ISSUE #1

Monthly Newsletter

CAPLAN CAPITAL MANAGEMENT

September 2025

The Continuous Game of Tug of War: Record Equity Markets vs. Weak Economic Data

In September 2025, the U.S stock market hit another series of all-time highs. Also during the month, we saw increasingly concerning economic data regarding the labor market and inflation. Non-farm payrolls growth slowed to 22,000 in August, while previously released jobs data was revised meaningfully lower. Putting this into context, the average monthly gain in non-farm payrolls was 186,000 in 2024 and 225,000 in 2023. PCE inflation, the Fed's preferred inflation gauge, remained above its 2% target in August, with Core PCE coming in at 2.9% Year over Year.

With equity markets reaching all-time highs and economic data flashing potentially recessionary warning signals, how can investors make sense of the dichotomy? Let's take a brief dive into what is creating the diverging trends in equity markets and the economy.

Equity markets have been riding high on the premise that AI (Artificial Intelligence) will continue to improve efficiency and productivity, filtering throughout the economy. Additional tailwinds have emerged with growing expectations that the Federal Reserve will cut interest rates at a faster pace than previously expected.

As markets have continued upward, many market participants have grown more skeptical. One notable concern to the renewed exuberance is the historically elevated valuation of the overall market. The forward Price/Earnings ratio of the S&P 500 is over 23x (partially driven by the technology concentration in the market composition), which is significantly higher than its historical average. A highly valued stock market can precede a lengthy period of below average equity returns. Another key concern is tied to the health of the economy, with recent signals pointing to economic softness. At the same time, inflation remains stubbornly elevated. Those who had lived through the 1970's can attest to the investment challenges as a result of "stagflation". (Stagflation means stagnant growth accompanied by persistently high inflation.) Other concerns include possible unanticipated consequences from uncertain tariff policy and the rising federal debt and deficit levels that can hinder future economic growth.

Building Robust Portfolios with Confidence

Thoughtful portfolio design is a key feature of a robust financial plan in helping one achieve his or her financial goals. However, markets and economies evolve, investor objectives change, and portfolios always face unforeseen risks. Therefore, while portfolio design is a great starting point for planning one's financial future, a portfolio will likely need to evolve over time.

Proactive vs Reactive Investing. After the Covid-19 market shock in 2020, there was an individual nearing retirement that nervously liquidated the bulk of his risk portfolio. Subsequently, he missed one of the sharpest reversals in equity market history. A dramatic reaction to "market volatility" – whether stemming from the economy or market sentiment – is often a recipe for consequential errors, creating misalignments between the portfolio and one's financial goals. So rather than investing in a "reactive" manner, one should instead build (and maintain) a "proactive" portfolio.

Proactive Portfolio Management

There are multiple tools and techniques to building a robust portfolio that evolves with one's goals over time. Here are some key considerations:

Diversification. Proper diversification is one of the critical tools to ensuring more predictable investment performance without incurring additional risks. A diversified portfolio should include an intentional mix of asset classes, sub-asset classes (i.e. individual equity sectors), and macroeconomic exposures.

Sensitivity Analysis. One of the important exercises in the financial planning process is to test key assumptions (return expectations, inflation rates, time horizon, etc.) to provide confidence that the success of one's financial plan does not rely too heavily on uncontrollable factors.

Scenario Analysis. Whether we enter a new economic boom, a stagflation environment, or a deep recession, investors should always know how one's portfolio could perform under multiple scenarios. This exercise should shed light on the appropriateness of a portfolio during one's financial journey, as long time frames will certainly encounter a variety of economic environments.

What We Are Watching in October

As we enter October, we are closely following the evolving economic data and disparate forces that drive equity, bond, commodity and currency markets. This is especially important considering U.S. stocks and the price of gold are at or near all-time highs. Additionally, earnings season commences in mid-October, led by key companies such as JP Morgan, Johnson and Johnson, Goldman Sachs, and Citigroup. We are not only monitoring individual results and forecasts but also looking for key signals emerging from the banking sector that may have broader market implications.

-Joseph Caplan

Thank you for reading!

CAPLAN CAPITAL SERVICES

INVESTMENT MANAGEMENT

Personalized Portfolio Management
Goals Based Investment Process
Asset Allocation
Tax Efficient Investing

FINANCIAL PLANNING

Retirement Planning
Tax Planning
Estate Planning (Coming Soon)
Education Planning
Insurance Review

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- Those who are still required to take an IRA distribution this year will be contacted by us by the end of October.

- We will begin integrating "estate planning" into our financial planning process in the next 3-6 months. We will use a software called "Vanilla" that allows us to create a blueprint of one's estate while enabling us to create any number of different scenarios.