



“Fear Of Missing Out” Market Commentary – September 2025

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The second estimate of Gross Domestic Product (GDP) shows that the output of goods and services produced by labor and property located in the U.S. grew at an annual rate of 3.3% in the second quarter of 2025. This is greater than the advance estimate of 3.0% and much greater than -0.5% in 2025 Q1. GDP in the first two quarters of 2025 is filled with noise due to one-time side effects of the global tariff negotiations. The second half of 2025 should provide better insight into the true strength of the economy. Meanwhile, the Consumer Price Index (CPI), which measures inflation in consumer prices, was 2.7% in July. The Producer Price Index (PPI), which measures inflation in wholesale prices, jumped 3.3% in July versus 2.4% in June. The mild July spike in PPI has yet to trickle down to consumer goods. Unemployment measured 4.2% in July, continuing a tight range of 4.0% to 4.2% since May 2024. Overall, inflation and unemployment remain benign and stable. Where is the feared tariff-induced inflation spike?

The Federal Open Market Committee (FOMC) is expected to resume its rate cut cycle in its monetary policy announcement scheduled for September 17. CME FedWatch calculates an 86.4% probability of a 0.25% cut in its federal funds rate from its current range of 4.25% to 4.5%. Recall that the federal funds rate was in a range of 5.25% to 5.5% one year ago. The FOMC then slashed the rate by 1.0% from September to December 2024. It has kept it level since then. Futures markets project the federal funds rate to be in a range of 3.0% to 3.25% by September 2026, implying 1.25% in total cuts for this next cycle. Meanwhile, the Fed’s balance sheet had \$6.603 trillion in assets on August 27, down \$55 billion from July 23 (more than the Fed’s monthly reduction target of \$40 billion).

Technical factors of the market are bullish (more demand than supply), while fundamentals are fairly priced – therefore, we are mildly bullish on the market. The Standard & Poor’s forecast for S&P 500 operating earnings per share (EPS) through June 30, 2026 is \$280.55, which implies a price-to-earnings (P/E) ratio of 23.0 with the S&P 500 at 6,460. The earnings yield (E/P) of 4.34% represents fair value relative to the 10-year U.S. Treasury note yield of 4.23%. The yield spread is only 0.11%. The eight largest companies in the S&P 500 make up \$20.8 trillion of the \$57.4 trillion index market capitalization with a weighted P/E of 36.3. If 36.3% of the index has a P/E of 36.3, then 63.7% of the index has a P/E of 15.5 for the overall P/E to be 23.0. A P/E of 15.5 is an E/P of 6.47%, which is attractively priced compared to the 10-year Treasury note yield of 4.23% (a yield spread of 2.24%).

Just when it looks like the S&P 500 is going to correct, it motors on to a higher high (the signature of an uptrend). The index closed at an all-time high of 6,502 on August 28. Bears will note that the rise in August was on light volume. However, as market technician Don Worden used to say, “the most bullish thing the market can do is go up”. Eventually there will be a correction. There should be excellent support around 6,300 (50-day moving average), 6,100 (February 2025 high), and 5,950 (200-day moving average).

When the stock market collapsed in early April on fears of tariffs, it would have been difficult to believe that nearly five months later the S&P 500 would be pushing to new all-time highs. The S&P 500 started this year at 5,882 and hit a closing low of 4,983 on April 8 as investors panicked. There were varied reasons to *justify* the panic: a strong dislike for President Trump and his policies, worry that a bigger crash was imminent, sky-high mega-cap tech stock valuations, etc. Investors who sold heavily to raise cash in the April swoon are now kicking themselves. They have painfully watched stocks climb higher and higher, not giving them any meaningful dips to buy. Such cash-heavy investors may succumb to “fear of missing out”, also known by the acronym “FOMO”. By definition, FOMO includes the word “fear”, which is emotion. Emotion is the Achilles’ heel of sound investment decisions. A better approach is to have a plan for various market outcomes: up, down, or sideways. A balanced approach between stocks and cash helps accomplish this (stocks for up, cash for down, and dividends and covered call premiums for sideways). Balanced investors are less likely to be influenced by emotion, including FOMO.