Market Commentary: August 2025

from the HUB Investment Research Team

We just tryna catch a good time /
Even if it takes all night

Good Time
Niko Moon
Good Times Video

With Labor Day falling on September 1st this year, it seems like Summer 2025 was shorter than it should be. Yes, it was the same number of days as always, but it just seems shorter. Maybe it snuck up on some who do not look at calendars too closely, causing them to try to have a blowout Labor Day weekend filled with "Good Time" things such as lazy days at the beach or cool drinks on the boat with friends. Most people who max out on summer want the good times to stretch far into September, making the transition back to "real life" further out. Like so many things in life, the good times come to an end and, eventually, reality sets in and the good times fade into good memories. It is the good times that make it easier to overlook the irritants and challenges of summer such as no working A/C in your car, standstill beach traffic, or multiple three-putt greens. A little sand in the shoes is not an annoyance, but rather a reminder of the positive vibes of the last few months.

With rising fears of what at times looked to be major storms approaching that could have led to washouts across the markets, August investment results turned out to be a late summer surprise to the upside. U.S. stocks rose across all segments and categories and at the same time, the bond market delivered positive returns. Sure, there were some rainy days and concerns the good run for stocks since late April would come to an end.

Fortunately, investors focused more on the positives coming from strong corporate earnings and good economic data. What caught many off guard were the big moves in small cap indices that rallied 7% or more. Small cap stocks benefited from economic data that was positive enough to lift growth expectations, but not too good to keep the Fed from cutting interest rates at least once before year end. Non-U.S. markets were also up for the month, outperforming the U.S. by 2.3%. Emerging market equity results were mixed with the benchmark lagging the U.S., though China remained on a tear, up 5% in the month and 29% YTD. Bond market performance was also favorable as short-term interest rates fell on expectations of Fed activity. Longer-term interest rates did not move lower leading to a steeper yield curve, reflecting concerns that inflation will rise and the economy may slow as trade policy impacts work their way through the system.

Looking back on August and the summer months, it is understandable that investors have come off the beach in a positive mood. They have endured a summer of relentless attention focused on what tariffs and trade wars will do to the U.S. economy and stock markets while also monitoring the testy exchanges between the Administration and the Fed about future rate cuts. It appears for now that businesses are controlling any higher tariff related costs and the consumer continues to spend ahead of what could be higher costs. After such a strong three month run, do not begrudge investors who are holding on to the good memories of the summer of 2025 and not worrying about what fall may bring. Like that last sunset at the beach, they are just "tryna to catch a good time" and hope it does not end too soon.

Here are observations on what occurred across the public markets in August:

Broad Market Performance[1]

Index	August	Q2	YTD	1 Year
S&P 500	2.0	9.6	10.8	15.9
MSCI EAFE	4.3	5.1	22.8	13.9
Bloomberg U.S. Aggregate Bond	1.2	2.5	5.0	3.1

Data as of August 31, 2025

Domestic Equity[2]

- Despite a modest softening in the mega caps during August, U.S. stocks rose during the month as market breadth expanded.
- Small cap stocks had a great month, handily outperforming large cap stocks as investors rotated towards the category reflecting the improving outlook for the U.S. economy.

International and Global Equities[3]

- Non-U.S. developed market stocks bounced back after a disappointing July, though concerns about geopolitical risks and weakening economic growth persist.
- Emerging market stocks lagged non-U.S. developed stocks. Standing out were Chinese stocks which continue to deliver strong returns.

Fixed Income Markets[4]

- The U.S. bond market generated positive returns broadly and across most sub-sectors as positive economic data and renewed expectations for Fed activity pushed short-term rates lower. The U.S. yield curve steepened modestly.

Specialty Markets[5]

- REITs outperformed broad market equities on positive economic news and lower interest rates. Commodities were mixed but positive across most segments.

Sectors[6]

- The Materials and Healthcare sectors led for the month while prior month leaders, the IT and Utilities sectors, were the worst performing S&P 500 sectors, illustrating the market rotation that occurred in August.

If you have questions or want to discuss the current state of the investment markets and their impact on your plan or portfolio, please do not hesitate to reach out to your advisor—they are here to help. In the meantime, enjoy one last "Good Time" before summer fades away.

[1-6] All data referenced in the table and comments supplied by Morningstar as of 8-31-2025.