

## BREADTH BENEATH SURFACE | 08.22.2025

Stocks have held firm through the first three weeks of August, weathering a softer-than-expected jobs report and some signs of fatigue in the Artificial Intelligence (AI) trade. Growing expectations for lower interest rates helped lift the S&P 500 back to its highs. Beneath the surface, however, subtle shifts are taking place. As AI leaders pause after a powerful run from the April lows, some of the market's more neglected areas are beginning to show strength. While still early, broader participation across sectors would be a constructive development.

On balance, the U.S. economy remains on solid footing. Unemployment continues to hover around 4.2%, and jobless claims have not signaled any major stress. Hiring has slowed, but that is natural at this stage of the cycle. Most importantly, consumers remain employed and continue to spend—critical support for an economy where roughly 70% of activity is tied to domestic consumption.

Despite that resilience, the Federal Reserve has shifted its focus back toward potential rate cuts. With inflation cooling and employment data showing modest softening, policymakers now see room to ease. Fed Chair Jerome Powell's remarks at Jackson Hole highlighted a change in the balance of risks, particularly given his longstanding concerns about tariffs and inflation. Markets are now pricing in at least two quarter-point cuts in 2025, with several more anticipated in 2026—a backdrop that would be supportive for equities.

AI has dominated the market narrative for much of 2025, but momentum has cooled. Recent remarks from AI pioneer Sam Altman added to concerns that expectations may be running ahead of reality. Investment in AI infrastructure and development remains significant, but commercial use cases may take longer to scale than initially hoped. Some consolidation in stock prices is both normal and healthy under these circumstances.

Encouragingly, other sectors have stepped in during moments of weakness. While Technology and Communications continue to lead, Financials, Industrials, Consumer Discretionary, and Utilities have each contributed to gains. Even areas that have lagged, such as Health Care and Staples, are beginning to show improvement. Greater market breadth, if it continues, should prove to be an asset in the months ahead.

Thanks,  
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