

Breaking News: The Government shut down at 12:01am to start the new month and the market made new all-time highs today.

Back to our regularly scheduled programming...

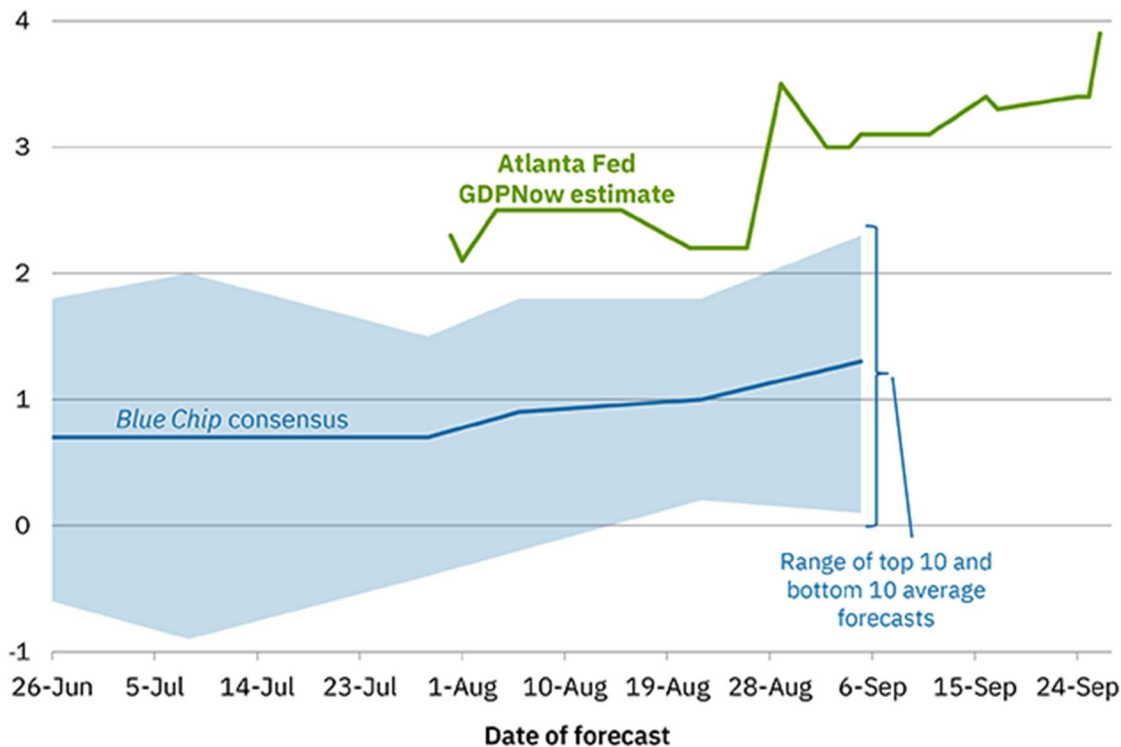
KEY TAKEAWAYS

- The equity markets continue to march steadily higher on a path established in mid-May, continuing to notch all-time highs.
- The U.S. 10-year Treasury Yield continued to drop until the Fed cut rates and then retraced half the early month move lower.
- Crude oil was quiet this month floating just below \$65 most of the month.

The U.S. Economy

The final read for 2nd quarter GDP came in at +3.8%, up from the last report of +3.3%. Core PCE, the imbedded inflation measure, edged up +0.1% to 2.6%. With the 2nd quarter now in the rearview mirror, the 3rd quarter's GDP estimates continue to show more growth with GDPNow, currently at +3.9%, though the Blue-Chip consensus forecast is just over +1.0%, as shown in the chart on the next page. GDP is putting the weak 1st quarter in the dust with robust growth, though inflation continues to firm and weakening employment has the Fed cutting rates. Almost "Goldilocks"?

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3 Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield hit the high of the month on the first day of the month, before resuming a steady path down in yields actually touching under 4% the day the Fed cut rates by 25 basis points. The market then started retracing that drop in yields in reaction to inflationary fears in part driven by positive economic surprises. The Fed has shifted focus from inflation fears to weakening employment fears, which is supporting the bond market's inflationary fears. If the Fed's fear of weakening employment rears its' head, then yields will likely fall lower on recession fears. All that said, the Fed and Bond market are running around in fear. 🤖 The decline in yields was again a tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF popped +1.13% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.15%, down from August's close of 4.23%.

The Dow Jones Industrial Average climbed +1.87%, the S&P 500 jumped +3.53%, and the small cap iShares Russell 2000 ETF popped +3.18%. The international markets traded in line with the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index rose +2.11%, and the MSCI Emerging Markets iShares Core ETF Index soared +6.17%.

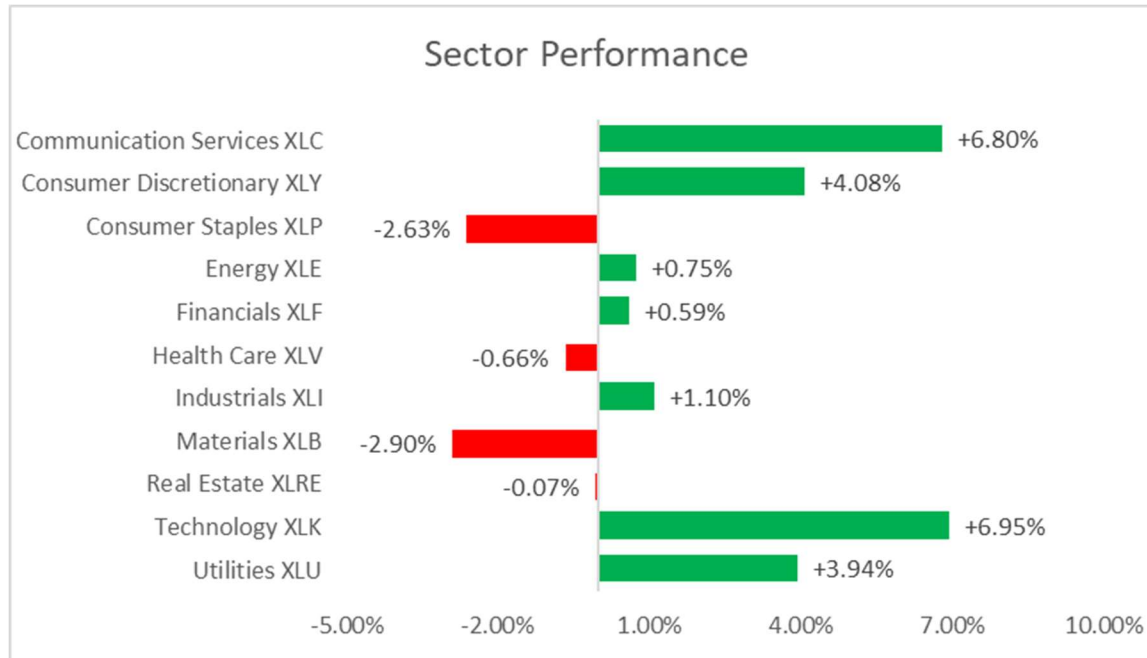
September's sector performance looks like last month.

The best performers were...

- Technology: +6.95%
- Communication Services: +6.80%
- Consumer Discretionary: +4.08%

The worst performers were...

- Materials: -2.90%
- Consumer Staples: -2.63%
- Healthcare: -0.66%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil continues to be stymied by the \$65 level, though jogged back and forth within a few dollars of that level all month. The continued "softness" of global demand and persistent geopolitical uncertainty have neutralized each other. The current NYMEX WTI Crude Oil futures settled at \$62.43, losing over 2% from the prior month's close of \$64.01 a barrel. RBOB gasoline was like Crude, dropping by almost 3% for the month vs. August's close. The hurricane season remained quiet until month end when 2 named storms ran side by side for the East Coast. So far it does not appear there will be a direct impact from either storm.

The Rest of the Data

The August ISM Manufacturing Index increased to 48.7 from July's reading of 48.0, remaining below 50. The ISM Services Index jumped to 52.0 in August, from July's print of 50.1, extending above the 50 level. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component, for Manufacturing, continued to back off from high in the elevated range and Services' prices held at highly elevated levels. Consumer confidence

decreased to 94.2 in September, which compared to an upwardly revised 97.8 in August. The unemployment rate again increased as expected to 4.3%, while the number of jobs added came in at 22,000 in August, missing expectations of 75,000 jobs. The big news of the month was the downward revision of 912,000 for the past 12 months versus previous reports. The Consumer Price Index for All Urban Consumers (CPI-U) increased +0.4% in August, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate rose by +2.9% on a non-seasonally adjusted basis. The CPI ex Food and Energy held at +3.1% over the last year. Economic growth is improving though the employment data has softened and now has the Fed's attention and inflation continues to firm. The Fed did cut rates on concerns of the employment picture but did not definitely say another cut was coming in October. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

Powell's apparent shift in policy focus did indeed lead to a September rate cut. The bond market is focused on the softer employment data, which resulted in lower yields for the month. The equity markets are focused on the prospect of additional rate cuts and continue to move higher. Can the Fed thread the needle with a soft landing, which is comforting to Equity and Bond markets? For now, we remain in steady as she goes mode, which is beneficial to both equity and fixed income holders. The big question now, what happens if the government shuts down and all economic reports are put on hold? Does the Fed presume the softening Employment data continues and cut rates or do they hold steady waiting for the data to be released?

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset
Management



Institutional Asset Management adapted for Private Wealth™

WaterRock Global Asset Management, LLC
Kailua-Kona, HI 96740 & Scottsdale, AZ 85260
(808) 896 – 4957

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