

Market Commentary | September 18, 2025

# Navigator® Market Update

## ***The Fed Cuts Rates by 0.25%, With Dovish Views***

On Tuesday, the market advanced pretty sharply in advance of an anticipated rate cut by the Federal Reserve, with the major equity indices trading in new high territory, supported by strong fundamentals with rising corporate earnings expectations. Credit markets have also advanced with high yield bond indices trading at new all-time highs and yields across the Treasury curve declining. From the April 8 tariff-induced lows through Tuesday's close, the S&P 500 has advanced 33.4%, the Russell 2000 Index of small cap stocks 37.3%, the Bloomberg U.S. Corporate High Yield Index 9.1%, and the Bloomberg 7-10 Year Treasury Index 4.2%.

The big question coming into Wednesday was not whether the FOMC would adjust its policy rate by 25 basis points (bps), but rather if the FOMC would signal the beginning of a series of consecutive cuts. Would this be a dovish cut or a hawkish cut? Expectations had been for a hawkish statement and dot plot, but after all was said and done, this was a more dovish cut than the market expected.

The Fed did cut rates and signaled that more cuts are in the offing. As was largely expected, the Fed cut rates by 25 bps after holding rates steady over the past five consecutive FOMC meetings. A little surprising, there was only one dissent; many Fed watchers expected more than just one dissent. Stephen Miran, the newly sworn Fed official, voted for a larger half-point rate cut. Looking forward, the Fed's DOT plot might suggest two more 25 bps cuts in 2025 and one additional cut in 2026.

The Fed's rationale for resuming its rate cut cycle is due to concerns over a weakening labor market: continuing jobless claims remain elevated, job growth has dramatically slowed with large downside revisions, and both the manufacturing sector of the economy and housing remain weak. Policymakers view the cut as an insurance policy against further weakening of the labor market, as Chairman Powell termed it a "risk management cut," even though GDP continues to grow at a solid pace (3.3% Q2 GDP and the Atlanta Fed GDPNow Forecast for Q3 is currently 3.4%), and inflation remains above the Fed's 2.0% y/y target.

The Fed downgraded its assessment of the labor market saying, "job gains have slowed and downside risks to employment have risen." On inflation, the Fed noted that inflation "has moved up and remains somewhat elevated." Meanwhile the Fed increased its estimate for economic growth from their last projections in June from 1.4% to 1.6% in 2025 and from 1.6% to 1.8% in 2026.

Cutting rates into a resilient economy and record high stock prices risks a melt up in the stock market. Since 1980, there have been 22 times when the Fed has cut rates with the S&P 500 at or near all-time highs; twelve months later the index was higher each time by an average of 13.9%.

Buy the rumor, sell the news? Over the short term, we could see a brief pullback and consolidation as the market has enjoyed a large advance. We would view such a pullback as a buying opportunity before a continued advance into year-end. Technically the market has broadened out with wider participation across sectors and market capitalizations. On the fundamental side, corporate earnings have exceeded expectations and forward earnings for the S&P 500 companies have run out to new highs. We believe both conditions are favorable for established trends to continue.

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