

# Monthly Download

## September 2025

---

### Summary

- ◆ **Markets rallied** in September as the Fed delivered its first rate cut since December 2024. The combination of weaker job market data leading to higher probabilities of Fed cuts with continued strength in AI-related earnings and outlook created a powerful offset to a calendar period that can historically be weak for risk assets. Oracle's earnings release and outlook added a new name to the AI story, driving growth stocks significantly over other areas of the market. Fixed income returns benefited across the board from a modest decline in interest rates and municipal bonds recovered some of their relative underperformance in 2025.

---

### By Summit Trail Investment Team

David Romhilt, CFA  
Seth Katz  
Ben Johnson, CFA  
Michelle Zeng, CFA  
Chris Hopkins, CAIA  
Charu Lahiri, CFA  
Isabelle Kane  
Kevin Dawson, CFA  
Louis Filippelli  
Ryan Gell, CFA  
Tobit Powell  
Darryl Frank  
Blake Peters

### Market Overview

- ◆ **Equity markets** reached new highs in September with Large Cap AI companies leading again as Oracle's earnings outlook and Nvidia's OpenAI investment further boosted sentiment. Emerging Markets significantly outperformed Developed Markets as AI spending by Chinese companies such as Alibaba had similar effects on Asian technology and semiconductor stocks. In addition, the rate cut by the Fed was viewed as a positive for Emerging Market stocks.
  - US Large Cap stocks (S&P 500) rose 3.7%, led by Technology and Communications sectors. "Big tech" rallied further after Oracle's blowout forward revenue projections showed AI spending does not appear to be slowing. Market breadth declined with the equal-weight index underperforming the traditional cap-weighted index, up only 1.0% for the month. Year to date, the S&P 500 is up 14.8%.
  - US Small Cap stocks (Russell 2000) gained 3.1% in September, lagging US Large Cap counterparts. Technology, biotech, industrial and mining stocks led performance while regional banks declined on monetary easing expectations that can impact net interest margin. Year to date gains stand at 10.4%.
  - Non-US stocks (MSCI EAFE Net) rose 2.0% in September as Healthcare and Consumer Staples dragged down performance from Industrials and Financials. Year to date gains are 25.7%, maintaining their strong relative performance versus US equities.
  - Emerging Markets (MSCI Emerging Markets Net) added 7.2%, led by strength in technology names, specifically from companies in China, Taiwan and South Korea given rising enthusiasm in Asia towards AI spending joining the US party. Year to date returns are up 28.2%.
- ◆ **Interest rates** initially declined over 20bps after dramatic revisions to U.S. payroll data in the beginning of the month erased much of 2025's job growth. Better economic data followed, and rates rose modestly after the Fed announced their 25bp cut towards the end of the month. The 10-year US Treasury yield ended at 4.16%, down from 4.23% at the beginning of September.
  - High Grade Taxable bonds (Bloomberg US Aggregate) were up 1.1% in September, supported by lower Treasury yields and tightening spreads. Year to date gains are 6.1%.
  - Municipal bonds (Bloomberg 1-10 Year Muni Bond) added 0.8% in September, helped by lower yields, especially on the longer end of the curve. Year to date, municipals are up 4.2%. Municipal bond yields declined more than Treasuries of equivalent maturities as new issuance moderated in the month.

---

*Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures*

- Investment Grade and High Yield bonds both rallied boosted by lower yields and tighter spreads. Investment Grade bonds (Bloomberg US Corporate Investment Grade) are up 1.5% for the month, bringing gains for 2025 to 6.9%, as higher demand for Investment Grade bonds compressed spreads to all time tights. High Yield bonds (Bloomberg US Corporate High Yield) rose 0.8% during a risk on month, bringing gains for 2025 to 7.2%,
- ◆ **Commodities** (Bloomberg Commodity Index) rose 2.2% in September; driven primarily by the strong rally in precious metals, which more than offset the decline in energy. Gold was up 10.5% as precious metals benefited broadly from safe haven demand, the pending US federal government shutdown, and increasing expectations for Fed rate cuts. Oil fell 1.7% on rising output from both OPEC and non-OPEC countries. Commodities are now up 9.4% in 2025.

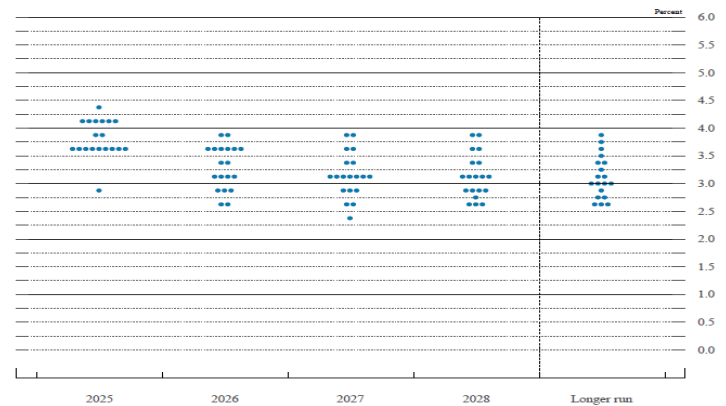
## Economic Commentary

**The Federal Open Market Committee ("FOMC")** cut the benchmark interest rate by 25bps on September 17<sup>th</sup> which was anticipated by the market given weakening labor market data in 2025. Just a week before the FOMC meeting, the Bureau of Labor Statistics released a revision showing 911,000 less jobs created compared to previously published data based on surveys covering the one-year period ending March 2025, one of the largest such revisions going back to 2002. August CPI data showed persistent higher than target inflation with headline inflation rising 2.9% year/year, while core CPI (all items excluding food and energy) rose 3.1% year/year. The FOMC was pulled in different directions by weakening labor markets and higher than target inflation but at the end, a risk management cut as Chairman Powell described prevailed reflecting the Committee prioritizing labor market concerns. Because of the backdrop of two opposing forces within the Fed's dual mandate, the most recent projection by the 19 committee members showed a greater divergence of future rate paths.

Almost half of the FOMC members think no additional cuts are necessary for the remainder of 2025 while market data shows a 68% probability of two more 25bps cuts this year. Later in September, a slew of relatively positive economic data was released causing some recalibration of future rate cut expectations. The weekly jobless claims as of the week of September 20<sup>th</sup>

decreased to 218,000, compared to average of 237,500 over the previous 4-

week period. Q2 GDP was revised higher to 3.8% from stronger consumer spending and durable goods orders, and a key indicator of business spending plans unexpectedly rose in August. The market remains optimistic about additional rate cuts despite the mixed data, a likely symptom of current political pressure on the Fed given the Trump administration's clear preference for the Fed to lower interest rates.

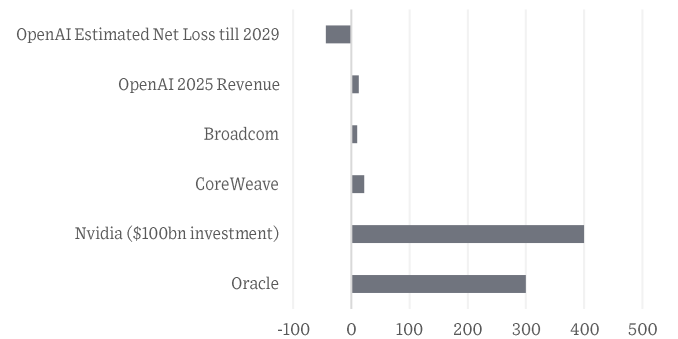


FOMC "Dot-Plot" Projections on Fed Funds Rates

Source: Federal Reserve

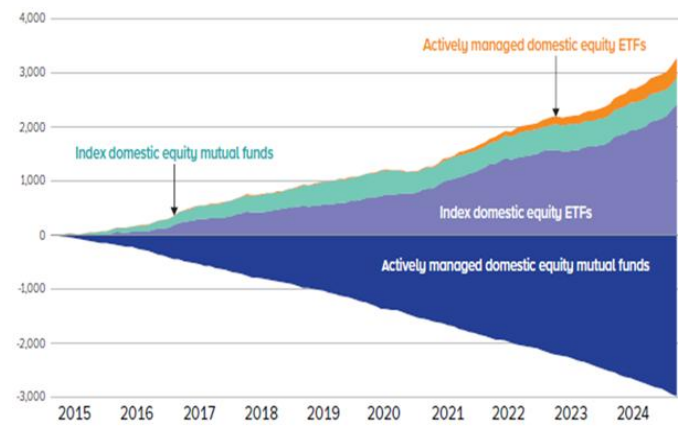
**AI infrastructure spending** boosted investor enthusiasm again in September with multiple large deals announced by major players in the AI ecosystem. The first major announcement was during Oracle's first quarter fiscal year 2026 earnings release. Oracle's shares rose 45% after the earnings release when the company disclosed a \$455b backlog of contracts that are signed but not yet fulfilled, a year/year increase of 359%. Oracle did not disclose the backlog by customer, but analysts estimate about \$300b of the contracts are commitments from OpenAI alone. To fulfill the backlog orders, Oracle must issue more debt to finance the construction of data centers and in turn purchase more

Nvidia chips at a time when Oracle has a much higher debt to EBITDA ratio of 3x than other peers in the AI arms race (MSFT is 0.7x). Subsequent to the Oracle earnings release, Nvidia announced a strategic partnership with OpenAI. The partnership will commit Nvidia to invest \$100bn in OpenAI and in return OpenAI will procure at least 10 gigawatts of AI data centers using Nvidia chips. It is estimated by Bank of America that the \$100bn of equity investment will generate \$300 to \$500b of revenue for Nvidia, which is about double its current fiscal year revenue estimates. OpenAI also made a commitment of \$22.4b of AI infrastructure spending to CoreWeave and \$10b in custom designed chips with Broadcom. When added together, these are massive spending commitments tied entirely to OpenAI, a non-profitable private company. OpenAI's internal projection shows their revenue for 2025 could reach \$13bn and the company will not be profitable until 2029 or later. Cumulative losses over the next 5 years could accumulate to \$44b<sup>1</sup>. To fulfill these spending commitments, OpenAI will need to raise large amounts of capital either through equity or debt. The circular nature of the dealmaking or vendor-provided financing draw similarities to the dot-com bubble when telecom equipment companies were providing financing to their customers as they built out cabling that was well ahead of what was needed. For now, the market is still focused on the magnitude of capital expenditures and less on sustainability or profitability. Large Cap Technology companies already deliver above-average free cash flow multiples relative to the overall S&P 500 index, but these multiples have been declining given the increase in capital spending on AI and lack of current return since early 2023. OpenAI's capital needs to fund losses may change, but unless projections adjust considerably the company will have to better monetize its models or get access to capital markets to fund its capital needs and keep the ecosystem humming. Historically, large private companies go public when they are already profitable or at least can demonstrate a path to profitability. OpenAI's capital needs and financial projections may force investors to challenge that historical precedent.



**OpenAI Infrastructure Spending Commitments made in 2025 (\$b)**  
Source: CNBC, WSJ

**Exchange-Traded Fund (ETF) flows and launches** are reaching new records in 2025 given market highs, investor behavior and regulatory support. The Securities Exchange Commission ("SEC") announced two new rulings for public review that will pave the way for easier creation of ETFs. The first one was a new rule approved by the SEC to apply generic listing standards for new cryptocurrency and other spot commodity exchange-traded products. Under the generic listing standards, the approval process will be shortened significantly if the crypto or commodity asset is the underlying of a futures contract traded on a CFTC-regulated contract market for at least six months. This compares to the existing crypto-based ETFs in the market that had to go through a lengthy case-by-case approval process. This is the latest step by the current



**Net Flows into ETFs and Mutual Funds since 2015**  
Source: ICI Whitepaper – September 2025.

<sup>1</sup><https://dataconomy.com/2025/09/16/openai-projects-44b-losses-before-2029-profitability/>

administration to bring crypto assets into the mainstream. To date in 2025, crypto-related ETFs saw over \$30b of inflows, the second largest inflow, behind Treasury Bill ETFs. Later in the month, the SEC issued a second notice that they intend to allow Dimensional Fund Advisors' ("DFA") actively managed mutual funds to offer an exchange-traded fund share class. In 2001, Vanguard was first approved to offer such dual-share class funds for their index strategies and Vanguard received a patent for the structure, prohibiting other fund managers from using the structure until 2023. This hybrid structure has significant tax advantages due to the ETF creation and redemption process to allow disposal of highly appreciated stocks without realizing gains. Vanguard index mutual funds show far lower, if zero, capital gain distributions relative to mutual fund competitors like DFA. Established mutual fund managers could also launch an ETF with a long-term track record right away in addition to having a mechanism to mitigate or reduce capital gain distributions. During the patent period, Vanguard attempted to replicate the structure for their actively managed mutual funds but was declined by the SEC. Since the patent expired in May 2023, about 75 asset managers filed applications with the SEC to use the hybrid structure, according to Morningstar. DFA was able to address the concerns raised by the SEC regarding daily portfolio transparency and fair cost allocations between the ETF and Mutual Fund share classes. After a decade of losing assets to passively managed ETFs, actively managed mutual funds will have a more level playing field versus the ETF structure. Despite significant growth in actively managed ETFs in recent years, most of the "active strategies" are levered or buffered (call or put writing) versions of index strategies or factor or style based strategies, not true "active management" seen in many mutual funds. A true fundamental stock-picking strategy deployed in an ETF format is still very scarce. The challenges to active managers of an ETF include disclosing portfolio holdings daily, having adequate ETF trading liquidity, and managing capacity (you cannot really close an open-end ETF) remain and likely limit active manager ETF adoption. But dual-share class listings may make traditional daily-NAV mutual funds more competitive with ETFs from a tax standpoint over time.

---

### Important information

*Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Summit Trail Advisors, LLC), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situations, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Summit Trail Advisors, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Summit Trail Advisors, LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the Summit Trail Advisors, LLC's current written disclosure statement discussing our advisory services and fees is available upon request. If you are a Summit Trail Advisors, LLC client, please remember to contact Summit Trail Advisors, LLC, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.*

---

*Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures*