



MONTHLY MARKET PULSE – SEPTEMBER 2025

HIGHLIGHTS

- ▶ **Cuts on the Horizon:** The Federal Reserve (Fed) is widely expected to cut rates by 25 basis points at its September 17 meeting, although commentary on the forward path of rates may prove more important.
- ▶ **The Court Decides:** There is a high likelihood that the extent of executive branch authority regarding tariffs and the Fed's independence will end up in the Supreme Court.
- ▶ **Elevated Market Concentration:** Investors face a market dominated by a handful of mega-cap companies. Does this warrant caution, or is it justified? We analyze this dynamic in this month's *Spotlight* below.

MONTHLY SPOTLIGHT:

U.S. Market Concentration – A Risk or Reflection of Reality

Author: Sunit Gogia
See page 2

MACRO INSIGHTS

Closer to Cuts

Stocks delivered another positive month in August, with the S&P 500 rising 2% and bringing the year-to-date gain to nearly 11%. Softer employment data bolstered expectations for a September Fed rate cut, sending front-end yields lower, weakening the dollar, and boosting small caps. The key events in August were the weaker-than-expected July employment report early in the month and Chair Jerome Powell's dovish remarks at Jackson Hole on August 22. Together, these developments have markets pricing in about a 90% chance of a 25-basis-point cut in September, with at least another 25 basis points expected before year-end.

The July employment report disappointed, with an even bigger surprise coming from the materially negative revisions to May and June. The debate now focuses on whether job growth is structurally slowing—posing risks to the current expansion—or whether the past few months reflect only a temporary soft patch linked to tariff uncertainty, now likely to improve as conditions become clearer. We lean toward the latter view, though the ADP jobs release and the official payroll report later this week will provide important signals for market sentiment. Powell's Jackson Hole speech emphasized that tariffs now present a more balanced set of risks—downside risks to growth and employment offset by upside risks to inflation—implying that policy should shift closer to neutral from its current restrictive stance. Markets responded with a 32-basis-point drop in 2-year Treasury yields, a steepening of the curve, and a 2.2% decline in the U.S. dollar.

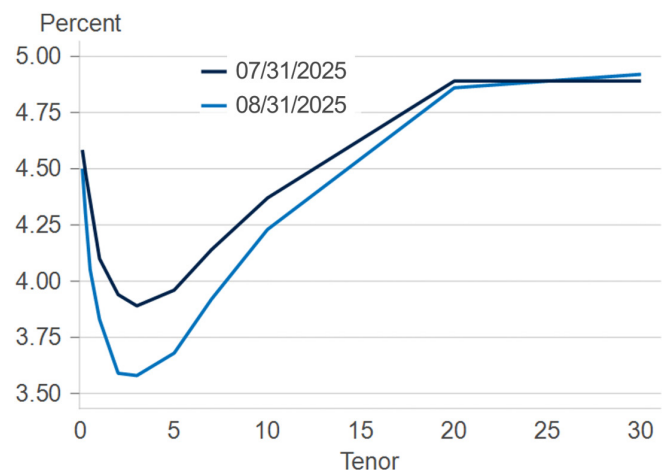
Equities showed improved breadth during August, with performance extending beyond the "Magnificent Seven." While enthusiasm for mega-cap tech remains, some investors have voiced concerns about the narrowness of leadership and market concentration. We explore this topic in greater depth in this month's *Spotlight*. The broadening trend included a 7% rally in small caps, fueled by the prospect of lower borrowing costs given their higher leverage and floating-rate exposure. Although aggregate

valuations leave less margin of safety, stocks outside of mega-cap tech appear more in line with long-term averages.

Plenty of uncertainty remains as markets debate the outlook: a softer labor picture, unresolved tariff policy and its impact on inflation and margins, the path of Fed policy, and the implications of reduced central bank independence in both the near and long term. We have maintained a largely neutral risk stance, recognizing that the underlying health of consumers and businesses continues to offset these challenges.

Treasury Yield Curve (MoM Change)

The yield curve has steepened over the past month as investors increased their expectations for rate cuts.



Source: U.S. Department of Treasury and Macrobond.

Chris Shipley
Senior Vice President, Co-Chief Investment Officer
Fort Washington Investment Advisors, Inc.

WHAT TO WATCH

The Federal Open Market Committee's (FOMC) September rate decision and forward guidance will be important for markets. Investors will closely analyze new inflation and employment data that could alter the trajectory of rates. In addition, they will monitor indicators of consumer sentiment and corporate investment to gauge the state of the economy.

- ▶ The FOMC's next meeting is on September 17. Nonfarm payroll figures, released on September 5, will be the most significant labor market data point before the meeting and could have implications for the path of rates.
- ▶ The next Consumer Price Index (CPI) report will be released on September 11, and Personal Consumption Expenditures (PCE)—the Fed's preferred inflation gauge—will be available on September 26. Investors will also examine underlying data for insights into tariff impacts.
- ▶ August retail sales will be released on September 16, with personal income and spending data available on September 26.

MONTHLY SPOTLIGHT



SUNIT GOGIA

Vice President, Portfolio Manager
Director of Equity Research

U.S. Market Concentration – A Risk or Reflection of Reality

The ten largest companies make up around 40% of the S&P 500's market capitalization—an all-time high. While headlines around index concentration typically carry a negative tone, is this concentration inherently bad? We believe investors should recognize the underlying dynamics to better understand both the upside and the potential vulnerabilities.

High levels of concentration are not unprecedented. During the dot-com bubble of 1999–2000, the top ten names also commanded a large portion of the U.S. market, peaking at around 25% of the S&P 500. Valuations at the time reflected excitement—companies like Cisco and Pets.com traded at extreme valuations without delivering corresponding profits.

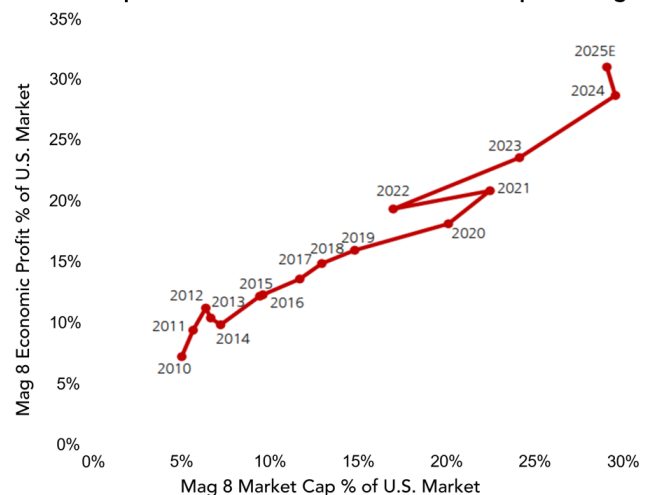
Today's leaders—the “Magnificent Eight,” which includes Broadcom—generate an outsized share of real economic profits. Their dominance comes from more than just investor enthusiasm: they have strong cash flows, global reach, and durable market positions. While valuations may appear elevated, they are far more grounded than in 2000 and, in our opinion, more closely reflect the economic profit potential of these businesses. Viewed through this lens, the proportion of U.S. market cap represented by the Mag 8 appears reasonably aligned with their share of economic profits.

That said, concentration certainly has implications for investors. With over a third of the S&P 500 tied to the Mag 8, diversification within the index appears more limited relative to history. Investors in the S&P 500 are arguably making an implicit bet on the continued success of these mega-cap technology companies. While the index weight of the Mag 8 has been rising for over a decade as they have grown their share of economic profits, the recent surge has been fueled in part by excitement around artificial intelligence, which has attracted significant investment. This introduces risk to profits if investments in AI fail to produce adequate returns. The impact on the S&P 500 in this scenario could be material. On the other hand, investors need to consider the competitive positions of each of the Mag 8 and their ability to capture economic value if investments in AI do, in fact, pay off.

History also offers perspective: only one of the top ten names from 2000—Microsoft—remains in today's top tier. Market leadership evolves over time, and today's concentration reflects the current set of dominant companies. Despite the concentration, we expect several of these companies to remain leaders as long as the barriers to entry protecting their businesses remain in place and assuming we do not experience material overinvestment in AI.

In the end, we view indices such as the S&P 500 or Russell 3000 as reasonably representative of the profit-generation potential of their constituents. While these indices have evolved and become more concentrated, that is not inherently good or bad. We believe focusing on quality companies with barriers to entry and strong returns on capital should be prioritized, rather than expecting index concentration to unwind.

Relationship Between Share of EP & Market Cap for Mag 8



Source: UBS HOLT. EP is Economic Profit. U.S. Market excludes companies with negative EP.








Sunit Gogia

Vice President, Portfolio Manager, Director of Equity Research
Fort Washington Investment Advisors, Inc.

Blake Stanislaw, CFA

Client Portfolio Manager, Fixed Income
Fort Washington Investment Advisors, Inc.

CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	<ul style="list-style-type: none"> U.S. economic growth has slowed and is expected to remain lower relative to the recent trend as tariffs present a near term headwind for consumer spending and business investment. Uncertainty remains elevated amid U.S. trade policy, geopolitical tension, and pending court decisions on executive authority. While economic data has been relatively stable, recent labor market weakness shows that risks are skewed to the downside.
Inflation		–	<ul style="list-style-type: none"> Market forecasts for inflation over the next few years have increased, remaining above the Fed's target. However, longer-run inflation estimates, while higher than in previous months, remain closer to the 2% goal. Higher prices are observable in producer prices and certain consumer goods inflation, due to tariffs. While the impact to consumers has been minimal so far, many economists expect the impact to increase as businesses pass through higher costs. While service inflation should remain stable over the coming months, tariffs create elevated uncertainty around goods inflation.
Monetary Policy		–	<ul style="list-style-type: none"> The Fed has kept rates unchanged so far this year but is expected to cut 25 basis points in September. Shifting growth estimates, tariff concerns, and Fed signals have resulted in volatile expectations for the path of monetary policy. While FOMC members are balancing their dual mandate of stable prices and full employment, downside risks to the labor market appear to be outweighing inflation concerns. Investors anticipate multiple cuts through 2026, with current pricing implying a terminal rate around 3%.
Fiscal Policy		–	<ul style="list-style-type: none"> The Big, Beautiful Bill (BBB) was signed into law in early July. In the short term, the BBB supports growth through individual tax cuts and encourages CAPEX through accelerated depreciation. Flexibility within fiscal policy remains low, as federal debt levels continue to rise and higher interest costs consume a larger portion of government outlays. The Treasury anticipates steady auctions over the next several quarters, as noted in its July Quarterly Refunding Announcement (QRA).
Market Valuations			
Rates		–	<ul style="list-style-type: none"> Yields moved lower with the short end of the curve declining the most as investors' expectations for rate cuts increased. We anticipate that the magnitude of expected rate cuts will remain volatile, with new economic data and developments around executive branch policies presenting opportunities for tactical adjustments. Long rates are within our expected fair value range, but we believe the curve is biased lower.
Credit		–	<ul style="list-style-type: none"> Credit spreads widened modestly during August but remain tight relative to historical averages. We believe the risk/reward is skewed to the downside, although strong corporate fundamentals should support current spreads. Investment-grade spreads (10-year BBB Industrials) ended July at their 13th percentile, and high yield (single-B corporates) at their 3rd percentile, since the 1990s.
Equity		–	<ul style="list-style-type: none"> The S&P 500 continued its upward momentum, up 2% in August, ending near all-time highs and up almost 11% for the year. Valuations for equities are now back to levels comfortably above long-term averages. However, this is largely due to multiples on mega-cap technology companies, which continue to increase their share of economic profits. Despite lingering uncertainty around trade policy, investor attention is likely to shift to the labor market and corporate fundamentals.

MARKET DATA & PERFORMANCE | AS OF 08/31/2025

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY%)	2.9	2.9	2.7
Unemployment Rate	4.2	4.1	4.2
Real GDP (YoY%)	2.1	2.5	3.0
Retail Sales (YoY%)	3.9	3.9	1.9
30-Year Mortgage Rate	6.6	6.8	6.4
10-Year Treasury	4.2	4.2	3.9
US Corporate IG Yield	4.9	5.1	4.9
US Corporate HY Yield	6.8	7.2	7.3

TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	2.3%	4.6%	10.6%	15.8%	18.8%	14.1%
S&P 500 Index	2.0%	4.3%	10.8%	15.9%	19.5%	14.7%
S&P Midcap 400 Index	3.4%	5.1%	5.3%	6.9%	12.0%	12.8%
Russell 2000 Index	7.1%	9.0%	7.1%	8.2%	10.3%	10.1%
MSCI World Index	2.6%	4.0%	14.1%	16.2%	19.1%	13.4%
MSCI World Excluding US	4.4%	3.2%	23.3%	15.5%	17.5%	11.1%
Fixed Income						
Bloomberg US Aggregate	1.2%	0.9%	5.0%	3.1%	3.0%	-0.7%
US Corporate Investment Grade	1.1%	1.1%	5.4%	3.9%	4.5%	0.0%
US Corporate High Yield	1.2%	1.7%	6.4%	8.3%	9.3%	5.2%
Emerging Market Debt	1.3%	2.3%	7.9%	8.4%	9.1%	1.3%
US Treasury (7-10 Year)	1.5%	0.9%	6.1%	2.1%	1.5%	-2.1%
Cash	0.4%	0.8%	2.9%	4.6%	4.8%	3.0%

Source: Fort Washington and Bloomberg. *Returns longer than 1 year are annualized. Past performance is not indicative of future results.

CONTACT

contactus@fortwashington.com

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. Opinions expressed in this commentary reflect subjective judgments of the author based on the current market conditions at the time of writing and are subject to change without notice. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete.

©2025 Fort Washington Investment Advisors, Inc.



**Fort Washington
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

 **Uncompromised Focus®**

303 Broadway, Suite 1200 / Cincinnati, OH 45202 / 513.361.7600 / 888.244.8167 / fortwashington.com