

Market Commentary 9/11/25

An Oxford Harriman & Company Market Commentary

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The S&P 500 gained 2.1% in August, extending its year-to-date return to 10.7%. Led by a 3.2% gain in Large Cap Value stocks, Growth trailed with a more modest 1.2% return. Health Care emerged as the best-performing sector, helping to lift the index, while Utilities and Technology lagged.

Bond markets also generated positive returns in August as Treasury yields declined. The U.S. Aggregate Bond Index rose 1.2%, while investment-grade corporates posted 1.0% and high-yield bonds returned +1.1%.

In international markets, a weaker U.S. dollar led to international equity outperformance vs. the U.S. Developed markets returned 4.5%, and emerging markets returned 2.7%, both outperforming U.S. stocks.

Fed Signals a Shift

The Federal Reserve has maintained interest rates throughout 2025 as inflation risks, particularly around tariffs, persisted. However, the tone turned when July's jobs report indicated softer hiring and a rise in unemployment to 4.2%, echoing signs that higher borrowing costs are weighing on growth.

At the Jackson Hole symposium, Chair Powell acknowledged the shifting balance of risks, hinting at a potential rate cut as early as the September 17 meeting. This shift in narrative prompted both stocks and bonds to rally on expectations of a forthcoming policy pivot.

Small-Cap Stocks Post Biggest Month of Outperformance Since November 2024

Small-cap stocks have trailed large caps for most of the past three years. Since the start of 2023, the Russell 2000 index has gained 40%, significantly

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underperforming the S&P 500's 75% return. Higher interest rates have weighed more heavily on smaller firms, many of which depend on floating-rate debt to finance their operations and growth. At the same time, a handful of mega-cap tech stocks have delivered strong earnings growth and returns, fueled by the artificial intelligence industry.

As investor attention and capital concentrated on these large names, small caps were left behind, resulting in one of the widest valuation discounts to large caps in over 20 years.

The soft July jobs report and Chair Powell's Jackson Hole remarks shifted the market narrative, with investors expecting a rate cut as soon as September. The Russell 2000 jumped more than 7%, its best month this year, and outperformed the S&P 500 by over 5%. Small caps tend to benefit more from lower interest rates, and rate cut expectations attracted value seekers to small caps's valuation discount.

This isn't the first time small-cap stocks have rallied, with recent rallies fading as mega-cap tech reclaimed market leadership. Whether this rotation lasts will depend on upcoming inflation and job reports and how the Fed responds, but small caps's recent strength shows investors are once again testing the waters for a small-cap comeback.

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As we entered September, it appears the market may be shifting as market participants increasingly bet on a Fed pivot. Bonds and international equities outperformed, and small caps staged a noteworthy comeback. Investors are testing the waters for renewed diversification away from large-cap dominance. In addition to the labor market, investors will also focus on upcoming inflation data. Any reacceleration in price gains could temper rate cut expectations beyond the September Fed meeting. We will continue to monitor the macro-economic environment and update you accordingly.

Have a great week,

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The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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