



INSIGHTS

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A Tale of Two Risks

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The Federal Reserve's long-awaited pivot on September 17, 2025, marked a significant inflection point for markets, delivering the first rate cut since December 2024 after nine months of steady overnight rates. In an 11-1 vote, the FOMC lowered the target range for the federal funds rate by 25 basis points (bps) to 4.00%-4.25%, explicitly framing the move as a "risk management" action to address downside risks to employment amid a softening labor market. Chair Jerome Powell emphasized that while upside risks to inflation persist (driven in part by tariff effects) the recent uptick in unemployment to 4.3% in August and stagnant job growth warranted proactive easing to prevent further deterioration. This aligns with the FOMC's dual mandate, shifting the balance of risks toward employment while maintaining vigilance on price stability.

The accompanying Summary of Economic Projections (SEP) reinforced a more accommodative stance. Median GDP growth forecasts were revised upward to 1.6% for 2025 from 1.4% in June, 1.8% for 2026, and 1.9% for 2027, reflecting confidence in underlying economic resilience. The dot plot which represents the distribution of officials' rate projections shifted dovishly, with the median federal funds rate now at 3.6% by year-end 2025 implying 50 bps of additional cuts and further easing to 3.4% in 2026, signaling a greater willingness to unwind prior hikes. Markets, as of September 29th (see

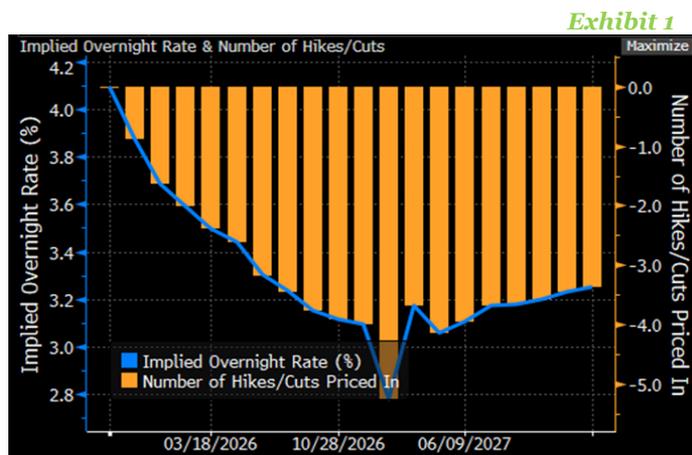
Exhibit 1), have priced in aggressive easing, with futures implying -1.63 additional cuts for an implied

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Source: Bloomberg

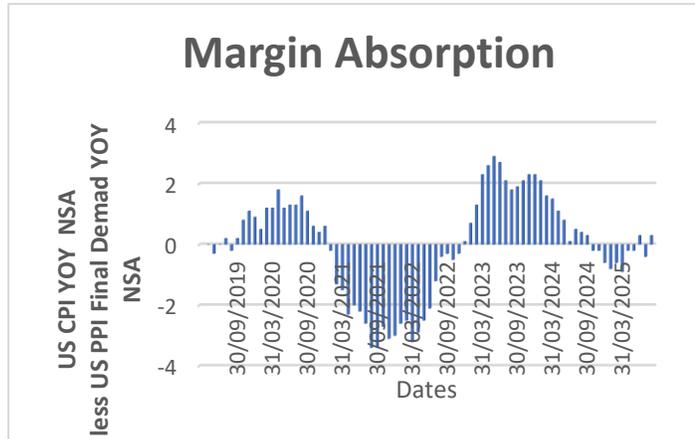
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rate of 3.68% for the remainder of 2025 which aligns closely with the SEP's median but leaving room for data-dependent acceleration. This setup remains broadly supportive for US equities in the near term, as lower rates bolster valuations and liquidity, particularly for growth-sensitive sectors.

Still, while easier policy supports valuations and liquidity, it does not remove all headwinds. The tariff impact, though slower to materialize, represents an important offset that investors need to keep in view. For now, earnings resilience and the Fed's pivot provide a constructive backdrop, but the eventual passthrough of higher costs could test margins and consumer demand in the quarters ahead.

Exhibit 2 highlights that in the immediate aftermath of Liberation Day, producers largely absorbed the initial tariff impact. More recently, however, there are signs they are beginning to pass those costs on to consumers. This shift may reflect the exhaustion of front-loaded inventories in Q1, with companies now restocking under the current tariff regime. While the adjustment could lift prices in the near term, the effect is likely to unfold gradually across several quarters rather than all at once.

Exhibit 2



Source: Bloomberg/PMI

This will be a challenging time for the Fed, but for now, as previously mentioned, their focus for now is on the softening labour market.

The S&P 500's rebound from its April 7, 2025, trough of 4,835.04 (triggered by tariff turmoil and recession fears) has been predominantly earnings-driven. According to Factset Earnings Insight (as at 9-19-25), Q3 2025 corporate profits are expected to grow 7.7% compared to 7.2% on June 20th. From that April 7th low, the index has climbed 31.24% to date, buoyed by resilient consumer spending and AI-fueled tech gains. The earnings scorecard highlights a welcome broadening beyond mega-cap AI leaders, a hallmark of a sustainable bull market (*See Exhibit 3 & 4*).

Exhibit 3

Forward Earnings Growth													
	SPX	RTY	S5INFT	S5FINL	S5COND	S5TELS	S5HLTH	S5INDU	S5CONS	S5ENRS	S5UTIL	S5RLST	S5MATR
4 week Change %	1.54%	2.70%	4%	0.47%	1.04%	0.52%	0.63%	1.01%	-0.17%	1.38%	0.80%	0.41%	1.29%
8 week Change %	3.42%	5.75%	7.78%	2.07%	3.41%	4.09%	-0.40%	1.81%	0.53%	1.37%	1.76%	1.12%	2.52%
12 week Change %	4.76%	10.89%	9.37%	4.78%	4.69%	5.32%	-0.78%	3.60%	1.07%	2.48%	2.46%	1.12%	5.76%

Source: Bloomberg/PMI

Data as of 09/12/25

Exhibit 4



Source: Bloomberg/PMI

Source: Bloomberg/PMI

Source: Bloomberg/PMI

4-Week Change: S5INFT (Information Technology) leads with a 4% gain, while S5CONS (Consumer Staples) shows a slight decline of -0.17%. Most sectors show modest positive changes, with RTY (Russell 2000) at 2.70% and the market represented by the SPX (S&P 500) at 1.54%.

8-Week Change: S5INFT again outperforms with a 7.78% gain, followed by RTY at 5.75%. S5HLTH (Health Care) is the only sector with a negative change at -0.40%. SPX records a solid 3.42% gain.

12-Week Change: RTY leads significantly with a 10.89% gain, followed by S5INFT at 9.37%. S5HLTH remains negative at -0.78%, while SPX and S5FINL (Financials) show similar gains around 4.76–4.78%.

This broadening is a constructive sign for the new bull market, suggesting participation is increasing beyond the concentrated earnings power of the AI mega-caps. If sustained, broader sector leadership should help reduce downside risk, strengthen market durability, and create new opportunities for investors beyond the narrow tech trade that has dominated much of the cycle.

Portfolio Implications: Barbell into AI Tech and Cyclical

The confluence of rate relief, relatively contained inflation, and broadening earnings supports a tactical overweight on US equities. One way investors can position equity portfolios is through a barbell strategy. This could be accomplished through an allocation to 50-60% to AI-enablers in Technology (e.g., semiconductors, cloud infrastructure) for growth exposure, and 40-50% to rate-sensitive cyclicals (e.g., Financials, Consumer Discretionary, Industrials, small-caps) that benefit from economic reacceleration and cheaper borrowing. This hedges tariff volatility while leveraging the Fed's dovish tilt.

Risks remain, primarily in the form of hotter-than-expected inflation or further cracks in the labor market. Even so, the base case points to 10% upside for the S&P 500 over the next 12 months.

Magnificent 7

Exhibit 5 highlights the Bloomberg Magnificent 7 Total Return Index which is a proxy for the Magnificent 7 stocks from a forward P/E multiple perspective. While the group has been a major driver of performance within the SPX returning 19.10 % (as at 9/25/25) on a YTD basis, from a valuation perspective in aggregate they are still registering as fairly valued with median forward P/E multiple of 34.21x which is just above the intermediate median multiple of 33.07x.



Source: Bloomberg/PMI

This suggests that despite strong performance, the Magnificent 7 are not in extreme overvaluation territory as a group, though dispersion within the cohort (e.g., Alphabet and Apple trading rich vs. Amazon and Nvidia trading cheap) creates significant relative value opportunities (**See Exhibit 6**).

Exhibit 6

MAG7 Group Z-score				
	PE Ratio	Forward PE Price	Best Target Price 1 Year	Best Target Price 2 Years
Meta	0.77	0.63	-0.39	-0.16
Alphabet	2.28	3.31	3.47	1.26
Amazon	-1.09	-0.32	-0.60	-0.16
Apple	1.41	2.21	2.88	1.25
Microsoft	0.81	1.63	-0.47	-0.56
Nvidia	-0.41	0.83	0.20	0.07
Tesla	2.64	2.94	1.03	0.95

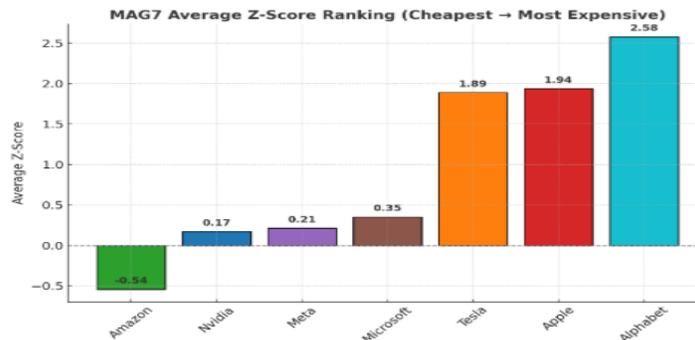
Source: Bloomberg/ PMI (Data as at 9/25/25)

Explanation
 The Group Z-score (the colors) indicate whether a company is expensive compared to the rest of the MAG 7, the greener colors indicate a relative cheaper valuation (undervaluation) compared to the peers, while an increasingly red color indicates a more expensive valuation (overvaluation) compared to the peers.

We Z-scored the Mag7 Stocks relative to valuation and target price (**See Exhibit 6**). We then aggregated the average Z Score rankings across the 4 metrics and ranked them from cheapest (lowest) to most expensive (highest).

From **Exhibit 7**, given the criteria, Amazon at -0.54 screens as the least expensive while Alphabet at 2.58 is the most expensive.

Exhibit 7



Source: Bloomberg/PMI

Small Caps

We are turning increasingly positive on Small Caps, which have been staging a recovery since the Liberation Day lows. **Exhibit 8** highlights the RTY/SPX performance ratio, which after trading in a sideways channel since the April lows has now broken decisively through upper trend resistance, signaling relative strength in the Russell 2000 versus the S&P 500.

Exhibit 8

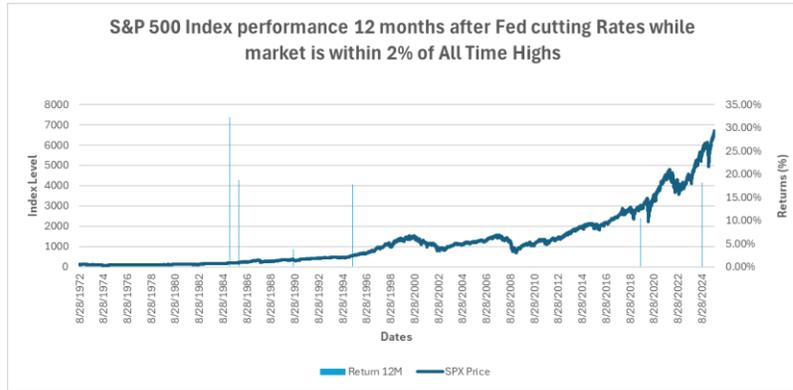


Source: Bloomberg

While the technical setup (a defined sideways channel followed by a breakout) resembles 2022 (where the out-performance proved to be relatively short-lived), the macro backdrop today is far more supportive. Unlike in 2022, inflation is more contained, the Fed is tilting toward accommodation (not tightening) and the economy is exhibiting stronger GDP growth all of which provide a stronger foundation for sustained small-cap outperformance.

Exhibit 9

For consideration it is also worth mentioning (going back to 1972) there were 7 times when the Fed has cut interest rates when the SPX Index was within 2% of its all-time highs (See Exhibit 9).



Source: Bloomberg/PMI

Exhibit 10

	Hit Rate	Avg	Max	Min
1M across triggers	42.86%	-0.98%	4.39%	-7.75%
3M across triggers	85.71%	1.89%	11.84%	-18.32%
6M across triggers	85.71%	4.20%	16.30%	-14.59%
12M across triggers	100.00%	16.87%	32.24%	3.78%
Number of Triggers:	7			

Source: Bloomberg/ PMI

In each case 100% of the time the market was higher 12 months out with an average return of 16.87% over the periods (See Exhibit 10).

Conclusion

In conclusion, the Federal Reserve’s September pivot marks a crucial turning point for markets, supporting equity valuations through rate relief while signaling heightened sensitivity to a softening labor market. Yet, as monetary conditions ease, underlying macro tensions (particularly inflationary pressures from tariffs) remain unresolved. The market’s current resilience, driven by broadening earnings strength and sector leadership beyond AI mega-caps, paints a constructive picture for the near term. However, the path forward is shaped by a delicate balance as investors must weigh the benefits of Fed accommodation against the potential impact of rising costs and lingering economic uncertainty. This dynamic sets the stage for a tale of two risks (the risk of doing too little to support growth versus the risk of reigniting inflation) a duality that will define both policy decisions and portfolio strategies in the quarters ahead. [PMI](#)