



Markets Stay Strong and Focused on the Fed Amid More Weak Jobs Data

Despite the release of mixed economic data and ongoing uncertainties, the stock market enjoyed another strong month in August. What's driving investor optimism, and will it last? No one knows for sure, of course, but we do know that, historically, September and October can be challenging months for the financial markets. Before we look ahead, though, let's take a closer look at last month.

A wide array of new economic data came out in August, and not all of it was good. According to the Labor Department, only 73,000 jobs were added in July, pushing the unemployment rate up to a four-year high of 4.2%.¹ Inflation also trended upward, with the Consumer Price Index's core inflation rate rising to 2.9%.² On the plus side, new data showed that consumer spending was strong in July and that personal income levels increased slightly.

Markets Soar

Getting back to the markets, Wall Street easily shrugged off the disappointing economic news (along with a host of ongoing geopolitical uncertainties) and managed once again to hit new record highs. The S&P 500 rose 1.9% in August, an increase that

put the market's broadest index back to a growth rate of 10% for the year. Meanwhile, the Dow Jones Industrial Average jumped by 3.2%, and the Nasdaq rose by 1.58%. The Dow and S&P have now posted four straight months of gains, which is their best streak in about a year, while the Nasdaq has grown for five straight months, its best stretch since early 2024.³

The markets are most likely staying strong despite all the economic yellow flags and global uncertainties for several real reasons. One is that corporate earnings are still mostly solid. Another is that, after wobbling for a while earlier this year, tech stocks have made a strong resurgence and are once again leading the market.

As I noted in last month's newsletter, the biggest reason for investor optimism is probably that the recent spikes in unemployment and inflation make it likely that the Federal Reserve will soon start lowering short-term interest rates. In fact, the Fed is widely expected to make a rate cut of between 0.25% – 0.50% at its next meeting on September 16. The expectation is so high that the cut has likely already been priced into the market by investors.

With their benchmark short-term rate now at a range of between 4.25% and 4.50%, the Fed has plenty of ammunition to continue cutting rates for a while if necessary to combat the economic slowdown if it worsens. Falling short-term rates typically drive down long-term rates, fueling more spending and borrowing and, ultimately, more economic growth.

Long-term rates have been relatively stable for most of the year, and August was no exception. The interest rate on the 10-year government bond started the month at 4.22% and finished at 4.23%.⁴

Your Portfolios

As I stated last month, the markets' strength and resiliency all summer have been great news for investors across the board – especially coming after a big stretch of

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Markets Stay Strong

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uncertainty early in the year.

As for our portfolios, we still feel confident we are on pace to meet or exceed our year-end goals for both our fixed-income and dividend-driven equity strategies. For those of you in our most conservative portfolios of bonds and bond-like instruments, that means we're currently still on track to get you, on average, up to 6% – 6.5% total return for the year.

Of course, even if the Fed starts cutting short-term rates this month as expected, there are certainly never any guarantees when you're talking about the financial markets. And it's worth noting that from a historical perspective, neither September nor October are market-friendly months. On average, September has been the worst-performing month for the stock market for nearly a century, while October has seen some of the most infamous market crashes in history.⁵

Naturally, no one can ever be sure if or when history might repeat itself, but that fact simply underscores why you made the shift to investing for income-first, growth-second in the first place: to better protect your assets and help ensure your income return is steady in all market conditions!

As always, if you have any questions at all about your investments or any other issues, feel free to contact our office at any time! ■■■

1 <https://www.reuters.com/business/us-labor-market-cracks-widen-job-growth-nearly-stalls-august-2025-09-05/>

2 https://www.youtube.com/watch?v=mqY0tF8_cel

3 <https://www.cnn.com/2025/08/29/economy/us-stock-market>

4 <https://www.marketwatch.com/investing/bond/tmubmusd10y?countrycode=bx>

5 <https://www.investopedia.com/terms/s/september-effect.asp>

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Lessons Learned from the Stock Market

If you pay attention to the stock market, you can learn some valuable lessons:

- **The market tends to revert to the mean.** There is a tendency for the stock market, when it has an extended period of above- or below-average returns, to revert back to the average return. Thus, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn.
- **Don't chase performance.** Investors often move out of sectors that are not performing well, investing that money in investments that are currently high performers. But the market is cyclical and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. Rather than trying to guess which sector is going to outperform, make sure your portfolio is broadly diversified.
- **Avoid strategies designed to get rich quick in the stock market.** The stock market is a place for investment, not speculation. When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term.
- **Don't avoid selling a stock because you have a loss.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do. When evaluating your stock investments, objectively review the prospects of each one, making decisions to hold or sell on that basis.
- **Make sure an investment will add diversification benefits to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor.
- **Check your portfolio's performance periodically.** While everyone likes to think their portfolio is beating the market averages, many investors simply don't know for sure. So thoroughly analyze your portfolio's performance periodically. Compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?
- **No one knows where the market is headed.** No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to either gloomy or optimistic predictions. Instead, approach investing with a formal plan so you can make informed decisions with confidence.

Please call if you'd like to discuss strategies for your investment portfolio. ■■■

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