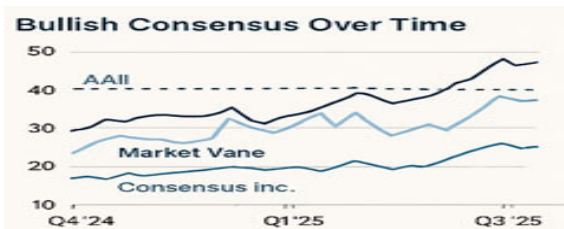


MARKET REVIEW & OUTLOOK

Pride, Prejudice & Euphoria

ECONOMY & MARKETS

In the spirit of Jane Austen's *Pride & Prejudice*, the third quarter of 2025 unfolded like a ballroom scene filled with confident investors, bold allocations and a touch of hubris. The market's sentiment indicators – from Citigroup's Panic/Euphoria Model to AAIL and Market Vane readings (*see below*) – suggest we are dancing close to euphoria. Much like Mr. Darcy's pride and Elizabeth Bennet's prejudice, investor behavior during the quarter was likely shaped by conviction, emotion and a bit of greed, often at odds with fundamentals.



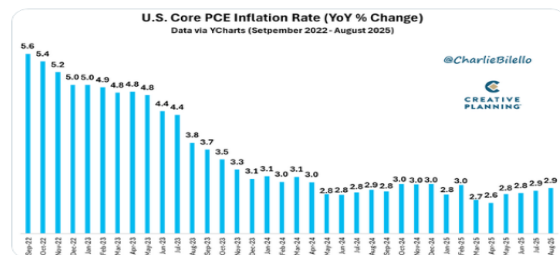
Markets continue to scale the wall of worry – worrisome geopolitical tensions, elevated valuations, out of control spending and rising debt, sticky inflation and a concentrated market. Fortunately, a dovish Fed, a resilient labor market and decent economic growth (*peaking?*) provide tailwinds to investors.

For the third quarter of 2025, the **S&P** advanced 8.1% while the **DJIA** gained 5.7%. The **NASDAQ** leapt 11.4% as the demand for AI-related tech stocks continued. International markets were strong with developed markets (**MSCI EAFE**) up 4.8% while emerging markets (**MSCI EM**) jumped 10.6%. Bond prices rallied in the quarter as the FOMC cut the fed funds target by 25bp to 4.25-4.50%. As a result, the Bloomberg Aggregate **Bond Index** finished higher by 2.0%.

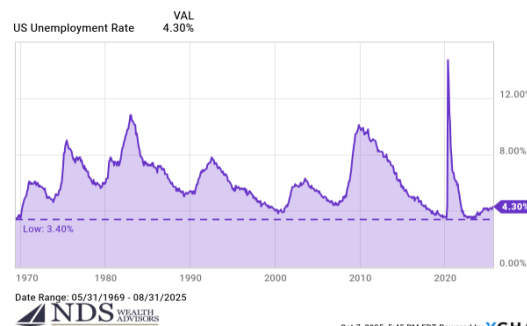
For the year-to-date period, the **DJIA** is ahead by 10.5% while the **S&P 500** is higher by 14.8% thanks mostly to the highest concentration in the top 10 S&P 500 holdings

(almost all tech) on record. The **NASDAQ** is up by 17.9% led by AI-related technology stocks. International markets are also positive as the **MSCI EAFE** index is ahead by 25.1% while the **MSCI EM** index is materially higher by 27.5%. Bond yields have moved lower this year in anticipation of the Fed's loosening of credit. As a result, the Bloomberg Aggregate **Bond Index** is positive by 6.1%.

Earnings, jobs, inflation and the Fed were front and center on investors' minds during the third quarter. The Fed's preferred inflation – PCE – (*see below*) has trended gradually higher recently due mostly to tariff impacts (which should be transient). August core PCE (personal consumption expenditures) came in at 2.2% month-over-month and 2.7% yoy. The Fed's inflation target remains 2% so Chair Powell will need to balance evidence of a softer job market with inflation still above target.

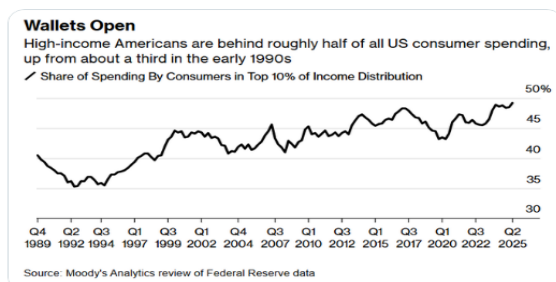


Job growth slowed markedly during the quarter as employers reacted to tariff-induced rising input costs. As a result, the unemployment rate (*see below*) moved slightly higher to 4.3%.

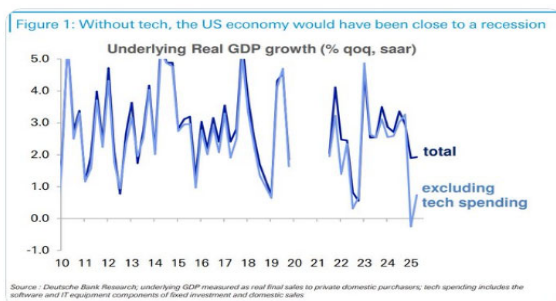


3rd Quarter
2025

Despite tepid job growth, consumer spending remains surprisingly strong, thanks to high-income consumers (*see below*).



U.S. GDP growth (*see below*) continues to impress thanks to technology spending. The Atlanta GDPNow estimate for 3rd quarter real GDP is 3.8%. We expect economic growth to moderate in the fourth quarter.



OUTLOOK

As we turn the page to Q4, it's worth remembering that in Austen's world, clarity often follows conflict. While euphoric sentiment can fuel short-term gains, it also signals elevated risk. Historical data show that excessive optimism often proceeds market corrections. Let's not forget that the average intra-year declines of the market are roughly 14% (which we already experienced earlier in the year). The good news – corrections, when they come, have always been temporary.

For now, don't fight the trend as the stock market's primary long-term trend remains up. The S&P 500 reached 23 new all-time highs during the third quarter. On a year-to-date basis, the S&P 500 has hit new all-time highs on 28 days or 15% of trading days. It is interesting and encouraging to see that market advances are not just confined to the S&P 500 – we are now seeing other asset classes and equity indexes moving higher. Despite myriad challenges, markets continue to find a way to

grind higher – momentum is an amazing thing (at least on the way up ...). The old expression '*don't fight the fed*' is alive and well. History indicates that the likelihood of markets finishing the year higher (after a strong first nine months) is quite strong.

Market valuations moved higher over the third quarter and remain quite stretched. The S&P 500 is trading at 22.8X forward earnings versus the 30-year average of 17.0X, according to FactSet. For perspective, a plus-1 standard deviation of the 30-year average yields a market multiple of 20.3X. Interestingly, the top 10 stocks in the S&P 500 are trading at 29.9X while the remaining stocks are trading at 19.5X – both at premiums to their long averages of 20.6X and 15.8X, respectively. As of September 30th, the top 10 stocks in the S&P 500 represented 40.4% of the market's overall market capitalization while their earnings represent 32.5% of the S&P 500's earnings!

Bond prices moved higher in the quarter in anticipation of the Fed's 25bp rate cut and sluggish labor growth. We expect one more rate cut of 25bp by the Fed before year-end. With the bond market's recent rally, it is unlikely that the bond market rallies much from here. Expect to receive only your coupon.

Small and mid-cap equities finally caught a bid during the quarter. We anticipate adding to this space once signs of a sustained economic rebound surface. *International equities* – both *developed* and *developing* are attractive as their valuation gap to U.S. equities remains compelling. A weakening dollar will continue to help international securities. Again, we believe that *large-cap domestic companies with higher quality attributes* should continue to provide steady market returns over time. High quality stocks (high return on equity, strong balance sheets, low debt, etc...) tend to outperform as markets broaden out and the economy slows down, and they remain core positions in client portfolios.

We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance. Expect to see some rebalancing of portfolios during the quarter.

Enjoy the Fall!

Massive Tech Spending

For now ...

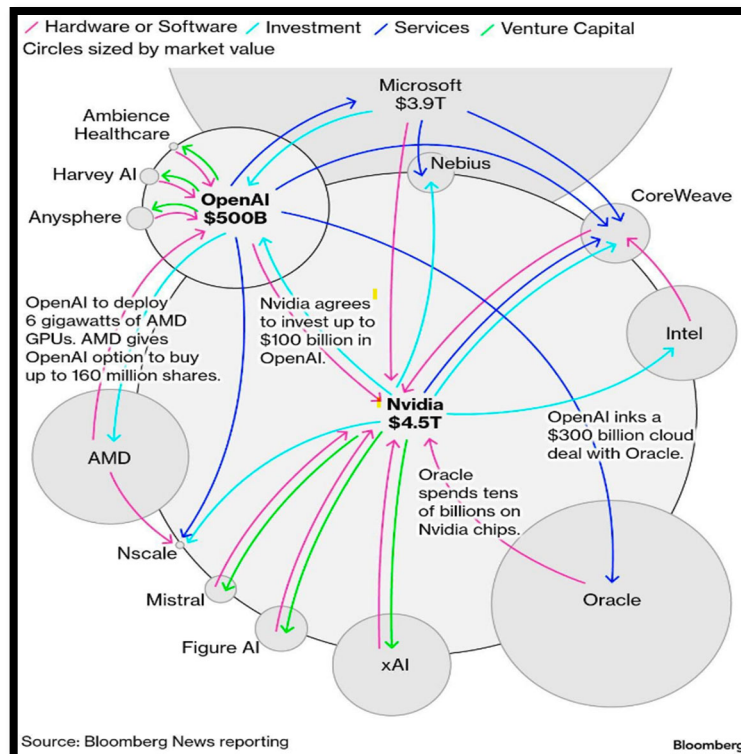
Breaking Down the “One Big Beautiful Bill Act (OBBBA)”

After much drama and debate over the scheduled sunset of the Tax Cuts and Jobs Act (TCJA) at year-end 2025, the anticipated legislation extending and replacing the TCJA – also known as the One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025.

At its core, OBBBA makes permanent many of the provisions of the original TCJA’s tax brackets, increased standard deductions, Section 199A deduction for Qualified Business Income (QBI), and increased Child Care Tax Credit (\$2,200 Indexed to Inflation). All of these received some minor tweaks but remain mostly how they were under the TCJA. Below are some of the highlights:

- **Standard Deduction Permanently Increased:** The Standard Deduction will receive a slight increase from 2025 levels and will be adjusted for inflation permanently moving forward. Section 70103 creates a temporary additional deduction for seniors over 65 years from 2025 through 2028. The new deduction is set at \$6,000 for single filers or \$12,000 for joint filers if both spouses are 65+. There is a phase-out of the deduction that begins \$75,000 (AGI) for single or \$150,000 for joint filers.
- **State and Local Tax Deduction (SALT):** Good news regarding the deductibility of State and Local Taxes. The OBBBA increased the limit from \$10,000 to \$40,000 (adjusts 1% for inflation) through 2029, then reverts back to \$10,000 in 2030. Phaseout limits apply.
- **Charitable Contribution Deduction for Non-Itemizers:** The Cares Act of 2020 created a deduction for Charitable gifts for non-itemizers. The maximum limit was increased to \$1,000 for single filers and \$2,000 for joint filers.
- **Estate Tax Exemption Raised to \$15m Per Person:** One of the biggest items in the bill from an Estate Planning Perspective was the gift and estate tax exemption. Under the OBBBA, the lifetime gift and estate tax exemption was increased to \$15,000,000 per person (\$30,000,000 per couple) starting in 2026, with further inflation adjustments in the years after.

How NVDA and OpenAI are Fueling The A.I. Money Machine

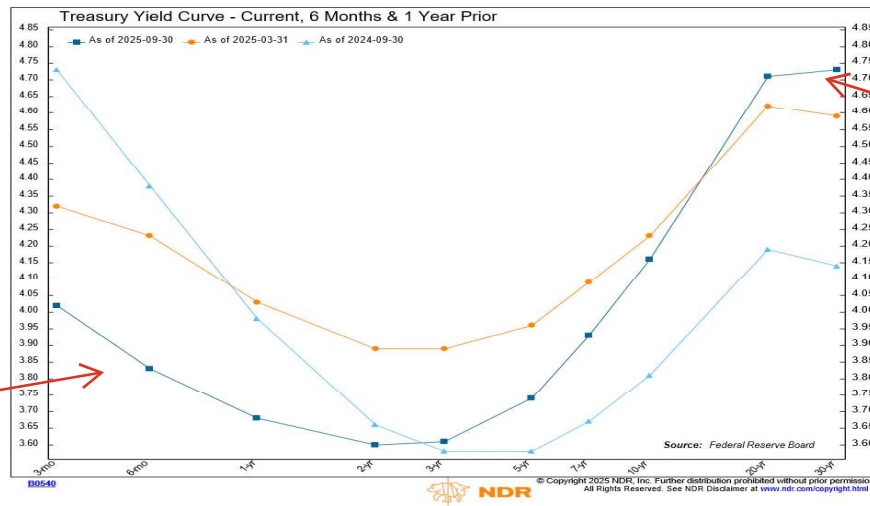


3rd QUARTER 2025 SCOREBOARD

Index	Close	3 rd Quarter % Change	Year-to-Date % Change
DJIA	46397.9	5.7	10.5
S&P 500	6688.5	8.1	14.8
NASDAQ	22660.0	11.4	17.9
Russell 2000	2486.4	12.4	10.4
MSCI EAFE	10113.4	4.8	25.1
3 Month T-Bill	4.02%	Fed Funds Rate	4.00% - 4.25%
5 Year T-Note	3.74%	Prime Rate	7.25%
10 Year T-Note	4.16%	Gold	\$3858.73
30 Year T-Note	4.73%	Oil	\$62.37

All yields are lower
than year-end '24

Gold is up 46% ytd while oil is down 13% ytd



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