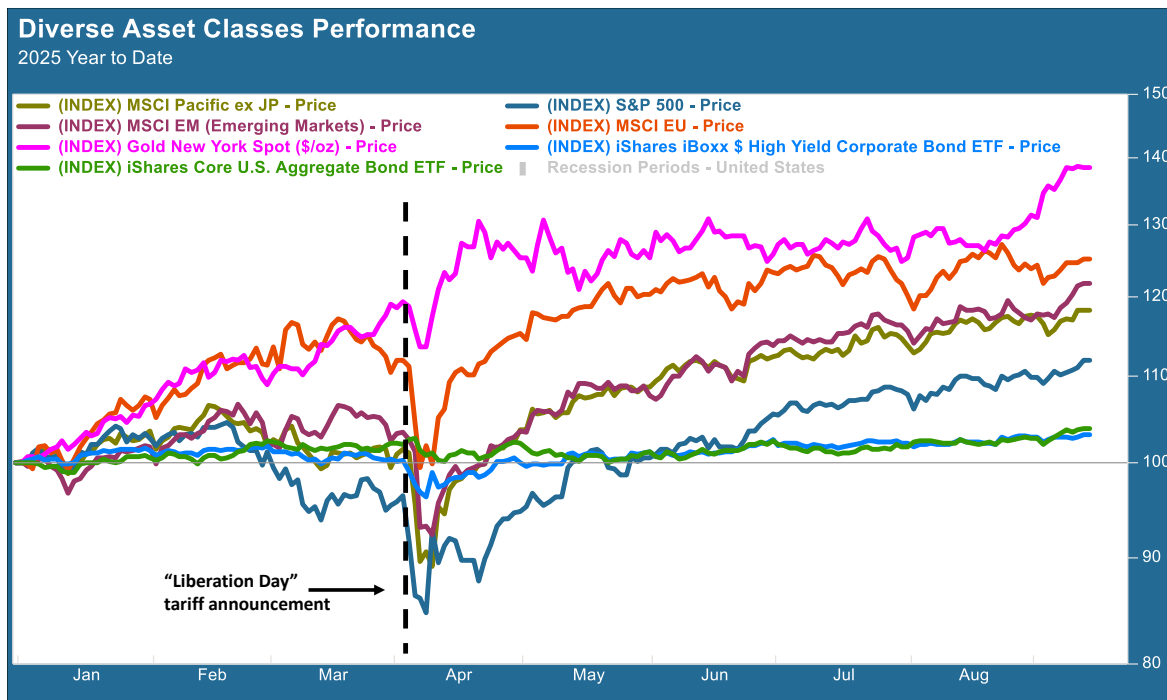


Weekly Market Flash

Melt-Up Ahead?

September 12, 2025

If you had told anyone following financial market trends on April 2 this year that by September just about any asset class under the sun would be basking in positive returns for the year, they would have called you crazy. But the doom and gloom of the “liberation day” tariff announcement quickly dissipated, and since then the markets have learned to take each and every curve ball thrown their way in stride, shrugging off any longer-term implications while reveling in the joys of a short-term sugar rush. Everything from gold to emerging market and European equities to our own S&P 500 is up double digits, and even the once-jittery bond market has settled into a comfortable place with prices up low to mid-single digits across a spectrum of credit risk. It’s a year for the Pollyannas of the world. And that sugar rush may have a ways to go before it ends.



Source: MVF Research, FactSet

Party Like It’s 2021

It wasn’t all that long ago that we had a similar dynamic. 2021 was the year of the “everything rally,” the year when the punters of the world united to pump up the prices of dubious stocks like GameStop while loading up on all things crypto and outbidding each other for “unique” digital images of primates in various postures of ennui. The fun back then ended, of course, when the Fed took away the punchbowl of zero-level interest rates and began its extensive monetary tightening program in early 2022.

Interest rates are still high relative to where they were in 2021, but that may be about to change in a way that gives this year’s everything-goes rally another burst of upward movement. The Federal Open Market Committee will meet next week, and investors are all but certain that, come 2:00 pm Eastern time next Wednesday, the Fed funds target rate will drop by 0.25 percent. The FOMC has three more meetings this

year (including next week's), and prediction markets have pegged a rate cut for each of those meetings, having the Fed funds rate end the year 0.75 percent lower than where it is today. Couple that with the frequent impulse for markets to rise during the holiday season, and it's not hard to see why pundits from a number of corners are furiously raising their estimates for risk-asset performance between now and New Year's Eve.

Reality Bites Back (Sometime, Probably)

A rationally-minded person might ask why all this good cheer is happening at a time when there doesn't seem to be much in the way of good news out there. The labor market is in a clear slowdown phase, and this week we learned that the BLS jobs numbers reported for the twelve months between March 2024 and March 2025 were revised down by 911,000 – that's roughly 75,000 fewer payroll gains over that period than previously reported. Also this week, we saw that inflation is not showing much sign of trending down. Year-on-year core inflation (measured by the Consumer Price Index) is up 3.1 percent. Grocery prices, which don't show up in the core inflation number but which very much do show up in household budgets, rose by 0.6 percent in the month of August alone. The effect of tariffs as a sales tax on consumers is showing up in an ever-widening array of goods and services.

The stickiness of inflation complicates the Fed's interest rate calculus, but the central bank has been clear in recent messaging that current concerns are tilted towards the jobs side of its dual mandate. So while the market is probably right that rate cuts are coming, they will be coming with plenty of attendant concerns about future developments. Several FOMC members have expressed confidence that inflation will level off and subside after one or two months of tariff-related increases, so job number one is making sure that employment conditions don't venture far enough south to push the economy into recession territory. Maybe they're right – and we can see a world in which markets continue to buy into this worldview for some time to come. But reality has a way of biting back, sooner or later. In our view, this is a time neither for overly defensive pessimism nor excessive optimism.

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