

## Overview

From anticipation to confirmation, September marked a decisive shift for both markets and policymakers. The Federal Reserve delivered its first rate cut since December 2024, payroll revisions reshaped the labor narrative, and political dysfunction in Washington culminated in a government shutdown on October 1. Each development underscored the late-cycle character of this economy: still resilient at the surface, but increasingly fragile underneath.

For investors, September confirmed the pivot anticipated through the summer while also sharpening the divide between headline strength and underlying weakness. This balance—opportunity amid uncertainty—is the defining theme as we move into the final quarter of the year.

Economic growth surprised to the upside once again. Q2 GDP was revised to 3.8% from 3.3%, with strong contributions from consumer spending and business investment. Real final sales, a cleaner measure of domestic demand, are tracking at a 3.5% annualized pace in Q3, suggesting that tariff disruptions and higher borrowing costs have not yet derailed the broader economy. Corporate CapEx has remained steady, reflecting both strong balance sheets and the incentive to invest ahead of election-year policy uncertainty.

Inflation has continued to moderate, giving the Fed more room to cut. PCE inflation is now running at 2.4% year-over-year, down from 2.7% earlier this summer, with core measures moving in the right direction. Goods prices remain subdued while services inflation has cooled with the moderation in wages. The Fed's challenge is to maintain credibility while easing into an economy that still posts above-trend growth, and September's 25 basis point (bp) cut was carefully framed as a first step rather than the start of an aggressive cycle.

Yet the labor market tells a more complex story. Benchmark revisions reduced job growth sharply, revealing that earlier monthly payroll reports overstated hiring by more than 800,000 jobs year-to-date. On a three-month average, payroll gains slowed to just 29,000, compared with over 200,000 at the start of the year. Private hiring is now concentrated in healthcare and leisure, while fewer than half of industries added jobs in August. The unemployment rate has risen to 4.3%, continuing claims are climbing, and downward revisions to H1 corporate profits (-\$41 billion) underscore margin pressure that could weigh further on hiring.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	2.00	10.47	11.50	13.49	15.40
S&P 500	3.64	14.81	17.56	15.27	15.31
NASDAQ	5.68	17.96	25.47	18.37	18.41
Equity EM Mkts.	7.16	28.15	18.11	8.43	16.57
EM Bond Mkt.	1.11	8.51	6.91	4.02	7.34
US High Yield	0.76	7.09	7.23	6.05	7.52
Commodity	2.15	9.38	8.88	3.96	13.23
COMEX Silver	13.86	52.77	40.02	9.72	27.78
COMEX Gold	10.14	40.95	39.13	11.18	13.81
Brent Oil	-0.68	8.41	18.02	14.90	36.29
Dollar Index	0.00	-9.87	-2.98	1.48	6.61

Compounding the issue, the October 1 government shutdown means official labor data releases will be delayed. Investors will have to navigate using private surveys and anecdotal data, heightening the risk of overreaction to incomplete information. This "data vacuum" has historically produced outsized market swings, especially when Fed policy is shifting. In short, while GDP and inflation trends appear supportive, employment weakness and fiscal dysfunction remain key risks.

## Taxable Fixed Income

September was another constructive month for taxable markets, with investment-grade credit outperforming most other fixed income sectors. US Investment Grade (IG) returned 1.5% in September, compared to 0.85% for Treasuries, 1.22% for MBS, and 0.82% for high yield. The spread on the Bloomberg US IG Corporate Index tightened 5 bps to 73 bps, erasing much of August's widening and generating nearly 50 bps of excess return to treasuries.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	% Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	0.76	0.34	1.09	6.13	6.04	4.37
US Treasury	0.57	0.28	0.85	5.36	5.90	3.94
Corporate	1.12	0.39	1.50	6.88	6.90	4.81
Taxable Muni	0.91	0.38	1.29	6.43	7.79	4.84
TM/BABs	1.08	0.49	1.57	6.78	8.83	5.40
US Agency MBS	0.83	0.38	1.22	6.76	5.76	4.74
Gov/Credit	0.75	0.32	1.07	5.93	6.20	4.25
TIPs	0.34	0.10	0.43	6.87	4.92	4.08
AAA Corporate	1.74	0.35	2.09	6.29	10.42	4.65
AA Corporate	1.26	0.35	1.61	6.24	7.79	4.55
A Corporate	1.08	0.38	1.46	6.85	6.89	4.68
BBB Corporate	1.11	0.40	1.52	7.03	6.70	4.99

Sector performance was broad-based. Health insurance outperformed, followed by energy, and life insurance. More cyclical sectors such as cable, chemicals, and consumer products lagged but still posted positive results. High quality single A and BBB spreads were the best performers in IG, as yields compressed by 5-6 bps respectively. The 7-10 year portion of the curve tightened 10 bps, reversing its August underperformance, while the long end held steady.

New issuance was a defining feature of September, totaling \$213 billion—double August's \$104 billion and the largest September on record. Despite the heavy calendar, demand absorbed supply well, aided by expectations of further Fed easing and steady inflows into IG funds. October issuance is expected to slow seasonally to ~\$100 billion as earnings blackouts limit activity, with Financials likely dominating the new-issue pipeline.

While valuations are not cheap, with spreads near the low end of their historical range, fundamentals remain steady, balance sheets are strong. This combination should remain supportive into year-end. Selectivity—both by sector and maturity—remains key, in view of record issuance. Intermediate maturities continue to offer the best combination of yield, liquidity, and spread compression potential.

## Tax-Exempt Markets

September was a turnaround month for municipals, with long-dated bonds driving outperformance. The Bloomberg 15-year benchmark yield rallied from 4.34% to 3.96%, producing gains of more than 3% on the intermediate to long end, while short maturities remained flat. The result was a sharp flattening of the curve, with the 2s–30s spread narrowing by nearly 50 bps.

The Municipal Agg index gained 2.3% for the month, bringing year-to-date performance to 2.6%. Returns were broad across sectors, with healthcare leading (+2.8%) on light issuance, and water/sewer and transportation performing in line with the market (+2.5%). GO bonds continued to demonstrate stability, while revenue bonds attracted strong inflows from buyers seeking after-tax yield and essential-service exposure.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	1.94	0.38	2.32	2.64	6.86	3.66
1-Yr Muni (1-2)	-0.29	0.37	0.08	2.89	1.27	2.61
5-Yr. Muni GO (4-6)	0.06	0.36	0.42	4.33	3.59	2.60
7-Yr. Muni (6-8)	0.82	0.36	1.18	4.84	4.80	2.99
10-Yr. Muni (8-12)	1.63	0.36	1.99	4.10	6.03	3.35
15-Yr. Muni (12-17)	2.68	0.37	3.05	2.40	7.78	3.96
30-Yr. Muni (22+)	3.64	0.41	4.05	0.31	11.18	4.63
AAA Muni	2.06	0.37	2.43	2.63	7.04	3.49
AA Muni	1.85	0.37	2.23	2.61	6.76	3.53
A Muni	1.96	0.38	2.34	2.80	6.76	3.90
BBB Muni	2.42	0.39	2.81	2.32	7.73	4.55
Gen. Oblig.	1.84	0.37	2.20	2.67	6.54	3.42
State GO	1.14	0.37	1.51	3.13	5.54	3.18
Local GO	2.33	0.36	2.69	2.30	7.24	3.59
Revenue	2.01	0.38	2.39	2.61	7.04	3.77
California	1.87	0.37	2.23	2.52	6.67	3.44
New York	2.24	0.38	2.63	2.13	7.30	3.73

The Fed's September cut added fuel to the rally, boosting flows into longer maturities and compressing Muni-to-Treasury ratios as low as 60% into the end of September.

October traditionally presents challenges for municipals, with higher issuance and lower redemptions often creating seasonal pressure. The current government shutdown may further delay issuance timetables, adding to volatility. Even so, issuer fundamentals remain stable, with healthy reserves and revenue collections. Relative value remains particularly attractive in the 10–20 year portion of the curve, where steepness provides compelling taxable-equivalent yields for long-term investors.

## Precious Metals & Digital Assets

Precious metals continued their strong run. Gold rose nearly 10% in September, lifting year-to-date gains to 40.95%. Silver extended its outperformance, up 52.77% year-to-date, making 2025 one of the strongest years for precious metals since the late 1970s. Drivers included a weaker dollar, record ETF inflows, and consistent central bank purchases. China's retail demand has also added an important dimension, with imports exceeding 100 tonnes during July and August.

Gold and Silver's resilience is notable given the strength of equities and relatively low financial market volatility. Their persistence underscores the demand for hedging assets in an environment defined by fiscal stress and political uncertainty.

Digital assets have also seen increased interest as both precious metals and digital are being recognized as alternative stores of value. As such, both asset classes are drawing inflows from investors seeking diversification away from traditional currencies and fiscal exposure. While gold has been the standout performer this year, digital assets are reflecting the same demand impulse, which is why we continue to monitor both asset classes.

We maintain a measured allocation of 1%–3% in precious metals for our equity and balanced portfolios treating them as strategic stabilizers rather than overweight exposures.

## Equity Markets

September was constructive for equities, but leadership remained narrow. The S&P 500 advanced 3.6%, with nearly 70% of the move driven by Apple, Alphabet, and Tesla. Technology (+7.2%) and Communication Services (+6.3%) were the only sectors to outperform, while five sectors posted outright declines. This uneven breadth highlights the market's reliance on large-cap growth to sustain momentum.

The September momentum shifted its focus to interest rates as the growing belief in future interest rate cuts dominated financial news and markets. Earnings also continued to come in stronger than expected.

The concentration of returns in a handful of large-cap names since the low on April 8, underscores the importance of balance. Since the low, Info Tech is the best performer (+61%) and Consumer Staples (+5.3%), the worst. While US large-cap earnings momentum remains intact and Fed easing provides a supportive backdrop, concentration risk argues for selectivity and diversification. For long-term investors, quality companies with pricing power and global reach remain best positioned to navigate this environment.

## Strategy Outlook

The fourth quarter begins with opportunity but also fragility. Headline growth remains intact, inflation is easing, and Fed policy has pivoted toward support. Yet labor softness, fiscal dysfunction, and concentrated equity leadership temper the picture. The government shutdown adds another layer of uncertainty, particularly as markets lose access to timely data.

Our positioning remains cautious but constructive. In fixed income, we emphasize high-quality exposure through Treasuries, MBS, and select IG credit, while exploiting steepness across yield curves. In real assets, we maintain measured allocations to gold and silver, recognizing their stabilizing role amid fiscal and political instability, while continuing to monitor digital assets as part of a broader diversification trend. In equities, we stress selectivity, emphasizing companies with durable earnings power and balanced global exposure.

The path forward is constructive but volatile. Policy support and resilient growth create opportunity, but late-cycle risks demand prudence. Quality, diversification, and discipline remain the guiding principles as we navigate the months ahead.

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