

Client Commentary | August 29, 2025

Market Commentary

Investing Insights

Why a September Rate Cut Likely Won't Impact Markets Much

The financial media and many in the investor community are eyeing the Fed's September meeting with bated breath. I'm already looking past it.

At this stage, markets are pricing in a 100% probability of a 25-basis point cut, with a very small chance of a larger 50-point move. As I've written many times before, markets move on surprises, not widely known information. When it comes to the upcoming Fed decision, the surprise factor is essentially nil. The Fed has been telegraphing its thinking pretty clearly for weeks. ¹

Rate cuts make for dramatic headlines, but in practice, they rarely alter the trend already in motion. When the Fed started cutting rates in January 2001 (nearly a year into the dot-com bust), stocks fell another 40% before finally bottoming in 2002. When the Fed cut rates in September 2007, the S&P 500 peaked just a few weeks later. The Global Financial Crisis followed. On both occasions, the cuts were real-time responses to worsening conditions, not tools that fundamentally changed the direction of the cycle.

Some may offer the counter-argument that Fed cuts in 1974 and 1990 were followed by powerful and lasting stock market rallies. But in those years, the Fed began cutting just months after bear markets had already bottomed. I would argue that stocks rebounded not because of the policy shift, but because the cuts happened to coincide with the early months of a new bull market. The rally was driven by positive forward-looking economic fundamentals and the anticipation of an earnings rebound, not by the central bank.

I want to be fair here, however, in acknowledging that rate cut cycles tend to be good for stocks on a forward-looking basis. On average, the S&P 500 has done reasonably well after initial cuts: about 7% forward returns over six months and roughly 12% over 12 months. But investors should not take these averages to mean that the rate cuts are the catalysts for strong returns. The cuts themselves aren't the deciding factor, the economic and earnings cycles are. Rate cuts help, but they don't drive.

We saw the opposite play out in 2022. For months, Fed officials downplayed the need to raise rates as inflation accelerated. Remember the “inflation is transitory” narrative? When the Fed reversed course in March and began aggressive hikes, the sudden shift was a surprise, jolting investor sentiment. It wasn’t the hikes themselves that drove the bear market—it was the abrupt change in expectations, i.e. the negative surprise. We don’t have that today.

In the current environment, we largely see a resilient U.S. economy, even as some signs of slowing are starting to show. In this economic environment, a 25-basis-point cut may steepen the yield curve slightly and marginally encourage lending. But the U.S. economy and credit creation have been holding up just fine with rates at current levels, where they’ve been since December 2022. I don’t think a widely telegraphed 25 basis point cut is going to make a major difference.

None of this is to say the direction of rates doesn’t matter. Over the long term, easier monetary policy can support growth at the margin, especially if it steepens the curve and helps banks lend. But investors should remember: The Fed is more often a follower than a leader. Cuts typically reflect conditions already visible in the data, not catalysts that create new ones.

Bottom Line for Investors

September’s rate cut will be a headline-grabber, but its pricing power on stocks is likely to be minimal, in my view. Markets already know it’s coming, and history shows Fed cuts don’t alter the prevailing trend. Investors should focus less on the drama of Fed decision day and more on the fundamentals—corporate earnings, consumer resilience, and global growth drivers. Those, not a single quarter-point move, are what shape long-term market returns.

¹ Black Rock. April 25, 2025. <https://www.blackrock.com/us/financial-professionals/insights/fed-rate-cuts-and-potential-portfolio-implications>

THE STEADY INVESTOR:

Key Weekly Events

- **Strong rebound in business investment**
- **U.S.–China trade talks resume**
- **AI disruption fears overstated**

Business Investment Improves Amid Policy Uncertainty

The U.S. economy has been sending mixed signals lately, but data released this week shows underlying strength. Core capital goods orders (non-defense, ex-aircraft) rose a stronger-than-expected 1.1% in July, fully reversing June's decline. Shipments of these goods also climbed 0.7%, the largest increase in more than two years. Since this component feeds directly into GDP calculations, the report bodes well for third-quarter economic growth. Given recent concerns about weaker hiring and soft retail spending, the numbers offer some relief. But there's a potential caveat to keep in mind. Some of the rise in orders and shipments may reflect higher prices, not necessarily higher volumes, as rising input costs from tariffs continue to weigh on manufacturers. Importantly, this data isn't inflation-adjusted, and with manufacturing relying heavily on imported raw materials, this could be an important factor. While the July data was encouraging, uncertainty continues to cloud the outlook, and we're seeing that companies are moving forward on essential projects but appear hesitant to expand beyond the basics. In short, the durable goods report was

a reminder that business investment isn't cratering, but it's also not booming. That's not a bad backdrop for markets.¹

The U.S. and China Quietly Resume Trade Negotiations

For the first time in years, a senior Chinese trade official visited Washington, signaling a potential thaw in U.S.-China relations during a fragile tariff truce. Li Chenggang, a top aide to Beijing's lead negotiator He Lifeng, met with U.S. trade and Treasury officials, as well as representatives from the American business community. The visit follows an agreement earlier this summer to extend a pause on additional tariff increases through early November, a truce that includes selective rollbacks of existing duties and easing of export restrictions on key industrial goods. The renewed dialogue reflects a subtle, but welcomed, shift in tone from both countries. We would mark this as progress, but trade tensions remain elevated. The U.S. has not backed down from pressuring Beijing to increase purchases of American agricultural goods, and the administration is preparing to intensify enforcement on imports of steel, copper, and lithium. For its part, China has conditioned any new purchases on the removal of Trump-era tariffs tied to fentanyl trafficking, and Beijing continues to lobby for looser restrictions on U.S. chip sales. Still, some business leaders are cautiously optimistic. Sean Stein, president of the U.S.-China Business Council, welcomed the resumption of direct talks and emphasized the importance of addressing structural trade concerns that extend well beyond tariffs and export controls.²

Is AI's Threat to Software Giants Overstated?

AI might be coming for a lot of industries, but one it hasn't overtaken, despite headlines, is enterprise software. Global spending on business software is projected to hit \$1.2 trillion this year, up nearly 11% from 2024, according to Gartner. That makes it one of the largest and fastest-growing tech categories globally, which is hardly the profile of an industry on the brink of obsolescence. Still, AI's rise has sparked plenty of speculation. Some believe tools like ChatGPT or the newly launched GPT-5 could let people build custom software just by describing what they want in plain language, a trend dubbed "vibe coding." The idea is that if you can describe it, the AI can build it. But translating a few spoken sentences into complex, mission-critical business systems is a much taller order than whipping up a flashcard app or summarizing a memo. While companies across the software spectrum are actively embedding AI into their offerings, there's little evidence that the tech is poised to *replace* large-scale, regulatory-heavy software suites, especially those used for sensitive tasks like payroll, HR, or financial reporting. The reality is that enterprise software is deeply embedded, often bespoke, and carefully vetted for compliance and control, areas where AI still struggles. Analysts have noted that existing business software ecosystems involve workflows with "meaningful complexity," and that even advanced AI systems today aren't equipped to seamlessly take them over. It's worth remembering: new technologies often generate breathless forecasts that don't pan out on schedule. The same may prove true for AI's impact on enterprise software. While the long-term potential is vast, near-term disruption may be more measured and uneven. In our view, mature software providers, particularly those deeply entrenched in core business functions, are less likely to be replaced and more likely to evolve.³

¹ MSN. 2025. <https://www.msn.com/en-us/money/markets/us-business-spending-on-equipment-kicks-off-third-quarter-on-strong-note/ar-AA1LfWuc?ocid=BingNewsSerp>

² Wall Street Journal. August 25, 2025. https://www.wsj.com/world/china/top-chinese-trade-negotiator-set-to-head-to-u-s-as-talks-resume-b2c3f913?mod=djemMoneyBeat_us

³ Wall Street Journal. August 27, 2025. https://www.wsj.com/finance/software-death-by-ai-has-been-greatly-exaggerated-b639c0cd?mod=djemMoneyBeat_us

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