

October 1, 2025

September Market Recap

Despite inflation remaining a concern, the Federal Reserve (Fed) cut interest rates in response to weakening jobs numbers. This allowed small-cap equity performance to lead a month that was generally positive across sectors, cap sizes and asset classes.

Small caps tend to be more reactive to short-term rate fluctuations, and the market is accounting for several rate cuts by the end of 2026, which might reflect exuberance beyond the Fed's cautious approach and our view of two more rate cuts in 2025 and one in 2026.

The full effects of tariffs still loom. Front-loading tactics helped companies weather the uncertainty earlier in the year as they drew upon existing inventories and implemented mitigation measures, but those strategies can only delay the inevitable for so long. The long-term cost of tariffs may begin to show during Q3 earnings season.

"We're cautious in the near term. Markets need to digest recent gains. However, our longer-term outlook is constructive," says Raymond James Chief Investment Officer Larry Adam.

We'll dive into the details shortly, but first: a look at the numbers year-to-date.

	12/31/24 Close	9/30/25 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	42,544.22	46,397.89	+3,853.67	+9.06%
NASDAQ	19,310.79	22,660.00	+3,349.21	+17.34%
S&P 500	5,881.63	6,688.46	+806.83	+13.72%
MSCI EAFE	2,259.60	2,748.36	+488.76	+21.63%
Russell 2000	2,230.16	2,436.48	+206.32	+9.25%
Bloomberg Aggregate Bond	2,189.03	2,324.22	+135.19	+6.18%

*Performance reflects index values as of market close on September 30, 2025.

Jobs, manufacturing and construction took a hit

Throughout the month of August, manufacturing continued to contract with the exception of the New Orders Index. Private construction spending continued its downward trend, down 0.2% last month for a total of 4.6% this year. Job openings in July fell close to pre-pandemic levels, resulting in lower-than-expected employment overall, which followed downward revisions for another consecutive month in June.

Corporations absorbed tariff effects, but runway is dwindling

Throughout the past several months, corporations have relied on existing inventories and capitalized on tariff delays to mitigate price effects. But as those inventories dwindle, we may begin to see a sharp escalation in the effects tariffs will ultimately have. Until now, the markets have surged to record highs in spite of tariff headlines, partly because those effects weren't reflected in actual earnings, but that could change in the coming months.

The Federal Reserve makes its new stance official

Equity markets, especially small-cap stocks, continued to climb following the Federal Open Market Committee's decision to cut rates by 0.25%, marking the first official action of the Fed's revised stance on the balancing of risks between fighting inflation and protecting jobs. We could see two more rate cuts of 0.25% each in October and December.

Gold hit another high, but overall mining is down

All-time record gold prices have persisted, with other precious metals like silver and platinum also seeing record values. However, prices for a broad range of industrial metals – including iron, nickel, lithium and silicon – are flat or down this year, amid sluggish demand from China. Mergers and acquisitions have emerged as one of the few pathways for mining companies to boost earnings.

International outlook

China's economic relations with the US took a step forward after Trump's call with President Xi Jinping set the stage for three in-person meetings in the coming months. US companies are set to control 80% of TikTok moving forward while its parent company ByteDance retains less than 20%, marking the removal of a major barrier toward broader US-China trade discussions. China's domestic efforts to scale up tech independence have shown an increased urgency to insulate the industry. Consequently, the Chinese government has ordered local companies to stop purchasing chips from Nvidia.

Multiple court cases pending with major economic implications

Last month, the US Court of Appeals delivered a landmark ruling against President Donald Trump's use of the International Emergency Economic Powers Act (IEEPA), limiting his ability to unilaterally levy country-level tariffs. The Supreme Court is set to hear the case on November 5, with a ruling expected early next year. A second case involving the president's firing of Fed Governor Lisa Cook,

citing a threat to the independence of the Fed from overreach by the executive branch, will likely be heard by the Supreme Court as well.

The bottom line

With interest rates on the decline and more cuts expected on the horizon to combat labor stresses, potential for continued economic growth hangs on. The economy and consumer spending remains resilient despite uncertainty, leading to a positive outlook for equities over the next year.

Sincerely,

A stylized, handwritten signature in blue ink that reads "Jeff". The letters are fluid and connected, with a cursive-like style.

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Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks. The ISM Services Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives. The ISM Manufacturing Index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. Material created by Raymond James for use by its advisors.