Moneco Market Pulse September 2025

Markets traded slightly higher last week while indicators like the S&P 500[1] posted a modest gain, led by technology and growth stocks, while defensive sectors like health care and consumer staples lagged. Small-cap stocks continued to outperform large caps, extending their recent strength. International markets were mixed as the U.S. dollar held steady, with emerging markets outperforming both developed markets and the S&P 500. In the bond market, yields on longer-term Treasuries rose after the Fed resumed its rate-cutting cycle. Longer-maturity bonds underperformed short- and intermediate-maturity bonds. In the corporate bond market, high-yield outperformed investment-grade. Commodities were mixed: oil prices rose, while gold ended the week unchanged.

Five Main Points

1. **Fed Resumes Rate-Cutting Cycle, But Signals a Measured Path Ahead**
   The Federal Reserve cut rates by 0.25%, describing it as a "risk management" move to support the economy and counter a slowing job market. The Fed's updated forecast suggests more cuts could come this year, but it expects the pace of cuts to slow next year. Why it matters: The Fed resumed its rate-cutting cycle after a 9-month pause, but it's proceeding cautiously as it balances inflation concerns against a cooling job market. We will be watching carefully to the inflation indicators over the next several months to measure their reaction.

2. **After a Strong Decade, What's Next for Stocks?**
   Over the past decade, the S&P 500 returned nearly +12% annualized. Rising stock prices boosted investment portfolios, but with stocks trading at record highs, some longer-term market indicators are flashing caution. Valuations are high, household exposure to equities is at record levels, and the U.S. economy has experienced only a brief recession (i.e., COVID) in the past decade. Why it matters: This doesn't necessarily mean the stock market is headed for a steep sell-off or recession. However, these conditions could make it harder for the stock market to deliver the kind of strong returns investors have become accustomed to over the past 10 years.

3. **Consumer Spending Rebounds After a Spring Slowdown**
   Retail sales rose more than expected in August, marking the third straight monthly gain. Core retail sales, which exclude volatile items like food and gas, also posted solid growth, signaling a broad-based recovery in consumer spending. However, the spending strength was uneven: discretionary categories like furniture were weak, while online shopping and dining out remained strong. Why it matters: Consumer spending accounts for approximately two-thirds of U.S. economic activity. The past three months support a solid Q3 GDP outlook, but tariffs, sticky inflation, and a softening job market could test the consumer's resilience.

4. **Manufacturing Activity Stabilizes After July's Dip**
   Industrial production rose slightly in August, supported by a rebound in auto manufacturing. While growth exceeded economists' expectations, it was narrow, with areas like utilities and non-auto manufacturing showing limited growth. Compared to a year ago, total production is only slightly higher. Why it matters: The industrial sector appears to have stabilized, but it's not growing fast enough to significantly boost economic growth.

5. **Housing Activity Slows Sharply in August**
   New residential construction declined in August, with housing starts and building permits falling across single-family and multifamily segments. The decline points to weak demand and tight credit conditions for borrowers and builders, despite mortgage rates falling in recent months. Why it matters: Housing activity is likely to continue weighing on economic growth. In addition, reduced construction today could limit future supply and keep upward pressure on housing costs.

Important Disclosures

[1] The S&P 500 is a stock market index tracking the performance of 500 of the largest, publicly traded companies in the United States.

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