

MARKET REVIEW

› 3rd QUARTER 2025

▶ EXECUTIVE SUMMARY

- › U.S. equities continued to climb, achieving all-time highs across the board, gaining 8.0% with small-caps gaining more at 11.7% in Q3.
- › Emerging markets outpaced U.S. and developed market growth, posting 10.6% growth for the quarter.
- › The Fed cut rates due to a shift in economic fundamentals, causing yields to fall and prices to rise in bonds, which grew 2.0%.
- › AI continued to dominate headlines, while CAPE ratios approach record highs across equities.

Quarterly Market Review

Rebounds and Revisions: Finding Balance in a Shifting Market

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William Wang, CFP®
Chief Executive Officer

“Be fearful when others are greedy and greedy when others are fearful.” – Warren Buffett

As U.S. market prices (indicated by the S&P 500) reached record highs at the end of September, Warren Buffett’s maxim has served as a valuable reminder. Reflecting on the Panic of 1907, we remember a time when New York’s banking and trust system was loosely regulated and highly interconnected. Rapid industrial growth had fueled aggressive lending, speculative investments, and an overly optimistic belief in perpetually rising asset prices, reminiscent of 2008. By October 1907, this optimism unraveled: a failed attempt to corner United Copper stock led to runs on regional banks, spreading panic among depositors and brokers, and causing major firms to teeter on collapse.

J. Pierpont Morgan, the era’s dominant financier, stepped into the breach. He didn’t react submissively to the market’s panic, nor did he chase short-term gains in the preceding boom. Instead, Morgan convened the leading bankers, assessed balance sheets, and orchestrated a coordinated liquidity injection and capital rescues for vulnerable institutions. He bought time for solvent firms, provided guarantees, and forced orderly mergers where needed. By acting decisively when others were fearful, Morgan helped stabilize the system and avoid a broader economic collapse.

But the story doesn’t end with a single savior. The panic also exposed structural flaws: excessive leverage, weak liquidity, and the absence of a lender of last resort. The revelation of these flaws led to lasting institutional reform—most notably the creation of the Federal Reserve (the Fed) in 1913, designed to provide liquidity as well as oversight to prevent future cascades. The reforms shifted the financial system toward greater resilience and a more sustainable path for growth.

What can we learn from all of this? Although we don’t have a crystal ball, history teaches us that financial cycles reflect recurring human behavior, and that behavior typically moves through four stages. —————>

Overview:

Market Summary

Global Valuations

US Stocks

International Developed Stocks

Emerging Markets Stocks

Fixed Income

REITs

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Stage 1: Greed

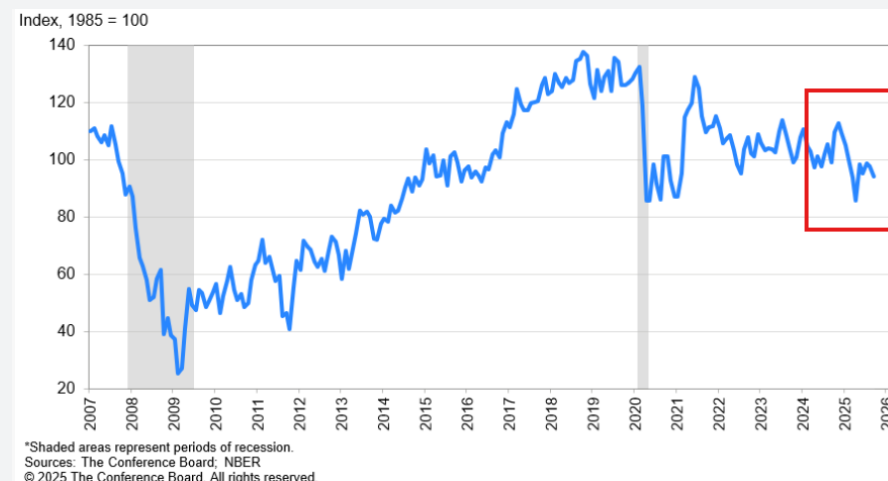
Before the panic, unchecked optimism and speculative behavior concentrated risk across the system. When markets are driven by easy credit and exuberant buying, vulnerabilities build silently.

The Fed Financial Stress Index (FSI)



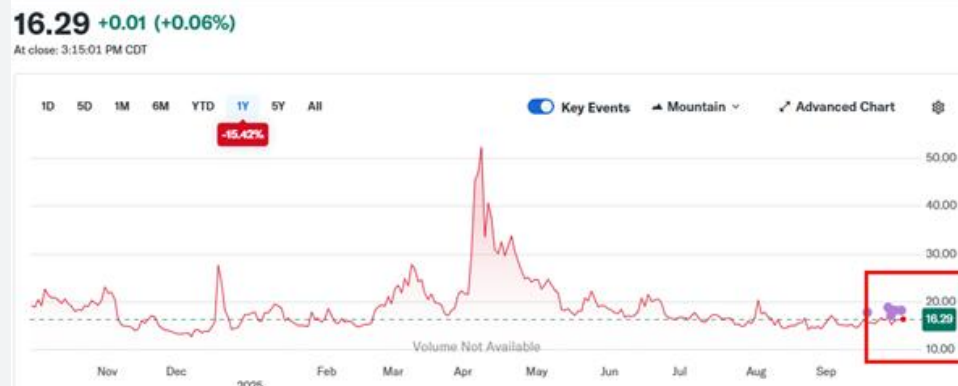
The Fed Financial Stress Index (FSI) is a composite indicator designed to gauge overall stress in the U.S. financial system. It aggregates market-based measures across multiple segments to provide a single, timely read on financial conditions. A higher FSI value = greater financial stress; a lower value = more normal/comfortable conditions. Spikes usually signal periods of market disruption or crisis.

Consumer Confidence Index (CCI)



The Consumer Confidence Index (CCI) measures how optimistic or pessimistic consumers feel about the economy's current conditions and their short-term financial prospects. It's based on a monthly survey asking respondents about current business and employment conditions and their expectations for the next six months (income, job availability, and business conditions).

CBOE Volatility Index (VIX)



The CBOE Volatility Index (VIX) measures the market's expectation of near-term (30-day) volatility for the S&P 500, as implied by prices of S&P 500 index options. Higher VIX = greater fear/uncertainty; lower VIX = lower expected volatility/complacency.

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Stage 2: Fear

Panic showed us how quickly sentiment can reverse and how costly reactive, uncoordinated behavior can become. Fear revealed true solvency and liquidity problems.

Stage 3: Respond

Responding wisely by providing liquidity, coordinating action, and prioritizing solvency over short-term gains stabilized the system and protected longer-term value.

Stage 4: Evolve

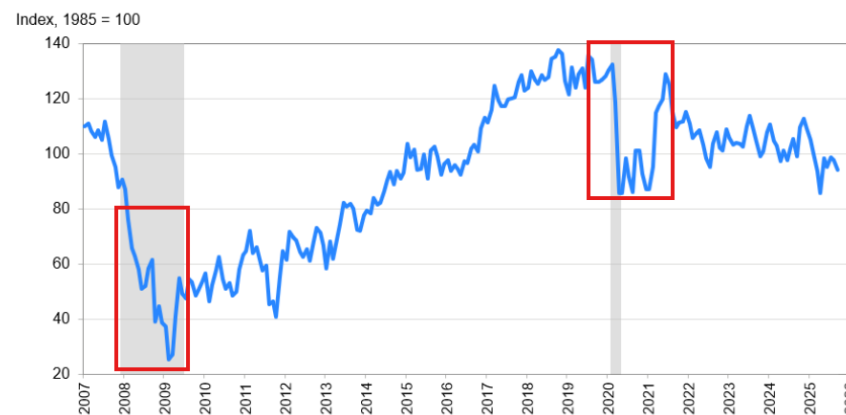
The structural reforms that followed (the Fed, stronger bank practices) show how acting prudently in a crisis can lead to rules and systems that maintain stability and support sustainable economic growth.

Buffett's advice is not a directive to be contrarian for its own sake, but rather a reminder to be cautious when others are greedy and courageous when prices diverge from fundamentals. In today's environment—elevated rates, uneven growth, and sentiment extremes—that discipline is a practical advantage.

For investors and institutions, the Panic of 1907 underscores two rules: avoid complacency in booms (manage leverage, stress-test assumptions) and be prepared to act when fear creates opportunity (maintain liquidity, hold to sound fundamentals). Sustainable success comes from combining disciplined risk management in good times with principled, opportunistic action in downturns, and using crises as catalysts to build stronger systems.

Our practical advice: when markets run hot and prices disconnect from fundamentals, remember that long-term success is built on discipline, not impulse. Stick to your plan, keep allocations diversified, maintain adequate liquidity, and resist chasing fads. Simple, not flashy—but time-tested.

Consumer Confidence Index (CCI)



Consumer confidence levels during 2008 financial crisis and 2020 COVID Pandemic

The Fed Financial Stress Index (FSI)



Financial Stress levels during 2008 financial crisis

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Rebounds and Revisions: Finding Balance in a Shifting Market



Tristan Robins
Portfolio Analyst

Markets continued their rebound from late Q2 into the third quarter, with new all-time highs across the S&P 500, NASDAQ, and small caps. This rally was supported by diminishing tariff fears, rising prices and productivity driven by AI, and strong corporate earnings. As Will highlighted, investor sentiment remained high despite revisions and changes to economic fundamentals and guidance, including a dovish pivot from the Federal Reserve. Consumer spending continued to drive economic data, while labor market and inflation signals began to raise concerns—all as the dollar weakened. A transition in the market is occurring, but the question

remains: when—or even if—the market will fully grasp and price-in these effects.

Economic Fundamentals

As speculated in July (following a worse-than-estimated jobs report), many major economic fundamentals shifted in Q3. August followed with a dovish pivot by Chairman Powell at the Economic Policy Symposium in Jackson Hole, wherein it was indicated that the Fed would shift its focus to controlling the unemployment rate instead of inflation. This was not an abandonment of the Fed's dual mandate, but rather a short-term adjustment aimed at achieving a soft-landing for the economy. Following this news, markets began pricing in a September rate cut, with the S&P moving roughly 2.5% higher in the month after the symposium.

This price movement was further validated by the September jobs report, which revised prior months' figures lower. In total, downward corrections have now exceeded 1.1 million jobs since February 2022. Notably, June 2025's estimate was adjusted by 160,000, from an initial gain of +147,000 in the original reading to a loss of -13,000 as of September. In response, the Fed cut rates by 0.25% in September—a "risk management" approach to help stabilize the labor market and narrow the gap between job openings and unemployed workers (**Figure 1**). Meanwhile, hiring intentions were the weakest for any September since 2011 (**Figure 2**).

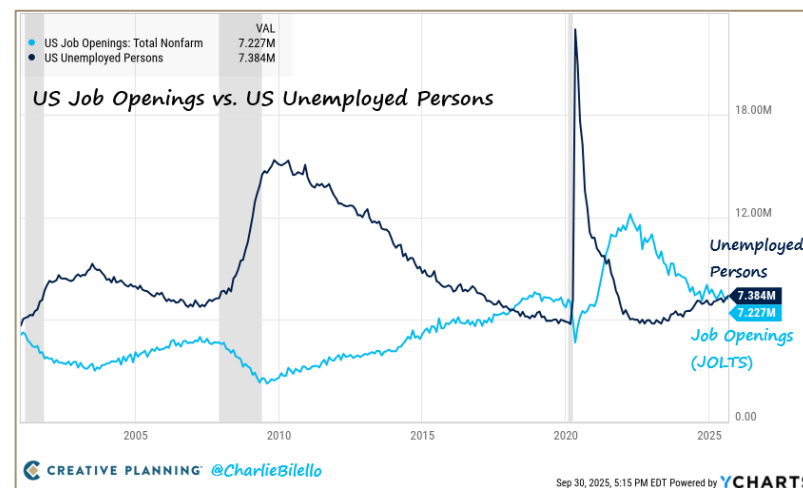


Figure 1



Figure 2

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Economic Fundamentals (cont.)

To control inflation, which remained above expectations for the year, the Fed continued its quantitative tightening measures—a process underway since April 2022 that has reduced its balance sheet by \$2.4T (**Figure 3**). Despite weaker jobs data, slowing GDP, and increasing inflation, markets responded positively to the rate cut and carried that momentum into the close of Q3.

Equities Performance

Q3 was marked by stronger-than-expected financials, with 81% of S&P 500 companies beating both EPS and revenue projections. This is up from 79% in Q2, and well above the long-run average of roughly 60%. These outperformances aren't being driven by low expectations either—earnings strength is broad-based, in part due to new technology and the rise of AI.

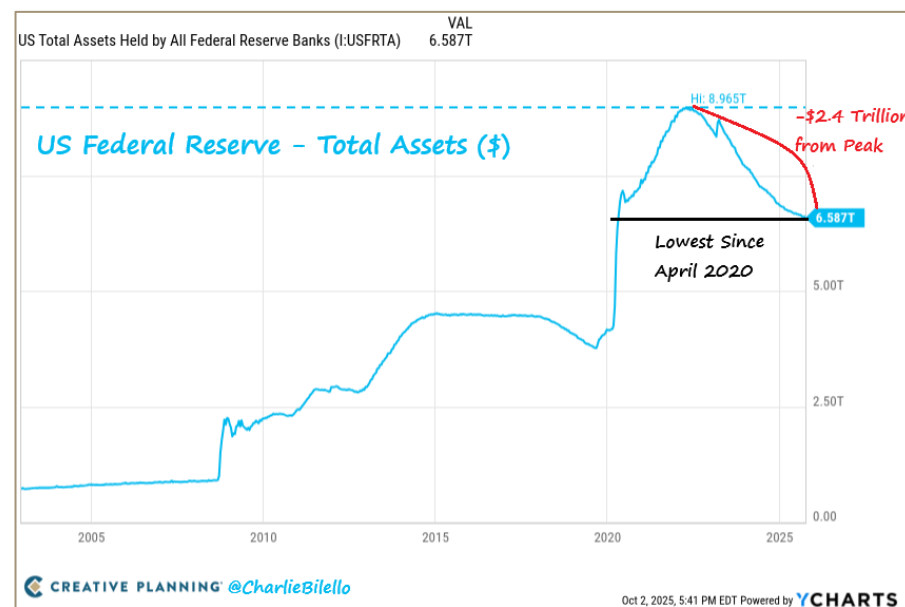


Figure 3

Of course, some of that AI is a bit overhyped, over-promised, and under-delivered. But the good stuff? That's the stuff that is driving productivity and creating growth opportunities. Companies are capitalizing on that momentum, which is evident in the growing concentration of market leadership: the top 10% of stocks in the US now make up more than 78% of total market capitalization.

To that extent, AI continued to dominate market themes in Q3. Technology-related investment grew 14% year-over-year, and many companies have extended their contracts for AI-related products into 2026. That said, the rate of AI adoption growth appeared to stabilize in Q3, experiencing a 9.7% adoption growth rate—roughly the same as Q2.

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Equities Performance (cont.)

As the demand for AI continues to rise, so too does the demand for energy. This has highlighted a massive area of growth for companies positioned to serve as data centers and heightened demand for new renewable energy sources. Nuclear energy, in particular, experienced ~21% growth in Q3, and was up 65.8% year-to-date at quarter-end. Whether this price movement is warranted—or will be reshaped by future policy changes—remains undecided.

That said, AI and nuclear growth has pushed valuations higher. In fact, September's close of the CAPE ratio exceeded 40 for only the 22nd time in history—all 21 previous instances preceded the dot com bubble. This isn't to sound the alarm, but to recognize two possibilities: either we are entering into bubble territory or AI has fundamentally reshaped valuations, and we are entering a new age of heightened PE ratios.

Currently, investment in AI has already outpaced investment in the internet from 1995-2000 (**Figure 4**).

Bond Performance

In response to the rate cuts by the Federal Reserve, bonds finished the quarter higher as declining yields directly increased the price of bonds. Predominantly, long-term bonds outperformed their shorter-term counterparts across both government and corporate bonds. The corporate spread remains tight, and continues to tighten, reflecting high investor trust in equity earnings growth and the economic future, despite the rate cuts and expectations of more to come. Further rate cuts before year-end will likely continue to drive the price of bonds higher.

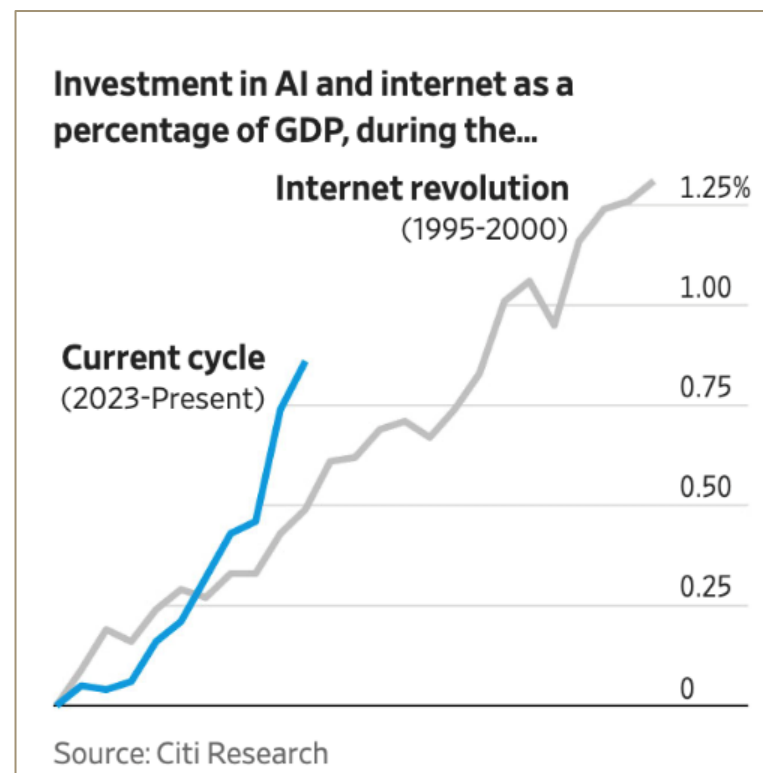


Figure 4

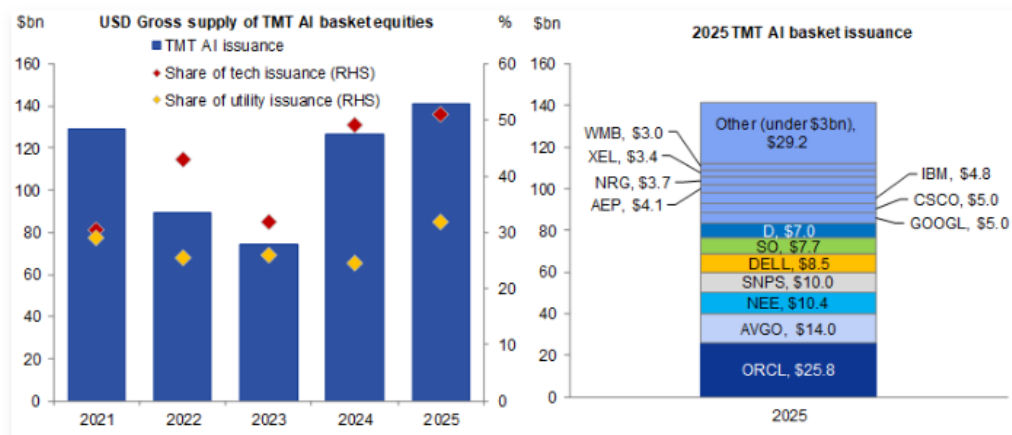
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Q4 Outlook

As we enter the final months of 2025, one thing is clear: data will continue to move the market. October's jobs report showed the labor market weaker than expected, with further downward revisions—including August's numbers, which went from +54,000 to -3,000. Estimates for September's jobs came in at -32,000, well below estimates of +40,000 to +50,000, signaling a rapid deterioration. If the FOMC's data (should it exist given the government shutdown) suggests things could get worse, more rate cuts will occur. Markets are already anticipating two more before year-end. In response to this, inflation data will be important to keep an eye on as it has already exceeded estimates for the year, and lower rates could add further upward pressure.

Figure 5: **AI-related firms have issued a record \$141 billion this year**



GSTMTAIP basket was created by GBM.

Source: Dealogic, Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

AI is expected to continue dominating market movement and headlines. This may drive valuations higher even as questions grow around the sustainability of AI's energy demands and capital expenditures. For now, estimates for growth remain higher compared to current levels.

Final Thoughts

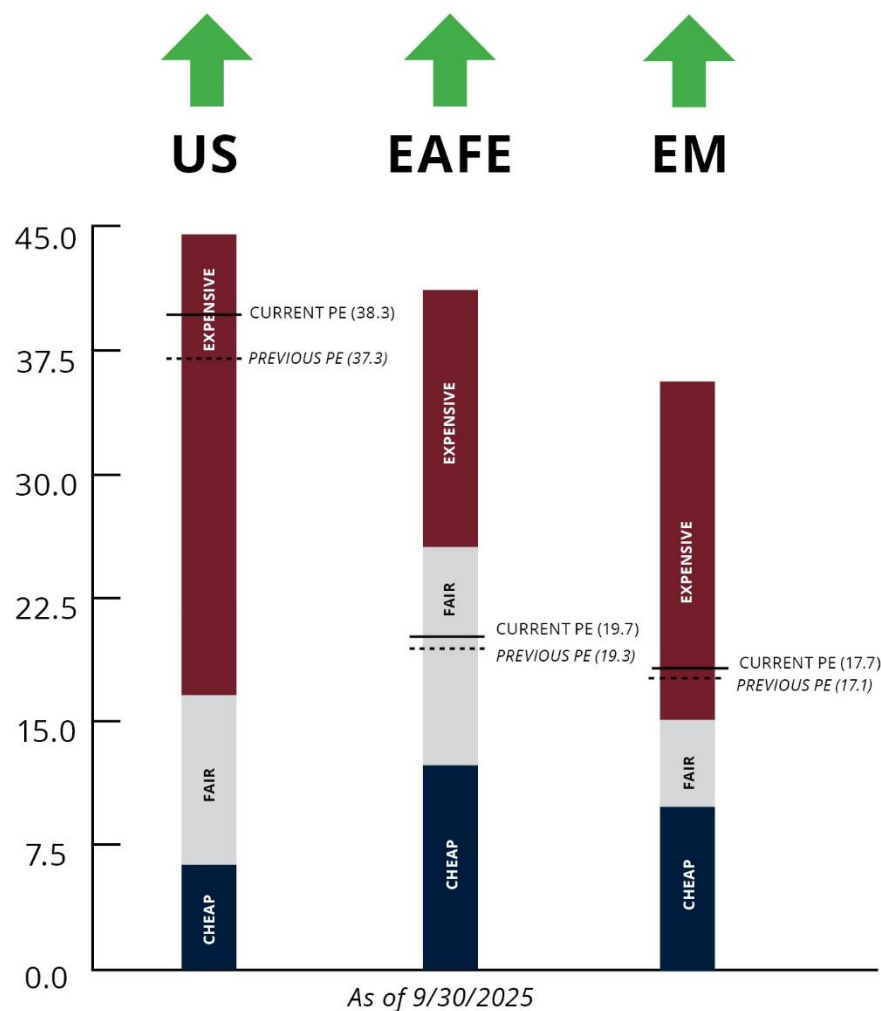
As Q4 begins, the market's rally since the heightened fear in Q2 has been significant; but so too has the shifting data. Strong performances across every asset class in Q3 seem to mask data divergences that continue to hint at potential vulnerabilities. Our team, however, remains focused on ensuring our clients are properly hedged against adverse economic scenarios while staying positioned to capture consistent, long-term growth.

The fundamentals of investing remain as true today as ever: when markets are greedy, it pays to be cautious; when fear takes hold, it often pays to stay patient. We believe the most responsible way forward is to stay grounded in evidence-based investing—anchored in discipline, informed by data, and guided by long-term perspective rather than short-term emotion.

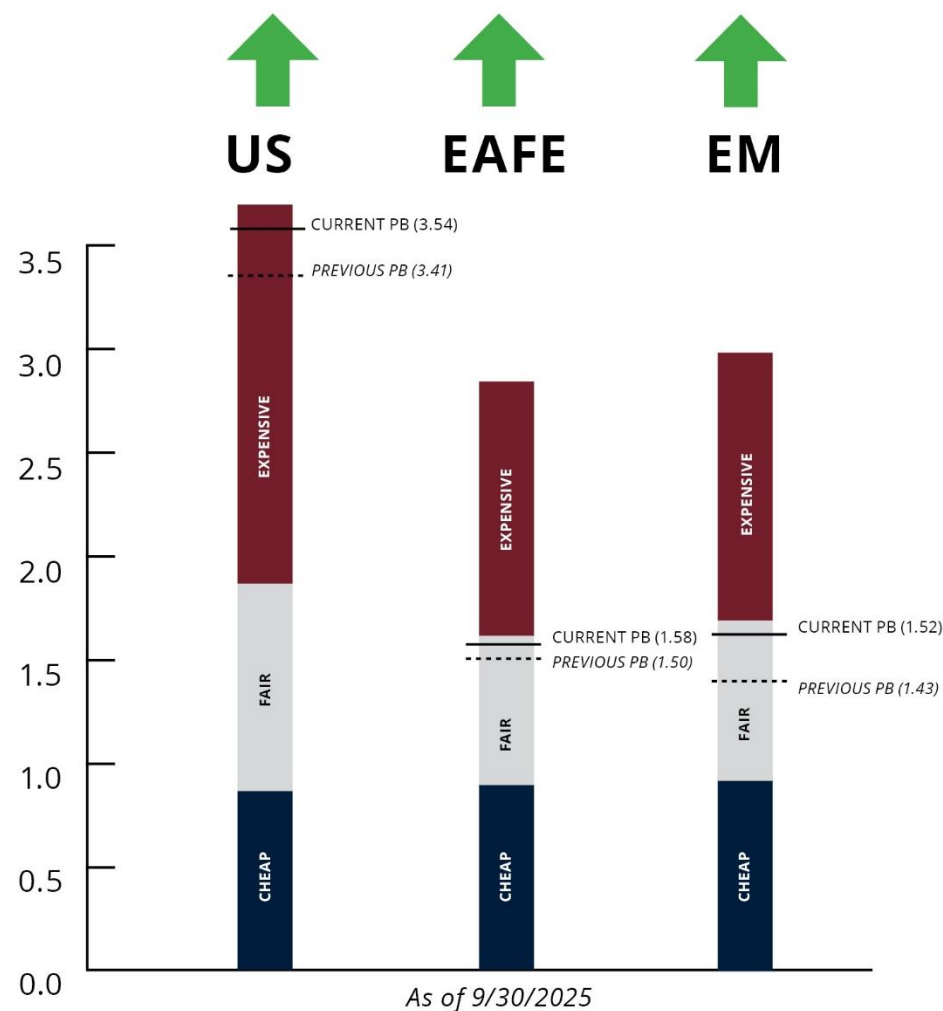
Global Valuations

What is the Investment Climate?

Price-to-Earnings (CAPE)



Price-to-Book Value



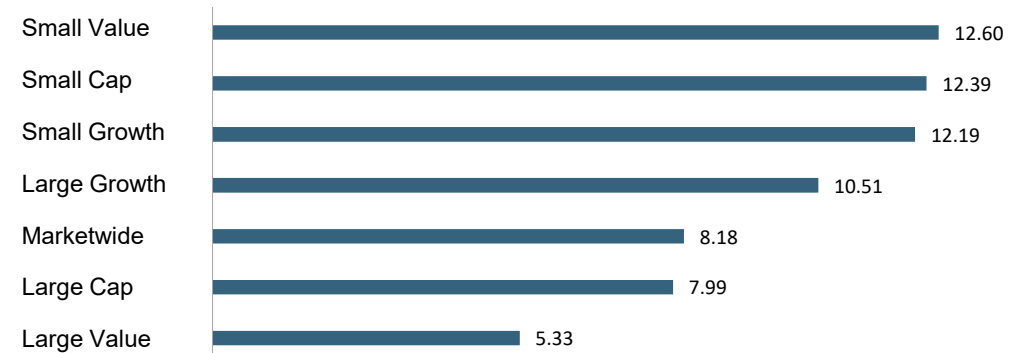
Cyclically Adjusted Price-to-Earnings or “CAPE” is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

US Stocks

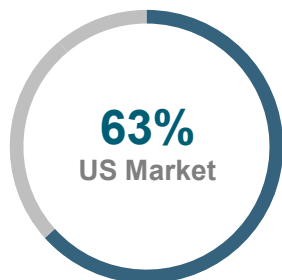
Returns (USD), 3rd Quarter 2025

- The US equity market posted positive returns for the quarter and outperformed non-US developed markets but underperformed emerging markets.
- Value underperformed growth.
- Small caps outperformed large caps.
- REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization



US Market
\$64.2 trillion

Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED					
			1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Small Value	12.60	9.04	7.88	13.56	14.59	9.23	9.54	7.27
Small Cap	12.39	10.39	10.76	15.21	11.56	9.77	10.42	8.14
Small Growth	12.19	11.65	13.56	16.68	8.41	9.91	11.01	8.78
Large Growth	10.51	17.24	25.53	31.61	17.58	18.83	17.36	13.33
Marketwide	8.18	14.40	17.41	24.12	15.74	14.71	14.23	10.75
Large Cap	7.99	14.60	17.75	24.64	15.99	15.04	14.49	10.92
Large Value	5.33	11.65	9.44	16.96	13.88	10.72	11.24	8.19

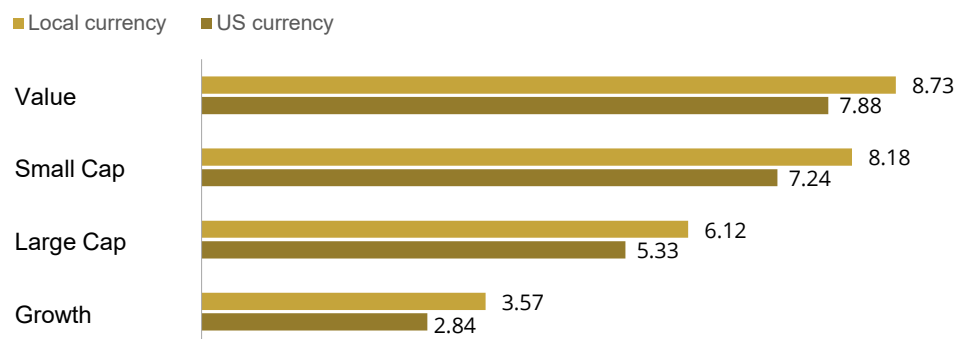
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. MSCI data © MSCI 2025, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

International Developed Stocks

Returns (USD), 3rd Quarter 2025

- Developed markets outside of the US posted positive returns for the quarter and underperformed both US and emerging markets.
- Value outperformed growth.
- Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization



International Developed Market
\$25.9 trillion

Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED					
			1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Value	7.88	31.51	22.90	25.20	16.20	8.54	6.52	5.28
Small Cap	7.24	29.54	19.35	19.98	9.24	8.29	7.43	6.24
Large Cap	5.33	25.34	16.03	21.60	11.60	8.41	6.72	5.63
Growth	2.84	19.32	9.41	18.08	6.96	8.02	6.73	5.81

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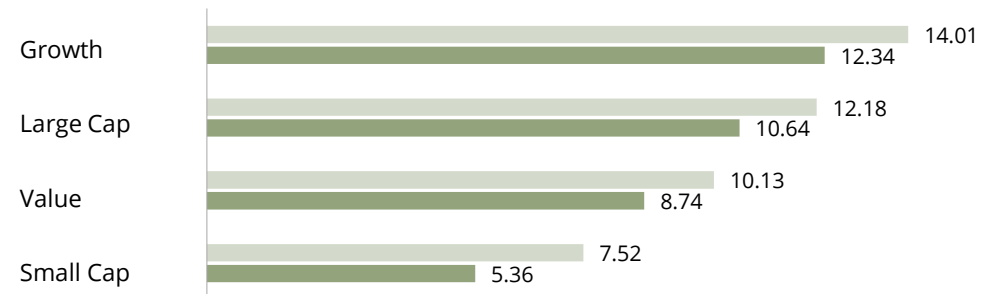
Emerging Markets Stocks

Returns (USD), 3rd Quarter 2025

- Emerging markets posted positive returns for the quarter and outperformed both US and non-US developed markets.
- Value underperformed growth.
- Small caps underperformed large caps.

Ranked Returns (%)

Local currency US currency



World Market Capitalization



Emerging Markets
\$11.3 trillion

Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED					
			1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Growth	12.34	30.00	21.01	18.50	4.31	8.69	4.96	6.50
Large Cap	10.64	27.53	17.32	18.21	7.02	7.99	3.99	6.11
Value	8.74	24.79	13.30	17.81	9.90	7.14	2.90	5.62
Small Cap	5.36	16.67	8.28	17.91	12.51	8.48	4.72	7.60

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Fixed Income

Returns (USD), 3rd Quarter 2025

During the quarter, interest rates decreased within the US Treasury market.

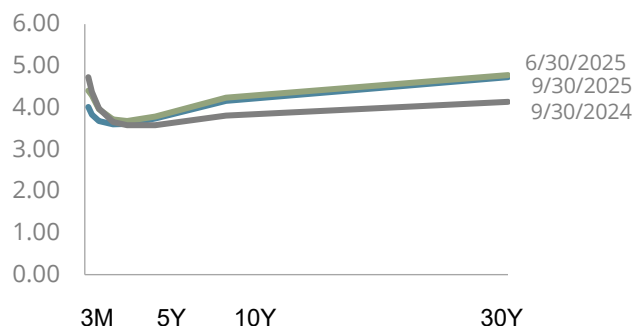
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 8 basis points (bps) to 4.20%, while the 1-Year US Treasury Bill yield decreased 28 bps to 3.68%. The yield on the 2-Year US Treasury Note decreased 12 bps to 3.60%.

The yield on the 5-Year US Treasury Note decreased 5 bps to 3.74%. The yield on the 10-Year US Treasury Note decreased 8 bps to 4.16%. The yield on the 30-Year US Treasury Bond decreased 5 bps to 4.73%.

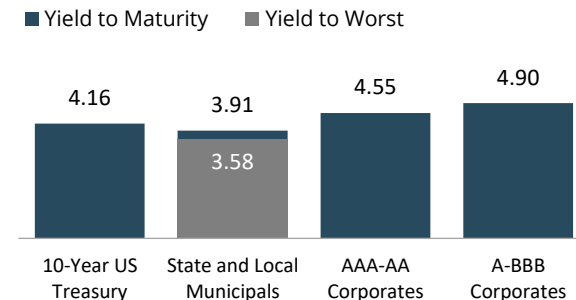
In terms of total returns, short-term US treasury bonds returned +1.17% while intermediate-term US treasury bonds returned +1.26%. Short-term corporate bonds returned +1.62% and intermediate-term corporate bonds returned +2.04%.¹

The total returns for short- and intermediate-term municipal bonds were +1.53% and +2.77%, respectively. Within the municipal fixed income market, general obligation bonds returned +2.96% while revenue bonds returned +3.03%.²

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED					
			1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Bloomberg Municipal Bond Index	3.00	2.64	1.39	4.74	0.86	2.34	2.94	3.48
Bloomberg U.S. High Yield Corporate Bond Index	2.54	7.22	7.41	11.09	5.55	6.17	6.16	6.71
Bloomberg U.S. Government Bond Index Long	2.49	5.65	-3.44	0.46	-7.73	-0.09	1.96	3.36
Bloomberg U.S. TIPS Index	2.10	6.87	3.79	4.88	1.42	3.01	2.85	3.51
Bloomberg U.S. Aggregate Bond Index	2.03	6.13	2.88	4.93	-0.45	1.84	2.26	3.23
ICE BofA 1-Year US Treasury Note Index	1.14	3.13	3.85	4.46	2.28	1.91	1.38	1.90
ICE BofA US 3-Month Treasury Bill Index	1.08	3.17	4.38	4.77	2.98	2.08	1.41	1.71
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.01	4.01	4.17	4.72	1.62	1.96	1.81	2.47
FTSE World Government Bond Index 1-5 Years	0.63	7.71	4.07	5.47	0.14	1.07	0.19	1.71

1. Bloomberg US Treasury and US Corporate Bond Indices

2. Bloomberg Municipal Bond Index

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results.** Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2025 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2025 ICE Data Indices, LLC. S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.

Real Estate Investment Trusts

Returns (USD), 3rd Quarter 2025

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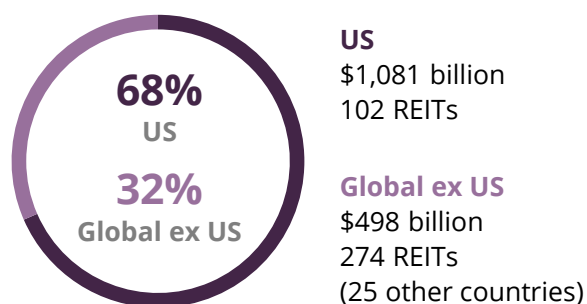
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- US real estate investment trusts outperformed non-US Real Estate Investment Trusts (REITs) during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED					
			1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
US REITs	5.09	4.50	-1.70	10.48	9.45	5.65	7.83	6.17
Global ex US REITs	3.62	22.42	3.61	9.89	3.65	2.65	3.97	2.88

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