



September Market Update Summary

Hosts Doug Johnson and Dan Rinck opened the September market discussion by noting that, despite a turbulent start to the year, markets have been relatively calm over the summer and into fall. After the sharp decline in April tied to tariff announcements, equity markets recovered strongly, producing solid year-to-date returns across nearly all asset classes.

Equity Markets

The equity story for 2025 so far has been defined by strong global performance, particularly in the first half of the year. International and emerging markets surprised many skeptics, delivering returns near 25% year-to-date, driven largely by an early rally. Though U.S. equities have since regained momentum, international equities' strong early gains allowed them to maintain leadership for much of the year.

Domestically, the S&P 500 has performed well, slightly trailing growth stocks but ahead of value and small caps. Growth's outperformance is largely tied to enthusiasm around artificial intelligence and big technology names. Value and small-cap stocks have produced positive returns but have lagged relative to growth leaders. Both have shown occasional strength but lack the sustained momentum of the large-cap growth cohort.

Doug highlighted this as a reminder of the benefits of diversification. Despite near-consensus advice from Wall Street early in the year to avoid international equities because of tariffs and political risk, international markets ended up being among the strongest performers.

Bond Markets

Bonds have also enjoyed a solid year, recovering from a difficult 2024. While volatility persisted early due to shifting inflation expectations and uncertainty around tariffs, inflation pressures eased and interest rates trended lower, supporting fixed income returns. Corporate bonds led the way, with returns in the 8% range, while high-yield and aggregate bond benchmarks produced mid-6% gains. Even Treasuries contributed positively as yields moved lower.

Gold

Gold has been another standout. Rising steadily throughout the year, gold has delivered impressive returns, attracting investor demand as a diversifier. HCM holds a modest gold allocation within its portfolios, complementing fixed income exposure. Its persistent strength reflects broader investor appetite for hedges amid policy and geopolitical uncertainty.

Market Leadership and Risk Appetite

Equity strength has been driven by risk-on behavior. High-beta stocks have consistently outperformed low-volatility peers, signaling strong investor confidence. Historically, leadership by low-volatility stocks has marked caution, but today's risk appetite suggests continued resilience. Supporting this outlook, credit spreads in the bond market remain tight, indicating little evidence of stress.

Bubble Concerns and Market Concentration

Some observers have compared today's market to the 2000 dot-com bubble or the 2008 financial crisis, citing technology's dominance. Tech now represents a historically large share of the S&P 500, echoing the excesses of 2000. However, Johnson and Rinck emphasized a key difference: today's tech leaders are profitable, established businesses, some even paying dividends and trading at reasonable valuations.

Still, market concentration is undeniable. Since 2021, over half of the S&P 500's market cap gains have come from just ten stocks. While this raises concerns about sustainability, investor sentiment doesn't reflect bubble-like euphoria. Retail investors have actually been net sellers of equities recently, while institutions have increased exposure—suggesting caution rather than mania.

Seasonality and Economic Indicators

Historically, the fall has brought increased volatility. Johnson and Rinck acknowledged this possibility but emphasized that underlying resilience remains intact. While corrections of 5–10% are always possible, conditions do not suggest an imminent 40–50% drawdown. In fact, when viewed against nearly a century of bull markets, the current cycle's trajectory looks fairly average.

Tariffs remain a wildcard, often moving markets unpredictably. Early fears that tariffs would spark runaway inflation have not been borne out. Both the Consumer Price Index (CPI) and Producer Price Index (PPI) remain flat, showing no significant upward pressure.

The labor market presents a more nuanced picture. While unemployment remains historically low at 4.3%, it has risen from a trough of 3.5%. Non-farm payroll revisions showed roughly 911,000 fewer jobs over the past 12–18 months, hinting at some softening. However, job losses remain modest compared to typical recessionary patterns. Other recession indicators—industrial production, retail sales, and real income—have mostly flatlined rather than deteriorated sharply.

Federal Reserve and Rates

Attention now shifts to Federal Reserve policy. Markets widely expect a 25-basis-point rate cut in September, with future moves less certain. Real interest rates—yields adjusted for inflation—have hovered around 1.6% for nearly two years, which is historically restrictive. Powell’s recent Jackson Hole remarks suggested the Fed may prioritize labor market stability over inflation, signaling a potential shift in focus.

History shows that rate cuts can be bullish for equities when not accompanied by recession. In non-recessionary environments, equities often rally after cuts, while recessions typically bring steeper declines. Importantly, the pace of cuts matters: gradual cycles are supportive, while aggressive ones can spook markets.

Earnings Outlook

Ultimately, earnings will drive markets. Current consensus projects double-digit earnings growth for both 2025 and 2026. While valuations for leading tech names are elevated, robust earnings expectations provide support. Sustained growth would help justify today’s market levels.

Economic Scenarios

Johnson and Rinck outlined three potential paths for the next 6–12 months:

- 1. Softish Landing (Base Case):**
 - a. Stable economic growth.
 - b. Fed cuts rates gradually.
 - c. Inflation contained in the 2–3% range.

- d. Equities and bonds both perform well, similar to trends seen in 2025.

2. Hard Landing:

- a. Typical recession scenario.
- b. Aggressive Fed rate cuts, possible deflation.
- c. Bonds outperform, stocks decline.
- d. Defensive value stocks and dividend payers hold up better than growth.

3. Perfect Landing:

- a. Economic growth accelerates as rates and inflation fall.
- b. Manufacturing rebounds, small caps and cyclical value stocks lead.
- c. Market returns could be very strong, led by segments that have lagged in recent years.

At present, the data best supports the soft-landing outlook. Neither hard-landing recessionary signals nor perfect-boom indicators are visible in the economic data.

Closing Thoughts

Johnson summarized that, despite concentration risks and seasonal volatility, the market remains resilient. Earnings growth, contained inflation, and supportive monetary policy suggest equities can continue delivering positive returns into year-end. While risks remain, including potential labor market weakening or tariff-driven uncertainty, the baseline expectation is continued, though possibly choppy, growth.

The discussion closed with a reminder that HCM will provide more frequent updates now that summer is over, and encouraged investors to reach out to their advisors with questions or concerns.