

STIFEL

FAVORITE

15

September 2025

Insights From Stifel's CIO Office

1. [Washington, D.C. Transition](#): President Trump, through his first 100 days, has issued 140+ executive orders, causing concern among business leaders and consumers about rising uncertainty, which may be dampening Animal Spirits and contributing to market volatility.
2. [One Big Beautiful Bill Act \(OBBBA\)](#): The spending bill has been passed, and we laid out the elements from tax relief to market implications.
3. [The Consumer](#): We consider measures of consumer health, indicating they are engaged, despite some softening confidence and sentiment.
4. [Labor Market](#): We show labor market conditions before, during, and after the COVID shock to better assess current conditions.
5. [Inflation and Federal Reserve \(Fed\) Policy](#): Inflation expectations currently vary significantly based on political affiliation.
6. [Fed Funds Target Rate](#): Fed funds futures have priced in two more quarter-point cuts in 2025, followed by another two cuts over 2026, in response to softness in the labor market.
7. [Monetary Policy](#): The Fed's balance sheet has gotten better after growing as an element of support to the economy.
8. [September Federal Reserve Meeting](#): The Fed's Summary of Economic Projections suggests the labor market is going to weaken a little bit more. As a result, two more rate cuts are expected over the remainder of 2025.
9. [Stock Market Downturn](#): Equity markets began the year positively but encountered volatility following the tariff announcement. They have since improved as the administration engages in negotiations over the next 90 days.
10. [Near-Term Risks and Opportunities](#): Equities remain elevated on a cap-weighted basis, with the S&P 500 P/E ratio about 25% above its 10-year average. However, equal-weighted valuations appear more reasonable, presenting opportunities as market breadth is expected to expand.
11. [Fundamentals](#): Expectations of higher profitability in the S&P 500 may be contributing to the higher P/E multiple.
12. [Seasonality of Returns](#): September has been a negative month for S&P 500 returns on average, over the past 80 years.
13. [Market Performance](#): Major market indices have largely recovered from the recent downturn, with many reaching peak levels.
14. [Second Half Outlook](#): We assess recent positive momentum with lower uncertainty, contained inflation, and a stable labor market.
15. [SightLines: AI in Focus](#): Artificial intelligence capabilities are here. We dig deeper into how AI is making a difference.

President Trump has implemented significant policy changes, increasing uncertainty.

**Tariffs and
Trade Policy**

**Fiscal and
Tax Policy**

**Department of
Government Efficiency**

**Health and
Human Services**

**Immigration and
Border Security**

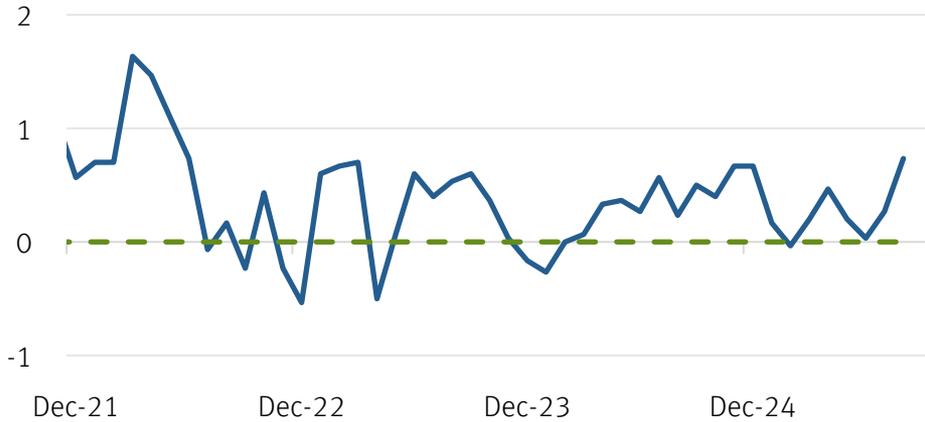
**Department of
Education**

Other anticipated changes include areas like the judiciary and the legal system, housing and urban development, and artificial intelligence and technology.

- **Permanent Extension of 2017 Tax Cuts**
- **Targeted Tax Relief:**
 - Auto loan interest and federal taxes on tips and overtime may be excluded from income from 2025-2028
 - Increased standard deduction and expanded deductions for seniors
 - Raises the state and local tax deduction cap from \$10,000 to \$40,000 from 2025-2029, phase out for income over \$500,000
- **Energy Policy Changes:**
 - Rolls back many clean energy tax credits from the Inflation Reduction Act
- **Spending Shifts:**
 - Increases funding for defense (\$150 billion), border security (~\$132 billion), and ICE operations
 - Reducing Medicaid (~\$800 billion), SNAP (~\$300 billion), and student loan support (~\$350 billion)
- **Deficit Impact:**
 - No final assessment from Congressional Budget Office on the final OBBBA
 - Many economists expect deficits to stabilize around 6%-7% of GDP
- **Economic Effects:**
 - Modest short-term GDP boost (~0.3%-0.5% in 2025-2026) – increase in household after-tax income
 - Mixed views on longer-term economic impact
- **Market Implications:**
 - Tech and industrials may benefit from corporate tax changes
 - Healthcare stocks with Medicaid exposure could face pressure
 - Rising deficits may steepen the yield curve and influence Fed policy

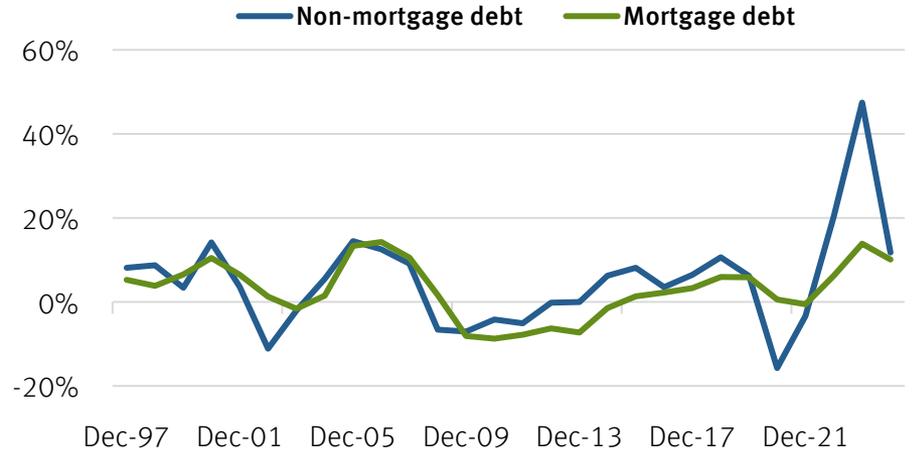
Retail Sales

Month-over-Month, 3-month Moving Average

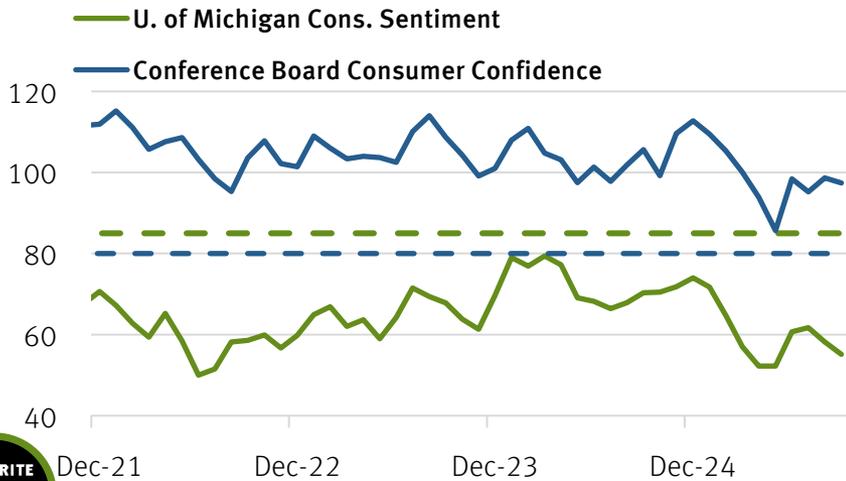


Interest Paid on Consumer Debt

Year-over-year %

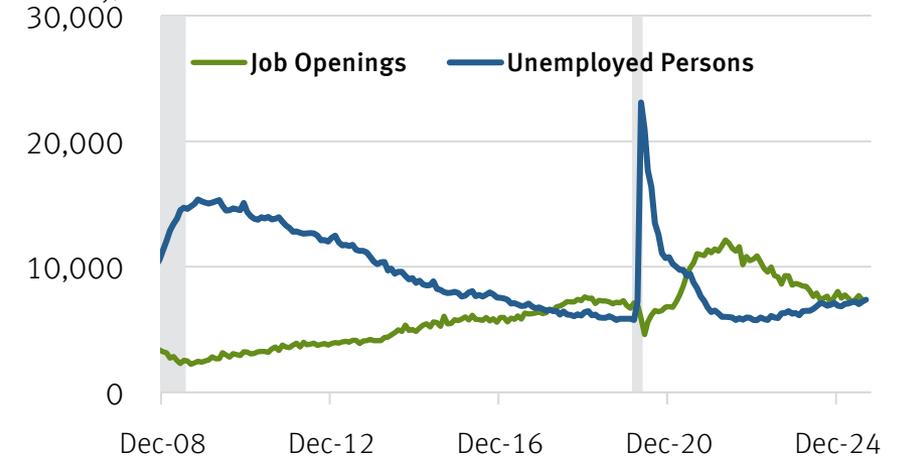


Consumer Confidence and Sentiment



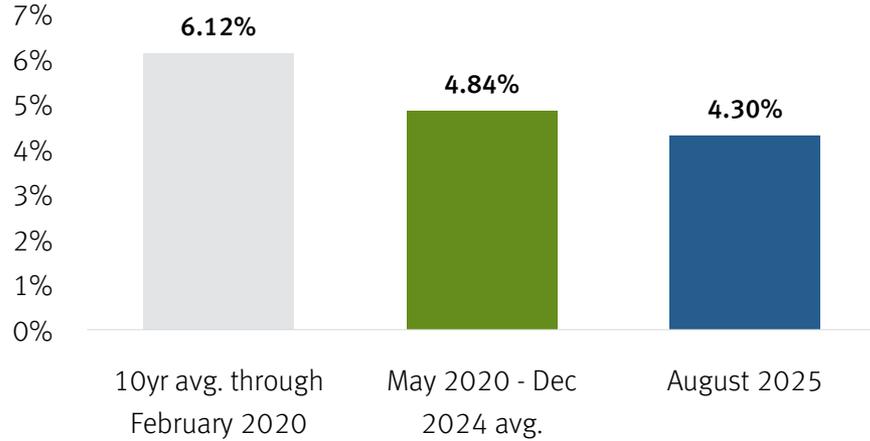
Job Openings and Unemployed Persons

Monthly, in Millions



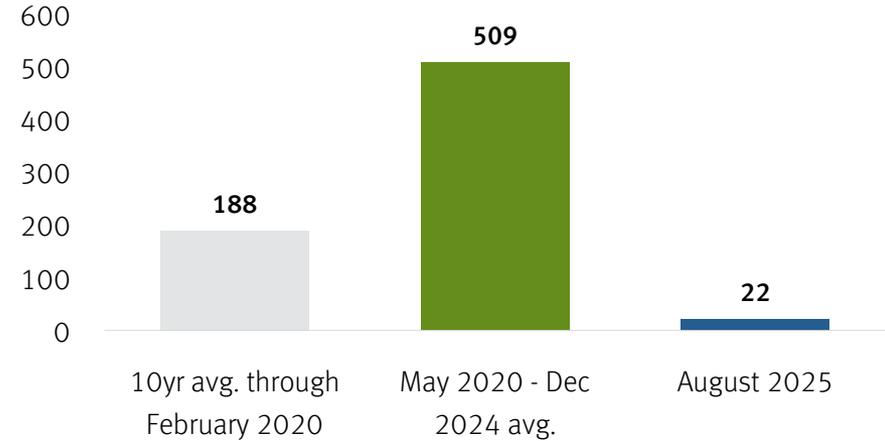
Unemployment Rate

Monthly



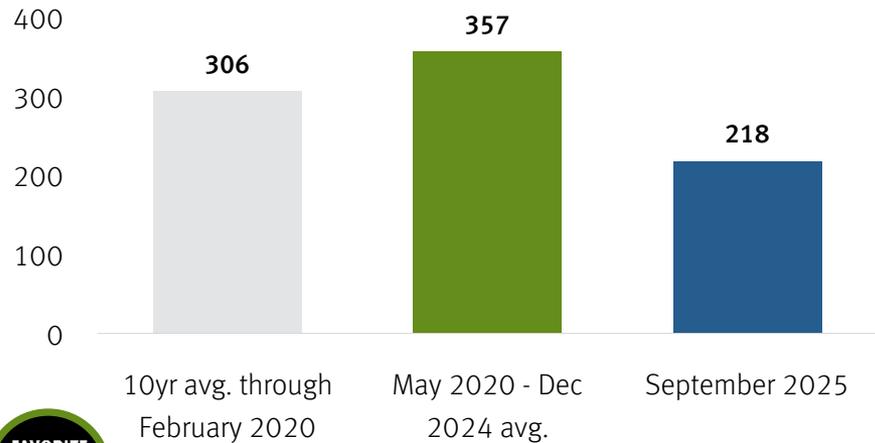
Nonfarm Payrolls

Monthly, thousands



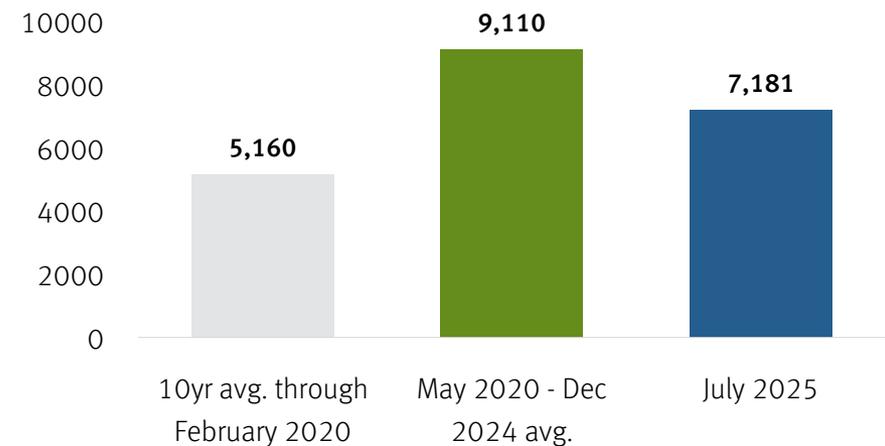
Jobless Claims

Weekly, thousands



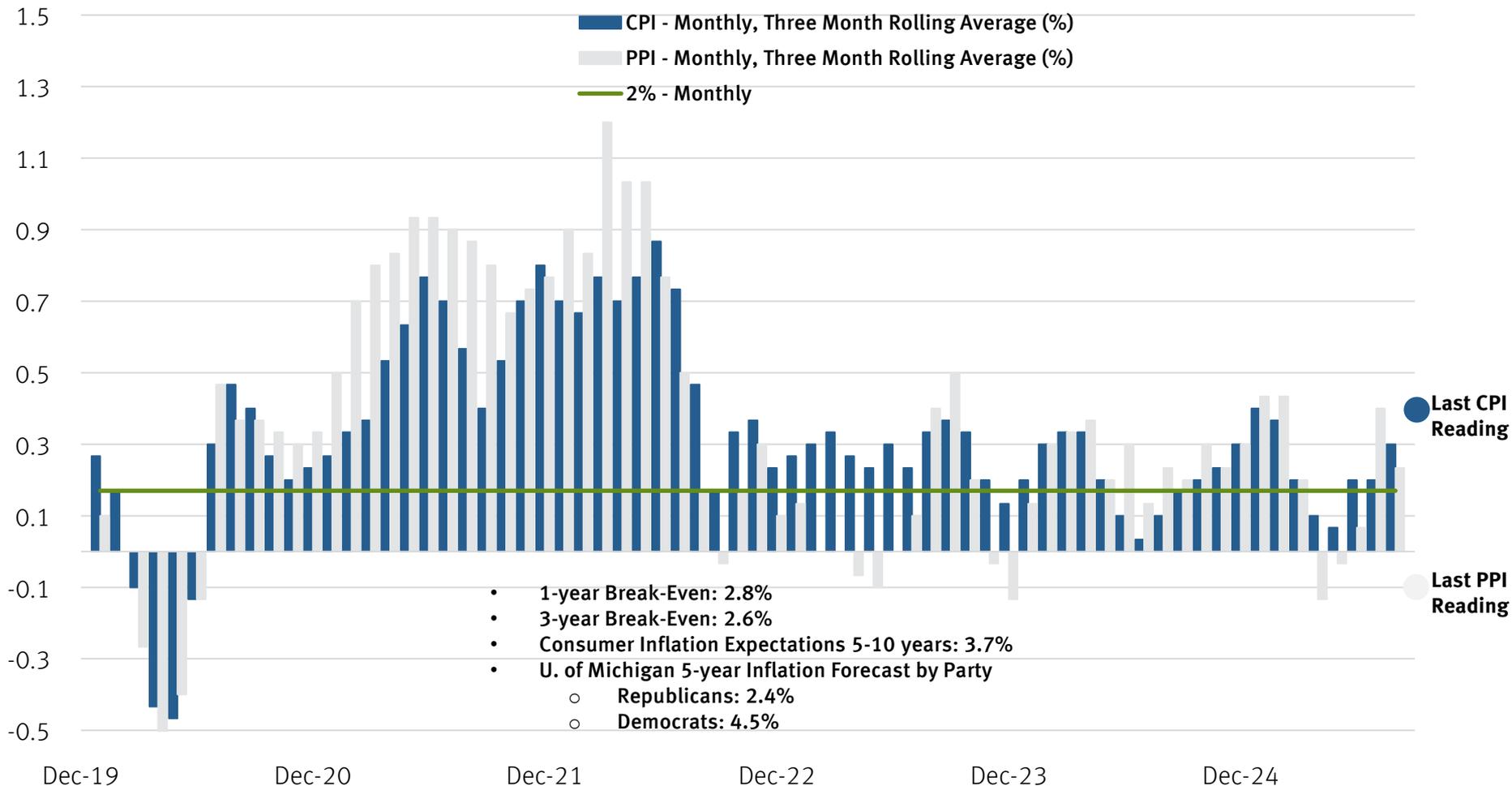
JOLTS - Job Openings

Thousands



Source: Stifel CIO Office via Bloomberg, as of September 29, 2025
 JOLTS = Job Openings and Labor Turnover Survey

Monthly Inflation Trends

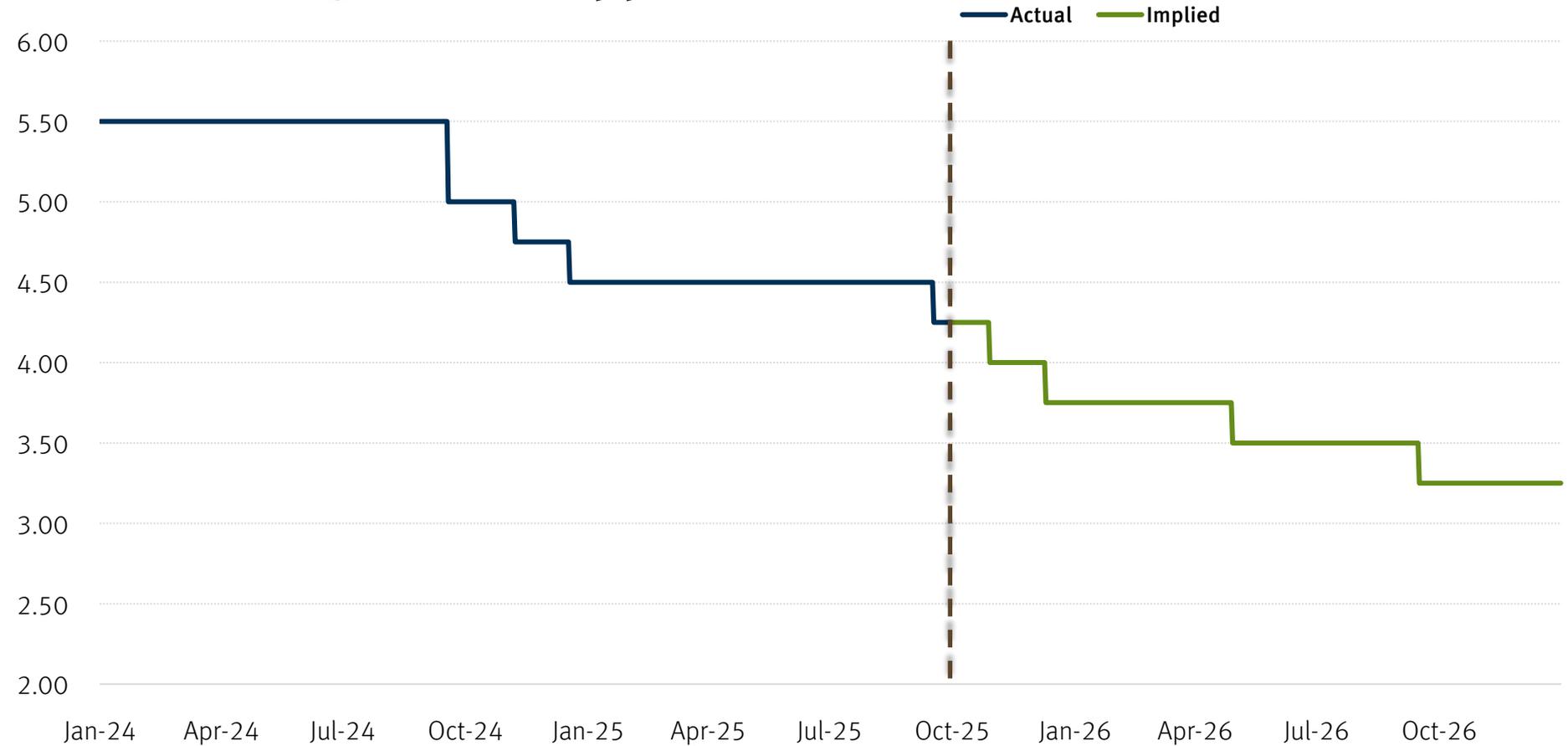


Source: Stifel CIO Office via Bloomberg, as of September 29, 2025

CPI = Consumer price index

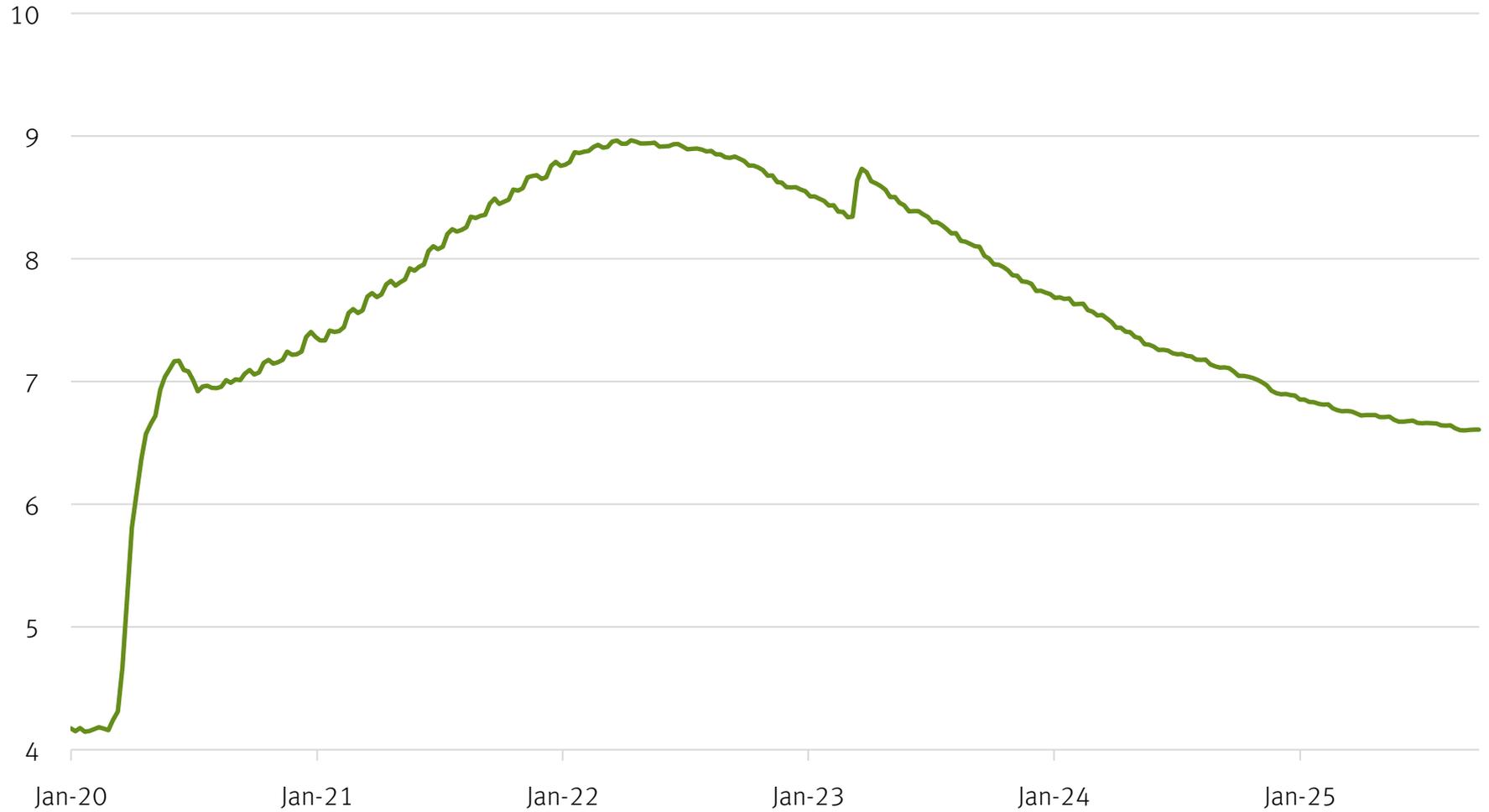
PPI = Producer price index

Fed Funds Target Rate - Upper Bound



Source: Stifel CIO Office via Bloomberg, as of September 29, 2025

Fed's Balance Sheet (Trillions)



Source: Stifel CIO Office via Bloomberg, as of September 29, 2025

Dovish Signals

Federal Reserve Statement

- Fed funds rate **cut by 25 basis points (bps)** to 4.00%-4.25%
- Will continue to reduce the size of balance sheet
- Slower job gains
- Tariffs inflationary impact temporary and limited

Press Conference

- “While the unemployment rate remains low, it has edged up, job gains have slowed, and downside risks to employment have risen.”
- “Recent indicators suggest that growth of economic activity has moderated.”
- “Inflation has eased significantly from its highs in mid-2022 but remains somewhat elevated relative to our 2% longer-run goal.”

SEP: Year-End 2025

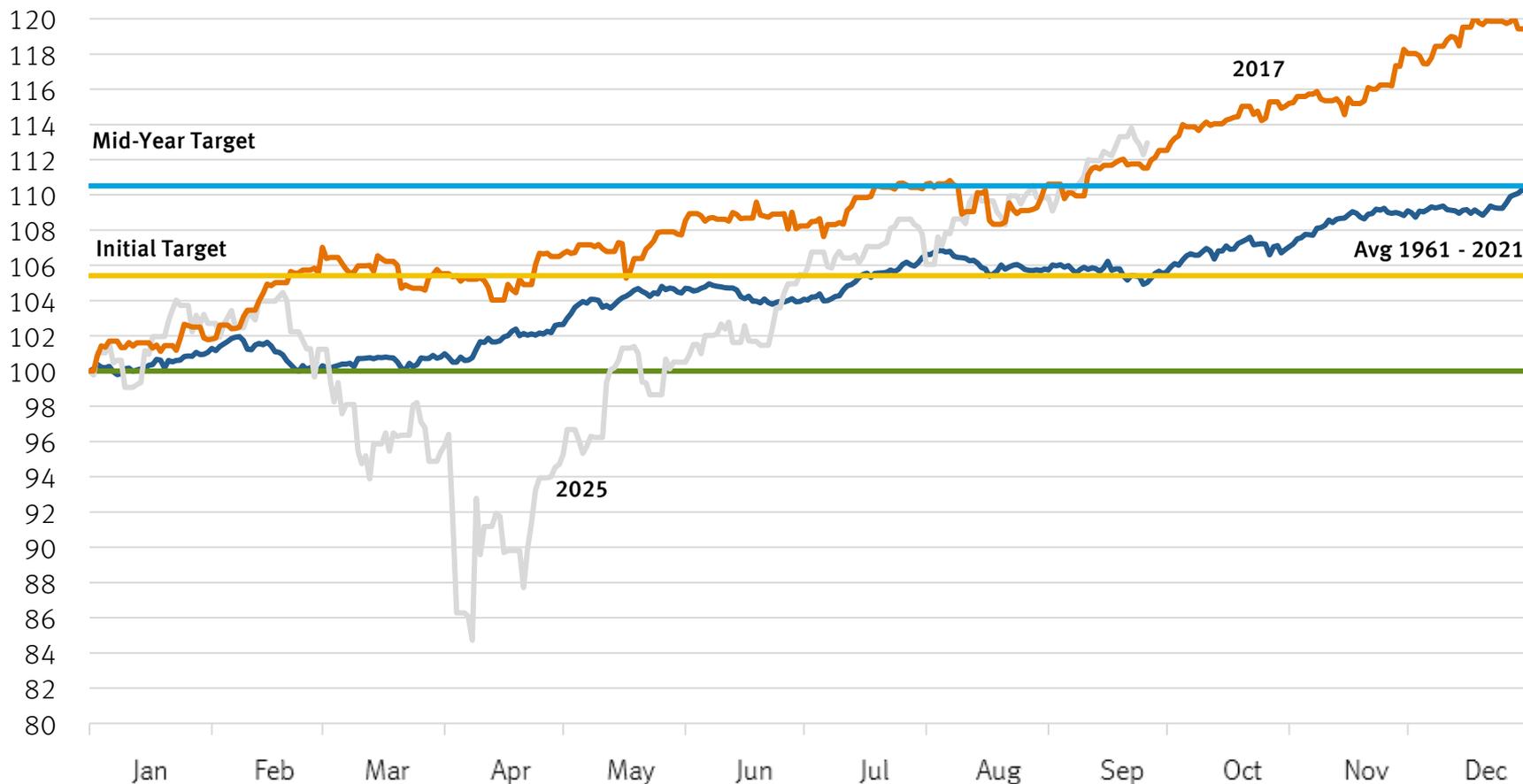
	PCE Inflation	Fed Funds Rate	Real GDP 2025	Real GDP 2026
June	3.0%	3.9%	1.4%	1.6%
September	3.0%	3.6%	1.6%	1.8%
Change	0.0%	-0.3%	0.2%	0.2%

In September, the FOMC voted 11-1 to cut the target the federal funds rate by 25 bps, with one dissenting vote in favor of a larger cut.

Market Implications

- Markets responded positively:
 - 2025 futures: two rate cuts, unchanged
 - 10-year yield now near 4%
 - Peak equity market

S&P 500 Average Price Returns In First Year of Presidential Cycle



Source: Stifel CIO Office via Strategas Research Partners and Bloomberg, as of September 26, 2025

	EPS	S&P 500 P/E						Current S&P 500 Index Level
		23x	24x	25x	26x	27x	28x	
	\$280	6,440	6,720	6,997	7,280	7,560	7,768	8,120
	\$270	6,210	6,480	6,747	7,020	7,290	7,490	7,830
Consensus 2025 EPS →	\$266	6,115	6,381	6,644	6,912	7,178	7,376	7,710
	\$260	5,980	6,240	6,497	6,760	7,020	7,213	7,540
	\$250	5,750	6,000	6,247	6,500	6,750	6,936	7,250
Consensus 2024 EPS →	\$239	5,508	5,748	5,984	6,226	6,466	6,644	6,945
	\$230	5,290	5,520	5,748	5,980	6,210	6,381	6,670



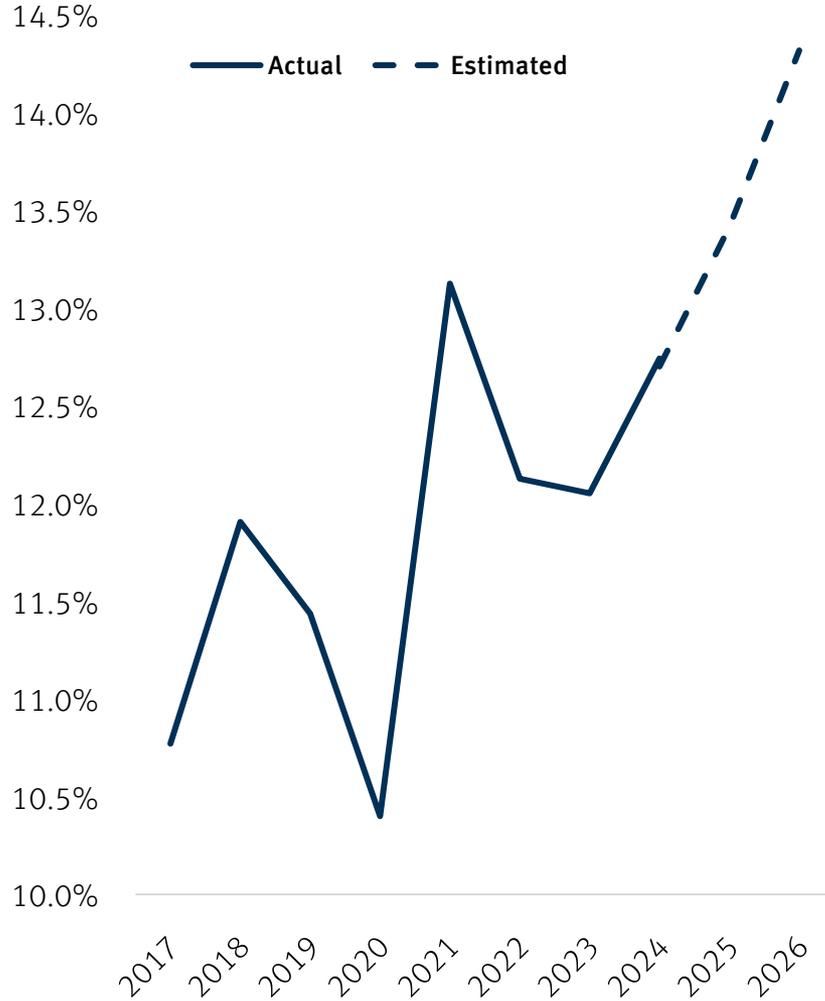
Earnings

- For 2025, analysts are projecting earnings growth of 11.0%, down from 14.3% at the beginning of the year.
- For 2026, the forecast previously revised slightly upward, is now 13.6%, in line with 13.6% at the beginning of the year.

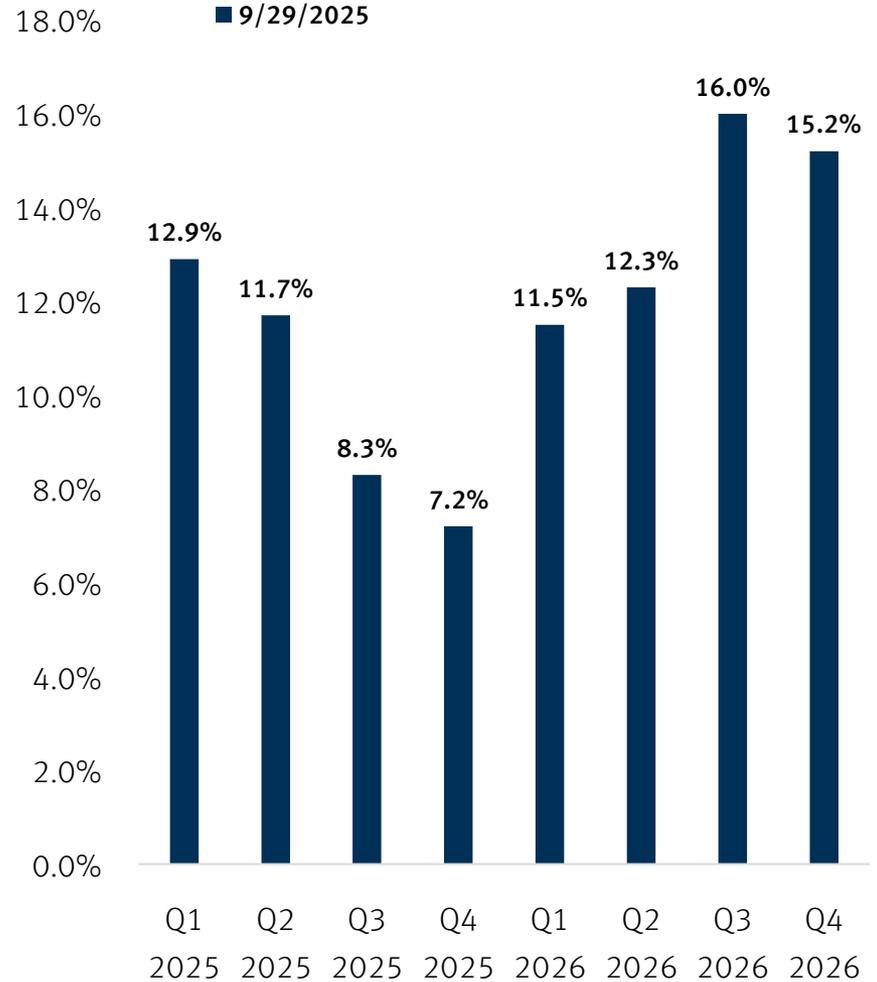
EPS = Earnings Per Share

*Source: Stifel CIO Office, FactSet, and Bloomberg, as of September 26, 2025

S&P 500 Profit Margin

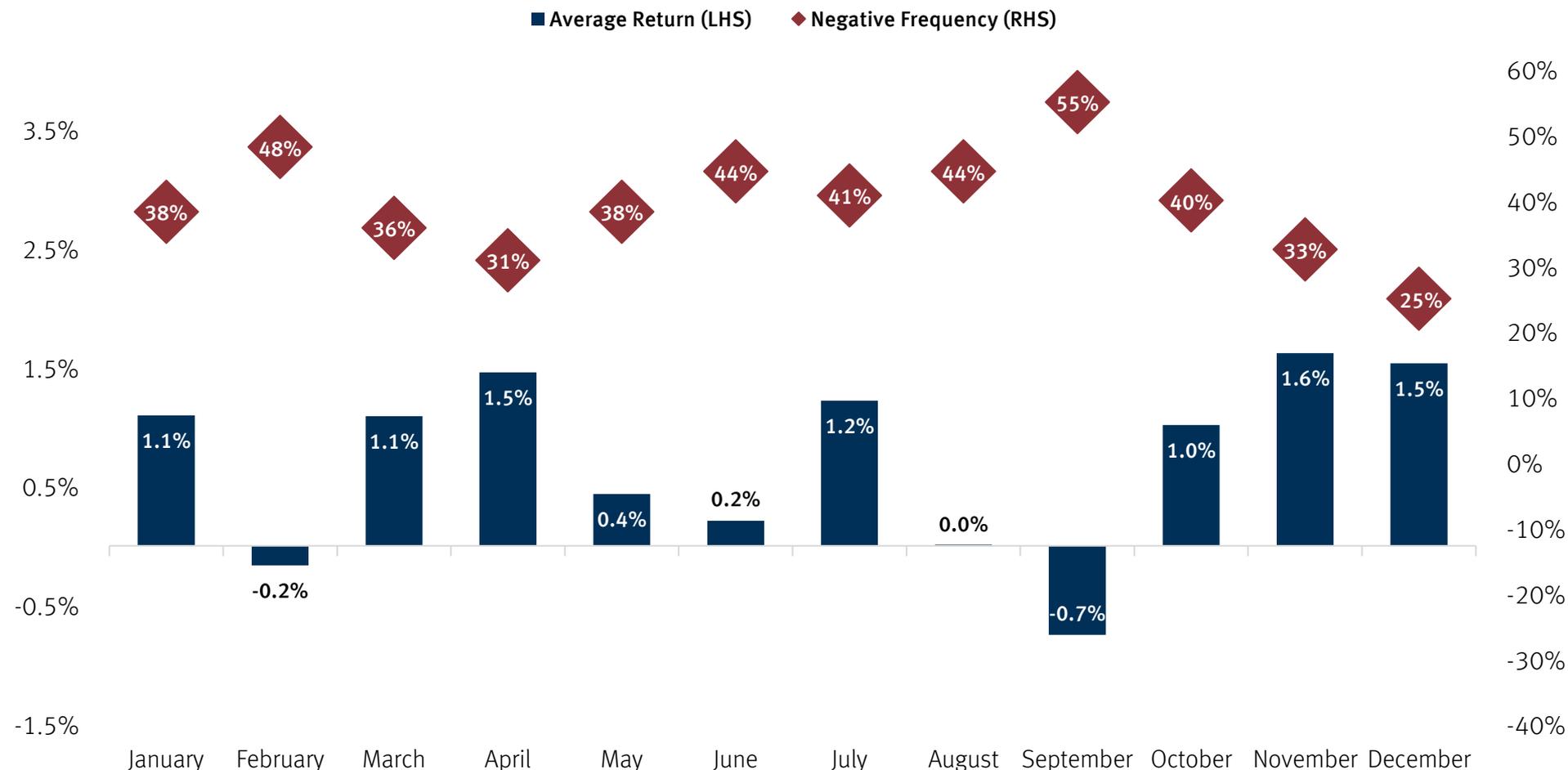


S&P 500 EPS YoY %



YoY = Year over year
Source: Stifel CIO Office via FactSet, as of September 29, 2025

Seasonality of S&P 500 Price Returns (1945 - 2025)



Source: Stifel CIO Office via Bloomberg, as of September 26, 2025

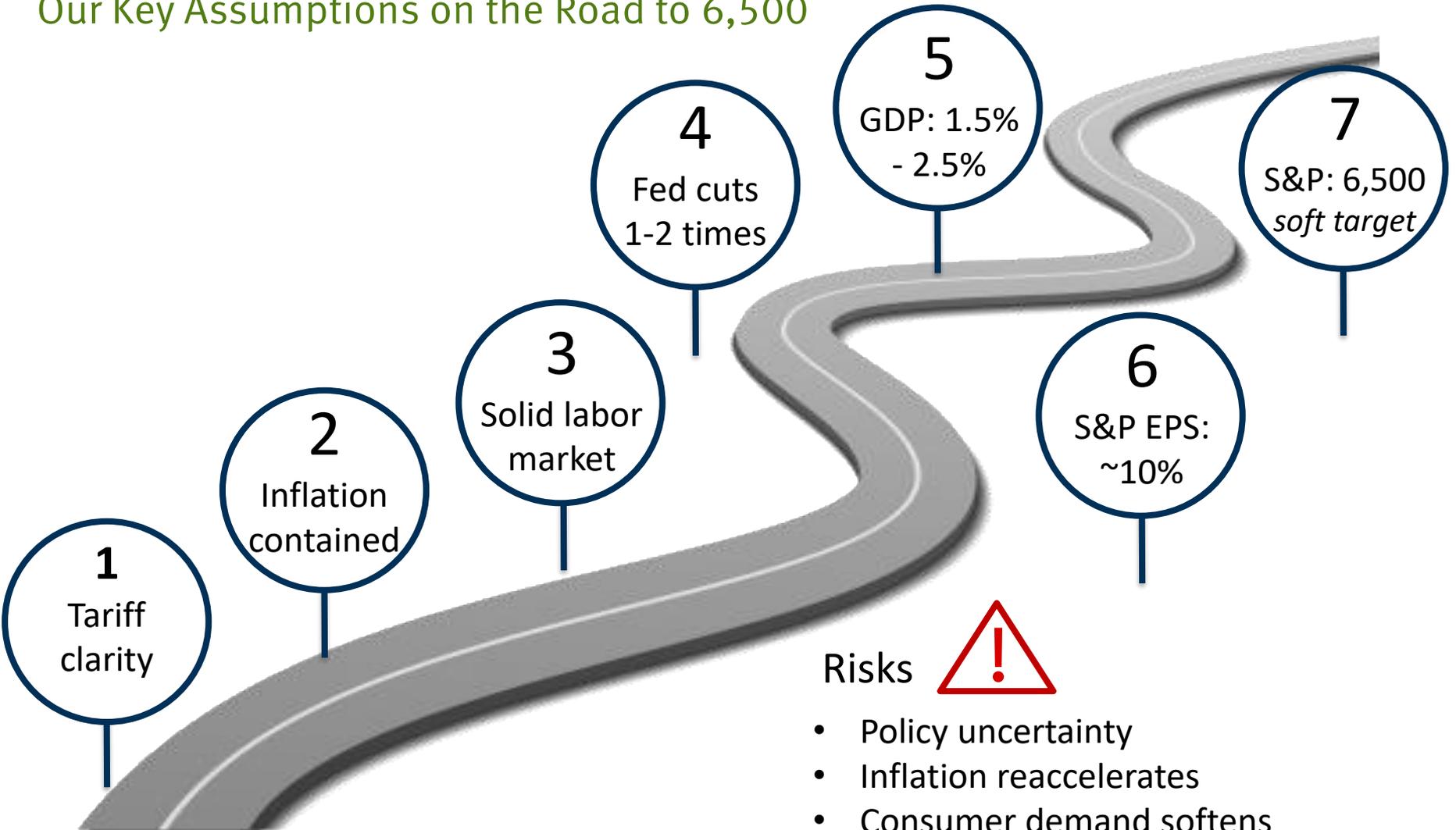
Index	2022	2023	2024	2025 YTD	Peak to Date	Last Year
S&P 500 Index	-18.1%	26.3%	25.0%	14.0%	☑	17.1%
S&P 500 Eq. Weight.	-11.5%	13.8%	13.0%	9.2%	☑	7.7%
S&P Quality High Dividend	-0.3%	5.5%	11.1%	3.4%	-2.9%	0.4%
S&P 500 Financials	-10.6%	12.1%	30.5%	12.7%	☑	21.4%
KBW Reg. Banking	-6.9%	-0.4%	13.2%	5.2%	-7.1%	13.5%
Bloomberg U.S. 1000 Value	-2.5%	9.4%	13.6%	11.4%	☑	10.1%
Bloomberg U.S. 1000 Growth	-27.5%	36.1%	28.9%	15.0%	☑	20.3%
Bloomberg Magnificent 7	-45.3%	107.0%	67.3%	18.9%	☑	38.5%
NYSE FANG+ Index	-40.0%	96.4%	51.0%	23.3%	☑	41.5%
Bloomberg U.S. 2000	-20.1%	17.1%	12.0%	8.3%	☑	10.8%
MSCI EAFE Index	-14.5%	18.2%	3.8%	23.8%	☑	13.4%
MSCI EM Index	-20.1%	9.8%	7.5%	25.6%	☑	16.3%
Bloomberg U.S. Agg	-13.0%	5.5%	1.3%	5.9%	☑	2.7%

Source: Stifel CIO Office via Bloomberg, as of September 26, 2025

☑ Indicates a new high has been reached.



Our Key Assumptions on the Road to 6,500



Risks



- Policy uncertainty
- Inflation reaccelerates
- Consumer demand softens
- Geopolitical conflict
- Animal Spirits weaken

Artificial Intelligence in Focus: Will AI Replace Work – Or Rewire It?

[Watch](#) | [Read](#) | [Listen](#)

- Reskilling will be important as AI rewrites tasks at work and drives a reallocation of labor over time.
 - AI appears more additive than subtractive to the labor market.

Artificial Intelligence as a New Tailwind: Productivity, Power, and Profits

[Watch](#) | [Read](#) | [Listen](#)

- Investments in AI are everywhere, but the key will be execution.
- We see a long runway for improved productivity and profits.

Artificial Intelligence in Healthcare: Early Results and Future Potential

[Watch](#) | [Read](#) | [Listen](#)

- AI applications are quickly transforming the healthcare industry.
- Further adoption and scaling will hinge on trust, regulation, and integration.

INDEX DESCRIPTIONS

Indices are unmanaged and are not available for direct investment. Past performance is no guarantee of future results. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees.

Bloomberg U.S. Treasury Bills 1-3 Months Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg U.S. Corporate IG Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Aggregate Corporate Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Corporate High Yield is an unmanaged index considered representative of fixed-rate, noninvestment-grade debt.

Bloomberg U.S. Government Bond Index is an unmanaged index considered representative of fixed-rate, investment-grade U.S. Government debt.

Bloomberg Global Aggregate This index provides a broad-based measure of the global investment-grade, fixed-rate debt market.

DXY Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

S&P 500 Equal Weight Index is the equal-weight version of the widely regarded Standard & Poor's 500 Index, which is generally considered representative of the U.S. large capitalization market. The index has the same constituents as the capitalization-weighted S&P 500, but each company in the index is allocated a fixed weight of 0.20% at each quarterly rebalancing.

S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

Bloomberg U.S. 1000 Value Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Growth Index provides exposure to companies with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Index is a float market-cap-weighted benchmark of the 1000 most highly capitalized U.S. companies.

Bloomberg U.S. 2000 Index is a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg U.S. 3000 Index.

MSCI EAFE Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 914 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Morgan Stanley Market implied pace of hikes index (MSPOKE) is the number of Fed rate hikes in the 12 months following the first rate hike implied by the Eurodollar interest rate futures market.

MSCI World Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets.

Bloomberg Magnificent Seven Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of seven widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS).

S&P 500 Quality High Dividend Index is designed to measure the performance of S&P 500 members that exhibit both high quality and high dividend yield characteristics. **18**

INDEX DESCRIPTIONS

Wilshire 5000 Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

Cboe S&P 500 Dispersion Index (DSPXSM) measures the expected dispersion in the S&P 500[®] over the next 30 calendar days, as calculated from the prices of S&P 500 index options and the prices of single stock options of selected S&P 500 constituents, using a modified version of the VIX[®] methodology.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone.

Cash & Cash Equivalent is represented by the Bloomberg U.S. Treasury 3-6 months Bill Index, comprised of treasury bills issued by the U.S. government with less than one year to maturity.

U.S. Government Bonds is represented by the Bloomberg U.S. Government Bond Index, comprised of the U.S. Treasury and U.S. Agency indexes.

U.S. Corp IG Bonds is represented by the Bloomberg U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

High-Yield Bonds is represented by the Bloomberg U.S. Corporate High Yield Bond Index, comprised of U.S. Dollar denominated, high-yield, fixed-rate corporate bond market securities.

U.S. LC (Large Cap) equities is represented by the Bloomberg U.S. 1000 Index, comprised of a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

U.S. SC (Small Cap) equities is represented by the Bloomberg U.S. 2000 Index, comprised of a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

Developed International Equities is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

Emerging Markets Equities is represented by the MSCI EM Index, comprised of equity securities that belong to emerging markets.

Moderate Bench stands for moderate benchmark portfolio return which is a blended portfolio of stocks (60% weight, represented by MSCI AC World Index) and bonds (40% weight, represented by Bloomberg U.S. Agg Gov/Credit).

MSCI AC World Index is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

Bloomberg U.S. Government/Credit Bond Index is comprised investment grade, dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

KBW Nasdaq Regional Banking Index seeks to reflect the performance of U.S. companies that do business as regional banks of thrifts.

NYSE FANG+ Index is an equal-dollar weighted index designed to track the performance of highly-traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors such as Facebook, Apple, Amazon, Netflix, and Alphabet's Google.

NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

National Federation of Independent Business Small Business Optimism Index measures the overall optimism and outlook of small business owners regarding the economic conditions, sales expectations, hiring plans, and capital expenditures. It provides valuable insights into the sentiment of small businesses, which are a vital component of the U.S. economy.

DISCLOSURES

Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

Alternative Investments or Non-Traditional Assets – Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, Hedge Funds, Venture Capital, Limited Partnerships, etc.

Real Estate – When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Commodities and Futures – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Hedge Funds – Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

Venture Capital – Venture capital investments involve substantial risks. The risks associated with investing in companies in the start-up or expansion stages of development are greater than those of companies in later stages, because the companies' business concepts generally are unproven, and the companies have little or no track record.

Limited Partnerships – Generally, limited partnership investments are suitable only for a narrow class of relatively sophisticated investors. Limited partnership investments may be speculative in nature and be subject to resale restrictions or illiquidity. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Bonds – When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds.

Duration – Duration is a measure of the sensitivity of the price – the value of principal – of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

Standard Deviation – Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

International and Emerging Markets – There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Private Equity – Private equity funds are not appropriate for all investors. Investors should be aware that private equity funds may contain speculative investment practices that can lead to a loss of the entire investment. Private equity funds may invest in entities in which no secondary market exists and, as such, may be highly illiquid. The funds are not required to provide periodic pricing or valuation information to investors and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

DISCLOSURES CONTINUED

Short Positions – The investor should note that when a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker will demand more collateral, and the manager might have to close out that short position at an inopportune time to limit any further losses.

Small Company Securities – Small company securities are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

Michael O’Keeffe, CFA

Chief Investment Officer

Sophia DiMartini

Investment Strategy Analyst

Nik Eftimov, CFA

*Director, Investment Management
& Guidance*

Bobby Lewit

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Carlos Mieles, CFA

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