

Perspectives

A Quarterly Newsletter for Clients of Parsons Capital Management



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September shook off its reputation for the worst month of the year with a risk-on rally that took domestic indices up over 30% from their March lows. The September advance was particularly notable in that it occurred with liquidity coming out of the markets, something that had been a major headwind for risk assets since the Global Financial Crisis. Small cap stocks, as measured by the Russell 2000, rallied throughout the quarter and on September 19 notched a new all-time high, breaking a streak of 967 trading days without one. Once again, performance was concentrated in the largest stocks: the market cap weighted S&P500 nearly doubled the return of the Equal Weighted S&P's return (4.84%). Growth stocks again handily outperformed value. Developed international markets were relative laggards in the quarter, though a strong first half still left them ahead of the S&P 500. The standout, both in September and for the quarter, was the Emerging Markets category. China was the star in this group, with local tech companies surging and a trade truce between the U.S. and China fueling a 20%+ rally. Bitcoin notched nearly all of its third quarter surge in the final month.

Data as of September 30, 2025	Sept '25	Qtr. 3 '25	YTD '25
S&P 500	3.65%	8.12%	14.83%
MSCI AC World Index (incl. US)	3.66%	7.74%	18.86%
MSCI EAFE (Europe, Asia, Far East)	1.96%	4.83%	25.72%
MSCI EM (Emerging Markets)	7.18%	10.95%	28.22%
Russell 1000	3.47%	7.99%	14.61%
Russell 1000 Growth	5.32%	10.51%	17.25%
Russell 1000 Value	1.49%	5.33%	11.67%
Russell Midcap	0.89%	5.33%	10.45%
Russell 2000	3.11%	12.40%	10.39%
Bitcoin	5.38%	6.46%	22.08%

Data provided by Tamarac Inc.



Fixed Income Markets

Bond market returns, irrespective of duration or country of origin, were positive across the board. The Bloomberg U.S. Aggregate Index surpassed the Global Aggregate, 2.03% versus 0.60%, for the quarter but still lagged by nearly two percentage points for the year. In the domestic market, returns were powered by the longer end of the curve, although much of that action was seen in the final month of the quarter. The Bloomberg U.S. Credit Long Bond Index returned 3.88% for the quarter while the 1-5 Year Index came in at 1.57%. For September, those same two indices returned 3.15% and 0.41% respectively. The question becomes whether this divergence was due to the Fed resuming their long-awaited rate cutting cycle, or a harbinger of something more ominous.

Fed finally cuts rates...

Short end drops in response to Fed cut...

Gold (and silver) glitter, while other commodities struggle...



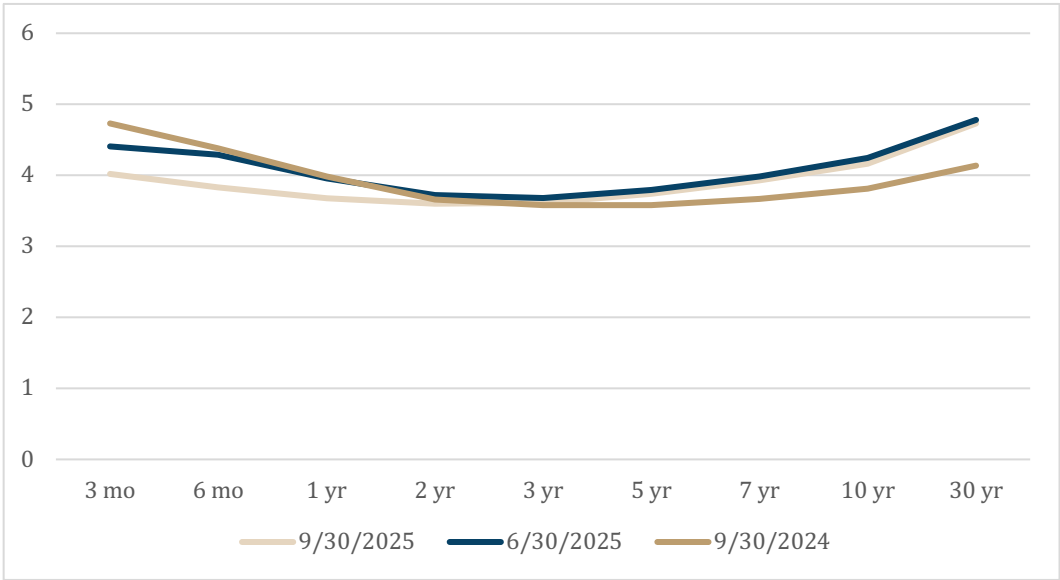
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US Treasury Yields

Not much changed on the yield curve during the quarter, but comparing September 2025 to September 2024 shows a dramatic shift in rates. The one notable difference in the quarter was on the short end of the curve, where rates fell after the Fed ended their nine month pause and cut its rate by 0.25% on September 17. The year-over-year comparison shows that short rates have moved notably lower while rates out on the long end of the curve have marched higher.



Data from U.S. Treasury



Commodities

Looking simply at the headline CRB number, commodities seemed to have a solid, if unspectacular, quarter. Digging down shows that the underlying members of the index had wildly divergent returns.

Energy overall was the big loser in the quarter. Within the sector, oil (as measured by West Texas Intermediate) was down the least as gasoline and natural gas prices fell even more (-4.79% and -4.43% respectively). The weakness in energy markets came on the heels of OPEC+ continuing to expand production amid a less than inspiring growth backdrop.

Agriculture also suffered as tariff retaliation sharply curtailed, and in some cases cut off, American farmers from export markets.

Metals were the standout in the quarter. Gold continued to add to its impressive run while silver nearly doubled the return with a gain of 30%. Copper slipped a bit in the quarter but is still up over 20% for the year.

Commodity	Qtr. 3 '25	Year to Date '25
CRB (broad index)	2.19%	4.59%
Oil	-4.21%	-13.04%
Gold	16.12%	45.43%



Economic Overview

Two track economy...

*GDP growth numbers
confirming economic
resiliency...*

*American consumer
leading the way...*

*Interest rate sensitive
sectors held back...*

The U.S. economy continued to operate at two separate speeds in the quarter. After shaking off a volatile start to 2025 brought on by shifting tariff announcements and stalled trade agreements, the domestic economy seems to have found a solid (if unspectacular) level of growth.

In the final days of September, the GDP growth rate for the second quarter was revised up by half a percentage point to 3.8%. The primary source of the revision came from better than initially thought consumer spending, centered around services and vehicle sales. The other positive contributor to the improved GDP figure was a lower than thought trade deficit, with imports coming in lower than original estimates.

At the same time the prior quarter was revised higher, the final reading of the Atlanta Fed GDP Now tracker sat at 3.8%. With the government currently shut down, this number is unlikely to see any further revision.

The consumer has been the bright spot for the U.S. economy, both in the most recent quarter and throughout the year. The concerning point is that much of the growth in consumer spending is tied to the highest income brackets, as inflation has had an outsized impact on lower income households. Encouragingly, average hourly earnings growth has steadily outpaced CPI (Consumer Price Index) the past few months, and the recent weakness in energy prices may provide a further lift to after-inflation take-home pay.

While consumers as a whole find themselves in an OK position, multiple parts of the economy have yet to find momentum. Housing, one of the most inflation sensitive corners of the economy, remains in a rut. While no longer worsening, October's existing home sales figure matched that seen in December of 2022. New home sales enjoyed a pop higher in October but managed to just get back to the levels seen at the end of 2021. With interest rates high, labor tight and supplies expensive, the housing market looks likely to continue just muddling along.

Manufacturing, despite efforts to reshore production and tax incentives meant to stimulate the sector, remains uninspiring. The ISM Manufacturing Index, with a reading of 49.1 in September, continues a run of readings in contraction territory that started back in March. Outside of January and February of this year, the Index has not had a reading above 50 since October of 2022.

The U.S. consumer has propped up the economy, enabling it to plug along while the more interest rate sensitive sectors have stumbled over the past few years. For economic growth to broaden out, some of the other pillars of the economy will have to begin to contribute.

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Investment Implications

AI trade leading the way...

Multiple expansion story more nuanced...

Margins expanding while revenue mix shifts...

Risks from sentiment, inflation, policy mistakes...



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Third quarter returns were marked by a handful of major trends asserting themselves, with the proliferation of AI remaining the primary driver of performance. Perhaps no single event better captured this theme than Oracle's 36% gain on September 10th, which added \$244 billion in market value — the equivalent of a Morgan Stanley or a Caterpillar in a single day. Broadly speaking, 16 of the 30 best performing stocks in the S&P 500 during the quarter were either directly or indirectly tied to the AI trade.

The eye-popping returns from the AI trade have naturally fueled talk of bubbles and comparisons to 1999–2000. While the increasing excitement surrounding all things AI certainly warrants caution, the underlying metrics paint a more nuanced picture. The next twelve-month Price-to-Earnings ratio for the S&P has expanded by just over one point this year, yet research from Strategas shows that the median multiple for the five largest names in the index (all AI plays to some degree) has actually *declined* by 0.68 points. While the S&P's overall P/E multiple has returned to the highs from earlier this decade, the median stock in the index, at 19.4x, is right in line with the 10-year average and a couple of points below the recent peaks witnessed in 2021–2022.

Two key elements are supporting earnings growth and justifying those higher multiples. The first is the unprecedented level of operating margins being enjoyed by S&P 500 companies. At 18.3%, twelve-month expected margins are nearly a full point above their prior peak in 2022 and appear poised to expand further. Historically, markets rarely face serious stress while margins are still expanding.

The second point of support lies in the changing composition of corporate revenue. By one estimate, the share of S&P 500 revenue that can be classified as “recurring” has nearly doubled from roughly 25–30% in the early 1990s to over 50% today. This shift away from “one-off” transactional sales toward recurring products and services coupled with productivity gains has allowed companies to grow revenue faster than costs.

Looking ahead, these trends appear well positioned to continue. There is, as yet, little sign of fatigue in AI-related spending, and demand is spreading beyond Nvidia while use cases are expanding. Stagflation — a reappearing boogeyman in recent quarters — seems a fading risk as the economy settles into trend-to-slightly-above-trend growth.

The most visible risks to our constructive outlook are: a renewed acceleration in inflation fueled by stimulus spending from Trump's “Big Beautiful Bill,” a policy misstep out of Washington, a rapid deterioration in the labor market, or a sentiment-driven rally that pushes prices far beyond fundamentals.

Inflation has ticked higher in recent months, even before the full effect of new tariffs and an additional \$150 billion in consumer tax refunds work through the system. Encouragingly, inflation expectations remain well anchored, offering some confidence that price pressures can be contained.

Policy risk remains another wildcard. The sell-off earlier this year underscored the fragility of markets in the face of aggressive and unpredictable tariff policy. Corporate America has, for now, found an uneasy equilibrium within the new trade framework, but further disruptions could quickly upset that balance.

Finally, sentiment bears close watching. The surge in zero-day option trading, rising margin debt, and the unending parade of new levered ETFs all harken back to the speculative froth of the 2021 meme-stock era.

On balance, we continue to view the outlook for markets as broadly positive — supported by strong earnings, expanding margins, and healthy liquidity — but with enough risk present to warrant keeping a weather eye on the horizon.