TJT CAPITAL GROUP
REGISTERED INVESTMENT ADVISOR

On Our Radar – September 2025

The S&P 500 index overcame an early 3 percent pullback in the first days of August—driven by weak employment data—to finish the month with a 1.9 percent gain on renewed optimism for a potential Federal Reserve rate cut.

The bond market also reflected shifting expectations. The yield on the 10-year U.S. Treasury Note declined from 4.37 percent at the end of July to 4.23 percent by the end of August. In commodities, West Texas Intermediate crude oil eased from just over $69 per barrel to roughly $64.

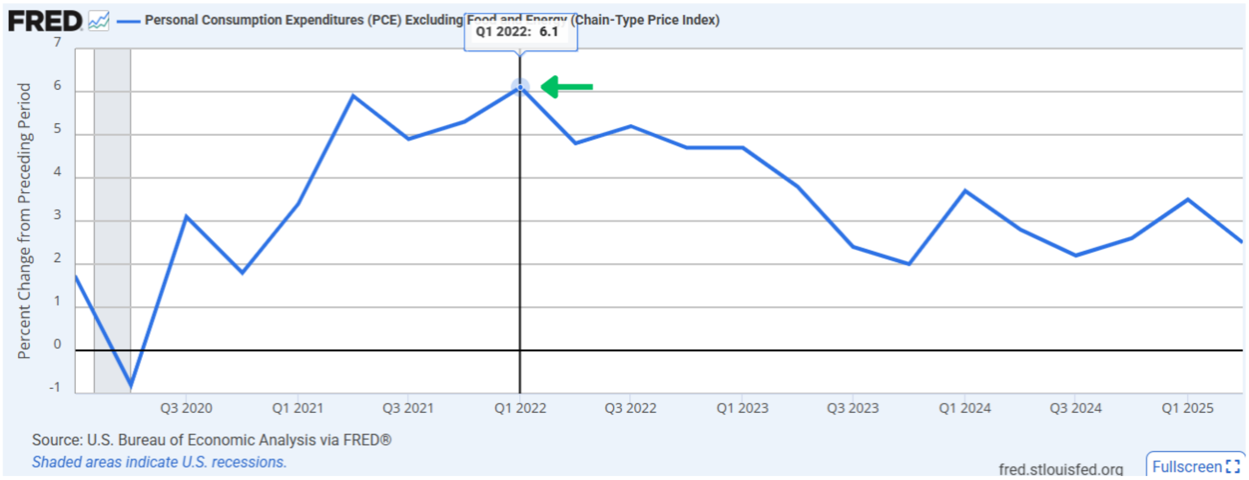
TJT Capital Group's InVEST Risk Model ® has helped our clients participate in bull markets and protect capital from the devastation of bear markets by focusing on 5 indicators that really matter when it comes to determining the health and direction of markets. The following is the most recent update.

Interest Rates (Monetary Policy)

August 4 marked the anniversary of the benchmark 10-year U.S. Treasury yield closing at its record low of 0.52 percent in 2020. Just weeks later, on August 27, 2020, Federal Reserve Chairman Jerome Powell introduced the Fed's new "flexible average inflation targeting" framework—an inflation "makeup strategy" intended to allow inflation to run above target for a time in order to offset years of undershooting. At the time, with inflation averaging only 1.7 percent over the prior 25 years, the Fed's concern was that inflation was persistently too low. Powell emphasized, however, that if "excessive inflationary pressures were to ratchet up above levels consistent with our goal, we would not hesitate to act."

Yet by September 2020, when asked what "levels consistent with our goal" meant, Powell clarified it as "not very high above 2 percent." In hindsight, it is clear the Fed had little intention of raising interest rates, even as inflation surged well beyond its target. By November 2021—when inflation was nearly three times the Fed's 2 percent goal—Minneapolis Fed President Neel Kashkari insisted the central bank "need not overreact to some of these temporary [inflation] factors."

The consequences of delay have been profound. The Powell-led Fed allowed inflation to climb to a 40-year high (as seen in the adjacent chart) before finally beginning to raise rates in March 2022, moving the federal funds rate from near zero to an upper range of 5.50 percent before cutting rates to about 4.50 percent. Back in early 2022, this publication warned that Fed policy had become unmoored from reality and described its lack of timely response as "reckless behavior." The fallout from that inaction has weighed on parts of the U.S. bond market for years, as higher rates continue to exert pressure across sectors, including the annual interest expense on U.S. government debt.



Fast forward to late August 2025: Powell acknowledged that inflation has remained "above our target for more than four years," yet still left the door open to potential interest-rate cuts as soon as this month.

Valuation

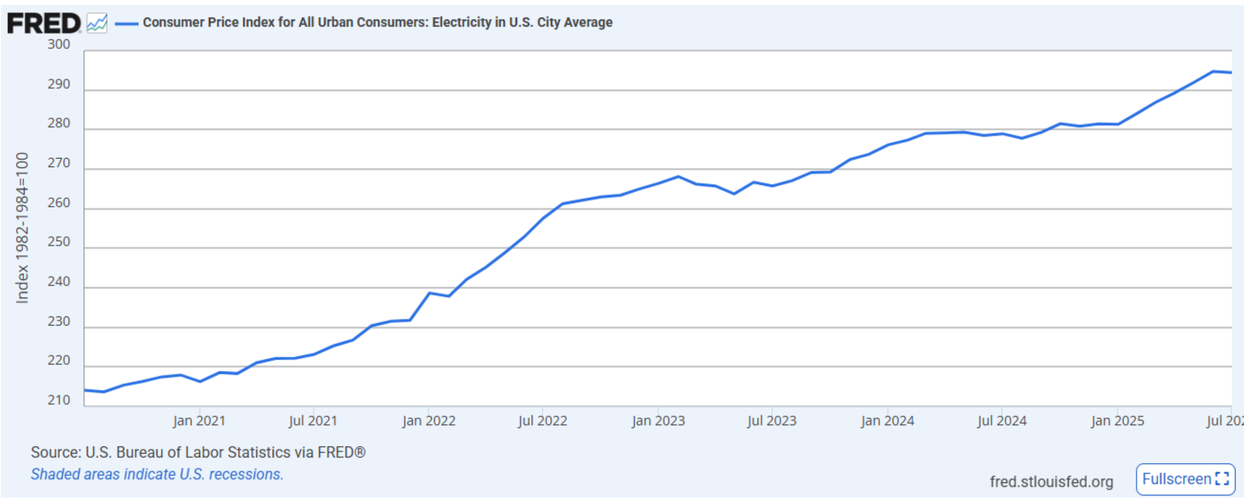
Earnings estimates for the S&P 500 are currently projected at about $258 for 2025 and approximately $300 for 2026. Because the equity market is forward-looking, this places the price-to-earnings (P/E) ratio on 2026 earnings at roughly 21.6-times.

Looking at a shorter horizon, the next four quarters of earnings are estimated at around $281, which implies a P/E ratio of about 22.9-times. Historically, that level has suggested the market is trading above what many would consider fair value. However, overvaluation alone does not typically cause an uptrend to reverse. Instead, it serves as a reminder that the risk/reward balance becomes less favorable when valuations stretch beyond historical norms.

Economic Cycle

Economic data painted a mixed picture. U.S. GDP growth was revised higher, expanding at an annual rate of 3.3 percent in the second quarter compared with the initial 3.0 percent estimate. However, the Conference Board's Leading Economic Index (LEI) fell 2.7 percent in the first half of the year, signaling concerns about tariffs and labor market conditions. This weakness was echoed in the Institute for Supply Management (ISM) Manufacturing Index, which registered 48.7—below the 50 threshold that indicates contraction. The ISM Services Index, covering the far larger services sector of the economy, edged up to 52.0, suggesting slow growth. In real estate, the delinquency rate on Commercial Mortgage-Backed Securities hit a record 11.7 percent.

Inflation, meanwhile, remains a persistent challenge. The Fed's preferred measure, Core Personal Consumption Expenditures (Core PCE), rose 2.9 percent year-over-year. One-year inflation expectations climbed to 4.9 percent from 4.5 percent, weighing on consumer sentiment, which fell to a four-month low. Importantly, much of the price pressure is showing up in non-discretionary areas. For instance, the Consumer Price Index (CPI) for electricity in the average U.S. city has surged more than 36 percent since early 2021 as seen in the following chart. President Trump recently highlighted the growing strain on the power grid, noting that "if you take all of the electricity that we produce right now in this country, you'd have to multiply it times two or maybe three" to meet the demand expected from artificial intelligence data centers.



Even retail sales data reflect this inflationary backdrop. While sales rose 0.5%, the figure is not adjusted for inflation—meaning the increase may simply reflect higher prices rather than stronger demand.

Sentiment

Since the early-April "Liberation Day" tariff-driven selloff, market sentiment has settled into a relatively steady range. Bullish sentiment has averaged around 51 percent, while bearish sentiment has hovered just above 18 percent. Given the market's ongoing uptrend since April—culminating in new highs—the current ratio of bullish to bearish sentiment (roughly 2.7-to-1) is not unusual.

Because investor sentiment tends to move in step with market trends, it's important to remain alert for signs of imbalance. If sentiment becomes excessively one-sided, it can act as a valuable contrarian signal.

Technical Factors

Like sentiment, technical indicators are most informative at extremes. Over the past ten weeks, about 64 percent of stocks have traded above their 50-day moving average. This is neither extreme nor unusual in a rising market trend. However, a sharp move higher or a meaningful breakdown from current levels could signal that conditions are shifting.

In an environment characterized by high ownership, steady inflows, elevated valuations, and a degree of investor complacency, weakening technicals can serve as an early warning sign.

Outlook

When the Federal Reserve cut interest rates by half a percentage point in September 2024, the yield on the 10-year Treasury stood at 3.53 percent and the 30-year at 4.03 percent. By the end of August 2025, those yields had climbed to 4.23 percent and 4.92 percent, respectively. Typically, rate cuts are expected to lower long-term yields, so the fact that they have risen instead signals market unease over persistent budget deficits, surging federal debt, and the risk of a renewed inflationary cycle.

This concern extends beyond the U.S. Many countries have embraced aggressive deficit spending, swelling their national debt to what appears to be unsustainable levels. The result has been weaker currencies, higher bond yields, and questions about the credibility of central banks themselves. The fact that gold now trades at a record above $3,500 per ounce suggests a loss of confidence in fiat currencies and growing preference for hard assets.

For the Fed, the disconnect is striking. Officials continue to insist they are “guided by our mandate” — stable prices with a 2 percent inflation target and maximum employment — yet inflation has exceeded target for more than four years while unemployment has remained near 4 percent.

Equities, following a big run, appear stretched. Valuations are elevated, margin debt has reached a record above $1 trillion, and institutional allocations to stocks are at their highest since November 2007. Adding to uncertainty, President Trump’s tariff policies are under judicial review, and his warning of an “economic war” if Russia’s Putin fails to end the conflict in Ukraine has raised the uncertainty further.

That said, there are counterarguments supporting the bullish case. Corporate earnings remain generally strong, leading U.S. companies are investing heavily to maintain leadership in artificial intelligence, and the Federal Reserve is widely expected to cut rates further. Still, investors would be wise to monitor global interest rates closely — because the bond market’s message suggests not everything is as stable as it may seem. (9.5.25)