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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **September 24, 2025**

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Last week's S&P 500 Index: +1.2%

Movin' on up

Key takeaways

- The consensus economic growth estimates for the U.S. in the quarters and year ahead have been moving higher in recent weeks.
- With an increase in our domestic economic growth projections, it makes sense that earnings estimates for the S&P 500 would also go higher.

The consensus economic growth estimates posted by Bloomberg for the U.S. in the quarters and year ahead have been moving higher in recent weeks. In addition, growth estimates in many parts of the developed world have also crawled a little bit higher. Here at home, tariff impacts have so far been less than what many had predicted and the labor market is holding in better than expected. As we pointed out a couple of weeks ago in this piece, companies are not doing much hiring but they are also not doing much firing. And consumer spending has held in better than many pundits predicted as last week's August Retail Sales report showed. So all else being equal, and given the growth expectations improvement, it makes sense that earnings estimates for the S&P 500 Index (SPX) have also been on the rise.

Our projections for economic growth and corporate earnings this year and next are also moving up. We recently boosted our expected growth rate for this year to 2% versus the previous 1.3% estimate. And for 2026, our growth expectation has moved up to 2.4% from the previous 1.5%. With an increase in our domestic economic growth projections, it makes sense that earnings estimates for the SPX would also go higher. Our earnings estimate for this year now stands at $270 and for next year comes in at $300 versus $265 and $290 previously.

As this year ends and we move into and through 2026, we expect to see earnings and stock performance broaden to some extent beyond the seven stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) whose growth rates and stock performance have largely carried the SPX to a series of record highs over the past two years. From a sector perspective, while our favored Industrials sector has outperformed on a year-to-date basis, our most favored Financials sector should benefit from a steeper yield curve, regulatory reforms, and more mergers and acquisitions (M&A) while the favored Utilities sector should see benefits from the capital-expenditure boom directed at artificial intelligence (AI) as demand for electricity surges.

Looking at industry group level performance within the index since the April 8 low in the SPX reveals that 24 of 74 groups have outperformed through Monday's close. But more recently, over the last month, only 18 industry groups have beat the return of the SPX through the September 22 close. The overall read here is that, for now, the mega-cap stocks continue to push the index to record highs and near our year-end SPX target midpoint of 6,700. Over the last month, the Communications Services and Information Technology sectors have been the only outperformers, posting returns of 9.3% and 7.2%, respectively, versus a 3.5% gain for the SPX over the same time frame.

We favor trimming risk from areas of the market that have featured robust moves year-to-date. We are reducing exposure to the Communications Services (neutral rated) and Health Care (unfavorable rated) sectors as well as U.S. Small Cap Equities (unfavorable). We are reallocating those funds toward sectors we believe will benefit from broadening larger-cap earnings trends in coming quarters, including Industrials, Financials, and Utilities.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments that are concentrated in a specific **sector** or industry may be subject to a higher degree of market risk than investments that are more diversified. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

An index is unmanaged and not available for direct investment.

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