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Capital Markets Commentary – September 2025

On Friday, August 22nd, at the Fed's annual Jackson Hole symposium, Jay Powell made one of the most highly anticipated speeches of his tenure as Fed Chair. It came following the Bureau of Labor Statistics release of unemployment data for July which was at once benign and alarming. How could it be both, you ask? It was benign in that the unemployment rate remained at 4.2% which is widely considered to be full employment, at least statistically. In fact, the unemployment rate has been happily range-bound between 4.00% and 4.20% since May of 2024.[i]

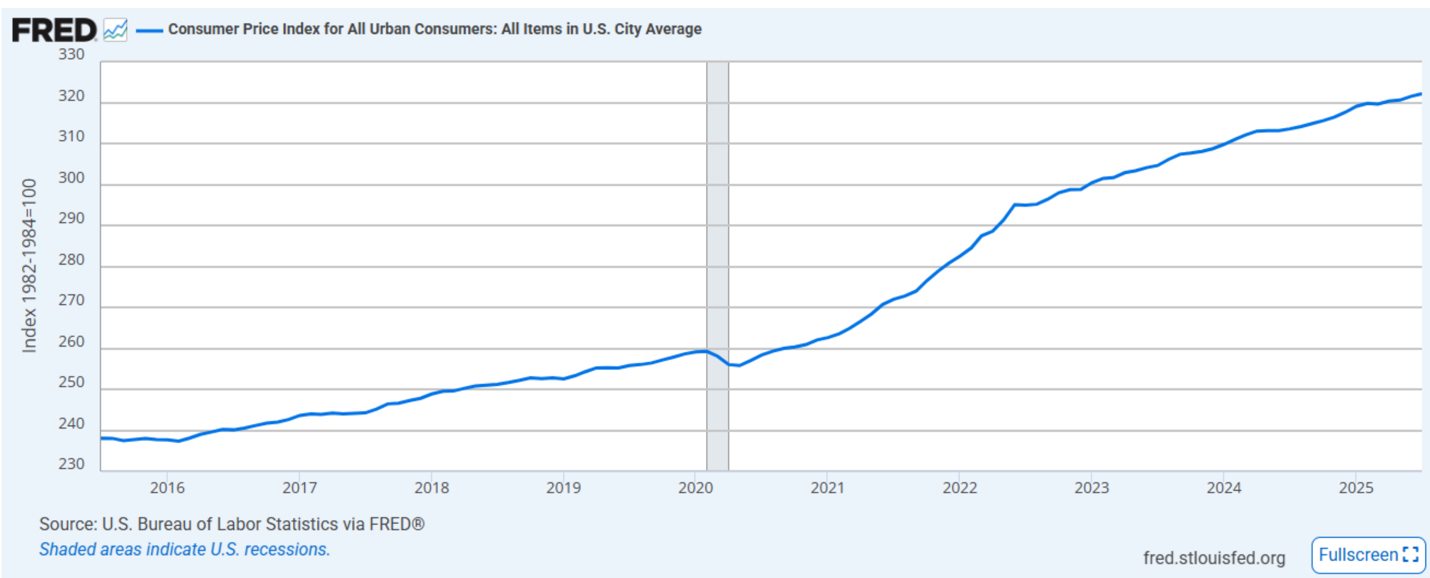
What was alarming were the revisions to previous releases. The May number was revised down from a gain of 144,000 to an anemic gain of just 19,000 and June was revised down from a gain of 147,000 to a paltry 14,000 jobs added.[ii] Revisions are perfectly normal. We can't recall a release, ever, that hasn't been revised, often more than once. The alarming part was the magnitude of downward revision and to some, the fact that the US added so few jobs carried a whiff of recession.

How is it that the unemployment rate remained steady while so few jobs were being created? It all comes down to supply and demand. Yes, there are fewer new jobs (a lot fewer), but there are also fewer people in the workforce demanding those jobs. Less supply (jobs) has been met with less demand (workers) with the resulting unemployment rate coming away unscathed. This leaves the Fed with something of a conundrum, which is why every TV on Wall Street was tuned into Powell's speech. We'll review what he said in a moment and what it all might mean, but first, let's look at the numbers for August.

August was yet another solid month which saw every major global index close in the green. In the US, the Dow came out ahead as investors seemed to grow wary of lofty valuations in the tech space. For the month, the Dow was up 3.4% followed by the S&P 500 which gained 2% and the NASDAQ which closed up 1.7%. Europe produced solid returns as well with the Eurozone

STOXX 50 gaining 3.1%. Asia, however, won the performance horse race last month hands down. Japan's Nikkei 225 gained 6.8% and mainland China's Hang Seng added a whopping 13.5%. As for bonds, this month we'll take their temp by referencing the 30-year US Treasury. The yield on the 30-year started August on the rise and kept rising for much of the month. The 30-year began August yielding 4.80%, but by the end of the month the yield had risen to 4.93%. As of this writing, the yield is pushing 5%[iii] and this brings us to Chair Powell's dilemma.

Recall that the Federal Reserve is mandated by Congress to pursue the dual mission of promoting both maximum employment and stable prices. Since the pandemic, the Fed has done a commendable job of balancing that mandate, but the Board now finds itself in white water. The Trump administration is agitating for a rate cut and even though the unemployment rate is stable, the drop in new jobs coming on-line might support a cut. On the other hand, achieving the stable-prices side of the mandate has proven elusive with tariffs being at least partially responsible. The Consumer Price Index isn't falling, it's rising.



Make no mistake, inflation is much, much tamer than it was in the COVID era, but it's still considerably higher than the Fed wants it to be. The Fed would be inclined to cut rates in order to stimulate the economy if they thought the paucity of new jobs was about to segue into actual job losses, but cutting rates amidst rising inflation only makes inflation that much worse. Furthermore, as we mentioned before, while there are fewer new jobs out there, most Americans who want work are employed and while inflation is still sticky, it's a whole lot tamer than it was.

Morgan Stanley CIO, Lisa Shalett poses an appropriate question:

> "What problem are we trying to solve? Real economic growth remains positive, unemployment is modest, financial conditions are loose and corporate credit is flowing. Furthermore, inflation is well above the Fed's 2% target, as price impacts from tariffs remain undetermined and market valuations are rich. We consider prudent Fed policy to be a close call, with any rate cut benefit likely accruing to financial assets and the US Treasury."
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> The GIC Weekly - August 25, 2025

So, when Powell took to the podium at Jackson Hole, he had the undivided attention of hawks and all doves alike. Powell made note of labor market data calling it, "…a curious kind of balance that results from a marked slowing in both the supply of, and demand for workers." He also noted slowing growth in GDP. Then turned to inflation, saying, "…higher tariffs have begun to push prices up in some categories of goods," adding, "Excluding the volatile food and energy categories, core PCE prices rose 2.9% above their level a year ago…a notable shift from the modest decline seen over the course of 2024."

Then came the words that made equity markets wild with joy:

> "Our policy rate is now 100 basis points closer to neutral than it was a year ago, and the stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance. Nonetheless, with policy in restrictive territory. The baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."
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> Jerome Powell - August 22, 2025

By the end of the day, the NASDAQ and Dow had both risen nearly 2%.[iv] An excessive reaction? Maybe. Powell did not say the Fed *would* cut in September. A cut this month certainly appears more likely than it did before the speech, but does that rate cut necessarily translate into higher equity prices? Nope. Equity investors tend to get VERY excited when it looks like businesses will pay less for loans because savings on interest costs can accrue to earnings. Furthermore, those cheaper loans can spur research and development and other capital expenditures that stimulate the economy. However, as we've argued before, banks aren't obligated to pass a rate cut along to borrowers (although given the opportunity, banks will almost always ding savers by cutting the rates they pay on money market and CD's). As Lisa Shalett posits in the quote above, the most immediate beneficiaries of a rate cut are the banks themselves and the US Treasury. It remains to be seen if businesses or consumers will share those savings.

For that matter, a whole bunch of stuff falls in the "remains to be seen" category. We're not bearish, by any means – in fact, all of the arguments Shalett made against a rate cut would ordinarily inspire us towards bullishness. Nonetheless, with valuations this high and the list of unknowns so very long, we feel the wisest position to inhabit continues to be a defensive one. Where appropriate, it might make sense to selectively cull gains, paying particular attention to concentrated positions. Given the rising chances of a rate cut from the Fed, combined with the potential for higher rates on the long end of the curve, outside of cash management mandates, we're continuing to move off the shortest end of the curve and into the belly.

As always, any time you want to do a deeper dive into your specific positioning (and risk tolerance), we hope you'll never hesitate to call. We look forward to hearing from you.

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[i] Source: Bureau of Labor Statistics, The Employment Situation – July 2025 released August 1, 2025.
https://www.bls.gov/news.release/pdf/empsit.pdf

[ii] Source: Bureau of Labor Statistics, The Employment Situation – July 2025 released August 1, 2025.
https://www.bls.gov/news.release/pdf/empsit.pdf

[iii] Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet

[iv] Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet

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The Standard & Poor's (S&) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index.

Dow Jones Industrial Average (DJIA). A price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

Euro STOXX 50 Index: Provides a blue-chip representation of super-sector leaders in the Eurozone.

NIKKEI 225 Index: This price-weighted index is comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

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