

MARKET COMMENTARY – September 1, 2025

Difference of opinion ... makes horse-races. ~ Mark Twain

The fundamental data coming out regarding the state of our economy and market performance tell a story, or perhaps many stories. The opinions of those who interpret the data are what cause the daily ups and downs, turning market returns into horse races. And though in discussions with friends and family, we certainly share our own preconceived opinions, we have discovered over our long career in finance that it is best to uncover facts and only then form opinions.

We'll start by looking at data we have recently shared with some of you. Charles Schwab produced a chart that showed 90-day credit card delinquencies spiking from 8% in 2023 to over 12% recently. For those of us who went to public school, that is a 50% jump! A reasonable, maybe reactive, person might be excused if he panicked and shouted, "It's the canary in the coal mine!"

Let us at this stage admit that, yes, it is a potentially worrisome trend. If true. And if it continues. So, we dug deeper using some AI-empowered detective work to point the way and then some reading. It turns out that the data Schwab shared was sourced from the New York Federal Reserve. It further turns out that their data set incorporates a lot of low-quality credit cards (think of the person with a credit score of 575 who has seven store cards but applies for an eighth because she saved 5% on that particular bill). We looked back at the full data set going back to 2003 and discovered that the 90-day delinquency rate has averaged 10%. And so, in proper context, the rate FOR THIS DATA SET is only slightly elevated from its long-term average.

Our opinion on this horse race strengthens when we look at 90-day delinquency rates for credit cards issued by commercial banks (not retail, fintechs, or credit unions). The St. Louis Federal Reserve says the national rate is only 3.05%. This is actually LOWER than the average of 3.50% since 1991.

This next batch will be the final 90-day delinquency data set. We promise. Prime credit card borrowers with excellent credit scores who carry cards issued by major commercial banks had a 90-day delinquency rate of 0.70% most recently. These are the best of the best and, as expected, show much lower delinquencies. This data set goes back to 1997 and has an average of 1.5%. Today's delinquencies are LOWER than the average.

Let's synthesize what we know so far. Cruddy quality cards are experiencing higher than average delinquencies. Meanwhile, middle-of-the-road and high-quality cards are experiencing lower than average delinquencies. We think it is safe to say that middle-income and high-income consumers, while bothered by recent inflation, are not in current financial harm. However, the lower tier of earners (many under thirty years of age) are finding times challenging.

Our point is that what at first appeared to be a troubling increase in overall delinquencies is actually tied to a subset of the population. Having been in that subset in our life, we sympathize. However, given strength in the wider credit markets, we do not think it is currently enough to tip the broader economy into recession.

A quick shift of the gears. To interest rates. Chairman Powell suggested recently that interest rates could come down at their September meeting. We do not know if this shift in his thinking is from presidential arm-twisting or real economic data. Our take is that tariffs are like sales taxes. You pay more at the checkout register, but they aren't inflation. Tariff money, like a sales tax, goes into the government black hole, not productive corporations. And whether or not the bond market will ever publicly admit such a thing, it agrees with us. Since the announcement of a potential cut, the 10-year Treasury rate has actually fallen a tad. If the bond market thought inflation would spike as a result of the proposed cut, those longer-term rates would have increased.

We exist in argumentative and troubling times. We spend too much. We issue too much debt. Yet, despite our self-inflicted problems, the economy and markets remain in astonishingly solid shape. Revenue growth is good. Earnings growth is good. Projections are good.

How much we are all willing to pay for those good results is a potential problem, however. Valuations do matter. But that is a horse race for another month.

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Sincerely
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