

## Beacon Weekly Investment Insights

The major event this past week was the FOMC meeting where the long-awaited start to a lower interest rate cycle was confirmed by a 25-basis point reduction in the fed funds rate. Going into the meeting bond yields and mortgage rates declined with the latter at 3-year lows, hovering just above 6%, increasing refi demand by 60%. The real intrigue was Powell's commentary on the road forward for rates and the number of members who would dissent favoring a half point cut, breaking ranks with the chair. In the end the vote was 11-1 in favor of the quarter point cut to the new rate of 4.00-4.25%. The consensus path forward are two additional cuts this year though the newest member, Stephen Miran, supported 5 cuts.

Chair Powell, at the press conference, cited a slowing labor environment as the reason for cutting at this meeting. He said, "labor demand has softened, and the recent pace of job creation appears to be running below the break-even rate needed to hold the unemployment rate constant". He's no longer confident that the labor market is very solid. He summed it up by characterizing the cut as an insurance policy against what they see as the main risk to the economy - a deceleration in job growth. Not ignoring the other side of the dual mandate Powell acknowledged the ongoing inflation concerns surrounding tariffs assuring that they would be monitored and not ignored.

The markets took the Fed's action, Powell's comments and the expectation of further cuts this year positively, finishing the week at record levels led by small caps. For the week, the Dow rose 1.05%, the S&P 500 1.22%, the Nasdaq 2.21% and the Russell 2000 2.16%. Like the Fed's last rate cut in December 2024 the 10-year treasury note rose to 4.13% signaling apprehension on the impact of tariffs, fed independence, the labor market, the deficit and so much more. Why is this relevant? The goal of the lower short term interest rate policy is to flatten the yield curve resulting in cheaper borrowing costs, especially mortgages to free up the housing market, a key objective of the administration. Mortgage rates are more closely tied to the 10 year than short rates controlled by Federal Reserve policy. So, until the long end cooperates the housing market may remain stressed. That said, mortgage applications increased 29.7% up from the prior months 9.2%. Much of this strength came prior to the Fed announcement and the back up in yields. It's worth monitoring future reports to see if the trend remains.

Secondary to the Fed meeting but not less relevant was news that Nvidia was making a \$5B investment in Intel with partnerships around PC and data center chips. Coincidentally this announcement came during a gathering of CEO's in the UK where President Trump was on a state visit and recall the US now is a 10% owner in Intel. Both were rewarded with Intel's stock rising significantly.

Investors were looking for a resolution to TikTok, owned by Bytedance, as the President signaled a plan to move forward with a proposed consortium of US companies to control the popular app. Confirmation of the deal was to take place during the President's call Friday with the Chinese leader Xi but it appears it has been postponed until they both meet in October.

In economic news the consumer remains resilient as retail sales for August rose stronger than expected. It appears the bifurcation between the well off and lower end consumer persists as higher prices are impacting the latter group more resulting in trade downs and deferral of purchases. Housing starts, permits and homebuilder confidence were all weaker than anticipated but now many are hopeful that a lower interest rate cycle will spur demand though until rates materially decline; it will probably not entice existing home sellers to stick up the "For Sale" sign. On Friday, jobless claims declined 33,000 to 231,000 and the US leading economic indicator was down 3.6% which is not consistent with an expansion.

In the upcoming week, we will get releases on Manufacturing & Services Purchasing Managers for September, new homes sales, existing home sales and, most importantly, the PCE on Friday.

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Market Scorecard:	9/19/2025	YTD Price Change
Dow Jones Industrial Average	\$46,315.27	8.86%
S&P 500 Index	\$6,664.36	13.31%
NASDAQ Composite	\$22,631.48	17.20%
Russell 1000 Growth Index	\$4,718.38	16.73%
Russell 1000 Value Index	\$1,997.17	9.50%
Russell 2000 Small Cap Index	\$2,448.77	9.80%
MSCI EAFE Index	\$2,753.66	21.78%
US 10 Year Treasury Yield	4.13%	-56 basis points
WTI Crude Oil	\$62.69	-12.59%
Gold \$/Oz.	\$3,716.70	39.58%



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