Economic and Market Review Q3 2025

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IM&R Update

ECONOMIC REVIEW

After much debate, the Federal Reserve voted to approve a 1/4 percentage point decrease in the primary credit rate from 4.25% to 4%, effective September 18, 2025. A key consideration was uncertainty in the labor market. These concerns were deemed a higher priority than worries over inflationary pressures within the economy. The Summary of Economic Projections, known as the "dot plot," indicates that borrowing costs are expected to be cut twice before year end, to a range of 3.5%-3.75%.

» Labor was cited as a potential issue and one of the factors influencing the decision to cut rates. The Unemployment rate is currently at 4.3%. The most recent Job Opening and Labor Turnover Survey (JOLTS) actually came in a little stronger than anticipated at 7.23 million job openings.

» Inflation remains above the Federal Reserve's stated goal of 2%. The most recent Consumer Price Index (CPI) came in at 2.9%. That is the same reading as the most recent core Personal Consumption Expenditures (PCE).

» Real GDP increased at an annual rate of 3.8% in the second quarter, according to the Bureau of Economic Analysis. The increase in real GDP primarily reflected an increase in consumer spending. The latest Atlanta Federal Reserve GDPNow estimate for the third quarter of 2025 is 3.9%.

A driving concern throughout the third quarter has been tariff uncertainty. And while that remains a potential catalyst for apprehension regarding employment and inflation, attention is pivoting to the government shutdown to start the quarter.

FINANCIAL MARKETS REVIEW

Domestic Stock Market

It was a strong quarter for equities as they continue their rebounds from earlier in 2025, fueled by continued profit growth. The Standard & Poor's 500 recorded an estimated 7.9% profit and as a result, the S&P 500 returned 8.12%. Not to be outdone, the NASDAQ Composite grew by 11.41%. The more-staid Dow Jones Industrial Average rose 5.67%. Small cap stocks, as measured by the Russell 2000 Index, returned 12.39%.

Growth stocks continued their dominance over value. In the large cap arena, growth returned 10.51% versus value's 5.33%. Meanwhile in the small-cap ecosystem, value bucked the trend and returned 12.6%, outpacing small cap growth at 12.19%.

» The top DJIA performers for the third quarter were Apple (+24.23%), followed by Caterpillar (+23.3%) and J&J (+22.24%). The worst performers were Salesforce (-12.94%), Honeywell (-9.12%) and Disney (-7.67%).

» Of the 11 S&P 500 sectors, Information Technology was the leader (+13.19%), followed by Communication Services (+12.04%) and Consumer Discretionary (+9.54%). Consumer Staples, the only sector to have a negative quarter, trailed the group at (-2.36%).

» Among industry groups, top performers included Automobiles and Components (+37.86%), Technology Hardware and Equipment (+22.68%) and Semiconductors and Equipment (+17.79%). Laggards included Household and Personal Products (-4.91%), Commercial and Professional Products (-4.18%) and Food Beverage and Tobacco (-2.36%).

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International Stock Markets

International markets were strong again in the third quarter, with global stocks continuing to benefit from an improving outlook and a weakening dollar. Generally speaking, international diversification was not an expense to global investors this quarter.

- » The MSCI EAFE Index of developed markets rose 4.77%, while the MSCI Emerging Markets Index advanced 10.64%, and the MSCI Frontier Markets Index surged 14.89%.
- » International small-cap stocks, as measured by the MSCI World Ex-USA Small Cap Index, increased 7.2%.

World Bond Markets

With the Federal Reserve cutting interest rates yields have also declined. The yield on T-Bills fell to 3.84% at the end of the quarter. Further out the yield curve, the 2-year note slipped to 2.61% and the U.S. 10-year treasury bond edged down slightly to 4.15%. The breakeven yields between 10-year Treasuries and TIPs was 2.37 and the rate on a 30-year mortgage was 6.3%.

Bond returns were mostly positive for the quarter. The Bloomberg Aggregate Bond Index returned 2.03%, while the Bloomberg Municipal Index rebounded this quarter (+3.%) and the Barclays U.S. Treasury TIPS Index gained 2.1%. Money market yields slipped below 4% at 3.84%, as reported by the Crane 100 Money Fund Index.

Fortunately, the negative interest rate environment remains a thing of the past internationally, with Switzerland being the only major economy yielding sub 1%. Many European and Asian nations yield in the 3.5% to 4.5% range. For the quarter, the FTSE World Government Bond Index (WGBI) had a negative return of -0.44%.

Commodities

Gold prices continue to ascend with a quarter-ending spot price of $3,858, up from $3,294 at the start of the quarter. Commodities rose 3.35% during the quarter according to the DJ Commodity Index. Meanwhile, oil prices slipped further to $62.37/barrel and, according to AAA, consumers saw prices at the pump edge down to $3.15/gallon nationwide, on average.

IM&R PERSPECTIVE

We remain constructive over the longer term in light of anticipated continued stimulus from monetary and fiscal policy. In particular, we are bullish due to the long-term positive backdrop created by the tax cuts and less regulation. This backdrop should give companies the incentive to invest more for the future and depreciate those costs in the current year, rather than depreciating those expenses over several years, as in the past.

Potential for Near-Term Consolidation

Despite the constructive longer-term backdrop, given the recent strength of the U.S. equities markets in the short term it would not be surprising if markets witnessed some near-term consolidation and volatility as recent gains and new economic data are digested by investors.

Rising gold prices are often related to rising uncertainty, at least in the short term. A combination of factors are influencing gold prices today, including interest rate cut expectations, concerns about the economy and tariffs, inflation fears, ongoing geopolitical risk and continued investor demand to hold gold as a safe haven.

The Bottom Line

While the longer-term backdrop is positive, what gives us pause in the near term are the continued underlying uncertainties and the inherent “seasonality” of markets. September and October have historically been among the worst months for the financial markets. Given stretched current valuations, the variety of potential surprises that could spark a near-term correction, a consolidation or even a near-term correction are not unlikely in the upcoming months.

Our advice is to inspect portfolios with an eye toward making sure they are well aligned with one’s risk tolerance. Given the strong equity markets over the past several years, it is likely that some portfolios may have become materially overweighted to U.S. equities, and in particular U.S. large cap equities. This may be a good opportunity to take some profits from equities and realign their portfolio, even though we don’t expect equities to suffer over the long term.

Please reach out to your financial professional with any questions you may have.

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The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact with respect to any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Nothing contained herein should be construed as a recommen1dation to buy or sell any individual securities. It should not be assumed that an investment in any of the securities identified was or will be profitable.

The Bureau of Economic Analysis (BEA) of the United12.01 States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units such as states, cities, towns, townships, and villages. **Gross Domestic Product (GDP)** is a measure of output from U.S factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. **Real Gross Domestic Product (real GDP)** is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). **Purchasing Managers' Index™ (PMI™)** is a survey-based economic indicator designed to provide a timely insight into business conditions. Flash PMI data are published by S&P Global and are early estimates of the company's final PMI numbers. The Flash PMI data are published approximately one week before final PMI data each month and are typically based on 85%-90% of total PMI responses received each month. Flash manufacturing, services and composite indices are published for: Australia, Eurozone, France, Germany, Japan, United Kingdom, and the United States. **The Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. **Personal Consumption Expenditures (PCE)** is a measure of price changes in consumer goods and services and consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. **The Federal Reserve System** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. **The Federal Open Market Committee (FOMC)**, a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). **The unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. A **recession** is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. **The International Monetary Fund (IMF)** is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29-member countries. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one.

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The answers to these questions form the basis of the index. An **exchange-traded fund (ETF)** is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Benchmark Definitions

The **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. **The S&P Midcap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. **The S&P SmallCap 600** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. **The Russell 2000** Index is a market-value-weighted index representing the 2,000 smallest companies in the **Russell 3000** index, representative of the US small-cap securities market. **The Russell 1000** Index is a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe, representative of the US small-cap securities market. **Russell Large Cap Growth Index** measures the performance of those Russell 1000 Index securities with higher price-to-book ratios and higher forecasted growth values, representative of US securities exhibiting growth characteristics. Russell Large Cap Value Index measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. **The MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides a broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **MSCI World ex USA Small Cap Index** captures small cap representation across 22 of 23 Developed Markets countries (excluding the United States) and covers approximately 14% of the free float-adjusted market capitalization in each country. **Bloomberg Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Bloomberg Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government Inflation-Linked Bond Index** (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. **The 10-year Treasury Note** represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The **Crane 100 Money Fund Index** measures the average yield of the 100 largest taxable money market funds. The **Dow Jones Commodity Index**℠ is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is designed to minimize concentration in any one commodity or sector. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **U.S. dollar index (DXY)** is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

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