FINDING A BALANCE | 09.05.2025

Stocks are holding steady in the early days of September. Even with weaker-than-expected jobs data, the S&P 500 remains near its all-time high. If a cooling labor market increases the likelihood of interest rate cuts from the Federal Reserve, then what seems like bad news could actually be a positive for stocks. Still, it's important that a gradual slowdown in hiring doesn't turn into something more severe. Consumers have been the driving force behind the U.S. economy and remain essential to the market's path forward.

Though the unemployment rate remains low by historical standards, signs of a softening labor market are becoming harder to ignore. Fed Chair Jerome Powell recently acknowledged the slowdown and left the door open to a 25-basis-point cut in September. The latest jobs report added urgency: only 22,000 positions were created in August versus expectations of 75,000, with prior months revised sharply lower. So far, markets are pricing in only two quarter-point cuts by year-end, but the pressure is building for more. A move toward additional cuts could be a catalyst for equity performance.

That outlook, however, depends on inflation staying contained and layoffs not accelerating. Tariffs remain a wild card. While Trump's measures are facing legal challenges, the expectation is that they will ultimately stay in place in some form. There are signs of upward pressure on goods prices and delays in hiring as companies weigh the trade environment, but broadly, businesses are adapting to the new regime. Second-quarter earnings came in strong, and corporate guidance was generally upbeat. Analysts continue to project S&P 500 earnings growth of roughly 8% this year and another 14% in 2026—well above the historical average.

For now, investors seem willing to look past short-term volatility, comforted by a combination of resilient earnings, the possibility of lower interest rates, and a consumer base that, while stretched, has not yet cut back. The tug-of-war between cooling economic data and optimistic corporate outlooks is likely to define the market narrative over the next several months.

Looking ahead, the Fed's September meeting looms large, alongside fresh inflation readings that could shape policy expectations into year-end. If the data thread the needle—showing a labor market cooling but not collapsing, and inflation drifting lower without reigniting—stocks could find a path to new highs. But if the slowdown proves sharper than expected, the market's "bad news is good news" narrative may be tested.

Thanks,
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