

Wall Street Predictions

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It's easy for investors to get caught up in the present and form opinions based on consensus views. This approach requires little critical thinking, and when it's wrong, you can always blame the so-called "experts." Expressing a non-consensus view, however, leaves you exposed and often perceived as detached from reality. But over the years—often the hard way—I've learned that the consensus narrative is frequently wrong.¹

It's been over five months since President Trump's "Liberation Day," which sparked catastrophic predictions from well-known economists and market strategists about the impact of tariffs. Goldman Sachs predicted core goods inflation would reach 6.3% in 2025, while the International Monetary Fund (IMF) and Morningstar estimated a 40% – 50% chance of a recession in 2025.² In addition, Wall Street's consensus was too bearish in 2023, skeptical in 2024, and finally turned bullish in 2025—only to panic in April and miss another great opportunity.⁵

As I noted in our May commentary, *Bretton Woods 2.0*, "Rebalancing the global economy is no small feat, and it's going to be very interesting to see how this plays out. But the fact that Wall Street's consensus believes this approach is chaotic, dangerous, and likely to lead to inflation or a recession gives me solace that a successful solution is on the horizon, and the consensus will be wrong once again."⁷

So, where do we go from here?

Key market drivers

- **Carrot vs. Stick:** In our 2025 outlook, we emphasized that the key to tariffs is using them as leverage without escalating to a win-at-all-costs scenario. While the story is not yet complete, the dire predictions have yet to materialize, and the market seems more focused on pro-growth policies like deregulation, 100% expensing of capital expenditures, and AI innovation.⁴
- **Corporate earnings:** Second-quarter corporate earnings grew by approximately 11.7% year-over-year, surpassing consensus estimates of 4.8% growth. Additionally, 82% of S&P 500 companies exceeded analyst forecasts, which is above the 10-year average.⁴ Critics now argue that stocks are too expensive, with the S&P 500's price-to-earnings (P/E) ratio at 22.6. However, as Andrew Slimmon of Applied Equity Advisors recently pointed out, "When someone says the S&P 500 is expensive because it's trading at a P/E of 22, ask them whose prediction is in that denominator and what's their track record for accurately predicting earnings."⁷ Unfortunately, Wall Street's track record for earnings predictions has been dismal—they underestimated in 2023 and 2024, finally raised estimates for 2025, then panicked and lowered them in the spring. Now, they're playing catch-up once again.⁴



- **Interest rates:** The Fed lowered interest rates by 0.25% this week and signaled two more cuts before year-end.⁹ In my view, the Fed is behind the curve, but this is expected, as the Fed claims to be data-dependent, and data is backward-looking. To gauge where the Fed is headed, I believe the 2-year Treasury rate is a better indicator. For instance, despite 9% inflation in 2021, the Fed didn't raise rates until March of 2022, while the 2-year Treasury rate had already jumped considerably.⁸ That said, there is around \$7 trillion sitting in money market funds, which is closely tied to the Fed's target rate. As the Fed lowers rates, some of this cash will look to find a better home—which is a tailwind for stocks, in my view.¹⁰
- **Investor sentiment:** Even with the S&P 500 trading at all-time highs, investor sentiment has not reached extreme bullish levels.⁵ For example, the AAII Bullish Survey, which tracks individual investor sentiment, is only at 41. Over 50 would be considered excess optimism.¹¹ The CNN Fear and Greed Index stands at 63—well below the 80 threshold for extreme greed.¹² The NAAIM Exposure Index, which tracks active money managers' equity exposure, is at 86%.¹³ While somewhat elevated, this index was under 40% in April when managers panicked and reduced equity exposure. Since then, they've had to begrudgingly buy back in at higher prices or face underperformance pressure from their investors.¹³
- **Seasonality:** Historically, September is the worst month for markets, followed by October.¹⁴ Therefore, seasoned investors tend to be cautious heading into the fall, but as I mentioned earlier this year, the flush in bullish sentiment in the spring makes another significant pullback later this year less likely in our view.

In conclusion

The past few months have certainly underscored the pitfalls of following Wall Street predictions.⁸ Sadly, this is nothing new, as it's human nature to operate in the present, without trusting that the market has already discounted it. Clearly, trees don't grow to the sky, and we will eventually enter another challenging market like 2022—but that day isn't today, in my view. Corporate earnings are being revised up, deregulation and pro-growth policies are just now kicking in, the Fed is cutting rates, and bullish sentiment is still not stretched.⁸ That said, the market is currently overbought and it wouldn't surprise me to see a little pullback into mid-October, but given the current tailwinds, I feel it will be well contained.

All the best,

Gray

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Sources:

- ¹ Mark Hulbert, Market Watch, September 2022.
- ² David Goldman, CNN, June 2025.
- ³ World Economic Forum, April 2025.
- ⁴ Factset, September 2025.
- ⁵ Sentiment Trader, April of 2025.
- ⁶ S&P Dow Jones, S&P 500 Valuation Metric, September 2025.
- ⁷ Andrew Slimmon, Slimmon's take, August 2025.
- ⁸ Bloomberg.
- ⁹ Federal Reserve, *FOMC Statement: September 2025*.
- ¹⁰ *Investment company Institute, September 2025*.
- ¹¹ American Association of Individual Investors. *AAII Investor Sentiment Survey, September 2025*.
- ¹² CNN Business. (2025). *Fear and Greed Index*, September 2025.
- ¹³ National Association of Active Investment Managers, *NAAIM Exposure Index, September 2025*.
- ¹⁴ Stock Trader's Almanac, *Historical Market Seasonality Trends*, September 2025.

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