



Market Update: September 2025

Since early September, markets have shifted into a new gear. The tone has become a bit more cautious, but not necessarily pessimistic. Equities have reached record levels, supported by the idea that the Federal Reserve may have finally begun its easing cycle. While markets have remained calm, there's a growing sense that volatility could return, especially if inflation or policy surprises catch investors off guard.

At its mid-September meeting, the Fed made its first rate cut of the year; cutting its target rate by 0.25%. In the Fed statement, they acknowledged that growth has moderated, job gains have slowed, and inflation remains elevated. Importantly, they also emphasized that the path forward is not set. They will continue to adjust policy as needed based on incoming data.

Fed Chair Powell has communicated that he sees the risks as asymmetric: risk of inflation drifting higher while employment may face downside pressure. He's reminded markets that policy is not on autopilot and will adapt if the balance of risks shifts.

On the inflation front, the latest data shows that price pressures are cooling somewhat — but not nearly enough to give the Fed confidence that the inflation fight is over. Core inflation, excluding food and energy, continues to run above the Fed's 2% target. The combination of sticky core inflation and weakening growth is making policy decisions more difficult, as seen by the lack of consensus by Federal Reserve members on future rate cuts.

Meanwhile, broader economic activity is showing signs of slowing. Business surveys indicate that both manufacturing and services sectors are expanding, but at more modest rates than earlier in the summer. Input costs, particularly those tied to tariffs, remain a headwind for many firms, and companies are increasingly unable to pass those costs fully onto consumers. Inventory levels in some sectors are rising, which suggests demand is softening.



Looking Ahead

As we enter the 4th quarter, here are the things we are watching closely:

1. Inflation & price trends

Are the next inflation prints — especially the core measures — showing continued signs of lowering? If inflation trends continue downward, it should allow the Fed to continue to ease and get closer to a neutral rate in Fed Funds. Conversely, any upward move in inflation could force them to tread more cautiously and raise volatility across risk markets.

2. Labor & growth data

Employment and wage trends will remain central. If hiring weakens further, it lends weight to the case for more rate cuts. But if the labor market holds up against rising headwinds, the Fed may hesitate to ease too aggressively.

3. Market leadership & breadth

The rally remains narrow, still heavily driven by technology and a few large-cap names. To sustain momentum, we'd like to see more sectors participate. If breadth fails to improve, the rally risks becoming fragile—especially if one or two names stumble.

4. Policy & geopolitical noise

Legislative developments, trade policy shifts, and global flashpoints always have the power to rattle markets. With valuations somewhat elevated after a strong run, even a modest shock could magnify downside risk.



Takeaway

We see this period as a critical inflection point. The Fed has made a move, but its path forward remains conditional and fluid. Inflation is starting to show signs of giving, and the economy is cooling—but not collapsing. The resilience of consumers and earnings so far provides a cushion, but the risk of disappointment is higher than it has been in recent months.

If the data cooperates, this moment of policy shift might mark the beginning of a sustainable new upward leg. But if inflation remains stubborn or growth slows faster than expected, we could see pullbacks or choppy trading ahead. In either scenario, we believe staying diversified, managing risk, and keeping flexibility in your portfolio remain more important than ever.



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