



## Market Commentary

### September 2025

#### Equity and Bond Market Update

(as of August 31, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+8.3%	+11.5%
S&P 500 Total Return Index	+10.8%	+15.9%
Russell 2000 Total Return Index	+7.1%	+8.2%
MSCI EAFE Index (net)	+22.8%	+13.9%
MSCI Emerging Markets Index (net)	+19.0%	+16.8%
Bloomberg US Aggregate Bond TR	+5.0%	+3.1%

#### Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.3%	Aug 2025
Gross Domestic Product (GDP)	+3.3%	Q2 2025
Consumer Price Index (CPI) – Y/Y	+2.7%	Jul 2025
Consumer Confidence (1985=100)	97.4	Aug 2025
30-year fixed mortgage rate	6.58%	Wk of Aug 31
Housing Starts (single family)	913,000	Jul 2025
10-Year Treasury Yield	4.23%	8/29/2025

All major domestic and foreign equity indices closed out August with gains, with the small-cap Russell 2000 Index leading the pack, advancing +7.0% during the month, followed by foreign developed markets (+4.1%), the S&P 500 Index (+1.9%) and emerging markets (+1.2%). U.S. equity markets have been supported by expectations for a Fed rate cut at the mid-September meeting, AI and technology sector momentum, stabilizing inflation data, and strong earnings from major firms. Along the way, the aggregate bond market was up +1.2%, closing out the month with a year-to-date return of +5.0%.

The U.S. economy grew at an annualized rate of +3.3% in the second quarter, a strong rebound from the -0.5% contraction in the first quarter. Consumer spending remained resilient, with Personal Consumption Expenditures (PCE) rising +0.5% in July, while personal income climbed +0.4%. Retail sales showed solid back-to-school demand, with strength in discretionary categories like apparel and electronics. Currently the Federal Reserve Bank of Atlanta is estimating that our domestic economy will close out this quarter with +3.0% growth.

Job growth in the labor market has moderated significantly. Over the past three months, average payroll gains have slowed to under 30,000 per month. Sectors such as manufacturing and warehousing showed stagnation, while high-skill services remain more stable. Younger worker and entry-level employment figures have been particularly weak, fueling concerns about a hidden recession. As of the writing of this commentary on September 9<sup>th</sup>, the Bureau of Labor Statistics issued a press release that showed 911,000 fewer jobs than previously reported over the period of April 2024 through March of 2025, adding fuel to the expectation that the Fed will cut the fed funds rate at this month's meeting. At this point, the futures market is projecting a 100% chance of a rate cut, with 10% of futures contracts pricing in a 50 basis point cut.

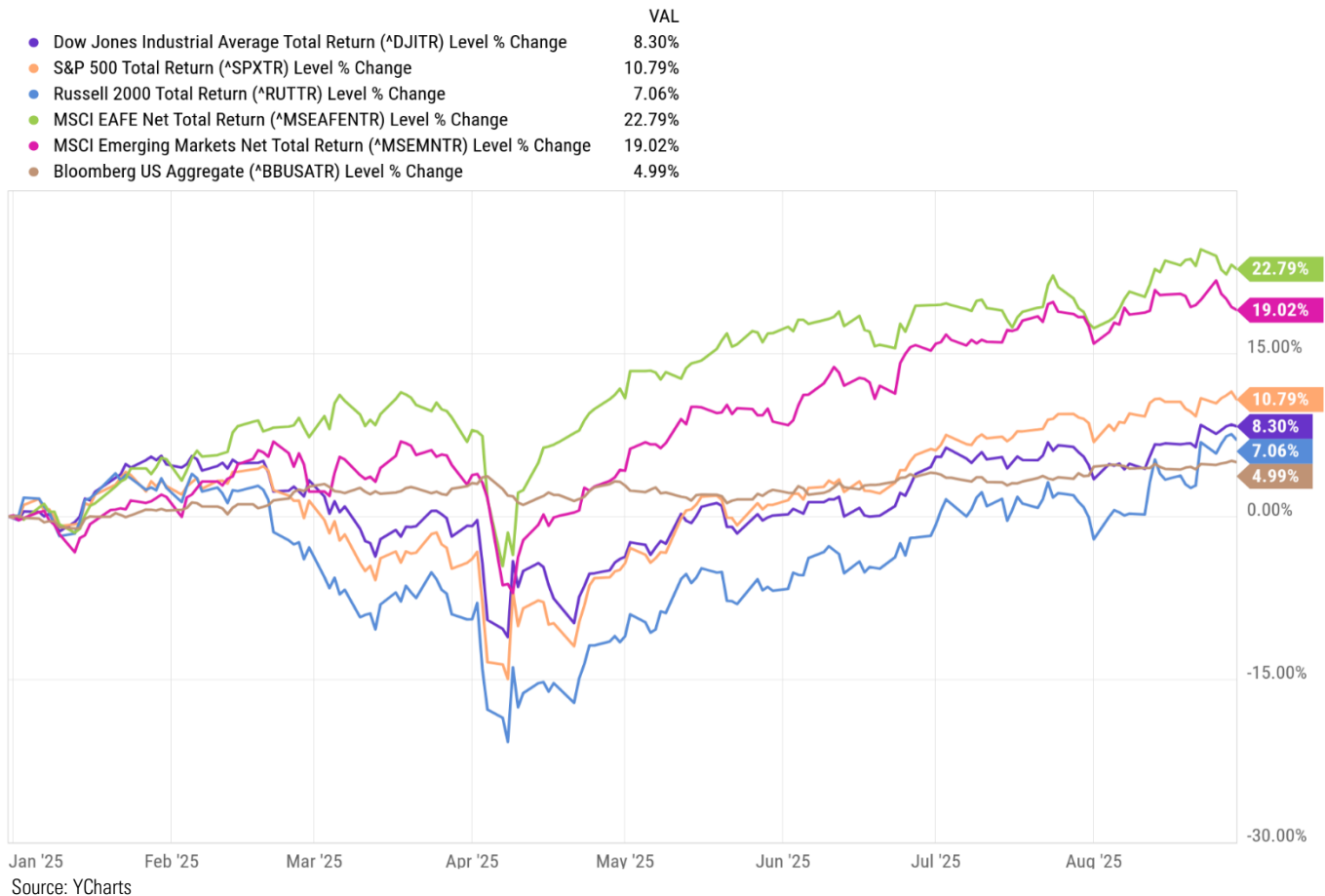
The value of the U.S. dollar continues to show weakness, falling -10% year-to-date and approaching exchange levels we haven't seen in over three years. This has provided much of the outperformance in foreign equity and bond markets this year, with changes in the exchange rate alone providing most of this return. Given all of the uncertainty still brewing in domestic markets and the U.S. economy, we have conviction that this will continue over the next twelve months, albeit to a lesser degree than we have seen so far this year.

With tamed inflation and weakening labor market factors, the expectation of rate cuts is moving the bond market and Treasury yields. The relationships among different terms on the yield curve can be described as follows:

Term	Description	Current yield
3-Month	Closely tracks the current federal funds rate	4.1%
2-Year	Influenced by current and anticipated changes in the fed funds rate over the near-term	3.5%
10-Year	Reflects longer-term expectations about economic growth, inflation, and long-term Fed policy	4.1%

With an effective fed funds rate currently set at 4.33%, the 3-month Treasury yield at 4.1% is still pegged to this short-term rate, but is

## Major Market Indices Total Return (YTD through July 31, 2025)



showing the expectation of a 25bps cut at the upcoming Fed meeting. The 2-year Treasury yield topped off earlier this year at around 4.4%, and has since dropped to 3.5%, signaling the expectation that the Fed will continue to cut rates over the near-term. There is optimism for the U.S. economy based on these short-term rate cut expectations, but the 10-year Treasury, on the other hand, may be signalling the market's prediction of weakness coming over the horizon. The drops in the 10-year, mostly since mid-May this year, are showing that rate cuts may be coming due to a potential recession, and not just from an easing in policy. Recall, as we have discussed in the past, that over the last 75 years, our last ten recessions have either been preceded by or coincided with fed rate cuts. The most recent recessions we have experienced going back to the early 1990s saw rate cuts as far ahead of time by close to twelve months. Our current rate cut cycle began roughly about one year ago, so continued weakness in the next twelve months wouldn't be unusual.

Equity analysts are projecting a +16% increase in corporate earnings over the next twelve months. These optimistic earnings expectations are being set even in an environment where we are mostly seeing recent tariff increases being eaten by companies rather than consumers (increased costs not showing up, at least yet, in recent inflation numbers). If this continues to be the case, it will be harder for the corporate community to meet these lofty expectations with margins being eaten up by increased input costs.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at [pjackson@lsaminc.com](mailto:pjackson@lsaminc.com) should you have any questions or comments.

Sources: S&P Dow Jones Indices website ([us.spindices.com](http://us.spindices.com))  
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 The Conference Board ([www.conference-board.org](http://www.conference-board.org))  
 Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))  
 JP Morgan Guide to the Markets  
 CME FedWatch Tool ([www.cmegroup.com](http://www.cmegroup.com))

FTSE Russell ([www.ftserussell.com](http://www.ftserussell.com))  
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 Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov))  
 United States Census Bureau website ([www.census.gov](http://www.census.gov))  
 Federal Reserve Bank of Atlanta (<https://www.atlantafed.org/cqer/research/gdpnow>)  
 OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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