

# MONTHLY INVESTMENT OUTLOOK | SEPTEMBER 2025

## KEY POINTS

In August, the S&P 500 posted a fourth consecutive monthly gain and notched its 20th record high of the year. Performance was driven by robust Q2 earnings, lower yields, and a rising probability of Fed rate cuts following a weak jobs report at the beginning of the month. Small caps and cyclical sectors led, while the tech sector paused, as long-term yields declined and volatility fell.

**DIVERSIFICATION - AMPLIFIED RETURNS AND LOWER VOLATILITY:** Diversification has been a key driver of strong returns in client portfolios this year. It has not only dampened portfolio volatility but also amplified returns. International stocks are up by nearly twice the return of U.S. equities in 2025, aided by a 10% decline in the U.S. dollar. Fixed income investments in inflation-linked notes and EM debt have outperformed the U.S. bond index. Alternatives have outperformed investment-grade bonds. Gold and silver have soared to record highs with gains exceeding 30% year-to-date. All five asset classes (stocks, bonds, real assets, alternatives, and cash) show positive returns for the year, underscoring the value of balance and diversification.

**POSITIVE MACRO BACKDROP:** The global economy accelerated in July for the third straight month as the global PMI rose to 52.4 (readings above 50 indicate expansion). Services were strong, while manufacturing remained soft. Growth is expected to moderate in the second half due to headwinds from higher tariffs, but the odds of recession have receded. Job growth is slowing, and unemployment is rising from low levels. Inflation has been easing since the beginning of the year but is likely to tick higher into year-end due to tariffs. Looking toward 2026, the One Big Beautiful Bill adds significant stimulus from lower taxes for individuals (no tax on tips or overtime) and corporations (100% immediate expensing for investments, an increase in the small business tax deduction, and making the Qualified Business Income deduction permanent), all of which are expected to support higher growth next year.

**FEDERAL RESERVE - ON THE COURSE FOR RATE CUTS:** An easing cycle is on the horizon as the labor market shows signs of slowing. Fed Chair Jay Powell's speech at Jackson Hole signaled a shift toward a more dovish stance. He cited the Fed's dual mandate, noting that while core inflation remains sticky around 2.6%–3.0%, the slowdown in job creation may warrant a return to lowering rates. Markets are pricing in a 25-basis-point cut in September and another 25-basis-point cut in October or December, followed by two to three cuts in 2026, which would imply a terminal rate in the range of 3.0% to 3.25%.

**VALUATIONS ARE ELEVATED GLOBALLY:** Most global equity markets are trading above their historical 40-year average P/E ratios. Valuations for the S&P 500 Index have moved back to 22–23 times forward earnings, which is stretched versus the historical average of 17–18 times. Excluding the Mag 7 stocks, the remaining 493 stocks trade at a lower multiple of 19 times earnings. The index remains top-heavy, with mega-cap stocks trading at above-market multiples.

**ASSET ALLOCATION – STAYING GLOBALLY DIVERSIFIED:** We continue to emphasize staying invested in a diversified portfolio and focused on long-term goals. Central Trust builds diversified portfolios across five major asset classes to enhance returns and lower volatility. Key risks include trade uncertainties, a resurgence of inflation, high global debt, and geopolitical tensions. With equity valuations elevated, we favor balanced positioning with a quality tilt and active management to navigate the road ahead. Tariffs, and a lower dollar underscore the need for inflation hedges (TIPS, commodities, and gold). Gold and alternatives further strengthen portfolios by reducing volatility and enhancing returns.

## KEY TAKEAWAYS FOR INVESTORS:

- Global diversification has dampened portfolio volatility and amplified returns in 2025 (international equities, gold/silver, and alternatives).
- The U.S. economy and global macro backdrop remain favorable. While trade uncertainties may slow second-half growth, rate cuts and fiscal stimulus should support growth in 2026.
- The key to reaching long-term investment goals is diversification, balanced asset allocation, and maintaining a long-term focus.

## SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

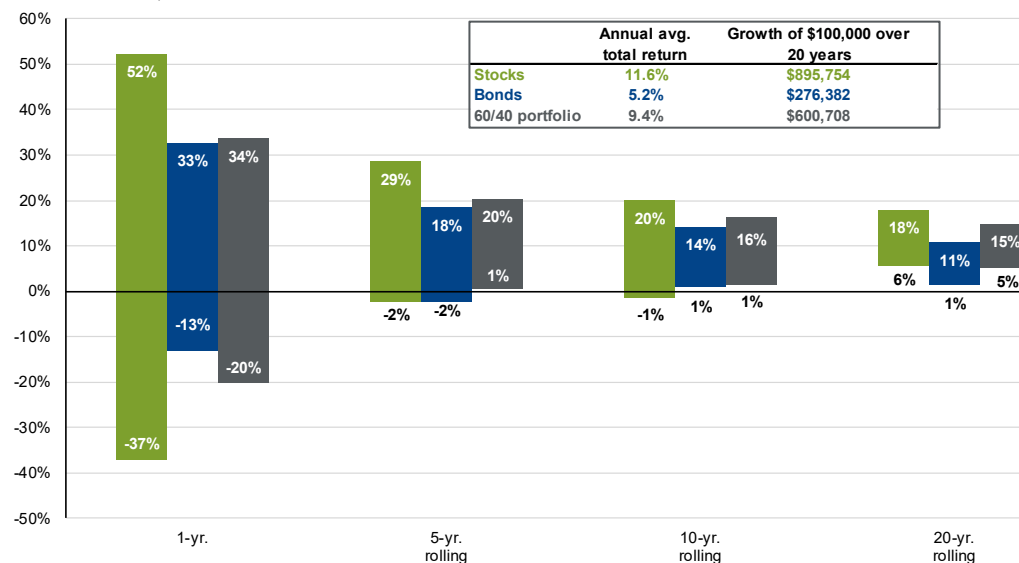
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -37% to +52% since 1950. Over any 5-year period, the range shrinks to -2% to +29%. Most importantly, there has never been a twenty-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 18% per year for the S&P 500.

For balanced accounts, data shows that there has never been a rolling 5-, 10-, or 20-year period where a simple 60/40 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2024, a 60/40 portfolio compounded 9.4% per year. The lesson here is that the more time you have and the more diverse your portfolio, the less risk there tends to be and, lastly, to focus on the long term to achieve your goals.

## TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS

Range of stock, bond and blended total returns  
Annual total returns, 1950–2024



## ECONOMIC DATA

- Global growth remains resilient despite policy uncertainty around tariffs, ongoing weakness in China, and geopolitical tensions. For 2025, growth estimates have inched higher to 1.6% for the U.S. and 2.4% globally. For 2026, consensus estimates remain stable at 1.7% for the U.S. and 2.4% globally.
- S&P 500 earnings were \$208 (+48%) in 2021, \$219 (+5%) in 2022, \$220 (+1%) in 2023, and \$243 (+10%) in 2024 (FactSet). After Q2 earnings in 2025, analysts revised estimates upward to \$268, reflecting earnings growth of 10.6% and revenue growth of 6.0%. For 2026, earnings projections increased to \$303, representing growth of 13.4%.
- Valuations continue to be above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 24.9 times operating earnings compared to the 5-year average of 25 times, the 10-year average of 22.5x, and the 50-year average of 14.2 times earnings.
- The forward operating price-earnings ratio is 22.7 times earnings, which is above the 5-year historical average of 19.9x, the 10-year average of 18.5x, and the 30-year average of 17.0 times earnings.

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## MARKET RECAP (AS OF AUGUST 31, 2025)

- Global equity markets posted broad-based gains in August as bond yields declined and gold rallied, supported by a 2% drop in the U.S. dollar.
- Year-to-date, international developed and emerging market equities have outperformed the U.S., with gains of 23% and 18%, respectively, compared to a 10.8% increase for the S&P 500. The U.S. dollar has fallen 10% in 2025, boosting international equity returns in dollar terms. In August, market rotation favored small-cap stocks and the Value style.
- The Bloomberg U.S. Aggregate Bond Index, supported by lower yields, has gained 5.0% year-to-date, trailing U.S. equities at 10.8%.
- Credit markets rebounded following the pause in reciprocal tariffs, with credit spreads tightening. Year-to-date, floating-rate bank loans are up 4.1%, inflation-linked bonds gained 6.4%, and emerging market debt rose 8.7%.
- Gold surged to another record high in August, gaining 5% and bringing its year-to-date increase to 33%, reinforcing its role as a hedge against uncertainty and global money printing. Oil settled at \$64, down 7% for the year.
- Alternatives: Overall, fixed income substitutes and unconstrained alternatives delivered solid gains, matching or exceeding nominal bond returns.

Period Ending August 31, 2025

Source: Bloomberg.

Past performance is not indicative of future results.

Asset Class	Index	MTD	Trailing Performance (annualized for periods > 1 year)				
			YTD	1Y	3Y	5Y	10Y
EQUITIES							
Benchmark	MSCI All Country World IMI	2.7	14.3	16.4	16.6	11.8	10.8
Large Cap	S&P 500	2.0	10.8	17.0	18.8	14.7	14.5
Long-Short	[50% S&P 500, 50% ICE 0-3m T-Bill]	1.2	6.8	10.8	11.8	8.8	8.3
Small/Mid Cap	Russell 2500	5.2	7.7	10.7	10.5	10.9	9.8
International	MSCI World Ex US IMI (net)	4.5	23.3	15.9	16.3	10.2	7.6
Emerging Markets	MSCI Emerging Markets IMI (net)	1.5	18.4	16.4	11.2	5.6	7.1
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	1.5	7.5	3.7	3.6	(1.9)	1.0
U.S. Aggregate	Barclays US Aggregate	1.2	5.0	2.9	2.9	(0.6)	1.8
U.S. TIPS	Bloomberg US TIPS	1.5	6.4	4.5	2.0	1.4	2.9
Tax Exempt	S&P Municipal Bond Index	0.8	0.4	0.5	2.7	0.7	2.3
U.S. Corp High Yield	Bloomberg US Corporate High Yield	1.2	6.4	8.3	8.9	5.2	5.8
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.4	4.1	7.3	8.8	7.0	5.4
International	FTSE Non USD WGBI	1.6	8.5	2.8	2.7	(4.4)	(0.2)
Emerging Markets	JPM Emerging Markets	1.6	8.7	8.6	8.9	1.6	3.9
REAL ASSETS							
Benchmark	Gold	5.0	33.1	37.3	26.2	12.2	12.0
Inflation	Consumer Price Index (CPI)	0.0	1.4	2.7	3.0	4.5	3.1
Commodities	Bloomberg Commodities	1.9	7.1	10.7	(1.9)	10.4	3.6
ALTERNATIVES							
Benchmark	[20% S&P 500, 80% ICE 0-3m T-Bill]	0.7	4.5	7.1	7.6	5.3	4.5
Multi-Strategy	Credit Suisse Multi-Strategy I		3.9	5.6	7.7	6.9	5.1
Global Macro	Credit Suisse Global Macro Ind		2.5	3.6	(0.2)	6.7	4.5
Managed Futures	Credit Suisse Managed Futures		(6.5)	(8.1)	(1.2)	4.2	1.8