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Market Perspectives: Strength Amidst Skepticism

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MARKET PERSPECTIVES: STRENGTH AGAINST SKEPTICISM

"The stock market is never obvious. It is designed to fool most of the people, most of the time."

~ Jesse Livermore

- Markets continue to grind higher with most major indices at or near all-time highs.
- At the same time, the list of questions investors are grappling with continues to grow, with the economic data set shifting from more positive to more mixed with each reading.
- Investors are awaiting a possible continuation of lower interest rates in the weeks and months ahead as the Federal Reserve (the "Fed") responds to a more strained economic outlook.

Fact patterns do not always lead to anticipated results. Market uncertainty has reigned in 2025. Shifting trade policy led to an S&P 500 that had fallen 18.9% from its highs by early April, only to recover over the next several months to new highs. It may feel surprising, especially in light of the steady stream of headlines that seem to argue for challenging equity outcomes. Yet markets have a history of defying consensus. They "climb a wall of worry" - often delivering stronger results precisely when confidence is weakest or the outlook is most uncertain.

The lesson is not that concerns are misplaced; they matter, and over time, we'll learn more about which risks were real drivers and which were distractions. As 2025 reminds us, perception and reality can diverge. Staying invested through periods of doubt is what allows us to benefit from the market's tendency to reward patience.

Through the end of August, markets have rewarded investors for such patience, as shown in the chart below:

Date	9/12/2025	1	3	6	YTD	12	36
US Markets		Month	Months	Months	Return	Months	Months
ACWI All World Equity Index		2.8%	8.4%	18.0%	16.8%	20.0%	61.6%
US Large Value		2.7%	6.2%	11.2%	10.6%	12.1%	39.0%
S&P 500 (Market Cap Weight)		2.3%	9.3%	18.4%	13.0%	19.2%	67.5%
S&P 500 (Equal Weight)		2.2%	5.7%	11.5%	8.9%	11.0%	35.9%
US Large Growth		2.2%	12.2%	25.4%	15.0%	26.8%	93.9%
Nasdaq Composite		2.2%	12.8%	25.9%	15.2%	26.9%	84.7%
US Mid Value		2.9%	7.4%	13.5%	8.8%	11.2%	32.4%
Mid Cap Blend		2.9%	7.3%	15.8%	10.2%	15.5%	41.0%
Mid Cap Growth		2.9%	6.9%	22.7%	14.2%	29.0%	63.4%
US Small Value		5.9%	13.0%	17.0%	7.9%	11.4%	26.2%
US Small Blend		5.2%	12.4%	19.1%	8.5%	14.1%	31.4%
US Small Growth		4.5%	11.8%	21.2%	9.1%	16.7%	36.2%
Intl Developed Markets Value		2.5%	7.4%	17.7%	32.3%	27.2%	79.8%
Intl Developed Markets		2.6%	4.8%	14.8%	25.0%	19.1%	61.7%
Intl Developed Markets Growth		2.8%	2.3%	11.9%	18.0%	11.4%	45.3%
Emerging Markets		5.7%	11.2%	21.6%	26.1%	26.7%	47.9%
CBOE S&P 500 Volatility Index		0.2%	(18.1%)	(39.1%)	(14.9%)	(13.5%)	(38.2%)
Data Source: YCharts as of 09/12/2025							

Market Performance Overview

Through September 12th, the S&P 500 is up 13%. Similar resilience can be seen elsewhere: the Nasdaq Composite (an index heavily weighted to technology companies) is up 15.2% and small cap stocks[1] are up 8.5%.

Outside the U.S., returns have generally been even stronger: The MSCI EAFE – a proxy for developed international equities – is up 25%, led by Germany, up 32.6% and the UK, up 26.5%. Emerging markets have performed well too, the MSCI Emerging Markets Index up 26.1%, led by South Korea up 54.6%, Mexico up 44.1%, China up 37.5%, and Brazil up 35.9%.

Economic Backdrop

The U.S. economy has cooled but remains on a positive footing. Inflation has moderated from last year's highs but sits above the Fed's target of 2%. There are some potential signals of inflation heating up, perhaps from tariff impacts, but this remains unclear. At the same time, the labor markets are cooling, potentially a signal of a worsening economic environment in the months ahead. Still, the preponderance of the evidence suggests a mixed bag for economic growth at the current time.

Cracks in the Economic Foundation

Labor markets, as discussed at length in the last Market Perspectives note, have been weakening. Recent data suggest that the trend towards weaker labor markets continued into August and potentially September. GDP overall has also slipped modestly.

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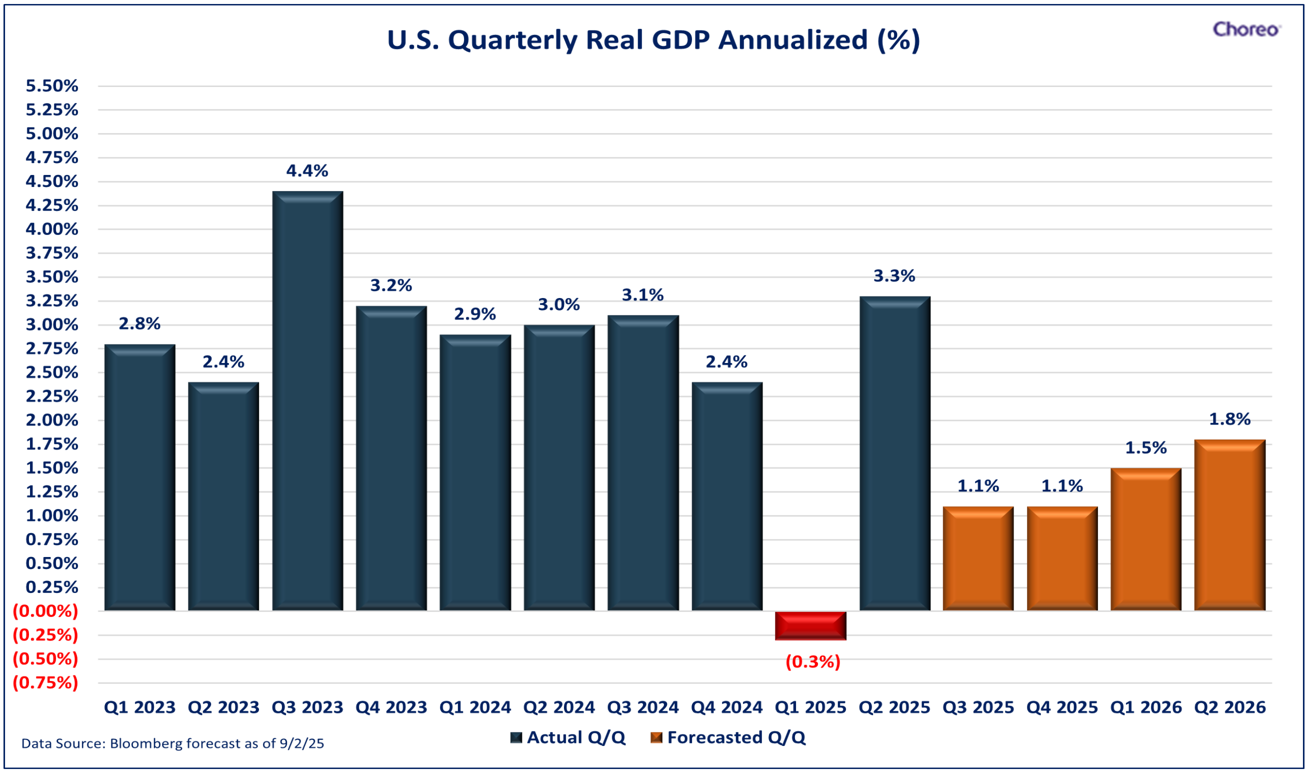
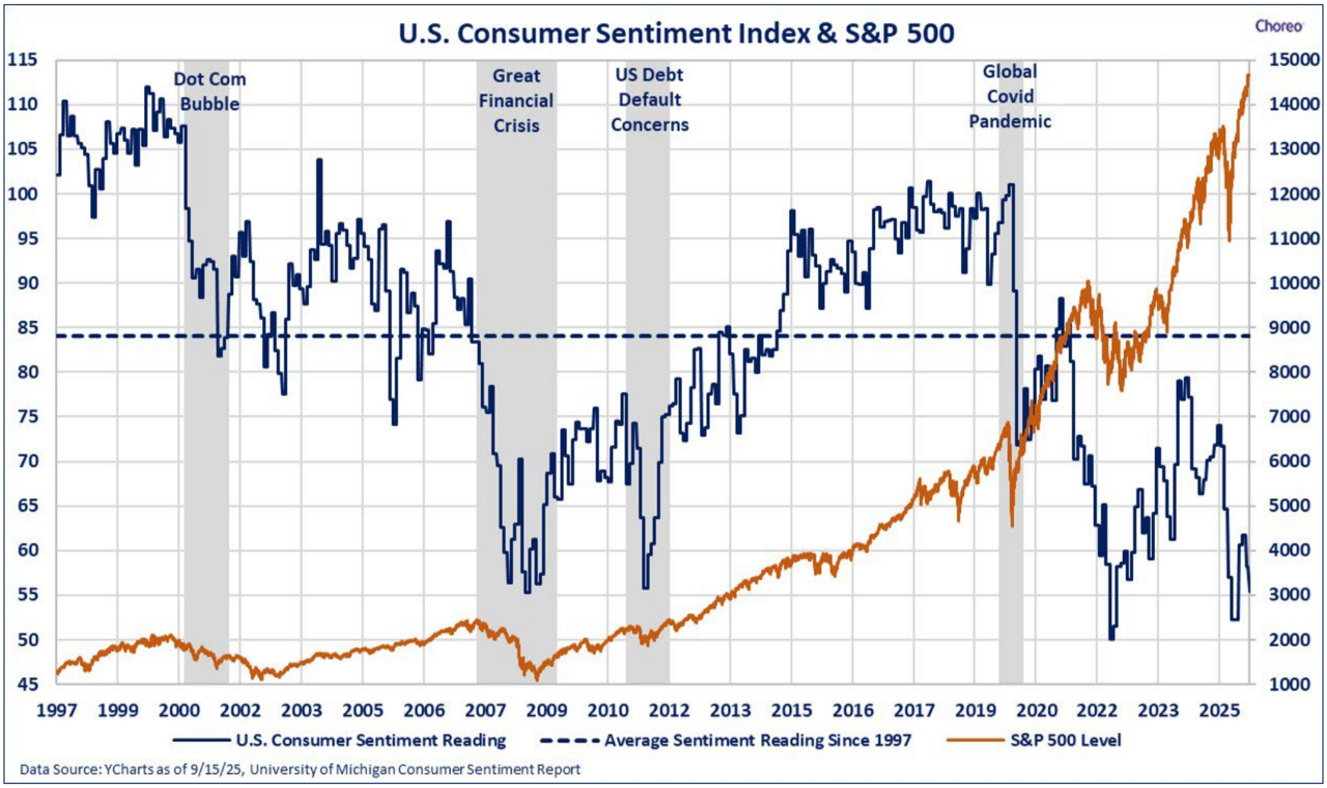
[1] As measured by the Russell 2000 Index



Drivers of the Rally

It is not known what the precise reasons for the rally are, but there are several candidates: strong corporate earnings, expectations of easing monetary policy, and potentially negative sentiment from investors, which can be a contrarian indicator (there are many others). Another strong earnings season just concluded with the S&P 500 showing aggregate earnings growth of more than 12%, with sales growth of over 6%, both well ahead of expectations (Source: Bloomberg). Market expectations are that the Fed will restart its downward interest rate march, lowering the cost of borrowing and potentially serving as an economic stimulus in the quarters ahead. We would note that it can take time for interest rate policy movements to hit the economic environment. Finally, sentiment can be a contrarian indicator. As the Oracle of Omaha, Warren Buffett points out, “Be fearful when others are greedy and greedy when others are fearful.” The chart below demonstrates that negative sentiment, uncertainty, and, in the more extreme cases, fear can be indicators of strong market performance ahead and vice versa.



Risks to the rally

While the rally continues to plow forward, relatively unabated, there are data points worth monitoring closely. Tariff-driven inflation, geopolitical tensions, weakening labor markets, and increased financial pressure on consumers are among the potential risks, along with the data above potentially leading to unanticipated alterations in monetary policy (i.e., maybe rates won't drop as expected).

Tariffs continue to loom large, with the potential to hit consumers (and businesses) hard, at the exact moment when the labor markets could be weakening. Like most other headline-driven topics, tariffs have already faded somewhat from the topic du jour, but as the reality of where they end up is set in stone, more implications will certainly be felt. The consumer, as mentioned, is already beginning to feel the pinch. For instance, consumer confidence has dipped. Geopolitical uncertainty has loomed for several years, and while operating in the background, it does pose a risk to an ongoing equity market rally, at least in the short term. Finally, as mentioned several times, the state of the jobs market, in particular if it should worsen more rapidly, could spark larger concerns (and potentially more aggressive Fed action to cut rates further).

Conclusion

As markets continue to climb, it's easy for investors to grow complacent, even as a range of risks emerge on the horizon. A long- term, highly focused plan of action coupled with a diversified portfolio can help weather storms when they come. Even when storms seem likely, sometimes they don't arrive as expected. Figuring out the economic landscape is challenging enough, let alone determining how different assets may behave under various scenarios. Assessing your current asset mix provides a nice head start. Should you have any questions related to the above information, please reach out to a Choreo advisor!

Disclosures

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