RESILIENCE AMID UNCERTAINTY | 09.26.2025

Stocks have continued to climb in September, showing resilience even as the job market cools and new tariffs take effect. Investors remain focused on lower borrowing costs, recent tax relief, and rapid progress in Artificial Intelligence (AI). At the same time, gains have become more concentrated in fewer companies, and there are early signs that momentum may be slowing. With optimism running high, a brief pause wouldn't be surprising. Even so, the combination of a solid economy and above-average earnings supports a positive long-term view for stocks.

The U.S. job market has been gradually slowing this year. Job creation has slowed, and layoffs are ticking higher. Part of this is a return to normal after the post-COVID hiring surge, but it is also a reflection of hiring delays and staffing adjustments linked to uncertainty around trade policy. Recent tax relief under the *One Big Beautiful Bill Act* (OBBBA) has helped ease some of these pressures, but the administration's push for additional sector-specific taxes is making employers more cautious. Overall, the labor market remains solid, with unemployment near 4.3%, though the recent shift hasn't gone unnoticed.

In response, the Federal Reserve has resumed lowering interest rates, cutting its benchmark rate by 0.25%. More cuts are expected through year-end and into 2026, signaling a shift from fighting inflation to supporting job growth. The administration is also reshaping the Fed's leadership, which could influence future decisions on interest rates and financial oversight. This pivot marks a meaningful policy shift and offers a supportive backdrop for markets in the months ahead.

September's gains in the S&P 500 were driven by a handful of companies, reflected in the widening gap between traditional and equally weighted versions of the index. Oracle, a leading provider of database software and cloud infrastructure, posted a strong quarterly report and issued an optimistic outlook, reigniting excitement around AI and related sectors. This concentration has made the market more fragile, with fewer stocks participating in the rally and signs of slowing momentum beneath the surface. Investor enthusiasm also appears elevated, increasing the chances of a short-term dip. Even so, with the economy on solid ground and earnings expected to exceed historical averages, the long-term outlook for stocks remains favorable.

In summary, September's market story is one of resilience supported by strong fundamentals, even as risks begin to emerge. While short-term pauses are natural given high investor optimism and narrow leadership, steady economic growth, supportive policies, and ongoing innovation continue to make a strong case for long-term investing. Staying patient, disciplined, and diversified remains the best way to navigate the path ahead.

Thanks,
Preston May, CBE® | Research Analyst

(812) 421-3211 | dcm@dcmol.com | dcmol.com