

September 2025

MONTHLY MARKET INSIGHTS

Key takeaways:

- Strong Q2 earnings supported August equity gains, though leadership rotated toward small-caps and other lagging areas of the market as the Technology sector's performance stalled.
- Artificial Intelligence ("AI") enthusiasm paused as concerns around massive AI spending, ChatGPT-5's troubled rollout, and an MIT study showing limited return on investment ("ROI") from AI pilots tempered recent momentum.
- President Trump's dismissal of senior officials at the Bureau of Labor Statistics ("BLS") and Federal Reserve ("Fed") raised concerns over institutional independence, adding policy uncertainty.

Equity markets continued to rally in August, with equity indexes closing positively for the month. The S&P 500 returned 1.91%, marking its fourth consecutive monthly gain.¹ Gains were most pronounced in the small and mid-cap space, with the Russell 2000 up 7.00%, its strongest month since November of last year.² Outside of the US, international equities also pushed higher, with the MSCI All-World ex-US up 3.31%.³ This strength abroad was bolstered by continued weakness in the US Dollar, which declined 2.20% during the month, as measured by the U.S. Dollar Index. Gold also had a strong month climbing 4.60% to a new record high.⁴

Robust corporate earnings were the primary driver behind the continued strength of US equity markets. By month-end, 98% of S&P 500 companies had reported second-quarter results, with 81% delivering positive revenue surprises and aggregate index earnings rising 11.9% year-over-year.⁵ While earnings strength was broad-based, the rally's composition shifted in the latter half of the month. Materials and Healthcare led with gains of 5.58% and 5.25%, respectively, whereas Technology posted only a modest 0.27% increase.⁶ Given rapid multiple expansion across many technology stocks in recent months, this shift in leadership may persist in the near term.

The Technology sector's slowdown was most visible in AI-linked stocks, which have been the defining narrative of the post-2022 bull market. For the first time in months, this theme faced notable setbacks. NVIDIA, the bellwether of the AI rally, reported earnings on August 27. Although results were strong, elevated expectations left investors unimpressed, and the stock declined for three consecutive days following the release.⁷ Other AI-related names also fared poorly: Dell Technologies, now a key player in the data center market, fell 8.9% after disappointing results, while Marvell, a leading AI semiconductor company, dropped 18.6% following its second-quarter report.⁸

Adding to the AI narrative woes was the highly anticipated release of ChatGPT-5, which was marred by difficulties. Unlike previous updates, OpenAI removed all prior models from the offering, forcing users onto GPT-5. Broad complaints surfaced across social media, with users claiming lower response quality. Others argued that without the option to select a specific model, workloads built on earlier interactions had

1. Bloomberg.

2. Id.

3. Id.

4. Id.

5. Butters, John. "EARNINGS INSIGHT." FACTSET, 29 Aug. 2025, https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_082925.pdf

6. Bloomberg.

7. Id.

8. Id.

become unusable.⁹ Beyond these technical frustrations, the episode also raised strategic questions for OpenAI. It remains to be seen whether the GPT-5 rollout proves a temporary setback or an opening for competitors to gain market share. Putting an additional damper on the AI narrative was a recently released report from MIT, which noted that 95% of corporate generative AI pilot programs have produced no return on investment.¹⁰ Still, we believe that artificial intelligence is one of the most disruptive technologies since the invention of the internet. We also believe that, from an investor's perspective, the key is to balance caution in the near term, where expectations can often become unrealistic, with recognition that the long term trajectory of AI adoption remains highly compelling.

Beyond the market's internal dynamics, several political and economic developments also shaped the month. The labor market, a key pillar of US economic strength, showed increasing signs of weakness. Non-farm payrolls indicated that the US economy added only 73,000 jobs in July and the prior two months were revised significantly lower, a result that fell well below economists' expectations.¹¹ Rather than reacting negatively, investors interpreted the report as a signal that the pace of rate cuts could accelerate toward the end of 2025, focusing more on the prospect of easing monetary policy than on the underlying trend of a weakening labor market. We believe the market's willingness to rally despite soft labor data increases the risk of a sharp correction if expected rate cuts fail to sufficiently support employment.

However, President Trump's reaction was perhaps the most impactful part of the data release. Following the report, he fired the Commissioner of the BLS, Dr. Erica McEntarfer. The President then took to social media to confirm that her termination was a direct result of the jobs report, and claimed the numbers were "rigged to make Republicans, and me, look bad."¹² The BLS is responsible for vast amounts of economic data that millions of investors rely on, underscoring its institutional importance. Regardless of President Trump's claims, we believe that maintaining impartiality of economic data will be critical for market stability going forward.

The President also moved to fire Lisa Cook, a member of the Fed Board of Governors. The White House legal team argues that Cook can be dismissed for cause based on allegations of mortgage fraud. Cook and her lawyers have countered that there are no legal grounds for her removal and intend to challenge the decision in court. Beyond the legal arguments, in our opinion, Trump's comments made the motivation seem that the firing was about gaining control of the Fed. "We'll have a majority very shortly, so that'll be good," he said, referring to the Fed's governing board.¹³ He added, "Once we have a majority, housing will swing," highlighting his intent to influence interest rate policy.¹⁴ The Fed's independence is critical, as it allows the institution to pursue its dual mandate free from short-term political pressures. We believe that if that independence is compromised, markets may begin to price in political interference, triggering volatility, driving long-term rates higher, and eroding confidence in the stability and preeminence of the US financial system.

Fed Chairman Jerome Powell also spoke last month at the annual Jackson Hole Economic Symposium, a yearly conference that brings together top central bankers, economists, and academics. In his keynote speech, Powell addressed the current economic situation, highlighting the simultaneous slowdown in both job growth and GDP growth. He reiterated that although tariff impacts on prices are expected to be short-lived, the Fed remains cautious about the potential second-round effects on inflation. Beyond this, Powell signaled that with monetary policy still being restrictive, the outlook may justify lowering rates. Investors interpreted Powell's tone as dovish.¹⁵ A rate cut at the September meeting is now seen as near consensus, with futures pricing in a 91.6% probability of a 25-basis-point cut.¹⁶

9. Alcantara, Ann-Marie. "OpenAI's Rocky GPT-5 Rollout Shows Struggle to Remain Undisputed AI Leader." The Wall Street Journal, 13 Aug. 2025, www.wsj.com/tech/ai/openai-rocky-gpt-5-rollout-shows-struggle-to-remain-undisputed-ai-leader-04897686?gaa_at=eafs&gaa_n=ASWzDAGCl-I3tXgB3VR_hPpaawkpEQ8VXorVOdVcvXPSaf0hd8U0IEHZhmlziOlU60%3D&gaa_ts=68b75b2b&gaa_sig=kqS-Tlw48PZVv-D8FpgWfGuGaGvU58DpSg2uJgAklvz5_tTPTHNirnB7bSjGuFT2_f3Hf-gA8dbwqPSrNSnmA%3D%3D.
10. Estrada, Sheryl. "MIT Report: 95% of Generative AI Pilots at Companies Are Failing." Fortune, 27 Aug. 2025, fortune.com/2025/08/18/mit-report-95-percent-generative-ai-pilots-at-companies-failing-cfo/.
11. Bloomberg.
12. "Firing BLS Commissioner Erika McEntarfer." Economic Policy Institute, 8 Aug. 2025, www.epi.org/policywatch/firing-bls-commissioner-erika-mcentarfer/.
13. Rugaber, Christopher, and Will Weissert. "Trump Says He's Firing Fed Governor Lisa Cook, Opening New Front in Fight for Central Bank Control." AP News, 26 Aug. 2025, apnews.com/article/federal-reserve-lisa-cook-trump-6fca3d2fbb54ba204cc91398e6a7b020.
14. Id.
15. "Speech by Chair Powell on the Economic Outlook and Framework Review." Board of Governors of the Federal Reserve System, 22 Aug. 2025, www.federalreserve.gov/newsevents/speech/powell20250822a.htm.
16. CME Group (as of 09/02/2025)

August proved to be another positive month for equity markets, driven by strong corporate earnings and marking a favorable start to the third quarter. However, despite the market's resilience, we maintain a cautious outlook. The AI-fueled rally showed signs of a potential leadership rotation, and the labor market, a key pillar of economic strength, showed signs of weakness. We believe that market valuations appear stretched, and further labor weakness could challenge the economy's ability to maintain momentum. Against this backdrop, we favor defensive sectors in equity markets, such as healthcare, and economically-resilient asset classes, like private infrastructure, which historically provide more stable returns during periods of uncertainty. Linking market fundamentals with political risk, the recent actions of the Trump administration, notably the firing of key economic officials, raise concerns about the independence of government agencies like the Federal Reserve. We believe that maintaining the perceived impartiality of these institutions is essential for sustaining confidence in the US financial system. Given these risks, we also favor a modest allocation to gold as a hedge against political risk and the uncertainty stemming from potential challenges to institutional independence.

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