

Easing Into It

The Federal Reserve lowered short-term interest rates by 0.25% and equity markets responded with gains. For the week, the S&P 500 Index was +1.2%, the Dow Jones Industrials +1.1%, and the NASDAQ +2.2%. The Communication Services, Technology, and Consumer Discretionary sectors led the S&P 500 Index for the week, while the Consumer Staples, Real Estate, and Materials sectors lagged. The 10-year U.S. Treasury note yield increased to 4.127% at Friday's close versus 4.062% the previous week.

As widely expected, the Federal Open Market Committee (FOMC) reduced the Fed funds target rate by 0.25% to a 4.00% to 4.25% range. While inflation remains elevated versus the Fed's 2.0% preferred level, weakness in the labor market has refocused priorities to the employment component of the dual mandate. CME Fed funds futures are currently projecting additional 0.25% rate cuts at the October and December FOMC meetings, as well as the March 2026 meeting. This is consistent with the updated Summary of Economic Projections released last week. The key economic data point for this week is the Personal Consumption Expenditures (PCE) Price Index scheduled for Friday.

Seven companies in the S&P 500 Index are scheduled to report third quarter earnings results this week. Third quarter S&P 500 Index earnings growth is forecast at 7.7% with revenue growth of 6.3%. Full-year 2025 earnings are expected to grow by 10.7% with revenue growth of 6.1%.

In our *Dissecting Headlines* section, we look at what has changed in the Federal Reserve's economic projections.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	1.2%	14.4%	Aggregate Bond Index	-0.2%	6.0%
Dow Jones Industrial Average	1.1%	10.3%	U.S. Dollar Index	0.1%	-10.0%
NASDAQ 100	2.2%	17.8%	WTI Crude Oil	0.0%	-12.6%
Russell 2000 (Small Cap Index)	2.2%	10.9%	Gold	1.1%	40.4%
International Stocks (MSCI ex-US)	0.5%	26.0%	Real Estate (US REIT Index)	-1.4%	3.0%

Sources: S&P Global, FactSet

Dissecting Headlines: Summary of Economic Projections

The FOMC's latest Summary of Economic Projections was released at its policy meeting last week. The committee members' views on the economy are what underpin their decisions on monetary policy. We thought it would be helpful to look at the changes in the FOMC's outlook that has prompted the move to an easing cycle.

Gross Domestic Product (GDP): The committee expects the economy, as measured by GDP, to grow 1.6% in 2025 and 1.8% in 2026. These are both upward revisions to previous projections of 1.4% for 2025 and 1.6% for 2026. The most recent revision for second quarter GDP showed growth of 3.3%, up from 3.0% in the initial release.

Unemployment: The FOMC projects the unemployment rate at 4.5% for 2025, consistent with its previous outlook. For 2026, the committee sees unemployment easing to 4.4% versus its previous forecast of 4.5%. It sees unemployment continuing to ease beyond 2026. The most recent employment report for August had the current unemployment rate at 4.3%, so some additional labor market weakness is forecast and the rate cuts are an effort to support the labor market.

Inflation: The FOMC measures inflation via the Personal Consumption Expenditures (PCE) Price Index. The FOMC's projections show 2025 PCE Prices at 3.0% and core PCE Prices at 3.1%. This is consistent with its previous outlook. For 2026, the committee sees PCE prices and core PCE Prices at 2.6%, up from its previous outlook of 2.4%. Despite the potential for persistent inflation, the FOMC has shifted focus to supporting the labor market. The next inflation data point is August PCE Prices, scheduled for this Friday.

Interest Rates: Based on these economic projections, the FOMC sees the fed funds target rate for year-end 2025 at 3.50% to 3.75%, or 0.75% lower than the rate range we have been in for the majority of the year. For 2026, the FOMC currently forecasts only one additional 0.25% rate cut, likely in March.

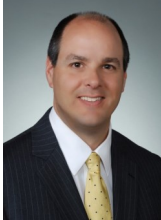
The slow and deliberate pace of the easing in monetary policy is likely designed to stay data driven and make adjustments if necessary as we move through the end of the year and into 2026. This also built better consensus at the FOMC as all members voted in favor of the 0.25% rate reduction, except the newest member Stephen Miran who advocated for a 0.50% rate cut.

The NovaPoint Team



Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointgroup.com

Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



Alan J. Conner / President and Chief Compliance Officer / aconner@novapointgroup.com

Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



Frederick Wright, CFA / Managing Director & Portfolio Manager / fwright@novapointgroup.com

Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



Larry Dixon, EA / Tax Managing Partner / ldixon@novapointgroup.com

Larry leads NovaPoint's accounting, tax and outsourced CFO business. He built his previous company, Atlas Solutions, as a solo entrepreneur before merging into NovaPoint CFO. Larry began his career as a Field Artillery officer in the United States Army. Larry earned his Bachelor of Science degree from the U.S. Military Academy at West Point, where he was a four-year letterman on the football team. Larry is a certified Enrolled Agent, recognized by the U.S. Department of the Treasury to represent taxpayers before the Internal Revenue Service.



Meghan Hoover / Investment Associate / mhoover@novapointgroup.com

Meghan is an Investment Associate focusing on financial planning. Prior to joining NovaPoint, Meghan spent 18 years in government service as an Operations Officer in military intelligence. She holds two Bachelor of Science degrees from the University of Maryland and a Master of Science from the Joint Military Intelligence College. Meghan has additional education specializing in financial planning and is a member of the Financial Planning Association.

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