabet hit a $3 trillion market cap driven by momentum in Gemini and its Nano Banana artificial intelligence apps. NVIDIA and Intel will partner to boost PC and datacenter chip development, and FedEx beat profit expectations for the previous quarter but warned of trade headwinds potentially reducing global demand.
- Finally, on the economic and political front, August retail sales beat expectations, weekly initial jobless claims saw their biggest weekly decline in roughly four years, and the Senate failed to pass a stopgap bill, which the House passed, to fund the government past September 30.

The Fed resumes rate cuts. What might a Fed pivot mean for stocks moving forward?

In the weeks leading up to the September Fed meeting, investors' attention had squarely turned to the evolving dynamics in the U.S. labor market. Employment data across several measures had begun to show clear signs of softening. Notably, nonfarm payrolls growth slowed to an average of just +75,000 per month in 2025 through August, a sharp deceleration from the +168,000 pace in 2024. The annual BLS revision subtracted 911,000 jobs from prior estimates, and the unemployment rate in August ticked up to 4.3%, its highest level since late 2021.

At the same time, inflation remains stubbornly above the Fed's +2.0% target, with tariff effects and goods prices contributing to the recent uptick. These developments, coupled with mounting political pressure for lower interest rates, set the stage last week for a pivotal policy decision from Fed Chair Powell and company.

Against this backdrop, market participants entered the Fed meeting last week with high expectations for a dovish shift in policy tone and a resumption of rate cuts, after the Fed had stayed sidelined since December. As expected, the Federal Open Market Committee (FOMC) lowered the fed funds target rate by 25 basis points to 4.00% – 4.25%. We would note that the Fed typically doesn't disappoint the market when odds for a rate cut are so heavily tilted in one direction. In addition, the updated September policy statement marked a notable dovish tone. Policymakers acknowledged that "*job gains have slowed and the unemployment rate has edged up*", removing prior language that characterized the labor market as "*solid*." The statement also explicitly judged that downside risks to employment have risen, signaling a pivot from inflation as the dominant concern to a more immediate focus on labor market weakness. This shift was further reflected in the September Summary of Economic Projections (SEP), which now shows an additional 50 basis points of rate cuts by year-end, with the median "dot" implying two more 25 basis point reductions at the October and December meetings. Interestingly, growth forecasts for 2025 and 2026 were marked up slightly, while unemployment and inflation projections remained largely unchanged. **Bottom line: The Fed lowered rates last week to help preemptively avoid further labor market stress, which, in our view, is the right call.** At the same time, policymakers' growth forecasts edged higher for 2025 and 2026, amid a still elevated inflation environment. Importantly, the road ahead for growth, inflation, and policy remains clouded by tariffs, trade, and dynamic and uncertain responses to each. Thus, the Fed still forecasts just one 25 basis point rate cut in 2026 and one in 2027, a clear sign that policymakers are still unsure of what lies ahead.

To help put the Fed's move last week into historical perspective, it's interesting to look at how stocks have typically responded when the Fed reinitiates rate cuts after a pause of six months or more. *Ned Davis Research* highlights that since the 1970s, the S&P 500 Index has averaged a +15.0% gain in the year following such a Fed pivot, compared to a roughly +12.0% average gain after the first cut of a regular easing cycle. The composition of market leadership can also vary by the degree to which rate cuts resume after a pause. For example, when the Fed cuts rates just once or twice after a pause of six months or more, cyclicals and Technology stocks tend to outperform. This is because growth in the economy and across corporate profits remains largely positive in an environment where borrowing costs are easing. Yet, when four or more cuts follow the pause (indicating rising economic and market stress), defensive sectors tend to outperform. That said, since the Fed began its easing cycle last September, the S&P 500 is up roughly +18.0%, in line with the +17.0% average gain seen in the previous five easing cycles since 1984, according to *Goldman Sachs*.

In a somewhat similar vein, this historical context can be applied to the current relationship between falling bond yields and stock prices. Since May, the 10-year U.S. Treasury yield has been on a bumpy decline, and the S&P 500 has posted strong gains over the same period. Simply, lower rates make future corporate earnings more attractive when discounted to their present value, supporting higher equity valuations. **Bottom line: Lower discount rates increase the present value of future cash flows for companies, making equities more appealing relative to fixed income alternatives, all else equal.**

At present, stock prices are benefiting from a host of positive factors, including secular tailwinds from AI and technology investment, strong corporate profits overall, stable economic conditions, and, more recently, lower interest rates across both the short and long ends of the curve. In our view, if longer-term rates remain contained and economic deterioration is avoided, equities could see a modest tailwind through year-end outside of short-term bouts of volatility. However, it's important to recognize the risks. Any resurgence in macroeconomic, policy, or government funding concerns that push yields back above, say around 4.5% or higher, would likely create headwinds for stock prices, especially if accompanied by further labor market weakness or inflation surprises. As we have often pointed out in this commentary, investors' constructive tone is thus contingent on the absence of negative surprises across labor and inflation data throughout the rest of the year.

Looking ahead, we believe the Fed's renewed easing stance is a constructive development for risk assets overall, provided labor market conditions do not deteriorate further and inflation remains manageable. This set-up largely fits within our base case assumptions through year-end. Historical precedent and current market dynamics suggest the S&P 500 might have some room to run modestly higher, particularly if S&P 500 companies can deliver on third quarter profit expectations, with reports beginning to roll in next month. Yet, our investment guidance remains unchanged. As we have stated for many months now, we believe investors are well-served by maintaining a well-diversified portfolio built on a guarded, but constructive outlook for the trajectory of equity prices through the rest of the year.

The week ahead:

- Central bank policy is starting to diverge modestly across major economies. Here in North America, the Bank of Canada and the Federal Reserve have recently lowered their policy rates, while the Bank of England and the European Central Bank are holding policy rates steady. The Bank of Japan held its policy rate steady last week but could lift rates before year-end. This week, a host of Fed speeches and presentations line the week here at home, with Governor Miran telling *CNBC* he will provide a full account of his economic views and forecasts when he speaks to the Economic Club of New York on Monday.
- Preliminary looks at September manufacturing and services activity on Tuesday, August new and existing home sales (Wednesday and Thursday), and a final look at Q2 GDP (Thursday), as well as the Fed's preferred inflation measure on Friday, will keep economic data front and center this week amid a flurry of Fed speeches.

Stock Market Recap

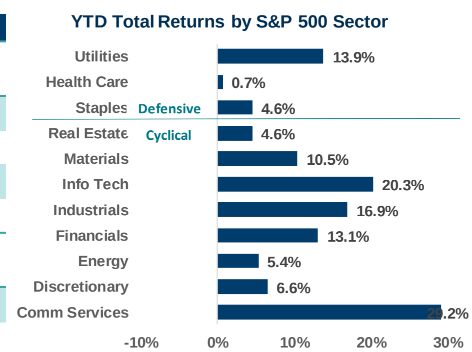
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 6,664	1.2%	3.3%	14.4%	28.4	25.7	1.1	1.4
Dow Jones Industrial Average: 46,315	1.1%	1.8%	10.3%	24.3	22.3	1.5	1.9
Russell 2000 Index: 6,086	2.2%	3.6%	10.9%	63.7	44.2	1.2	1.3
NASDAQ Composite: 22,631	2.2%	5.5%	17.8%	40.7	38.4	0.6	0.7
Best Performing Sector (weekly): Comm Services	3.4%	9.6%	29.2%	24.0	22.8	0.6	0.8
Worst Performing Sector (weekly): Consumer Staples	-1.2%	-0.9%	4.6%	25.1	23.1	2.5	2.5

Source: Factset. Data as of 09/19/2025

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.2%	1.1%	6.4%
West Texas Intermediate (WTI) Oil: $62.67	-0.6%	-2.6%	-13.5%
Spot Gold: $3,687.40	1.2%	7.0%	40.5%
U.S. Dollar Index: 97.64	0.1%	-0.1%	-10.0%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 3.58%	1 bps chg	-4 bps chg	-67 bps chg
10-year U.S. Treasury Yield: 4.13%	6 bps chg	-10 bps chg	-45 bps chg

Source: Factset. Data as of 09/19/2025. bps = basis points



Source: S&P Global, Factset. Data as of 09/19/2025

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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.

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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 **American Association of Individual Investors (AAII) Survey** is a weekly survey conducted by AAII that offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months with options for bullish, neutral, or bearish.

Personal consumption expenditures (PCE) are a measure of the outlays or how much consumers are spending. The PCE reading is released monthly by the Bureau of Economic Analysis.

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