

September 2, 2025

CJ's Weekly Market Memo

We made it through August to the first trading day of September without major drama. September has arrived with all the usual seasonal concerns, but the setup looks different this time around.

Here's the thing about September – yes, it's historically awful. Since 1928, the S&P 500 has declined an average of 1.2 percent in September, underperforming all other months. But as I've been saying, this isn't your grandfather's September. When the S&P 500 is above its 200-day moving average heading into September, the average price return for the month rises to 1.3% compared to that nasty 4.2% decline when we're below it. Guess where we are? Above it, with blue skies and record highs.

The Fed Finally Blinks

Powell's Jackson Hole speech last week delivered the clearest signal yet that rate cuts are coming. He noted that "downside risks to employment are rising" and conditions "may warrant adjusting our policy stance", Fed-speak for monetary easing ahead. Markets are now pricing in an 89.4% probability of a 25-basis-point rate cut at the September meeting.

But here's where it gets interesting, and where I think the market's getting a little ahead of itself. The implied probability for another cut in October was just 42%. That second cut is about fully priced in for December, but there's just a 33% expectation for three total moves this year. This isn't going to be the aggressive easing cycle some folks are hoping for.

The Fed is navigating a complex environment. They're concerned about labor market cooling, but also facing potential tariff-induced inflation later this year. It's a delicate balancing act that makes monetary policy particularly challenging in the current environment.

The NVIDIA Reality Check

NVIDIA's earnings last week provided an interesting case study in market expectations. The company beat estimates with \$46.74 billion in revenue and \$1.05 earnings per share, but the stock declined in after-hours trading due to the absence of H20 processor sales to China-based customers.

The reaction illustrates how NVIDIA has evolved beyond a typical stock into a macroeconomic indicator for the AI revolution. With a market cap of \$4 trillion and trading at more than 40 times projected earnings, the company's results carry outsized influence on market sentiment.

The AI demand remains robust, but we're seeing the first signs of a more mature market dynamic. NVIDIA expects revenue growth to remain above 50% this quarter, which is strong but represents a deceleration from previous quarters. This isn't collapse – it's natural progression as the base effects become more challenging.

The Market's New Normal

This year has redefined market volatility norms. The S&P 500's 21.4% decline into bear territory from February to April, followed by a recovery to new highs by August, demonstrates the market's increased sensitivity to policy changes and geopolitical developments.

The sector rotation has been unprecedented in its frequency and intensity. No sector has maintained the top position for more than two weeks consecutively. Energy led for three separate two-week periods but still ranks among the worst performers year-to-date, illustrating the challenges of momentum-based strategies in this environment.

Healthcare: The Unloved Stepchild

Healthcare presents an interesting contrarian opportunity. The sector has been under significant pressure, with the Morningstar US Healthcare Index declining 3.87% year-to-date through July 31. Rising medical costs, regulatory pressures, and disappointing Medicare Advantage guidance have weighed on valuations.

However, the combination of demographic tailwinds and oversold conditions suggests potential value for patient investors willing to look beyond near-term headwinds.

The September Survival Guide

The approach for navigating September requires attention to key data points. September weakness extends beyond U.S. markets, with similar patterns in Canada, the UK, and Hong Kong, limiting the benefits of international diversification during this period.

Critical upcoming releases include the jobs report on September 5th and inflation data the following week, all preceding the Fed meeting on September 17th. These data points will determine whether the Fed implements a single cut and pauses or begins a more sustained easing cycle.

The investment approach should balance opportunity with risk management. Corporate fundamentals remain remarkably solid, with the S&P 500's forward 12-month estimated profit margins now at the highest levels in history. This provides a strong foundation for continued market performance, even amid policy uncertainty and geopolitical tensions.

Looking Ahead

The fourth quarter setup remains constructive if September can be navigated successfully. Historical patterns show October and November have been significantly more favorable for investors, and with likely Fed rate cuts and record-high corporate profit margins, there's basis for measured optimism.

Valuations present the primary challenge. The market enters this period at short-term overbought levels after achieving fresh record highs, leaving limited margin for error.

My advice? Stay diversified, don't chase momentum, and remember that the best investment decisions are usually the boring ones nobody's talking about at cocktail parties. This too shall pass, and when it does, you want to be positioned for what comes next, not what just happened.

CJ Brott
Chairman Emeritus
Capital Ideas

The material presented is for informational purposes only and is believed to be accurate. Sources include but are not limited to publications by FactSet, Dow Jones, and Bespoke Investment Group. All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change. The author may hold securities mentioned in this commentary.