September to Remember: Raiders of the Yield Curve

"It's not the years, honey, it's the mileage."
— Indiana Jones: Raiders of the Lost Ark (1981)

Summary — The Miles Behind the Market

The market has logged serious mileage in 2025. Equities have delivered robust returns: the **Russell 1000 Growth Index** leads with a **(+26.9%) one-year gain**, the **S&P 500** is up **(+18.3%)**, and **EM equities (+21.3%)** have surged as global breadth improves. Sector leadership remains concentrated in **Communication Services (+43.9% YTD)** and **Technology (+28.5% YTD)**, while **Health Care (-11.6% YTD)** has lagged.

Fixed income has quietly repaired its role. **Bloomberg TIPS 1–5yr (+5.1% 1-yr)** and the **U.S. Aggregate (+2.3% 1-yr)** show that bonds are contributing again. Yields remain elevated, but with inflation moderating toward **3% YoY**, fixed income is once again part of the investment toolkit.

Market Performance Barometer Through 9/3/2025

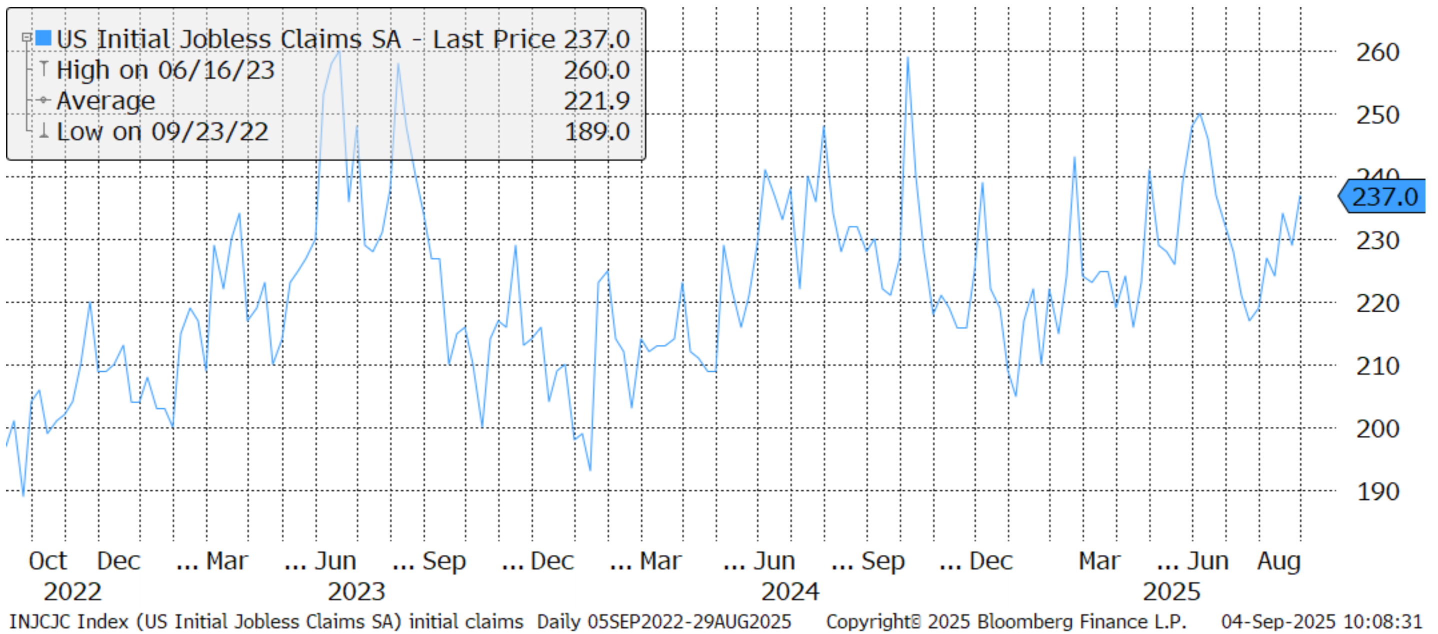
	Performance					Performance			
	1 Mo	QTD	YTD	1-Year		1 Mo	QTD	YTD	1-Year
Equities (Sorted by 1-Year Return)					**Fixed Income (Sorted by 1-Year Return)**				
Russell 1000 Growth Indx	3.26%	5.08%	11.47%	26.92%	Bloomberg TIPS 1-5 Year	0.79%	1.39%	5.04%	5.09%
MSCI EM	3.58%	4.21%	20.41%	21.31%	Corporate	0.49%	1.22%	5.44%	3.13%
S&P 500 Index	3.50%	4.14%	10.59%	18.34%	U.S. Aggregate	0.48%	1.03%	5.09%	2.29%
MSCI EAFE	3.36%	1.56%	21.81%	15.33%	U.S. Treasury	0.27%	0.73%	4.56%	1.45%
Russell 1000 Value Index	3.93%	3.18%	9.37%	10.06%	Municipal Bond Index	0.55%	0.74%	0.39%	-0.04%
Top Sector Indexes (YTD)					Bottom Sector Indexes (YTD)				
S&P 500 COMM SVC	8.84%	9.64%	21.85%	43.96%	S&P 500 MATERIALS INDEX	5.40%	4.14%	10.42%	1.65%
S&P 500 INFO TECH INDEX	2.31%	5.39%	13.87%	28.50%	S&P 500 REAL ESTATE IDX	0.45%	0.12%	3.64%	-1.66%
S&P 500 CONS DISCRET IDX	6.72%	5.61%	1.52%	28.03%	S&P 500 HEALTH CARE IDX	4.42%	1.60%	0.47%	-11.59%

Source: Bloomberg

Like Indiana Jones said, "It's not the years, honey, it's the mileage." After a long and bruising journey, the U.S. economy shows signs of wear, but it remains remarkably resilient — navigating softer labor, moderating inflation, looming policy battles, and the Fed's next act.

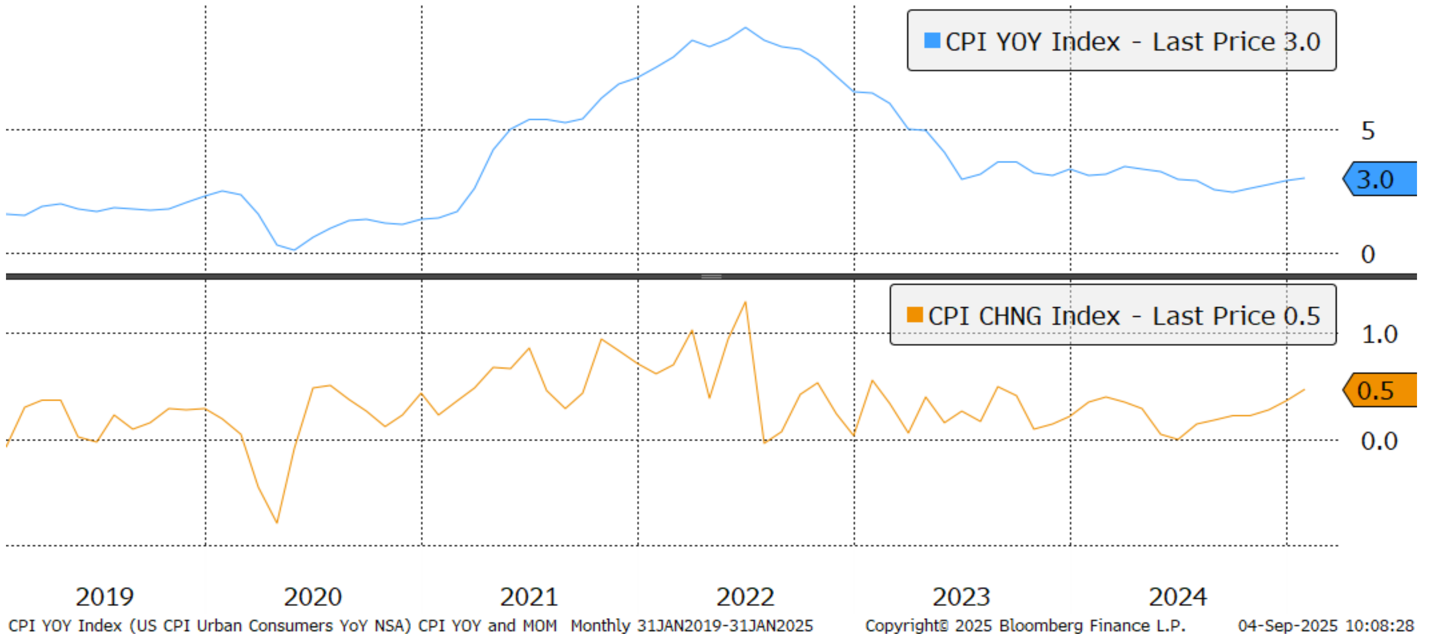
Act I — Cooling Without Collapse

Initial jobless claims have risen to **237,000**, the highest since June, and hiring plans are softening. Yet continuing claims hover near **1.94 million**, underscoring that displaced workers are still finding jobs. This is a labor market shifting into a more balanced gear: enough cooling to ease wage pressure and allow the Fed to act, but far from the breakdowns of recessions past.



Act II — Inflation as a Road Sign

CPI has traveled far from its 2022 peak. Today's **3.0% YoY reading** marks a return to lower, but not pre-pandemic, terrain. Monthly prints have ticked higher, reminding us that moderation won't be linear. The likely path ahead: Inflation stabilizing **above long-term averages, near 2.5–3%**, giving the Fed space to cut without reigniting a spiral.



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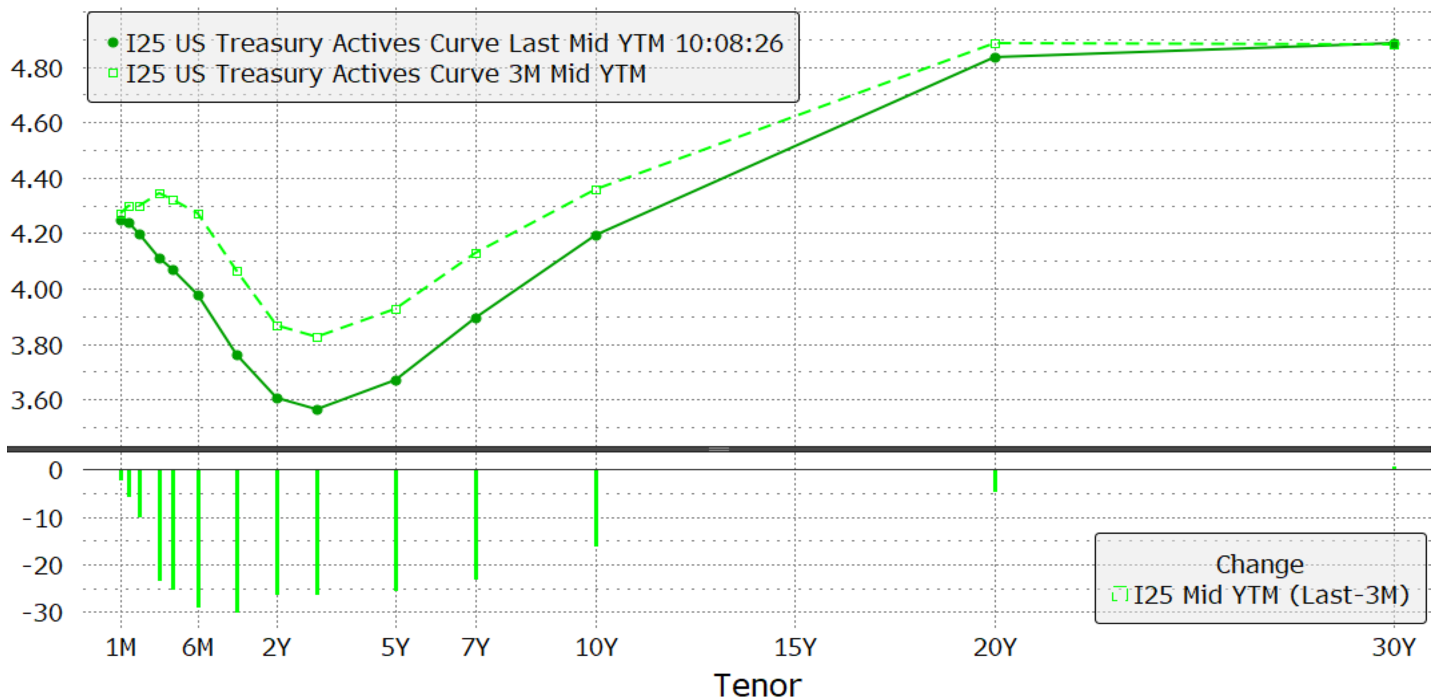
For investors, this backdrop favors **taking measured duration risk** over chasing tight credit spreads. Longer maturity offer both yield and insurance if growth softens, while credit valuations leave little cushion.

Act III — Fed Cuts, QT, and Independence

The Fed is poised to deliver its **first cut of 2025 in September**, with more expected into 2026. Liquidity drains — from Treasury's TGA refill, corporate tax payments, and ongoing QT — have tightened financial conditions, giving the Fed cover to act. Markets are also debating whether **QT ends soon**, as the balance sheet approaches pre-COVID levels and the RRP buffer runs dry.



But the Fed's independence is itself under test. President Trump's firing of Governor Lisa Cook, contested in court, and the pending confirmation of Stephen Miran have raised questions about Board control. With Powell's successor search already underway, monetary policy could shift not just in rate levels, but in institutional character. For markets, this injects uncertainty into the **rules of the road** as much as the speed of policy easing.

Act IV — Tariffs and the Courts

Tariffs remain a recurring pothole. While some threats on semiconductors and pharmaceuticals have been watered down, the **Supreme Court will hear a key tariffs case in October**. Strategas argues the outcome is more about "how" than "if" — tariffs are likely to remain in place, even if courts rule on technicalities. Investors may see noise, but the baseline is stability in current tariff levels, not elimination. Pharmaceutical tariffs remain a September risk if companies fail to meet Trump's "most favored nation" pricing directive.

Act V — The Shutdown Detour

A potential government shutdown looms on **October 1st**, with betting markets pricing ~50% odds. The administration's "pocket rescission" of foreign aid funds has inflamed Democrats, raising the risk of stalemate. Yet a path to a deal exists: extending **ACA subsidies**, pairing with bipartisan wins (like a ban on congressional stock trading), and offering selective concessions could keep the government funded. For markets, shutdowns tend to be short-lived and low-impact, but the broader context of fiscal politics adds to volatility.

Act VI — Mileage in Valuation and Positioning

The **top 10 S&P names now make up ~40% of index weight**, underscoring concentration risk. Growth has carried the torch, but EM and EAFE equities are closing ground. Fiscal incentives, tax changes, and industrial investment argue for **rotation into value and small caps**, adding breadth to leadership. Globally, the U.S. still boasts profit growth and innovative capacity, but exceptionalism is being tested. The caravan is widening.

If equities are the engine, bonds are the suspension. With reasonable inflation, Fed cuts coming, and liquidity tightening in the short run, longer investment grade fixed income retain their role as ballast. The case today is not to overload portfolios with credit but to extend carefully into duration, capturing yield while providing resilience against policy missteps or growth shocks.

Closing — Endurance Over Speed

The economy and markets show signs of wear: higher claims, sticky inflation, political fights. But they also show endurance: profits remain positive, global breadth is improving, and fixed income is back as a stabilizer. The coming months bring a September of catalysts — Fed cuts, QT decisions, tariff rulings, shutdown deadline; each adds to the noise. But the signal remains: **policy is turning supportive, inflation is manageable, and leadership is broadening**.

"It's not the years, honey, it's the mileage." The odometer is high, but the engine still runs. For investors, that means pacing the journey — staying invested in U.S. equities with more balance beneath the surface and using fixed income to absorb the bumps along the road.

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