AUGUST 2025

Capital Markets Commentary

MEEDER

» August Lifts Both Stocks and Bonds

» Federal Reserve and the Economic Outlook

» Equity Markets: Small Caps Regain Leadership

» Fixed Income

» Looking Ahead

August Lifts Both Stocks and Bonds

Equities continued to show resilience, with small-cap stocks leading gains on stronger-than-expected earnings and optimism around Fed policy easing. Large-cap performance was more muted, as technology shares cooled after their strong run earlier in the year. In fixed income, global investors balanced the push-and-pull of elevated inflation and softer labor data, while international markets benefited from a weaker U.S. dollar and ongoing demand.

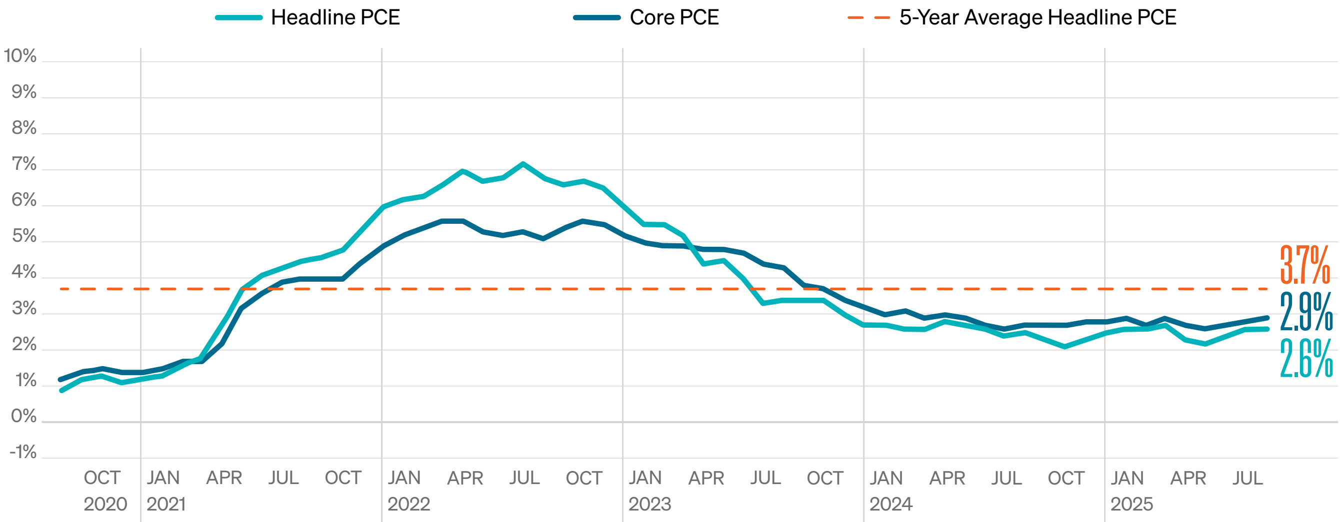
Federal Reserve and the Economic Outlook

The Federal Reserve remains front and center. Chair Powell's Jackson Hole remarks in late August set clear expectations for a 25 basis point rate cut at the September 16–17 FOMC meeting. Despite inflation still running above target, the Fed's preferred PCE measure climbed to 2.6% in July, matching the same reading from June. However, weakening labor data is shaping policy: August marked the fourth consecutive month of sub-100,000 job gains, the softest stretch since the pandemic.

Encouragingly, corporate fundamentals remain resilient. S&P 500 revenues continue to outpace cost growth by nearly 2% year-over-year, leading to consistent profit margins for large U.S. companies. With inflation cooling from its 2022–2023 peaks and the yield curve now normalized, strong corporate earnings with the expectation of lower interest rates has led to higher equity returns.

KEY FED INFLATION REPORT STILL ABOVE FED TARGET

As of July 31, 2025



SOURCE: BUREAU OF ECONOMIC ANALYSIS, MORNINGSTAR.COM

Equity Markets: Small Caps Regain Leadership

Equity markets posted strong performance in August. U.S. small-cap stocks led the charge, with the Russell 2000 outperforming the S&P 500 by more than 5% for the month. The index now sits less than 2% from all-time highs not seen since late 2021. Investor enthusiasm was fueled by expectations of Fed easing and stronger-than-anticipated Q2 earnings, particularly in cyclical and growth-sensitive sectors.

Large-cap equities were still positive, with the S&P 500 gaining more than two percent. International equities had another very strong month, with the MSCI EAFE Index rallying 4.3%. Emerging market equities benefited from both attractive valuations, a weakening U.S. dollar and global investors' renewed appetite for yield.

Fixed Income

Lower rates in anticipation of the next Fed cut created a strong tailwind for fixed income securities as well. Weakening labor market data and expectations of a September Fed rate cut helped anchor a parallel shift down of the yield curve. The Bloomberg U.S. Aggregate Bond Index gained 1.2%, while Emerging market debt remained a bright spot with a 1.6% return, supported by attractive spreads and improving fundamentals across several regions.

Looking Ahead

The interplay of Fed policy, fiscal uncertainty, and tariff rulings will dominate the September narrative. While risks remain elevated, especially if debt issuance accelerates or shutdown negotiations stall, our outlook is balanced. With equity momentum still positive, corporate fundamentals solid, and global central banks tilting toward easing, we maintain our constructive but disciplined stance.

INDEX DESCRIPTIONS

S&P 500 Index: The S&P 500 Index tracks the stock performance of 500 of the largest publicly traded companies in the United States. It represents approximately 80% of total U.S. market capitalization and is widely regarded as the best single gauge of large-cap U.S. equities.

Russell 2000 Index: The Russell 2000 Index measures the performance of approximately 2,000 small-cap U.S. companies. It is a subset of the Russell 3000 Index and serves as a benchmark for small-cap investing.

MSCI EAFE Index: The MSCI EAFE (Europe, Australasia, and Far East) Index captures large- and mid-cap performance across 21 developed markets, excluding the U.S. and Canada. It is commonly used to benchmark international developed equity performance.

Bloomberg U.S. Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollardenominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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