

Stocks Trade Higher as Federal Reserve Signals Rate Cut

Services

Investment Management

September 2, 2025

Monthly Market Summary

- The S&P 500 Index rose +2.1% in August, bringing its year-to-date return to +10.7%. Large Cap Value stocks led with a +3.2% gain, while Large Cap Growth gained +1.2%.
- Health Care was the top-performing sector. Six additional S&P 500 sectors also outperformed the index, while Utilities and Technology both traded lower.
- Bonds traded higher as Treasury yields declined, with the U.S. Bond Aggregate returning +1.2%. Corporate bonds modestly underperformed, with investment-grade posting a +1.0% total return and high-yield gaining +1.1%.
- International stocks outperformed the S&P 500 as the U.S. dollar weakened. Developed Markets gained +4.5%, while Emerging Markets returned +2.7%.

Federal Reserve Prepares to Cut Interest Rates as the Labor Market Softens

The Federal Reserve has kept interest rates unchanged this year due to concerns that tariffs could reignite inflation. This concern, along with strong job growth and low unemployment, gave the central bank time to wait for more data. However, the Fed's policy stance was tested in early August when the July jobs report showed U.S. employers added fewer jobs than expected and unemployment rose to 4.2%. The report suggested high borrowing costs are weighing on the economy and shifted the focus from inflation risk to slowing economic growth.

These concerns resurfaced three weeks later at the Fed's annual Jackson Hole meeting, when Chair Powell acknowledged the balance of risks may warrant a policy adjustment. His comments hinted that a rate cut could come as soon as the Fed's September 17th meeting. The market quickly connected the dots: a softening labor market made it easier for the Fed to pivot and opened the door to a rate cut. Stocks and bonds traded higher in anticipation that the Fed would resume its interest rate-cutting cycle.

Small-Cap Stocks Post Biggest Month of Outperformance Since November 2024

Small-cap stocks have trailed large caps for most of the past three years. Since the start of 2023, the Russell 2000 index has gained +40%, significantly underperforming the S&P 500's +75% return. Higher interest rates have weighed more heavily on smaller firms, many of which depend on floating-rate debt to finance their operations and growth. At the same time, a handful of mega-cap tech stocks have delivered strong earnings growth and returns, fueled by

the artificial intelligence industry. As investor attention and capital concentrated on these large names, small caps were left behind, resulting in one of the widest valuation discounts to large caps in over 20 years.

The soft July jobs report and Chair Powell's Jackson Hole remarks shifted the market narrative, with investors expecting a rate cut as soon as September. The Russell 2000 jumped more than +7%, its best month this year, and outperformed the S&P 500 by over +5%. Small caps tend to benefit more from lower interest rates, and rate cut expectations attracted value seekers to small caps' valuation discount. This isn't the first time small-cap stocks have rallied, with recent rallies fading as mega-cap tech reclaimed market leadership. Whether this rotation lasts will depend on upcoming inflation and job reports and how the Fed responds, but small caps's recent strength shows investors are once again testing the waters for a small-cap comeback.

This Month in Numbers

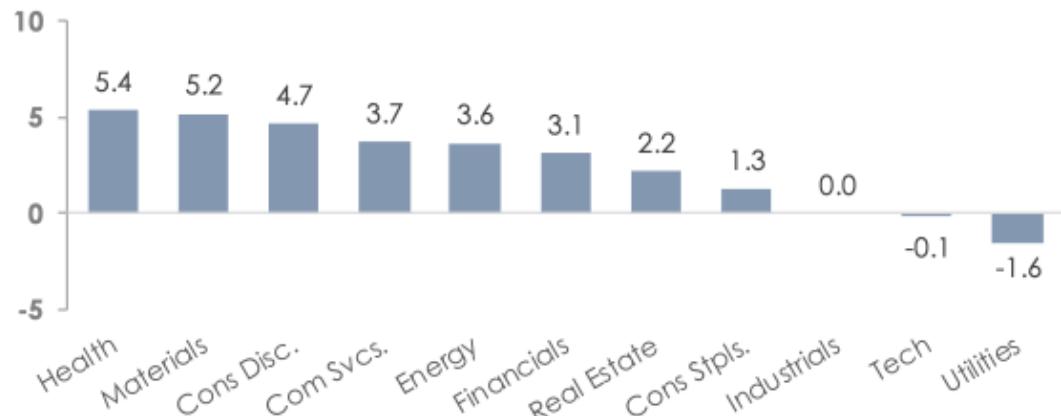
FIGURE 1

U.S. Style Returns (August in %)

	Value	Blend	Growth
Large	3.2	2.1	1.2
Mid	3.0	2.5	1.1
Small	8.5	7.2	6.0

Data Reflects Most Recently Available As of 8/31/2025

FIGURE 2
U.S. Sector Returns (August in %)



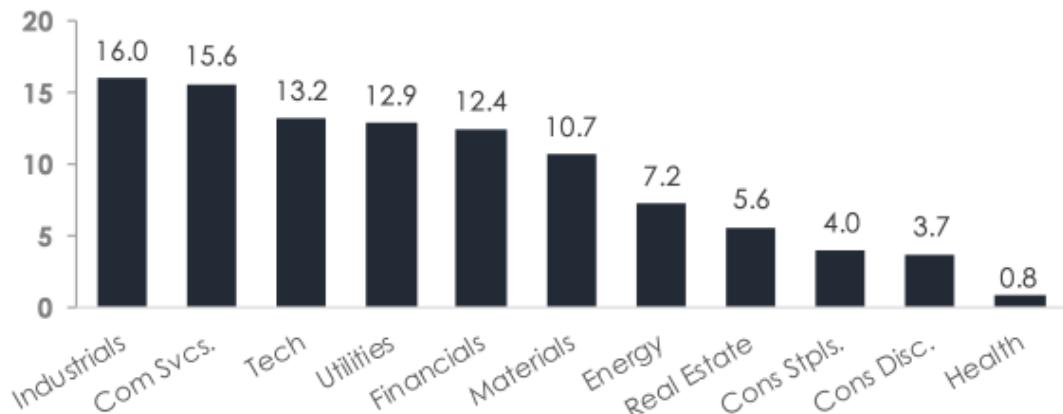
Data Reflects Most Recently Available As of 8/31/2025

FIGURE 3
U.S. Style Returns (YTD in %)

	Value	Blend	Growth
Large	9.8	10.7	11.2
Mid	7.9	9.3	12.9
Small	6.8	6.9	7.2

Data Reflects Most Recently Available As of 8/31/2025

FIGURE 4
U.S. Sector Returns (YTD in %)



Data Reflects Most Recently Available As of 8/31/2025

FIGURE 5
Market Data Center

Stocks	1 month	3 months	6 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	2.1%	9.7%	9.1%	10.7%	15.7%	68.4%	1.11%	22.4x	5.0x
Dow Jones	3.4%	8.3%	4.7%	8.1%	11.2%	50.8%	1.46%	20.4x	5.4x
Russell 2000	7.2%	15.0%	10.0%	6.9%	8.0%	32.5%	1.06%	24.4x	1.9x
Russell 1000 Growth	1.2%	11.7%	13.1%	11.2%	22.4%	93.1%	0.40%	30.1x	12.8x
Russell 1000 Value	3.2%	7.3%	4.6%	9.8%	9.0%	41.4%	1.80%	17.2x	2.8x
MSCI EAFE	4.5%	4.7%	14.0%	23.0%	13.3%	58.8%	2.82%	15.2x	1.9x
MSCI EM	2.7%	10.5%	16.4%	20.3%	17.7%	34.3%	2.36%	13.3x	1.8x
NASDAQ 100	1.0%	10.0%	12.5%	11.8%	20.4%	93.2%	0.49%	27.1x	7.9x
Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years	Commodities	Level	1 month
U.S. Aggregate	4.44%	1.2%	2.4%	5.0%	3.0%	8.8%	Oil (WTI)	64.01	-7.6%
U.S. Corporates	4.95%	1.0%	3.0%	5.5%	3.1%	13.0%	Gasoline	2.13	0.3%
Municipal Bonds	4.14%	0.8%	1.4%	-0.1%	0.1%	7.3%	Natural Gas	3.02	-2.9%
High Yield Bonds	7.04%	1.1%	3.1%	6.2%	7.7%	26.7%	Propane	0.69	-6.3%
Key Rates	8/31/2025	7/31/2025	5/31/2025	2/28/2025	8/31/2024	8/31/2022	Ethanol	1.63	-1.5%
2 yr Treasury	3.61%	3.94%	3.90%	3.98%	3.92%	3.44%	Gold	3,516	5.0%
10 yr Treasury	4.22%	4.36%	4.39%	4.19%	3.92%	3.13%	Silver	40.75	11.0%
30 yr Treasury	4.92%	4.89%	4.91%	4.47%	4.21%	3.25%	Copper	4.52	4.3%
30 yr Mortgage	6.62%	6.78%	6.95%	6.83%	6.80%	5.95%	Steel	799	-6.1%
Prime Rate	7.50%	7.50%	7.50%	7.50%	8.50%	5.50%	Corn	4.20	6.6%
							Soybeans	10.60	8.8%

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\$/st), Corn (CBT \$/bu), Soybeans (Chicago \$/bu). U.S. Style performance is based on the following instruments: iShares Russell 1000 Value ETF (IWD), SPDR S&P 500 ETF Trust (SPY), iShares Russell 1000 Growth ETF (IWF), iShares Russell Mid-Cap Value ETF (IWS), iShares Russell Midcap ETF (IWR), iShares Russell Mid-Cap Growth ETF (IWP), iShares Russell 2000 Value ETF (IWN), iShares Russell 2000 ETF (IWM), iShares Russell 2000 Growth ETF (IWO). U.S. Sector performance is based on the following instruments: Consumer Discretionary Sector SPDR ETF (XLY), Consumer Staples Sector SPDR ETF (XLP), Energy Sector SPDR ETF (XLE), Financial Sector SPDR ETF (XLF), Health Care Sector SPDR ETF (XLV), Industrial Sector SPDR ETF (XLI), Materials Sector SPDR ETF (XLB), Technology Sector SPDR ETF (XLK), Communication Services Sector SPDR ETF (XLC), Utilities Sector SPDR ETF (XLU), Real Estate Sector SPDR ETF (XLRE).

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The S&P 500 Index or Standard & Poor's 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

The Russell 2000 index measures the performance of approximately 2,000 small-cap US equities.

The MSCI EAFE Index is a stock market index that measures the performance of large- and mid-cap companies across 21 developed markets countries around the world. Canada and the USA are not included.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market capitalization trading on Nasdaq exchanges.

The Russell 1000 Growth index is an index that tracks large cap, growth stocks. This benchmark is important for investors that might tilt their investments towards large cap growth. Growth stocks, in comparison to value stocks, are considered companies with a more growth potential, and a higher risk profile.

The Russell 1000 Value index is an index that tracks large cap, value stocks. This benchmark is important for investors that might tilt their investments towards large cap value. Value stocks, in comparison to growth stocks, are considered companies with a stable cash flow, and more mature business model.

The Dow Jones Industrial Average, or simply the Dow, is a stock market index that indicates the value of 30 large, publicly owned companies based in the United States, and how they have traded in the stock market during various periods of time. These 30 companies are also included in the S&P 500

Index. The value of the Dow is not a weighted arithmetic mean and does not represent its component companies' market capitalization, but rather the sum of the price of one share of stock for each component company. The sum is corrected by a factor which changes whenever one of the component stocks has a stock split or stock dividend, so as to generate a consistent value for the index.

The Bloomberg US Aggregate Bond Index is used as a benchmark for investment grade bonds within the United States. This index is important as a benchmark for someone wanting to track their fixed income asset allocation.

The Bloomberg US Corporate Index covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds.

The Bloomberg US Corporate High Yield Index covers performance for United States high yield corporate bonds. This index serves as an important benchmark for portfolios that include exposure to riskier corporate bonds that might not necessarily be investment grade.

Treasuries, also known as Treasury securities, are debt obligations issued by the United States government. They are used to raise cash needed to fund government operations and help finance the federal deficit. Treasuries are backed by the full faith and credit of the US government, making them one of the safest investments. They are an important instrument in monetary policy, allowing central banks to control the money supply.

The Prime Rate is the interest rate that commercial banks charge their most creditworthy corporate customers. The prime rate is derived from the federal funds rate, usually using fed funds + 3 as the formula.