

THE CAPITAL MARKETS

New Covenant Trust Company

Issue 7 | August/September 2025

MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished August at 45,545, up +3.20% for the month and up +7.05% so far in 2025. The S&P 500 closed August at 6,460, up +1.91% for the month and up +9.84% year-to-date. The NASDAQ Composite gained +1.58% in August, up +11.11% for the year. Small-company stocks as measured by the Russell 2000 ended August up +7.00% for the month, up +6.11% so far for the year. Communication services (+16.76%) is the best-performing sector year-to-date.

MARKETS KEEP RUNNING, AND VALUATIONS KEEP STRETCHING

The S&P 500 is up around +32% from its April 8 low at the time of this writing, continuing a relentless push higher that has accelerated in recent weeks. Markets have been cheered by the Federal Reserve's decision to cut interest rates by a quarter point in September, while signaling at least a couple of more rate cuts into early 2026.

Markets may have also been relieved that the meeting went off with no surprises, and that the Federal Open Market Committee (FOMC) has seemingly kept their independence intact for now amidst persistent pressure from the White House to cut interest rates even more aggressively.

Markets have also been encouraged by companies' ability to clear a corporate earnings bar, which was lowered following the onset of tariffs by steady inflation readings, and by the increasingly optimistic outlook for artificial intelligence and its impact on the global economy.

As stock prices have marched higher, however, so have valuations. The forward price-to-earnings ratio on the S&P 500, a common metric for how relatively pricey stocks are, is around 22.5. This is above the 10-year average of 18.5 and is the highest P/E level since August of 2020. For reference, the S&P 500 ended 1999 with a P/E of around 25.7, a few months before the tech crash of 2000.

Other Risks Remain

While high valuations in and of themselves don't end market rallies, they do make the margin of error much

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"Strategists at State Street noted last month that institutional investors' exposure to equities just reached its highest since November 2007, just before a vicious bear market."

The Wall Streer Journal, Spencer Jakab, September 22, 2025

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tighter for a market that has mostly shrugged off risks related to tariffs and inflation, a weakening labor market, the potential for geopolitical flare-ups, or disappointing earnings reports.

There also remains valid longer-run concerns around the increasing fiscal deficit and its impact on long-term interest rates and the U.S. dollar, an issue that could be exacerbated if Fed independence is called into question following several members terms rolling over in 2026.

With valuations elevated, even mildly disappointing news in any one of these areas could spark a sharp market reaction.

A Long-Term Approach

For long-term investors, especially when there are extraordinary moves up or down, an appropriately zoomed-out perspective can be valuable in maintaining prudence and in avoiding the most common investing mistakes.

FOMO, or the fear of missing out, may drive some

market participants in the near term. History suggests, however, that when markets move much higher or lower than their long-term averages, that it is only a matter time before moves in the opposite direction bring returns back toward their historical trends.

Staying Prepared

Rather than trying to chase returns here, we'd encourage investors to take this opportunity during a period of market strength to practice some of the investing fundamentals like rebalancing asset allocations whose stock positions may have drifted higher, or replenishing cash reserves for any upcoming needs.

Investors are likely thrilled with the recent strength in markets and growth in portfolios in recent months. Expecting and being prepared for potential volatility from here may be wise in our view.

Even in the sunshine, sometimes it can pay to carry an umbrella.

ECONOMIC UPDATE

The United States added only 22,000 jobs in August, below expectations and a clear deceleration from the hiring trends of recent years.

The unemployment rate ticked up to 4.3%, its highest level since October of 2021.

Since May, the U.S. economy has averaged just 27,000 jobs per month, a number that was above 200,000 as recently as March.

For now, markets are treating the labor market weakness as a "bad news is good news" issue, since it is expected to support interest rate cuts by the Fed.

Eventually, however, a deteriorating labor market will be viewed as just bad news if it moves from decelerating to shifting into reverse. Upticks in inflation or a continuing deterioration in the labor market are two key risks of potential market volatility in the near term.

"The problem is that just because the Fed is focused on the labor market doesn't mean it can stop worrying about inflation. Its preferred gauge of underlying inflation has edged up to an estimated 2.9% now, compared with 2.7% a year ago, in part because of tariffs imposed on imported goods."

(The Wall Street Journal, Greg Ip, September 18, 2025)



Market Metrics

Index or Metric	Close as of 7/31/2025	Close as of 8/31/2025	Change Previous Month End	2025 YTD % Change
Dow Jones Industrial Average	44,130.98	45,544.88	+1,413.90	7.05%
S&P 500	6,339.39	6,469.26	+120.87	9.84%
NASDAQ Composite	21,122.45	21,455.55	+333.10	11.11%
RUSSELL 2000	2,211.65	2,366.42	+154.77	6.11%
Fed Funds Rate	4.25% - 4.50%	4.25% - 4.50%	UNCHANGED	
2-Year Treasury	3.94%	3.59%	-0.35%	
10-Year Treasury	4.37%	4.23%	-0.14%	
Crude Oil \$ per Barrel	\$69.26	\$64.01	-\$5.25	-10.75%
Gold \$ per Troy oz.	\$ 3,348.60	\$3,516.10	+\$167.50	33.14%
UK Point in U.S. \$	\$1.3234US=1£	\$1.3511US=1£	\$ WEAKER	7.88%
Euro in U.S. \$	\$1.1446US=1	\$1.1705US=1	\$ WEAKER	13.04%
Canada \$ per U.S. \$	\$1.38255C=\$1.00US	\$1.37295C=\$1.00US	\$ WEAKER	-4.54%
Japan Yen per U.S. \$	150.495¥=\$1.00US	146.825¥=\$1.00US	\$ WEAKER	-6.58%

