Monthly Market Update

September 2025

Highlights:

- Market trends shifted in August: the S&P 500 gained 2.0%, Health Care rebounded, and small caps rallied, while Technology lagged.
- While long-term bond rates remained stable, short-term yields fell sharply, benefiting investors in the 2-4 year maturity range.
- Markets reacted to Fed Chairman Powell's Jackson Hole remarks, with expectations growing for a September rate cut and possible second cut before year-end, despite inflation remaining close to 3%.
- Signs of weakness emerged in some of the mega cap technology stocks, with concerns over valuations, AI profitability, and costly data center build-outs.

As Wall Streeters took their August vacations, the stock market drifted higher, with the S&P 500 moving up 2.0%, taking the year-to-date return into double digits at 10.8%. The market gains were in many ways contrary to this year's trends, with the year's weakest sector, Health Care, jumping 5.4% and Technology up just 0.3%. The Russell 2000 small-cap index, which had been dramatically trailing larger stocks with a flat year-to-date return, jumped 7.1%. Meanwhile, bond rates held steady at the long end of the curve while dipping sharply on the shorter end, which produced particular rewards for investors in the 2-4 year range.

The major driver of these trends was the anticipation of Federal Reserve action. Fed Chairman Powell's comments at the Jackson Hole meetings in late August raised expectations for a September cut to a near consensus. Odds for a second cut before the end of the year also rose. This is despite inflation remaining stubbornly close to 3%, with the prospect of tariff-induced price increases still looming. But Powell was clear that the board was focusing more on the second part of their mandate – the labor market. Softening employment numbers were now becoming the Fed's primary concern, stating "the downside risks to employment are rising...and if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment."

Some of the technology stocks riding the AI wave (NVIDIA, Meta, and Microsoft) showed signs of weakness in August, as extended valuations of the largest technology companies have induced considerable volatility. While AI spending and its subsequent expectations remain in place, there have recently been some tremors in the foundations. For instance, a mid-month paper from MIT concluded that while generative AI holds much promise, the vast majority of current implementations have not been additive to the bottom line. The massive build-out of multi-billion-dollar data centers has reminded some observers of the equally expensive boom in laying broadband-capable fiber optic lines in the 1990s. While the technology proved essential for today's technology demands, it produced mixed results for the companies involved.

Looking ahead, it's worth remembering that September has historically been a difficult month for stocks, with the S&P 500 dropping an average of -4.2% over the past five years. The backdrop is also concerning, as many Wall Street analysts, looking at the impacts of tariffs and other factors, have been lowering their earnings forecasts at a time when the overall market is at 22x earnings, well above its 30-year average of 17x. The rotation of sector returns in August suggests the possibility that the main drivers of trailing index returns could be in for a pause as investors begin to look to less-stretched areas of the market. This could bode well for the diverse, quality-centric portfolios we have always emphasized.

Portfolio Manager Q&A - Andy Romanowich

What are some of the key themes you've heard from second quarter earnings and/or potential red flags that investors should be considering?

It's been a robust earnings season, but one consistent theme is that there is still a lot of uncertainty, despite management teams feeling better than a quarter ago. One CEO put it well on his earnings call, stating that companies are becoming "more comfortable being uncomfortable." To us, this environment feels more fragile; management teams don't seem to have a lot of confidence that the strong results will continue. If we do see a slowing in demand or a further increase in prices, we think companies may be quicker to cut headcount or to pull back on capital investments. We're also seeing pockets of slowing demand outside of AI, and consumers are becoming increasingly price-conscious.

Andy Romanowich, CFA
Portfolio Manager, Analyst

Recent economic data has sparked fears of stagflation (rising prices with slowing economic growth). What do you look for in a company that can weather this type of challenging macro environment?

We seek companies that are durable and can withstand stagflation or any other challenging environment. We've been consistent and disciplined in the characteristics of the businesses we look for. When we think about durability, we first think about the stability of a company's demand profile. Take internet service, for example. If the economy starts to slow or inflation rises, consumers are likely to continue using their internet service. The same goes for insurance. Although there may be fewer policies to write, consumers and businesses will still require insurance. So, there is stability in the demand for these services. We also focus on strong value propositions. Discount retailers, for example, whose core value proposition is to save people money, are positioned well for this type of environment. Lastly, a focus on strong balance sheets leads us to companies that have less debt. Net cash positions are very common across our portfolio. These businesses can play offense when their competitors might be focused on making their next interest payment or refinancing their debt. Our businesses can continue to invest opportunistically or buy back shares.

While you are focused on bottom-up stock selection, the factors that have been driving markets this year are hard to ignore. Do you think equity returns have become detached from fundamentals?

The short answer is yes. Several data sets indicate that the market is in pure risk-on mode. One example is to examine the performance of stocks with the highest short interest. These are businesses that tend to have high debt, aren't earning money, and investors question the durability of their business models. Not the types of stocks we invest in. The top 10% most shorted stocks, which have historically performed poorly, have been performing very well recently. This has occurred a few times in the past, most notably before the tech bubble and during the COVID re-opening with the meme stock craze—both periods that didn't end well.

We also look at factor analysis. High momentum has been the leading factor over the last year and a half. This has little to do with the underlying fundamentals of these businesses, unlike the Low Volatility factor, for example, which reflects more consistent businesses.

Specific to mid caps, if you look at what's been working this year in the Russell Midcap Index, the characteristics of the top 20 performing stocks in the index also reflect the speculative market. Half of these top performers are actually losing money, yet investors continue to bid them higher, hoping they will turn a profit in the future.

So, despite the risk-on market, we will continue to focus on managing risk by investing in high-quality, durable businesses.

How has your view on AI evolved? With companies continuing to spend on AI infrastructure, have you found opportunities in the mid cap space that meet the quality and durability criteria we look for?

There's certainly a lot of money going into the infrastructure buildout. There are also questions about the return companies are seeing on pilots of AI applications. Lots of moving parts, so we're staying very close to the developments here. But an important distinction is that we are seeking truly exceptional investments; we're not just looking to gain exposure. We believe there are some very compelling opportunities that will benefit from the buildout. Amphenol, a company we've owned for 16 years in the mid cap portfolio, is a good example. We first invested because it has an exceptional moat, management team, culture, and balance sheet. And over time, we got to know it well. It has proven itself to be a durable business; it is not a new company. Amphenol makes interconnect products that perform critical functions. Their components are in mobile phones, automobiles, and industrial, aerospace, and defense applications. They are really spread throughout the economy. But they are also very useful in AI data centers, as they connect servers, Graphics Processing Units (GPUs), and help distribute power, facilitate cooling, and more. We believe the data center buildout is still in the early innings, and Amphenol is well-positioned to benefit, given its wide moat and differentiated products. It is an AI beneficiary, but it has all the marks of a durable business, and it trades at a reasonable valuation.

U.S. Equities (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	3.4	8.3	11.4	15.3	12.0	13.1
S&P 500	2.0	10.8	15.9	19.5	14.7	14.6
Russell 1000	2.1	10.8	16.2	19.3	14.3	14.3
Russell 1000 Value	3.2	10.0	9.3	12.9	13.0	10.2
Russell 1000 Growth	1.1	11.3	22.6	25.0	15.2	17.9
Russell Midcap	2.5	9.4	12.6	13.6	12.0	10.9
Russell 2000	7.1	7.1	8.2	10.3	10.1	8.9

U.S. Equity Sectors - S&P 500 (%)

	August	YTD	Weight
Communication Services	3.6	17.9	10.0
Consumer Discretionary	3.4	2.0	10.5
Consumer Staples	1.6	5.5	5.2
Energy	3.6	7.5	3.0
Financials	3.1	12.6	14.0
Health Care	5.4	0.8	9.1
Industrials	0.0	16.1	8.5
Information Technology	0.3	14.0	33.5
Materials	5.8	11.6	1.9
Real Estate	2.2	5.7	2.0
Utilities	-1.6	13.0	2.4

U.S. Equity Characteristics - S&P 500

	August	2024
Price/Earnings Ratio (NTM)	22.4	21.6
Weighted Avg. Market Cap ($B)	1,264.2	1,117.1
Dividend Yield (%)	1.2	1.3

International Equities (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	2.5	14.3	15.8	17.7	12.0	11.1
ACWI ex USA	3.5	21.6	15.4	15.1	8.9	7.3
MSCI EAFE	4.3	22.8	13.9	17.0	10.2	7.4
Emerging Markets	1.3	19.0	16.8	10.8	5.2	6.9
China	4.9	29.0	47.6	9.9	-2.0	5.6
Japan	7.0	17.8	12.9	15.9	8.7	7.2
Germany	1.2	33.5	30.6	27.2	9.9	7.5
United Kingdom	3.7	24.7	16.5	17.7	13.9	6.6
India	-3.1	-2.6	-11.8	7.7	13.1	9.1

Key Asset Prices

	August	2024
EUR/USD	1.17	1.04
USD/CAD	1.37	1.44
USD/JPY	146.90	157.37
GBP/USD	1.35	1.25
Bitcoin ($)	108,236.7	93,429.2
Gold ($/oz)	3,448.0	2,608.0
Crude Oil (WTI) ($/bbl)	64.4	72.4

Fixed Income (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	1.1	4.5	2.4	2.1	-1.4	1.2
Municipal	0.9	0.3	0.1	2.6	0.4	2.2
U.S. Aggregate Bond	1.2	5.0	3.1	3.0	-0.7	1.8
Investment Grade Corporate	1.1	5.4	3.9	4.5	0.0	2.9
High Yield	1.2	6.4	8.3	9.3	5.2	5.8

U.S. Treasury Yields (%)

	August	2024
3-Month	4.2	4.4
6-Month	4.0	4.2
2-Year	3.6	4.3
5-Year	3.7	4.4
10-Year	4.2	4.6
30-Year	4.9	4.8

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Diversification does not assure a profit or protect against loss in a declining market.

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The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 US blue-chip companies. The index covers all industries except transportation and utilities.

The S&P 500® Index is a large cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the US.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

The Russell 1000® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

The Russell 1000® Value Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

Russell 2000® Index is a small cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

The Russell Midcap® Index is a mid cap market index which measures the performance of the mid cap segment of the US equity universe.

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The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

China - MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

Government Bond - Bloomberg US Government Index measures the performance of the US Treasury and US Agency Indices, including Treasuries and US agency debentures. It is a component of the US Government/Credit Index and the US Aggregate Index.

Municipal - Bloomberg US Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

US Aggregate Bond - Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg US Credit Index measures the investment grade, USD-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying portfolio holdings and not the yield of the portfolio.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

A basis point is one hundredth of a percent.

Yield Curve: a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward-sloping curve), inverted (downward-sloping curve), and flat.

The federal funds rate is the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. Duration measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

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