Wealth Advisory Market Update

September 8, 2025

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Market Update

Market Commentary – September 2025

Markets extended their upward momentum in August, with the S&P 500 rising just over 2%. However, market breadth remains narrow, as gains continue to be driven by a handful of mega-cap technology names. Valuations in this segment have reached extremely elevated levels—historically seen only during speculative bubbles. From a fundamental standpoint, we are now in one of the most expensive markets in history.

As we have noted before, fundamentals are poor predictors of market tops or bottoms. However, they do help guide our willingness to take on risk. Given the current valuation extremes, we are adopting a more cautious stance in our equity allocations. We have reduced overall equity exposure and positioned more defensively at the sector level.

A record-setting **$980 billion in stock buybacks** has been announced so far this year, raising concerns that much of the EPS growth is being fueled more by financial engineering than organic business expansion.

Spending on artificial intelligence (AI) remains a dominant market theme. However, near-term returns remain elusive. A recent MIT study found that **95% of companies see no measurable return** on AI investments to date. Across the industry, capital outlays continue to outpace revenue generation. At present, only chipmakers and data center infrastructure providers are profiting meaningfully from AI-related demand. The end-use applications remain largely unprofitable and would require significant technological breakthroughs to become viable at scale.

Valuations remain historically stretched across multiple metrics. When combining indicators such as Trailing and Forward P/E, CAPE, Price-to-Book, Price-to-Sales, EV/EBITDA, Market Cap-to-GDP, and the Q ratio, the average percentile ranks among the highest ever recorded, exceeding even 1929 and 2001 levels. Within the S&P 100, more than two-thirds of companies trade at P/E multiples above 30, and over a quarter (27.2%) trade above 50.

In our view, this is an opportune time to take some risk off the table. Accordingly, we've trimmed exposure and reallocated toward more defensive sectors. As market conditions and valuations improve, we remain prepared to redeploy capital strategically.

Economic Indicators & Monetary Policy

Recent labor market data has fallen notably short of expectations:

- The **JOLTS report** showed, for the first time since April 2021, **more unemployed individuals than job openings**.
- The **ADP private payrolls** report added just 54,000 jobs, well below the expected 75,000.
- The **BLS report** confirmed only 22,000 jobs were created in August—marking the weakest print since 2020 and far below forecasts.
- The **unemployment rate rose to 4.3%**, the highest level since October 2021.

- June and July job figures were revised downward by a combined 21,000. Notably, June registered a **net job loss of 13,000**, the first negative monthly print since December 2020.

The three-month average job growth now stands at just 29,000, indicating a **sharp and accelerating slowdown** in labor market momentum. Full-time employment fell by 357,000, marking the second consecutive monthly decline.

These developments have shifted expectations heading into the September FOMC meeting. Markets are now fully pricing in a rate cut, with some speculation around a potential **50-basis point** move. At Jackson Hole, Chair Jerome Powell acknowledged the weakening labor market, downplayed the inflationary impact of tariffs, and signaled the Fed may now be placing **greater emphasis on employment conditions** than on inflation metrics.

Should the labor market continue to deteriorate, we believe the Fed may need to act more aggressively to mitigate downside economic risks.

Portfolio Strategy

Given the elevated valuations and weakening economic backdrop, we continue to maintain a **defensive positioning** across portfolios. Our equity strategy focuses on high-quality companies with:

- Strong balance sheets
- Stable, recurring revenue streams
- Sustainable pricing power

We have reduced exposure to certain overweight holdings to manage **concentration risk**, particularly within sectors showing signs of excessive valuation.

On the fixed income side, the labor-related data has driven a rally in bonds, sending yields lower. The 10-year Treasury yield dropped by more than 20 basis points in just a few days as investors moved toward safety.

Our bond strategy remains focused on the **intermediate part of the yield curve**, where we see more favorable risk-adjusted returns. We continue to prefer:

- **Mortgage-Backed Securities (MBS)**
- **Municipal Bonds**

These offer attractive spreads and defensive characteristics, especially in an environment where **high-yield spreads remain too tight** relative to the risks.

Outlook

We remain committed to **active, risk-aware portfolio management** amid a rapidly shifting macroeconomic environment. While uncertainties remain, we continue to identify opportunities that align with our long-term investment philosophy.

Thank you for your continued trust and partnership as we navigate this complex and evolving landscape.

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