



## Steering Through the AI Boom

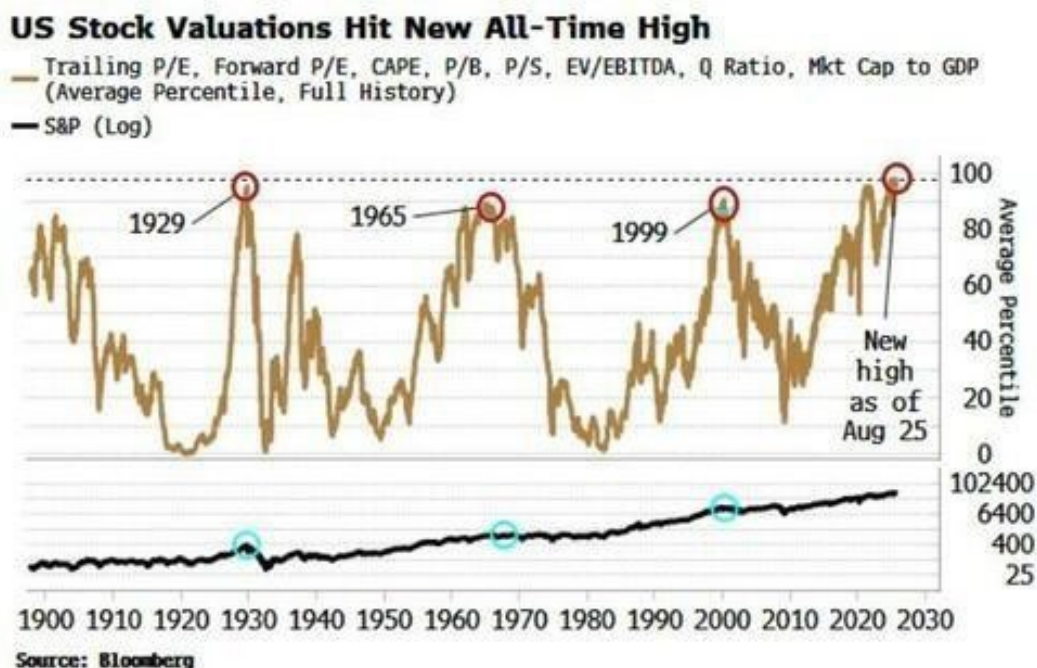
Monthly Market Outlook

September 16, 2025

### AI-Driven Stock Market Surge

Artificial intelligence (AI) is fueling a white-hot stock market rally, reminiscent of historic bubbles like 1929 or 1999. Stocks, particularly in tech, are trading at unprecedented valuations across metrics like price-to-sales, price-to-book, and price-to-earnings ratios.

Does this extreme overvaluation signal an imminent crash? Not necessarily. However, any weakness in tech sector earnings or revenue could significantly pressure U.S. markets.



### Seasonal and Policy Risks

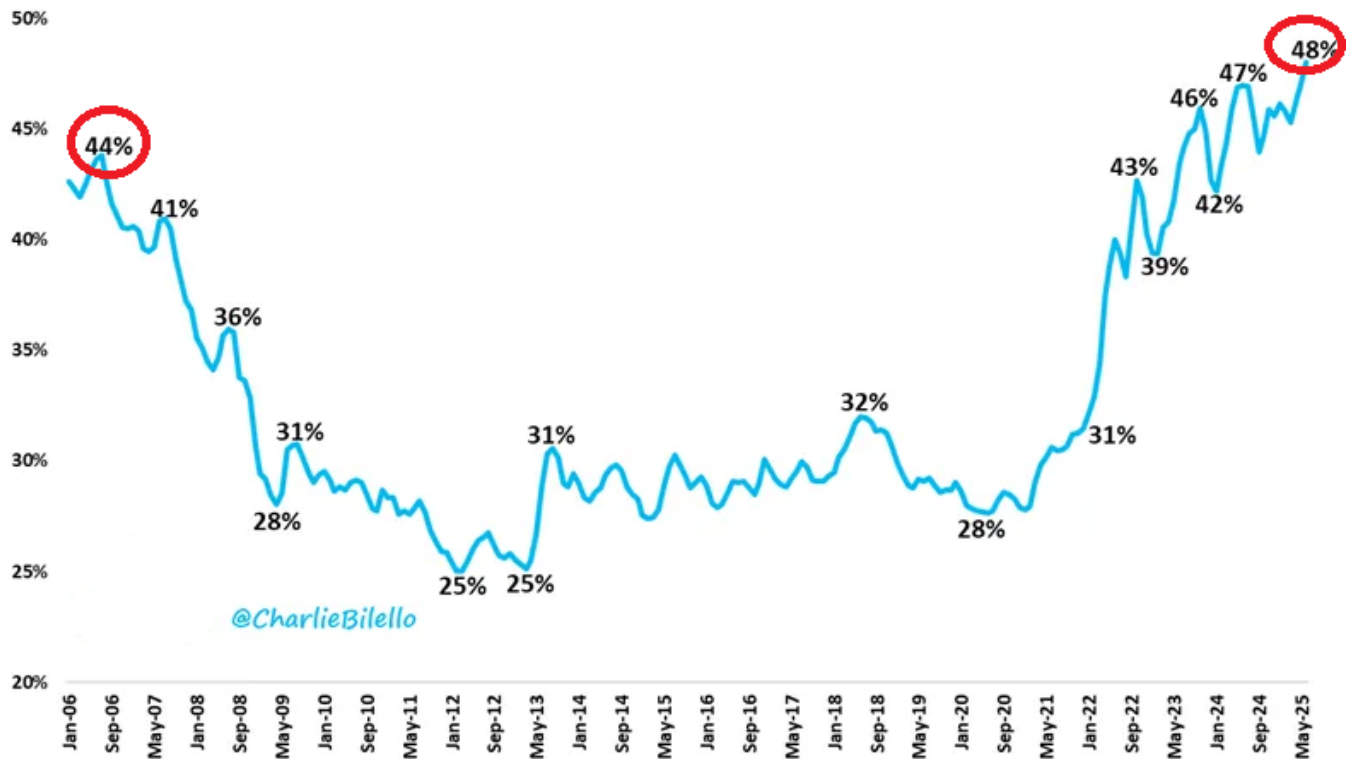
Historically, September is a weak month for stocks, with the S&P 500 averaging a 1.1% loss since 1928 and a 2% decline since 2015. Beyond seasonality, the Federal Reserve's upcoming September 18, 2025, decision poses a major risk. Investors hope for a 50-basis-point rate cut, but a smaller 25-basis-point reduction could trigger an equity sell-off.

The Fed's rate-cutting rationale stems from a weakening labor market and dismal housing affordability. Unemployment is rising, jobless claims signal hiring reluctance, and housing costs consume nearly half of median family income—higher than during the 2005 housing bubble peak.

## US Median Housing Payment as % of Median Income

(Note: Payment includes P&I, Taxes, Insurance, PMI)

Data Source: Atlanta Fed (as of June 2025)

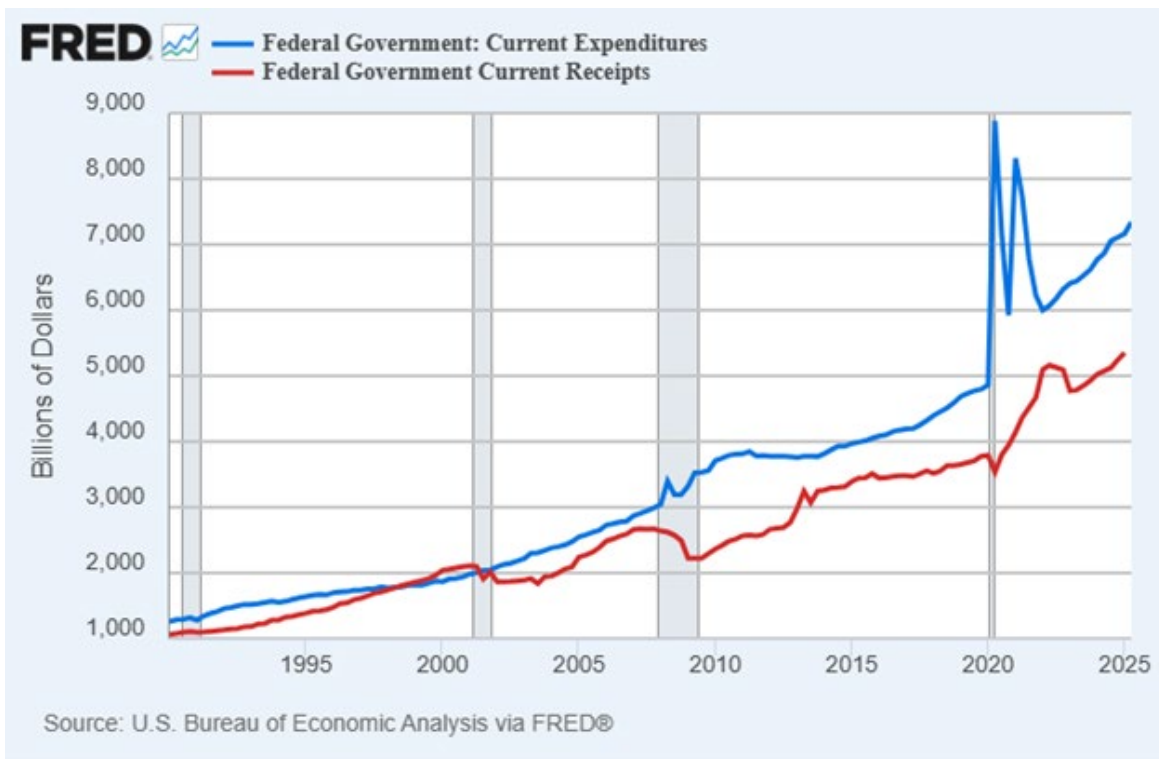


Lower rates could ease borrowing costs for homebuyers, refiners, and small businesses, but a cautious Fed, wary of sticky inflation, might opt for gradual cuts. Markets may not be prepared for a hawkish stance, potentially leading to struggles for both stocks and bonds.

### Economic and Geopolitical Headwinds

Economic softening justifies stimulus, but challenges loom:

- **Geopolitical Tensions:** Renewed U.S.-China trade disputes could prompt investors to reduce equity exposure, particularly in tech and global supply chain-exposed sectors.
- **Inflation Pressures:** Money supply growth and tariff uncertainties could keep inflation elevated. U.S. government deficit spending—\$7.3 trillion in annual expenditures versus \$5.3 trillion in revenue—adds \$2 trillion to circulation, potentially stoking inflation.

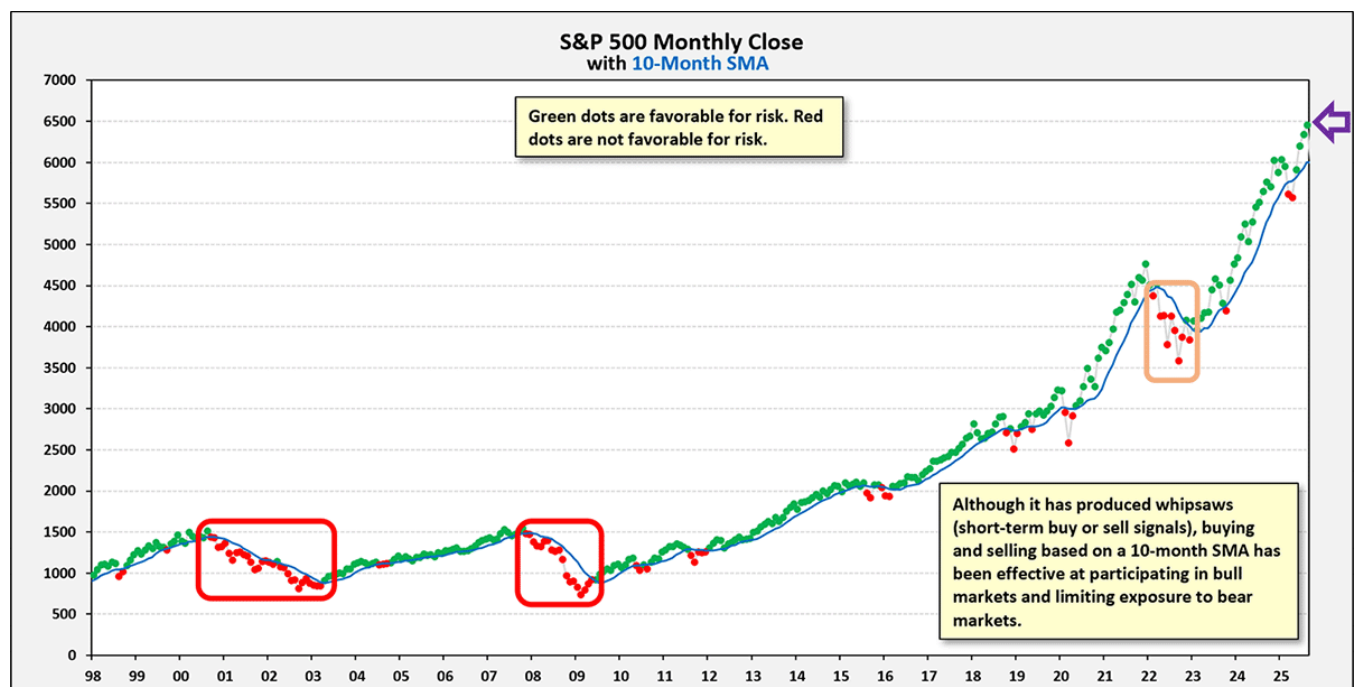


### Potential Upside

Despite risks, stocks could rally if the Fed delivers favorable rate-cut guidance or if inflation data softens in coming weeks, encouraging investors to increase equity allocations.

### Technical Outlook

The S&P 500's monthly closing price remains well above its trendline, with a positive slope, signaling bullish momentum (see **green dots** and **blue trendline** in the chart below). This favorable technical picture supports our continued sensible allocation to stocks.



## Portfolio Strategy


We maintain a balanced approach to navigate market uncertainty:

- **Diversified Equity Exposure:** Complement tech-heavy positions with international, mid-cap, and small-cap stocks to mitigate risks from AI-driven volatility.
- **Full Allocation to Income Assets:** Bonds, money market funds, and similar instruments provide stability and yield.
- **Safer Havens:** Gold and short-term bond ETFs offer a hedge against potential market swings while generating income.

## Connect With Us

Have questions about your investments or the financial markets? Rob and I would be delighted to speak with you to discuss tailored strategies for your portfolio. Feel free to reach out anytime!

Warmest Regards,

A handwritten signature in blue ink, appearing to read "Gary Gordon". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gary Gordon, MS, CFP  
President