

What the Fed's Next Move Could Mean for Your Portfolio

At the annual Jackson Hole symposium in Wyoming, held Aug. 21-23, Federal Reserve Chair Jerome Powell delivered a keynote address that investors closely watched for signals on the Fed's long-term direction.

His comments reflected both a policy shift and an acknowledgment of today's challenging economic backdrop. Since the Fed's policy framework can sound technical, Quick Takes is here to provide a straightforward summary of what matters most.

Powell explained that the Fed can no longer justify its 2020 framework, which prioritized growth by tolerating periods of above-target inflation. Instead, he emphasized a need for greater flexibility given that inflation, while easing, remains above the 2% target and that tariffs continue

to add pressure and uncertainty. At the same time, he acknowledged the labor market is losing momentum—hiring and job openings have cooled, and the risk of higher unemployment is rising even if overall conditions remain stable.

The underlying message was that the Fed now faces a conflicting scenario: inflation is not fully resolved, yet downside risks to growth are building.

To that point, Powell described current policy as only moderately restrictive. Said differently, rates are high enough to cool the economy—slowing spending and investment—but a small change would be enough to place policy squarely in neutral territory. As a result, Powell's remarks were widely interpreted as confirmation that a rate cut will take place in September. Equities rallied in response. That Friday, the S&P 500 gained 1.5%, the Nasdaq rose 1.9% and U.S. small caps advanced more than 3%.

The following week, some of those gains were given back. U.S. equities declined 0.1% as large-cap value fell 0.1% and large-cap growth was flat, while small-cap value gained 0.3% and small-cap growth added 0.1%. International markets underperformed more sharply, with international value down 1.7% and international growth down 1.2%, reflecting soft eurozone data and renewed concerns around China's economy. Emerging markets also fell 0.8% while fixed income provided stability, with municipals up 0.3% and taxable bonds up 0.2%. Even with the late-August volatility, year-to-date performance across most major asset classes is positive, led by international equities.

Performance Monitor*		As of August 31, 2025	
Asset Class	1 Week (%)	Year-to-Date (%)	
U.S. Equities	(0.08)	10.79	
U.S. Large Cap Value	(0.11)	10.01	
U.S. Large Cap Growth	0.04	11.33	
U.S. Small Cap Value	0.32	6.90	
U.S. Small Cap Growth	0.13	7.20	
Global Equities	(0.39)	14.30	
International Equities	(1.44)	22.79	
Intl. Value	(1.71)	30.21	
Intl. Growth	(1.16)	15.63	
Emerging Markets	(0.76)	19.02	
Municipal Bonds	0.25	0.32	
Taxable Bonds	0.16	4.99	

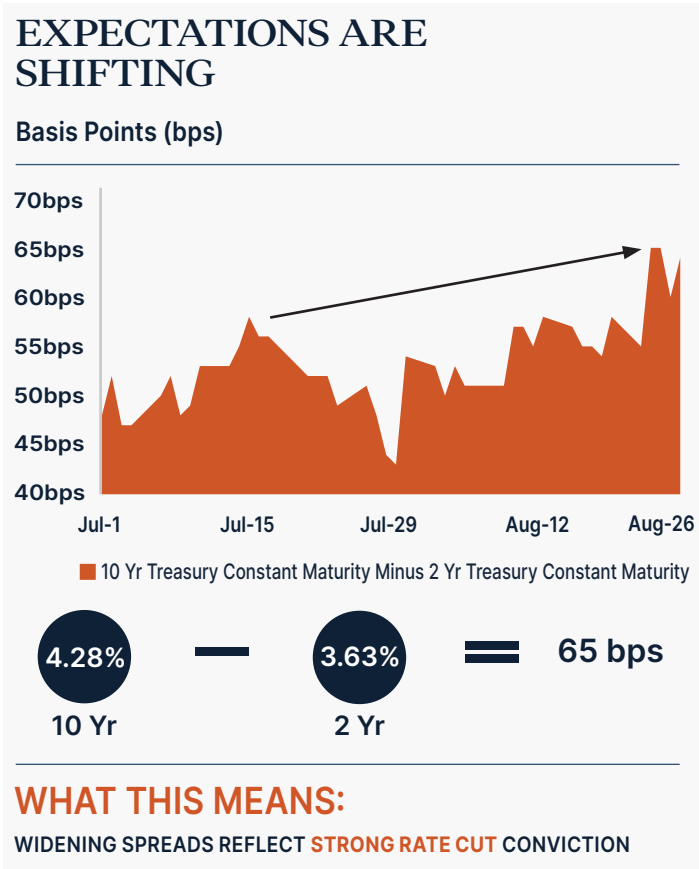
The bond market also reflected the shift in expectations. For months, short-term and long-term interest rates had been unusually close—a sign that investors were uncertain about future growth. As shown in **Figure 1**, the gap between the 2-year and 10-year Treasury yields widened to 0.65% following Powell's Jackson Hole remarks, the steepest level since mid-July, with the 10-year finishing at 4.28%. The spread briefly narrowed in subsequent days but held elevated into month-end. In simple terms, investors are now demanding a higher return to lend money for longer periods, signaling growing conviction that rate cuts are on the horizon.

Futures markets—which reflect traders' expectations on the path of interest rates—echoed this view. At one point, they even placed the odds of a September cut as high as 89% before settling closer to 83%. Demand for bonds remained strong as well. New 30-year corporate bonds drew record levels of investor interest and cities and states selling municipal bonds found no trouble placing their debt.

Even as the S&P 500 sets new highs and the yield curve steepens, several underlying trends bear watching. Producer prices are currently rising faster than consumer prices, a dynamic that adds pressure to corporate margins. High market concentration and headwinds for the dollar further provide cause for caution.

While these pressures point to lingering challenges, the prospect of lower rates signals that policy will provide near-term support against downside risks. For investors, maintaining diversification across equities, bonds and alternatives remains the most effective way to stay positioned for growth while managing the inevitable bumps along the way.

FIGURE 1



Data as of 8/31/25. Source: Aspiriant analysis. Data from the Federal Reserve Economic Database. One basis point (bp) = 0.01%. For example, 58 bps = 0.58%.

For more on how policy shifts, the weakening U.S. dollar and changing global competitiveness are shaping the investment landscape, we encourage you to read our latest **Insight Brief**.

Disclosures: Source: Aspiriant analysis. Data from Morningstar, Bloomberg and the Federal Reserve Economic Database (FRED).

*U.S. Equities represented by the S&P 500 Index; a market-capitalization-weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity and industry. U.S. Large Cap Growth and Value Equities represented by the Russell 1000 Growth and Value Indexes; free float-adjusted market capitalization indexes that are designed to track large cap U.S. companies with either Value (lower price-to-book ratios and lower forecasted growth ratios) or Growth (higher price-to-book ratios and higher forecasted growth ratios) characteristics. U.S. Small Cap represented by the Russell 2000 Index, which measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. U.S. Small Cap Growth and Value represented by the Russell 2000 Growth and Value Indices, which measures the performance of the small-cap growth and value segments of the U.S. equity universe. Global Equities represented by the MSCI ACWI Index; a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed and 26 emerging markets, including the United States. International Equities represented by the MSCI EAFE (Europe, Australasia, and Far East) Index; a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets excluding the U.S. and Canada. International Large Growth and Value represented by the MSCI EAFE Growth and Value Indexes (Europe, Australasia, and Far East); free float-adjusted market capitalization indexes that are designed to measure the equity market performance of large and mid-cap developed markets exhibiting overall growth and value style characteristics, excluding the U.S. and Canada. Emerging Market Equities represented by the MSCI Emerging Market Index; a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Municipal Bonds represented by the Bloomberg Municipal Bond Index; an unmanaged index considered representative of the tax-exempt bond market. It consists of a broad selection of investment grade general obligation and revenue bonds of maturities ranging from one year to 17 years. Taxable Bonds represented by the Bloomberg U.S. Aggregate Bond Index; a broad-based benchmark measuring investment grade, U.S. dollar-denominated, fixed-rate taxable bonds. No single index represents a benchmark for a globally diversified portfolio.

*The volatility of an index may be materially different than that of a model. Index returns assume the reinvestment of dividends and capital gains.

