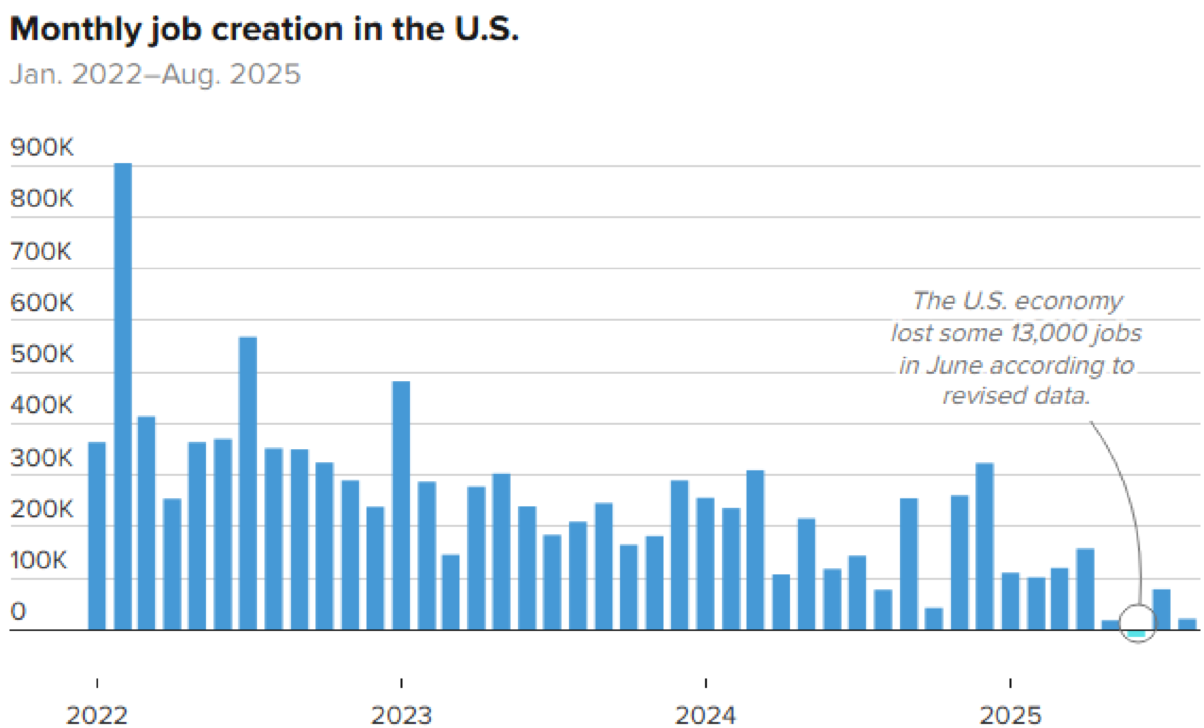
The S&P 500 once again hit a fresh all-time high above 6500 on Thursday followed by a modest pullback to close out the week. September has historically been a seasonally weak month for stocks, and some consolidation may be healthy given the sharp market ascent since the lows in April. I believe it's reasonably likely that choppiness persists over the near term as the month progresses, especially if the economy displays further signs of weakness.

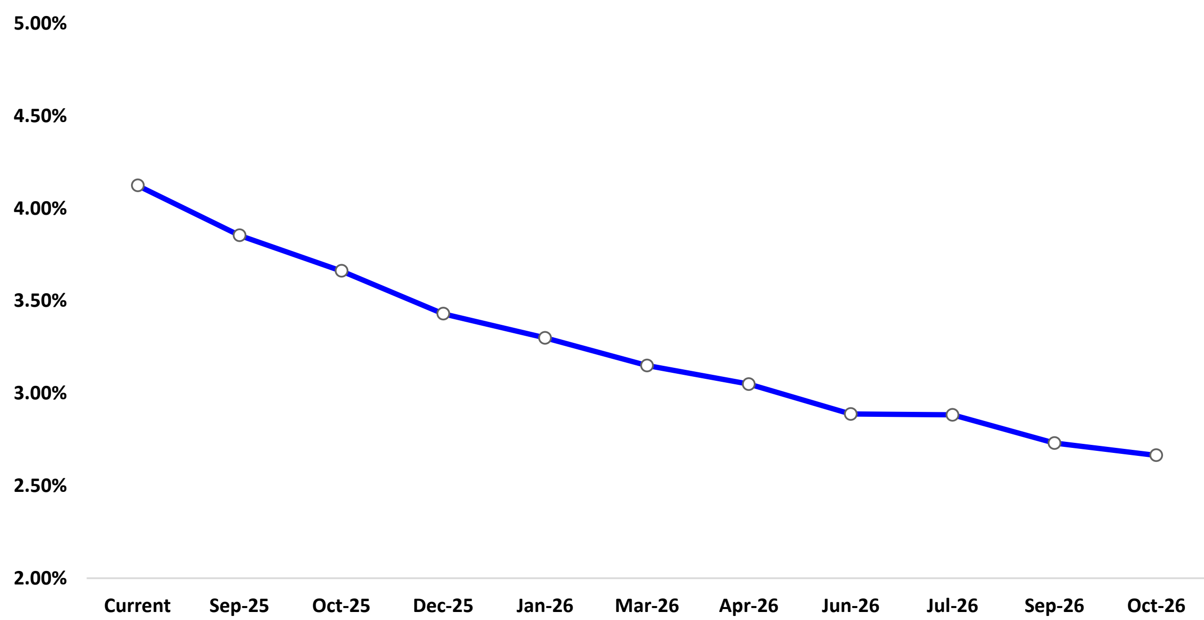
Friday's jobs report can only be described as ugly and reflective of a labor market that is rapidly softening. Average monthly job growth is 75k so far in 2025, and is sharply trending lower, compared to the 168K monthly average during 2024. The 22k increase in August non-farm payrolls was well under the 75k forecasted by economists. Furthermore, the release also included a negative revision for July, which pushed monthly job growth into the red for the first time since December 2020. Manufacturing jobs have now posted four straight months of declines.



Source; CNBC, US Bureau of Labor Statistics

With the labor market now deteriorating, interest rates have meaningfully moved lower as investors now expect the Fed to begin cutting more aggressively. The market is now pricing in three quarter point rate cuts for the remainder of 2025 with an additional six or seven in 2026. If this materializes, the target Fed Funds rate would fall to roughly 2% by the end of next year. The 10-year Treasury yield also fell to 4.09% on Friday, the lowest level since early April just after “Liberation Day” when investors flocked to safe haven assets.

Expected Fed Funds Target Rate By Fed Meeting



Source; CME Group

Despite macroeconomic weakness, the corporate sector continues to perform well. As I’ve written previously, this is largely driven by secular trends, such as increased capital spending related to AI, rising profit margins, and strong balance sheets. Revenue gains have been extremely impressive for the largest public companies as a whole while the growth outlook remains bright. These powerful tailwinds are precisely the catalyst behind the market’s resilience despite some recent signs of weakness across the broader economy.

The valuation set-up for stocks leaves little room for error. The S&P 500’s 22x forward price to earnings multiple is elevated compared to history while consensus estimates are calling for 17% earnings growth next year, which is a high bar to clear. If macroeconomic weakness negatively impacts corporate profits, there’s significant downside for stocks relative to current levels. Nevertheless, the secular tailwinds mentioned above suggest there are reasons to be optimistic. Furthermore, while the labor market is showing clear signs of deterioration, other indicators (i.e. PMI data related to the services sector, consumer spending trends, business investment growth, and rising incomes) reflect continued economic expansion. I believe the most likely go-forward base case is that the economy exhibits moderate growth, fueled by robust capital investment and consumers that continue to spend despite being somewhat financially stretched.

There are few examples across market history where the fundamental backdrop has been all roses or all thorns. This time is no different. Investors are constantly tasked with navigating a nuanced landscape consisting of both bullish and bearish data points. In the current environment, this involves weighing the positive growth outlook for companies against a mixed economic picture. This suggests both a tactical and strategic approach to portfolio management, considering both the near and longer term implications for specific companies and sectors while effectively managing risk. I believe companies best positioned to take advantage of the capital investment boom with pricing power and defensible market share are most likely to emerge as the winners.

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