

Index	Asset Class	2025		2024
		Aug.	YTD	
Equity Indexes		Total Returns		
NASDAQ 100	Mega Cap U.S. Growth Equity	0.9%	12.0%	25.9%
S&P 500	Large Cap U.S. Equity	2.0	10.8	25.0
S&P 400	Mid Cap U.S. Equity	3.4	5.3	13.9
S&P 600	Small Cap U.S. Equity	7.1	3.2	8.7
MSCI All Country World	Global Equity	2.5	14.7	18.0
MSCI All Country World (Ex U.S.)	International Equity	3.5	22.2	6.1
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	4.3	23.3	4.4
MSCI Emerging Markets (EM)	International Emerging Market Equity	1.5	19.6	8.1
Fixed Income Indexes				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	1.2	5.0	1.3
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	0.8	(0.2)	1.3
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	0.5	(1.2)	6.7
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	1.3	6.4	8.2
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		2.3	12.7	14.5
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		2.0	10.8	11.1
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		1.7	8.9	7.7
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		1.5	6.9	4.5
Data as of 8/31/2025. Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.				

Please see important disclosures at end of this report.

Overview & Economy

“Just the facts, ma’am,” Sergeant Joe Friday would interject in a dry monotone voice. I’m dating myself here with this reference to the main character of *Dragnet*, a TV crime drama from the late 1960s. I just thought this would be the best way to present this month’s overview – that is by focusing on the facts, and steering clear of the inuendo and political maneuvering which have been pervasive in recent events and news.

Recent weeks have indeed been eventful. The most notable *facts* pertaining to the economy and investment markets, as we see them, were as follows:

- (1) In a prepared speech delivered on the final day of the annual Jackson Hole Economic Symposium (on August 22, 2025), Fed Chair Powell offered that “the shifting balance of risks may warrant adjusting [the FOMC’s] policy stance.”¹ His comments were favorably received by investment markets, and Treasury futures now discount certainty for a Fed Funds rate cut at the FOMC meeting scheduled for September 16-17, 2025.

In his speech at Jackson Hole, Chair Powell said that the “effects of tariffs on consumer prices are now clearly visible.” He also referred to the labor market to be in a “curious kind of balance that results from a market slowing in both the supply of and demand for workers” – related to changes in trade and immigration policies. He further offered that this unusual balance indicates rising risks to employment, and if these risks materialize, they could “do so quickly in the form of sharply higher layoffs and rising unemployment.” In his words, the “risks to inflation are

tilted to the upside, and risks to employment to the downside.” Of note, were these risks to be realized, that economic state would be “stagflation.”²

- (2) Affirming Chair Powell’s comments, soft job growth for August was reported last Friday, with just 22,000 new jobs added compared to 80,000 estimated. Also, previous months were revised down, with June lowered to a net loss of 13,000 jobs. The unemployment rate ticked up just a tenth of percent in August to 4.3%.³ August CPI will be reported this coming Thursday, September 11.
- (3) President Trump initiated an effort to fire Federal Reserve Governor Lisa Cook. Governor Cook responded by suing to defend herself.⁴ This was followed by the Justice Department opening a criminal investigation into whether Governor Cook committed mortgage fraud years ago.⁵ All this comes after months of Trump criticizing and threatening Chair Powell. Trump has been quite vocal that he wants the Fed to lower rates, and not just by a little. At risk is the Federal Reserve’s independence from political influence.
- (4) While the equity market declined sharply when President Trump threatened to fire Chair Powell (April 21, 2025), market reaction to more recent events has been muted – so far. Only a small shift in the yield curve has occurred, with short-term market rates down modestly, and long-term rates moving a bit higher. This reflects the interest rate paradox that politically motivated lower short-term rates would risk higher longer-term inflation.

These are the facts Sergeant Friday! (See our [Monthly Market Recap](#) published July 2, 2025, for background and detail on the Federal Reserve, and our views on the significant potential risks of a politicized Central Bank.)

Equity Markets

Overall, International Developed stocks continued to outpace U.S. Large Cap stocks in August, building on their already substantial YTD lead. Within the U.S., Small and Mid Caps led last month (...finally), fueled by investor enthusiasm ignited by Fed Chair Powell’s dovish tone in his Jackson Hole speech. Nevertheless, U.S. Small and Mid Cap indexes remain well behind YTD. The potential rate cut rationale behind SMID stocks relates to their greater reliance on debt vs. the more established Large Caps. This rationale, however, would be undermined if the yield curve continues to steepen as U.S. Small Caps tend to rely mostly on floating rate debt with intermediate-term maturities.

Fixed Income Markets

All the bond indexes we track showed positive total returns in August, led by the taxable bond indexes – both Investment Grade and High Yield. While Muni’s were positive, these indexes do remain down YTD reflecting the investor concerns we have previously written about relating to federal funding cuts for states. We reiterate that we believe these discounted concerns to be excessive, as most outstanding muni bonds (investment grade and high yield) are revenue (or project) bonds, secured by the specific revenue generating projects which they helped finance, rather than general obligations bonds backed by the general credit of the issuing municipality.

Reference(s):

- 1) Board of Governors of the Federal Reserve System, Speech by Chair Jerome H. Powell, Transcript & Video, “Monetary Policy and the Fed’s Framework Review”, August 22, 2025 – [Link](#)
- 2) Investopedia, “What is Stagflation, What Causes it, and Why is It Bad?”, Updated April 7, 2025 – [Link](#)
- 3) CBS News, “Employers added 22,000 jobs in August, falling short of forecasts...”, Updated Sept. 5, 2025 – [Link](#)
- 4) ABC News, “Trump’s move to fire Lisa Cook threatens Fed independence, risks inflation...”, Aug. 26, 2025 – [Link](#)
- 5) CNN, “Justice Department launches criminal investigation into Fed’s Lisa Cook...”, Sept. 4, 2025 – [Link](#)

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