

Market Commentary Q3 2025

The third quarter of 2025 was defined by a strong rebound in equity markets, fueled by resilient corporate earnings, renewed enthusiasm for artificial intelligence (“AI”), and a long-anticipated rate cut by the Federal Reserve (“Fed”). After a volatile spring marked by tariff-driven drawdowns, investor sentiment turned optimistic as the Fed lowered its benchmark rate by 0.25% in September, citing rising risks to employment and moderating inflation. The S&P 500 surged 7.7% in the quarter, while the Nasdaq Composite climbed 11.4% both reaching

record highs.¹ Small cap stocks led the charge with the Russell 2000 gaining 12.3%, boosted by rate-sensitive sectors.¹ Despite lingering concerns around elevated valuations, trade policy uncertainty, and a looming government shutdown, markets were supported by strong Q2 earnings, with over 80% of S&P 500 companies beating consensus estimates.² This quarter closed with broad gains across sectors, setting a strong tone heading into the fourth quarter.

<u>Leading US Indices (Total Return)</u>	<u>1Q'24</u>	<u>2Q'24</u>	<u>3Q'24</u>	<u>4Q'24</u>	<u>1Q'25</u>	<u>2Q'25</u>	<u>3Q'25 (sorted)</u>	<u>TTM</u>
S&P 400 Mid-Cap	10.0%	-3.4%	6.9%	0.3%	-6.1%	6.7%	5.4%	6.0%
S&P/Citigroup Value	8.1%	-2.1%	9.1%	-2.7%	0.3%	3.0%	6.2%	6.8%
S&P 500 Total Return	10.6%	4.3%	5.9%	2.4%	-4.3%	10.9%	7.7%	17.1%
S&P 600 Small-Cap	2.5%	-3.1%	10.1%	-0.6%	-8.9%	4.9%	8.9%	3.5%
S&P 100 Mega-Cap	11.2%	7.1%	5.1%	4.6%	-6.0%	12.8%	9.2%	21.1%
S&P/Citigroup Growth	12.8%	9.6%	3.7%	6.2%	-8.5%	18.9%	9.8%	26.9%
Nasdaq	9.3%	8.5%	2.8%	6.3%	-10.3%	18.0%	11.4%	25.4%
Russell 2000	5.2%	-3.3%	9.3%	0.3%	-9.5%	8.5%	12.3%	10.7%

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Analysts entered the quarter cautiously, expecting a slowdown in earnings growth due to tariff pressures and softening economic data. However, resilient consumer spending, robust AI-driven capital investment, and margin discipline helped companies deliver stronger-than-expected results.

The rally was led by growth-oriented sectors, particularly technology, communications services, and consumer discretionary, which benefited from AI momentum and stable demand. Growth stocks outperformed value stocks by a healthy margin, with the S&P/Citigroup Growth Index gaining 9.8% versus

a 6.2% rise in the S&P/Citigroup Value Index.¹ Small and Mid-cap gains suggest improving sentiment though performance still lags from the mega-cap peers.

Overall sector dispersion remained high. Communications led with a 12.6% gain followed by technology (12.2%) and discretionary (10.2%).² Defensive sectors like utilities and energy also posted solid returns, which may have been supported by rate cut expectations and growing demand as AI and technology developments call for increased power infrastructure and capacity.

S&P 500 Sectors (Total Return)	1Q'24	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25 (sorted)	TTM
Staples	7.5%	1.4%	9.0%	-3.3%	5.2%	1.1%	-2.6%	0.2%
Health Care	8.8%	-1.0%	6.1%	-10.3%	6.5%	-7.2%	1.3%	-10.2%
Real Estate	-0.5%	-1.9%	17.2%	-7.9%	3.6%	-0.1%	2.1%	-2.7%
Materials	8.9%	-4.5%	9.7%	-12.4%	2.8%	3.1%	2.5%	-4.8%
Financials	12.5%	-2.0%	10.7%	7.1%	3.5%	5.5%	3.7%	21.3%
Industrials	11.0%	-2.9%	11.5%	-2.3%	-0.2%	12.9%	4.2%	14.8%
Utilities	4.6%	4.7%	19.4%	-5.5%	4.9%	4.3%	7.3%	11.0%
Energy	13.7%	-2.4%	-2.3%	-2.4%	10.2%	-8.6%	7.4%	5.6%
S&P 500 Total Return	10.6%	4.3%	5.9%	2.4%	-4.3%	10.9%	7.7%	17.1%
Discretionary	5.0%	0.6%	7.8%	14.3%	-13.8%	11.5%	10.2%	21.0%
Technology	12.7%	13.8%	1.6%	4.8%	-12.7%	23.7%	12.2%	27.1%
Communication Services	15.8%	9.4%	1.7%	8.9%	-6.2%	18.5%	12.6%	36.2%

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The third quarter of 2025 reflected a mixed but improving economic backdrop. Real GDP growth was revised upward to an annualized pace of 3.8% for Q2, and early estimates for Q3 suggest a moderation to around 2.5% driven by strong corporate earnings.² The unemployment rate is expected to hold steady at 4.3%, though labor market data showed signs of softening, with new job creation slowing and wage growth decelerating.

Consumer sentiment weakened modestly, reflecting concerns about persistent inflation and economic uncertainty. However, wage growth continues to outpace inflation since 2024.² The CORE PCE inflation rate remained at 2.9% year over year in August, above the Fed's 2% target.² While this suggests tariff and other pressures exist, broader inflation remains contained as monthly increases were modest at 0.2%.²

In reaction to the softening labor data and stable inflation, the Fed cut interest rates by 0.25% in September.² This brought the federal funds rate to a range of 4.00%-4.25%.² The Fed signaled the

possibility of two additional cuts before year-end, contingent on further disinflation and labor market deterioration. Markets are currently pricing in a high probability of another cut at the October FOMC meeting. As we look back at the inaccuracy of projected rate cuts, we take these forecasts with a grain of salt but largely believe in the direction of rates going lower. The Fed's first cut in September opened an easing cycle, but policymakers are boxed in: cut too fast and risk inflation; cut too slowly and risk a weaker labor market.

Fixed income markets responded positively, with Treasury yields declining across the curve. The US Treasury market in Q3 2025 delivered a robust and positive return, marking a decisive reversal from the volatility of the first half of the year. The Bloomberg U.S. Aggregate Bond Index rose 1.3% in Q3.² This small gain was supported by the falling yields and increased demand for high quality assets during uncertain times. Despite volatility driven by Fed and Presidential policy speculation, bonds continue to provide a stabilizing force in diversified portfolios.

<u>US Yields</u>	<u>2Q'24</u>	<u>3Q'24</u>	<u>4Q'24</u>	<u>1Q'25</u>	<u>2Q'25</u>	<u>3Q'25</u>	<u>Q/Q Chg</u> <u>(bps)</u>	<u>Y/Y Chg</u> <u>(bps)</u>
Fed Funds Target Rate	5.5	5.0	4.5	4.5	4.5	4.3	-25	-75
3-Month T-Bill	5.5	4.7	4.4	4.2	4.4	3.9	-52	-84
2-Year Note	4.7	3.6	4.2	3.9	3.7	3.6	-11	-3
5-Year Note	4.3	3.6	4.4	4.0	3.8	3.7	-5	17
10-Year Bond	4.4	3.8	4.6	4.2	4.2	4.1	-8	36
30-Year Bond	4.5	4.1	4.8	4.6	4.8	4.7	-6	60

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High quality municipal bonds remained an attractive offer for high-income investors despite elevated issuance levels of 12% year over year. Strategists continue to favor defensive positions, emphasizing shorter to intermediate maturities with higher credit quality amid fiscal uncertainty and potential policy shifts. Municipals are continuing to provide durable income and act as a buffer against equity swings, reinforcing its stabilizing role within diversified portfolios.

The investor hunt for yield had divergent effects across other fixed-income sectors. U.S. investment-grade corporate bonds performed strongly, benefitting from tighter credit spreads

as a healthy corporate balance sheet narrative persisted. In contrast, the high-yield market faced headwinds, with its performance bifurcated. While higher-quality junk bonds managed modest gains, lower-rated issuers struggled as the softening economic outlook heightened default fears.

International stocks extended their outperformance in Q3, aided by a weaker U.S. dollar and supportive policy shifts. The dollar posted its steepest six-month decline in over 50 years, nearly down 11% year-to-date which boosts returns for non-U.S. assets, highlighting the importance of maintaining reasonable international exposure in global portfolios.

<u>International Indices (Price Chg)</u>	<u>1Q'24</u>	<u>2Q'24</u>	<u>3Q'24</u>	<u>4Q'24</u>	<u>1Q'25</u>	<u>2Q'25</u>	<u>3Q'25</u> <u>(sorted)</u>	<u>TTM</u>
Sensex (India)	2.0%	7.3%	6.7%	-7.3%	-0.9%	8.0%	-4.0%	-4.8%
DAX (Germany)	10.0%	-3.9%	6.0%	3.0%	11.0%	5.5%	-0.1%	20.5%
Swiss Market Index	5.3%	2.2%	1.5%	-4.7%	8.6%	-5.4%	1.6%	-0.5%
CAC 40 (France)	8.8%	-8.9%	2.1%	-3.3%	5.6%	-1.6%	3.0%	3.4%
All Ordinaries (Australia)	4.1%	-1.7%	6.5%	-1.4%	-4.4%	8.9%	4.1%	7.0%
MSCI EAFE	9.1%	0.0%	0.3%	-0.9%	2.2%	3.7%	4.8%	10.1%
Bovespa (Brazil)	-4.5%	-3.3%	6.4%	-8.7%	8.3%	6.6%	5.0%	10.6%
FTSE 100 (UK)	2.8%	2.7%	0.9%	-0.8%	5.0%	2.1%	6.7%	13.5%
OMX Stockholm 30 (Sweden)	5.1%	2.0%	2.2%	-5.5%	0.4%	0.0%	6.8%	1.4%
MSCI AC World	9.0%	2.9%	4.5%	1.0%	-2.5%	8.8%	7.6%	15.3%
Bolsa (Mexico)	0.0%	-8.6%	0.1%	-5.6%	6.0%	9.5%	9.0%	19.3%
IBEX 35 (Spain)	9.6%	-1.2%	8.5%	-2.4%	13.3%	6.5%	10.6%	30.3%
Nikkei 225 (Japan)	20.6%	-1.9%	-4.2%	5.2%	-10.7%	13.7%	11.0%	18.5%
Kospi (South Korea)	3.4%	1.9%	-7.3%	-7.5%	3.4%	23.8%	11.5%	32.1%
Hang Seng (Hong Kong)	-3.0%	7.1%	19.3%	-5.1%	15.3%	4.1%	11.6%	27.1%
S&P/TSX (Canada)	5.8%	-1.3%	9.7%	3.0%	0.8%	7.8%	11.6%	24.9%
Shenzhen SE A Shares (China)	-4.9%	-7.4%	19.1%	1.6%	2.4%	3.5%	21.4%	30.7%

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Emerging markets faced a more mixed environment in the third quarter of 2025, as global tensions persisted and capital flows remained cautious. Despite the headwinds, emerging market equities showed resilience, supported by domestic demand and growing investor interest in undervalued sectors. Mexico and Canada benefited from nearshoring trends, with their equity markets rising by 9% and 11.6%, respectively, in Q3.² Japan and South Korea continued to perform well, with the Nikkei 225 surging 11% in Q3, driven by government stimulus and increased industrial investment, which boosted investor sentiment.²

China’s performance was significant, with the Shenzhen SE A Shares surging 21.4% with the help of supportive government fiscal policy.² While industrial production and retail sales have softened in the country, China’s GDP growth remained on a positive track. Sentiment will continue to shift following the development of U.S.-China trade agreements.

For commodities, gold prices surged to record highs ending Q3 at almost \$3,500.² The rally was driven by central bank buying, dollar weakness, and persistent geopolitical risks. The yellow metal continues to serve as a reliable diversifier in portfolios, especially amid elevated equity valuations and inflation uncertainty.

Guidance for the remainder of the year remains broadly constructive, with many firms maintaining or modestly raising forecasts. That being said, there remain significant risks to capital markets as mentioned above. With several large macro decisions on the horizon, we want to share some historical perspective. First, consider what happens to all-time high markets when rates are reduced:

**REDUCING RATES NEAR ALL-TIME HIGHS:
A HISTORICALLY STRONG INDICATOR**

The number of times the Federal Reserve has lowered interest rates at or near all-time highs since 1980.	22
The number of those times the market has been higher one year later.	22 out of 22
The average return one year later.	13.9%

Source: The New York Times. 09/18/25. <https://www.nytimes.com/2025/09/18/business/stocks-fed-rate-cut>.

Some will say that while its great returns are higher one year later, investing at all-time highs is a bad idea, because markets will inevitably fall. To that, we'll let the factual data tell these purveyors of doom that over the short- and mid-term, that's incorrect, as investing only at all-

time highs compared to any other time period actually produces higher returns. And over the longer term, the same behavior produces only slightly lower (although still extraordinarily high) returns.³ See below:

DON'T TIME THE MARKETS: INVESTING AT ALL-TIME HIGHS VS. ANY OTHER TIME



Source 3 – 10/01/2025

This chart depicts the historical outcomes of the S&P 500 Total Return Index when investing at only all-time highs versus investing at all other time periods (from September 1989 through July 2025). After one year, all-time-high investing is 1.7% higher than investing at all other time periods; at three years, all-time-high investing is 5% higher than investing at all other time periods; at five years, all-time-high investing is 8% higher than investing at all other time periods; and at ten years, all-time-high investing is 10% lower than investing at all other time periods. The point is this: stay invested, leave the timing attempts to the speculators and focus on

what you can control instead of worrying about what you can't.³

The third quarter of 2025 marked significant shifts in the economy and financial markets. The labor market, long viewed as a pillar of resilience, is now showing signs of softening. Government revisions to earlier payroll data revealed that job growth was much weaker than initially reported, including the first monthly job loss since 2020.² With unemployment edging higher and hiring momentum fading, the Fed has begun signaling a greater focus on supporting growth and employment rather than just fighting inflation. Investors have taken notice, as

short-term interest rates have already started to decline in anticipation of potential Fed rate cuts.

Looking ahead, the rise of AI stands out as both an opportunity and a challenge. While it enables companies to do more with less by boosting efficiency, cutting costs, and sustaining profits, it also reshapes the job market. Routine and entry-level positions are increasingly vulnerable to automation, making it more challenging for recent graduates to establish a foothold in the workforce. For investors, this mix of softer employment data, stubborn bond yields, and resilient earnings underscores an evolving market environment, one where technology adoption and productivity gains provide powerful support for companies even as traditional labor dynamics come under pressure.

In times of heightened volatility and relentless headlines, it's easy to let emotion override strategy. But history has shown that disciplined investors who stay the course, through cycles of uncertainty and exuberance, are the ones who reap the long-term rewards. Markets may fluctuate, but your financial goals remain constant. We stay focused on what we can control: a well-diversified portfolio, a long-term horizon, and a commitment to your plan. The noise will pass. The fundamentals endure.

As we enter the final quarter of the year, we are thankful for your continued trust as we work closely with you to help you achieve your financial goals and secure your financial future. We look forward to talking soon!

To discuss this commentary further, please contact us at 914-825-8630.

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¹ Strategas Securities, LLC – 10/09/2025

² Y-Charts – 10/09/2025

³ <https://creativeplanning.com/insights/investment/q3-2025-market-commentary/> - 10/01/2025

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