BULLS&BEARS

By: Sean McCreery, AFIM
VP, Wealth Investment Officer

Fourth Quarter 2025

Summer Surge

Markets shook off the summer doldrums in what we're calling a 'Summer Surge" as the S&P 500 extended second-quarter strength and appreciated a further 7.8% in 3Q25, resulting in the index being up 13.7% year-to-date at the nine-month mark. After a volatile first half, markets moved steadily higher from July through September, a period that typically challenges equities.

Investor confidence grew as companies and consumers appeared to adapt to rising tariffs, which climbed from low single digits to the high teens year-over-year. July began with President Trump signing the One Big Beautiful Bill Act, sparking bipartisan debate that persisted as the threat of a government shutdown loomed. The S&P 500 rose about 3.0% in July, though gains were trimmed by a late-month sell-off ahead of the August 2nd implementation of broad, nation-specific tariffs. August saw a modest 1% gain, while September added 3.2%, a strong showing for a historically weak month.

Much can happen between now and year-end. But it is reasonable to assume that the market will at least sustain its current low-double-digit gain accumulated in the year to date. With the AI trade back in vogue, and with investors parlaying 'house money' to bid up sectors that were ignored in recent years, it is not unreasonable to assume additional capital gains as the year winds down.

Labor Market Quandary

On September 17, the Federal Open Market Committee lowered the fed funds target range by 25 basis points to 4.00%–4.25%, marking its first cut in nine months and the fourth in the current easing cycle. The decision was primarily driven by rising risks to employment, as emphasized in both the statement and Chair Powell's remarks.

Key insights came from the updated Summary of Economic Projections (SEP) and Powell's press conference. While the Committee acknowledged growing downside risks to the labor market, it reiterated its commitment to balancing its dual mandate: maximum employment and price stability.

The rate cut reflected a "shift in the balance of risks," with increased concern over weakening job growth and persistent inflation since July. Powell described the current environment as "highly unusual," highlighting the tension between the Fed's objectives and the wide range of views in the dot plot as a natural outcome of such uncertainty.

Post Pause Performance

The Fed last cut rates in December 2024—its third reduction that year. After a notable pause, it has now resumed its easing cycle. Historically, there have been eight instances where the Fed lowered rates following a pause of at least 120 days, offering useful context for what may lie ahead.

Specifically, there were seven prior cases with pauses of six months or more between cuts. In the three months following those resumptions, 10-year Treasury yields showed mixed results—rising three times, falling three times, and remaining flat once. However, the six- to twelve-month period leaned slightly bullish, with yields declining in four out of seven cases.

Equity markets have responded more consistently. One year after a rate cut following a pause, the S&P 500, Russell 1000, and Nasdaq Composite were all higher, with returns ranging from +14% to +25%. The Russell 2000 rose in 86% of cases, averaging a +20% gain.

The early months after a resumed easing cycle often bring heightened volatility and sharper pullbacks. Still, history suggests that while short-term turbulence is common, the medium-term trend tends to be strongly positive. The enduring lessons for investors: *don't fight the Fed* and *buy the dip*.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

9/30/25 Year-to-Date Change	
S&P 500	14.83%
NASDAQ	17.93%
Russell 2000	10.39%

Interest Rates	3/31/25	9/30/25
10-Year Treasury Note	4.21%	4.15%
3-Month Treasury Bill	4.30%	3.95%

First United Bank & Trust