



“What Do You Mean”

When you nod your head yes, but you wanna say no

Market Commentary 9-11-2025

Justin Bieber’s seminal tune popped onto my Spotify playlist yesterday (yes, I am a proud paying user, as well as a happy SPOT shareholder in my Kaizen Data Driven Blue Chip Growth Strategy) – as I was thinking about the direction of interest rates, and general feelings of angst in the economy, I couldn’t help but draw parallels to the song. [This is not investment advice, by the way.]

“Said you’re running out of time, what do you mean...”

It’s no secret that Jay Powell’s tenure is coming to a close. One might have hoped that all might be copacetic in Fed Land at this point in the cycle, but unfortunately, all is not well. With inflation stuck stubbornly above target, the Fed has spent the last few meetings explaining why they can “afford” to move at a gradual pace. But tell that to the jobs market, which continues to deteriorate, and the bond market, which often speaks softly but carries a large stick. The bond market futures are pricing in several interest rate cuts this year, more than were on the bingo cards of many market participants.

It might be inferred that we are “running out of time” not only in Jay’s tenure as Fed Chairman, but also running out of time before the economy’s slow erosion due to high interest rates, turns into a more disorderly collapse. Yesterday’s jobs revision number was ugly, with an estimated 911,000 ([MSN Jobs revision article](#)) overstatement of jobs creation in the prior year, fully wiping out half of all job creation. We also got an extremely soft PPI number (producer price index, which is thought to be a leading signal for CPI, the consumer price index.) Taken together, these signals, along with the collapse of the two year yield below the FFR (Fed Funds Rate), shows that the market is expecting interest rate cuts, whether they come as a result of “orderly” insurance cuts, in which the Fed preemptively cuts rates one or more times to preserve the status quo, or a more disorderly set of larger interest rate cuts as the jobs situation unwinds more rapidly.



We are also getting market action as of late that is suggestive of late-cycle positioning, with crowding into “safe haven” A.I. names, which have an external catalyst beyond pure economic growth. We are also observing some crowding into Dividend plays within our Dividend Growth strategy, and some interesting, early cycle dynamics playing out within small and midcap stocks.

While I believe it is impossible to say, at this point, with any degree of certainty, what comes next, for sure; I think some scenario planning is in order. After all, we cannot know for sure what comes next. But we can game out various scenarios and how the market and its various stocks might react under a multitude of outcomes.

Under one scenario, which I will call baseline, one could imagine that DJT (Trump) gets his way on interest rates. The Fed cuts three or four times over the next year, in an orderly fashion. The tariff situation, after much festering, starts to slowly play out as it did in 2018, during Trump’s first foray into tariffs. It was a one-time price shock, not an ongoing inflation war driven by a wage-price spiral. Judicious consumers who are strapped for cash anyway, carefully choose to cut back on some spending within large consumer durables such as cars, boats, furniture, housing upgrades, you name it. They continue spending at the grocery store, at the pump, and on healthcare. The economy grows somewhere between one and three percent. We get the low end of that number if A.I. is not very good for productivity, we get 3% if A.I. is a homerun for productivity ([Atlanta Fed GDP Now Indicator](#)). In this situation, I expect the market will grow earnings at average rates of 7-13% ([Goldman Sachs expectation of Earnings Growth 2026](#)) and the stock market will follow. While Goldman is less sanguine about earnings that it expects to grow 7% in 2026, Wall Street consensus is generally around 13%. Bonds would do well as rates are coming down.

Under a stagflationary, non base-case scenario, inflation remains sticky. Powell or his predecessor are forced to raise rates, causing a recession. But inflation never gets nearly as bad as the 9% level from 2022 because the supply shocks are much less severe. The recession is minor, and causes a 10% garden variety sell-off in the market.

Under the more ominous non base-case scenario, inflation remains sticky, growth slows down, but the Fed cuts interest rates because the next Fed Chairman is



controlled by Trump. Inflation over time grows to be out of control – and we get another bear market in stocks, accompanied by a bear market in bonds as inflation remains persistently high. Gold does well in this scenario.

In fact, I can't think of a scenario in which gold doesn't do well. That is why it was added to the Kaizen Asset Allocation this year, along with a handful of select, fast-growing Gold Mining companies. This combination of liquid assets has given an excellent hedge against the dollar debasement theme that I expect to continue, and provide a hedge against equity weakness, as well. [This is not investment advice, by the way.]

In the baseline scenario – US stocks continue to do well. As we move from late cycle to early cycle, small and mid-caps experience several consecutive years of outperformance in the market. Dividend stocks thrive in a lower rate environment. The housing sector which has been ailing due to high rates, comes vibrantly alive, as lower mortgage rates allow folks to move to their next house, and allows first time buyers the opportunity to make their first investment. With interest rates finally accommodative, capital spending among companies picks up, not just the hyper-scalers and mega caps, but throughout the economy. Smaller companies need to borrow to do the capex, and that's finally happening. The industrial sector comes out of recession.

“You Wanna Make a point, but you keep Preaching”

While going by the textbook might suggest that Jay Powell has done everything right on paper, fighting inflation and bringing it from 9% down to 3%, this is not the only side of the story, and Americans of all stripes seem upset with the Fed's intransigence. As is often the case in a Fed Fight, the President + the Bond Market + the Jobs Market, I expect to eventually win out against a stubborn Fed Chairman. As time is running out for both the economy and Jay's tenure at the head of the Fed, we are getting signs of cracks in the unified “inflation fighting narrative,” on the Fed Board, as we got a historical two dissenting votes recently (the first time in forty years.) It is clear to everyone that the economy could be a slow-moving train wreck, weary from interest rates, with small businesses reeling from a lack of clarity on policy and pricing.



The bottom line is: consumers and businesses need relief, the jobs data is telling the entire story. I believe Powell will take this into account and it will become the dominant narrative. While rate cuts are all but baked into the cake, the real “work” will come from sharpening our pencils to see whether we get a recession (i.e., was he really “too late”?) or do we survive intact. And who will the future winners be? I have laid out a number of plausible scenarios, though there are many more. My own internal probabilities for these scenarios leads me to skew positive, but I remain unencumbered with my a priori assumptions, and remain ready to adjust those internal probabilities at any moment’s notice.

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