

Q3

Economic & Market Review

Third Quarter 2025

Economic Review

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US Economy Growing Despite Job Market Slowdown

The US economy expanded at a 3.8% annualized rate in the second quarter, rebounding from its 0.5% contraction in the first quarter. The economy maintained some of its momentum in the third quarter, with consumer spending increasing 0.5% in July and 0.6% in August.

The labor market, however, showed signs of stalling. The unemployment rate ticked up to 4.3%, and job growth slowed throughout the summer. Employers added only 22,000 jobs in August after averaging over 160,000 per month in 2024.

The manufacturing sector contracted for a seventh consecutive month in September. New orders and factory employment remained subdued as the industry continues to deal with the effects of tariffs.

Federal Reserve: One Cut, Continued Caution

The Federal Reserve lowered the federal funds rate by 0.25% to 4.00%-4.25% in September, its first cut in almost a year. Policymakers cited a softer labor market as justification for the move, despite ongoing concerns of stubborn inflation. The decision to reduce the rate was unanimous, although one member favored a larger reduction (by 0.50%).

Fed Chair Jay Powell offered no preset course to future interest rate decisions, saying that the committee was now in a “meeting-by-meeting situation.” Still, the latest Fed projections show a narrow majority of members expect two additional rate cuts by the end of the year, consistent with market forecasts.

Persistent inflation was the one notable change in the Fed’s latest round of economic forecasts. Officials penciled in higher inflation in 2026 (2.6%, up from 2.4%).

Economic Review

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Europe Slows, Japan Holds Firm

Eurozone GDP expanded only 0.1% over the second quarter. The slowdown was expected, as Q1's expansion was largely supported by inventory buildups resulting from tariff front-loading. Among Europe's largest economies, GDP contracted in Germany (-0.3%) and Italy (-0.1%), but grew in France (0.3%) and Spain (0.7%).

The European Central Bank (ECB) maintained its pause on rate cuts, awaiting greater clarity on how tariffs may impact economic growth and inflation. Like the Fed, the ECB also expects slightly higher inflation ahead.

Japan's economy grew 0.5% in the second quarter, surpassing expectations thanks to rising private consumption. Exporters also raced shipments ahead of the US-imposed tariffs. Meanwhile, Prime Minister Shigeru Ishiba's sudden resignation added political uncertainty, raising concerns that delayed fiscal measures could weaken business and consumer confidence.

The Bank of Japan (BOJ) left policy rates unchanged, with Governor Ueda reaffirming that future rate hikes will align with progress in economic activity and prices. He noted that Japan's inflation is largely driven by food prices, especially by temporary supply shocks in rice, which he expects will ease over time.

Emerging Markets Growth Continues

China's GDP grew 5.2% year-over-year in the second quarter, boosted by strong global demand for the country's exports, notably electric vehicles and batteries.

India's economy expanded by 7.8% year-over-year in the second quarter, driven by strong consumer spending, tax cuts, and lower interest rates.

Brazil's economic growth slowed to 0.4% year-over-year in the second quarter, down from 1.4% in the first quarter, as high interest rates weighed on spending and investment. The government recently unveiled relief measures to mitigate the impact of new 50% US tariffs on a significant portion of Brazil's exports.

Market Review: Stocks

Third Quarter 2025

Stocks Rally on Fed Rate Cuts and Tech Strength

Global stock markets posted strong gains in the third quarter, lifted by the Federal Reserve's first rate cut of the year, solid corporate earnings, and strength in technology and artificial intelligence. AI enthusiasm echoed earlier waves of technological optimism, fueling investor confidence despite global economic uncertainty. Investors largely looked past mixed economic data and ongoing geopolitical risks, helping stocks extend their advance.

U.S. large-cap stocks (S&P 500) **rose 8.1%** in the quarter and are now up 14.8% year to date. Lower interest rates and solid earnings supported the rally, an apt reminder of the old market adage: don't fight the Fed. **Gains were broad-based**, with growth-oriented sectors showing particular strength.

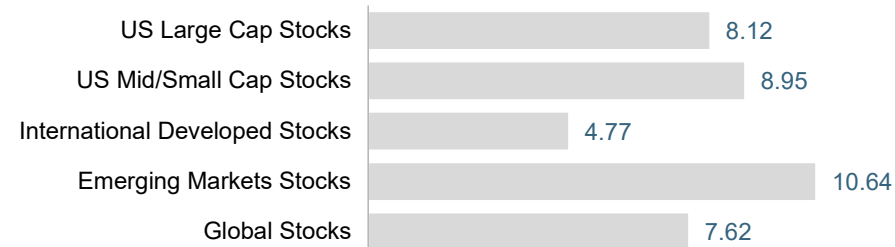
Among S&P 500 sectors, **Communication Services led the way** for the quarter (up 12.0%), **followed by Technology** (up 11.5%) **and Consumer Discretionary** (up 10.5%). Consumer Staples was weakest (down 2.5%). The quarter's results reflected investor preference for growth-oriented areas of the market, while defensive sectors lagged.

U.S. mid- and small-cap stocks (Wilshire 4500) **gained 9.0%** in the third quarter and are up 12.3% year to date. The Fed's rate cut and evidence of steadier economic growth spurred renewed interest in smaller companies, which also benefited from a rally that widened beyond the mega-cap leaders of recent years. Despite the strong quarter, performance continued to lag large-caps for 2025.

International stocks also delivered solid gains in the third quarter. Developed-market equities (MSCI EAFE), rose 4.8% (up 25.1% year to date), supported by stronger economic data in parts of Europe and ongoing policy accommodation from central banks. Emerging markets stocks (MSCI Emerging Markets), advanced 10.6% (up 27.5% year to date), led by China and several Latin American markets, where **stimulus measures and firming commodity prices bolstered returns**.

Market volatility remained contained overall. The VIX Index opened the quarter at 16.7, reached a high of 21.9 in early August, and closed at 16.3.

Returns for the Quarter (%)



Period Returns (%)

Asset Class	* Annualized			
	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	14.83	17.60	24.94	16.47
US Mid/Small Cap Stocks	12.25	16.76	19.97	13.19
International Developed Stocks	25.14	14.99	21.70	11.15
Emerging Markets Stocks	27.53	17.32	18.21	7.02
Global Stocks	18.44	17.27	23.12	13.54

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. 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: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of \$1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Full Cap Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

Third Quarter 2025

Treasury Yields Drop as Fed Resumes Rate Cuts

The US bond market delivered solid gains in Q3 as the Federal Reserve resumed easing after remaining on hold since December 2024. **Monthly payroll data indicate the labor market is softening**, leading front-end Treasury rates to price in additional cuts in late 2025. By comparison, the 10-year Treasury yield fluctuated between 4.0% and 4.5% but ended the period nearly unchanged at 4.16%. **The Bloomberg US Aggregate Bond Index gained 2.0%**, lifting its year-to-date return to 6.1%.

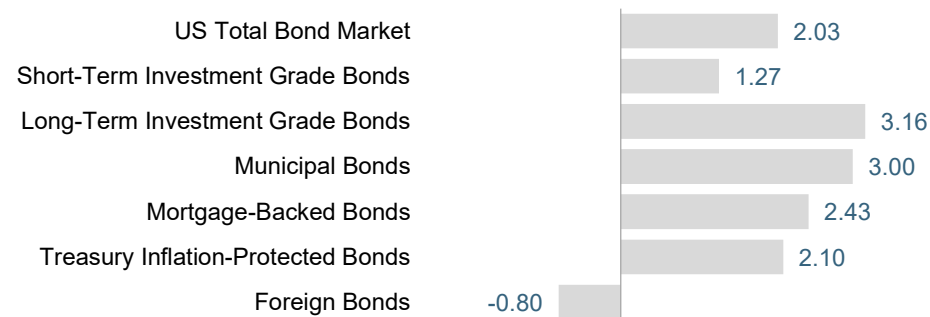
The Treasury yield curve steepened further as short-term rates dropped in anticipation of the Fed's September rate cut, while long-term rates fell only modestly as fiscal concerns remain an overhang at the long end of the curve. The 6-month Treasury bill yield declined from 4.29% to 3.83%, while the 10-year Treasury yield fell only a bit, from 4.24% to 4.16%. With policymakers seemingly focusing on weakening employment data, **the market expects two more 0.25% cuts from the Fed by year's end.**

Emerging markets bonds outperformed other fixed income sectors, gaining 4.2%. US corporate bonds had a strong quarter as **credit spreads** (the difference between yields on corporates and Treasuries) **narrowed to historically tight levels**. Long-term investment grade corporates advanced 3.2%.

After a lackluster first half of the year, **tax-exempt municipal bonds outperformed taxable counterparts**, returning 3.0%. A slower pace of issuance, attractive yields, and strong credit fundamentals fueled renewed demand for munis during the quarter.

The bond market's performance in Q4 2025 will likely hinge on the pace and magnitude of further rate cuts. Tensions between the central bank's dual mandates—full employment and price stability—remain in focus. The Fed is poised to continue easing to bolster a soft labor market, but higher inflation is still possible as companies pass through tariff-related costs. While a dovish Fed provides a constructive backdrop for the fixed income market, **persistent inflation and mounting fiscal deficits may limit further yield declines.**

Returns for the Quarter (%)



Period Returns (%)

Asset Class	*Annualized			
	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	6.13	2.88	4.93	-0.45
Short-Term Investment Grade Bonds	4.87	4.12	4.92	1.39
Long-Term Investment Grade Bonds	6.64	-1.28	3.96	-4.57
Municipal Bonds	2.64	1.39	4.74	0.86
Mortgage-Backed Bonds	6.76	3.39	5.05	-0.14
Treasury Inflation-Protected Bonds	6.87	3.79	4.88	1.42
Foreign Bonds	9.00	1.26	5.17	-4.22

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Market Review: Alternatives

Third Quarter 2025

Alternatives Deliver Strong Quarter, Led by Gold's Record Rally

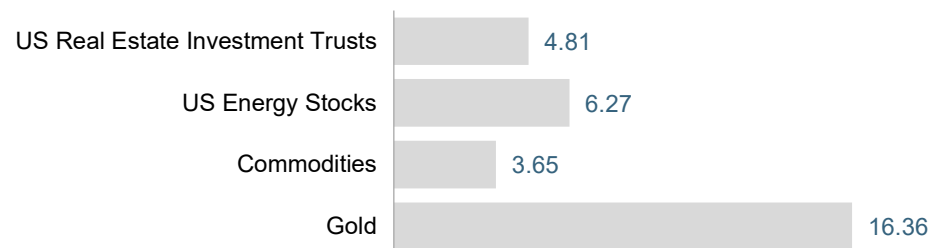
Alternative investments posted solid gains in Q3, with strength across most categories. Gold continued its exceptional run, while energy and real estate rebounded after quieter results earlier in the year. Commodities also advanced, helped by broad gains in precious metals. Together, **these results added diversification and support to portfolios** amid ongoing global economic uncertainty.

Gold surged 16.4% in Q3, **extending its remarkable year-to-date climb** to 46.5% and marking new record highs. The metal's advance was driven by expectations of additional Federal Reserve rate cuts, a weaker dollar earlier in the quarter, and ongoing central-bank demand. Continued geopolitical tension and investor caution further supported gold's appeal as a store of value and portfolio diversifier.

Energy and commodities also gained ground. Energy stocks rose 6.3%, supported in part by the broader equity rally even as oil prices declined. Crude oil began the quarter near \$65, reached a high of about \$70 in late July, and ended near \$62. The sector's relative underperformance versus the overall market reflected weaker crude prices and mixed demand signals from China and Europe. **Commodities climbed** 3.7%, bringing their year-to-date gain to 9.4%, **helped by a rally in precious metals**, particularly gold and silver, which offset softer prices in agriculture and industrial metals.

Real estate investment trusts (REITs) advanced 4.8% in Q3 after languishing for much of 2025, putting year-to-date returns at 4.7%. **The sector benefited from falling interest rates** following the Fed's rate cut, which lowered borrowing costs and improved investor sentiment toward rate-sensitive assets. Gains were strongest across the data center and industrial real estate sectors, where fundamentals and tenant demand remained supportive.

Returns for the Quarter (%)



Period Returns (%)

Asset Class	* Annualized			
	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	4.72	-1.69	10.87	9.30
US Energy Stocks	6.97	5.23	11.34	29.48
Commodities	9.38	8.88	2.76	11.53
Gold	46.52	45.45	31.77	15.18

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Market Summary

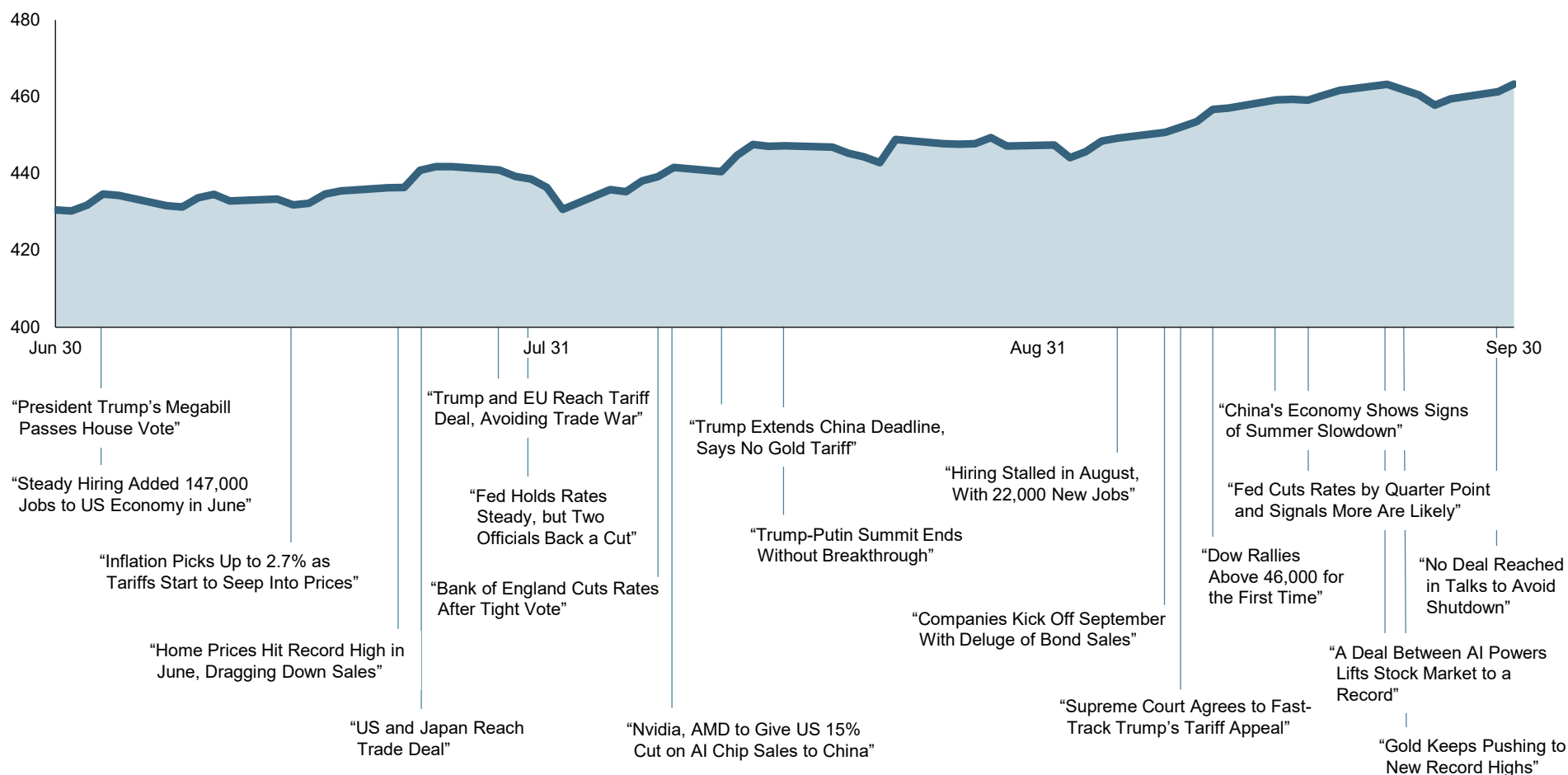
Index Returns

	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets		US Bond Market	US Dollar
Q3 2025	STOCKS					BONDS/DOLLAR	
	8.12%	8.95%	4.77%	10.64%		2.03%	0.61%
							
Since Jan. 2001							
Avg. Quarterly Return	2.5%	2.9%	1.8%	2.6%		1.0%	0.3%
Best Quarter	20.5% Q2 2020	30.3% Q2 2020	25.8% Q2 2009	34.8% Q2 2009		6.8% Q4 2023	7.1% Q1 2020
Worst Quarter	-21.9% Q4 2008	-27.9% Q1 2020	-22.7% Q1 2020	-27.6% Q4 2008		-5.9% Q1 2022	-5.8% Q2 2009

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: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2025, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2025



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2025, all rights reserved. Index level based at 100 starting January 2000.

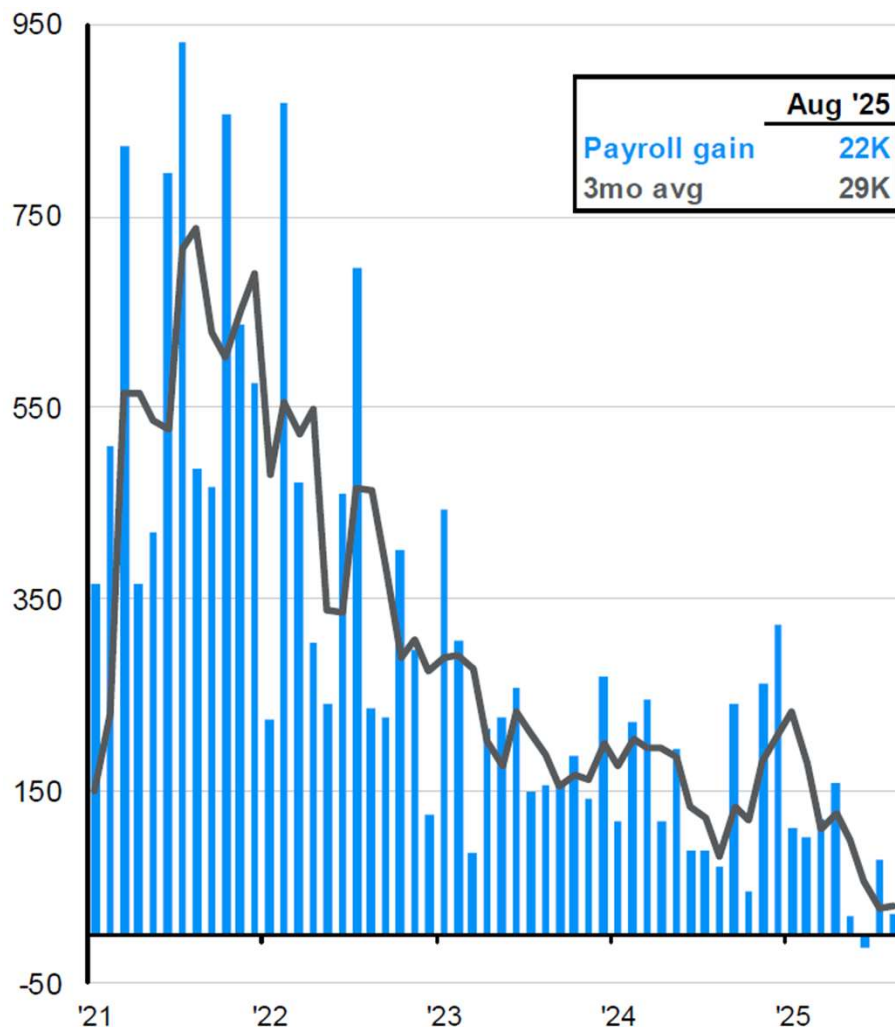
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Labor Supply

Third Quarter 2025

Nonfarm payroll gains

Month-over-month change and 3-month moving average, SA



The monthly change in the number of employees on US company and government payrolls is one of the most closely watched economic indicators in financial markets. Payroll gains are typically highest when economic growth is robust (prompting firms to hire more) and the pool of US workers is also expanding. Since the spring, jobs gains have fallen sharply, averaging only 29,000 over the three summer months. Historically, such a slowdown has signaled slowing economic growth and possible rising unemployment, risks that prompted the Fed to cut rates by 0.25% in September.

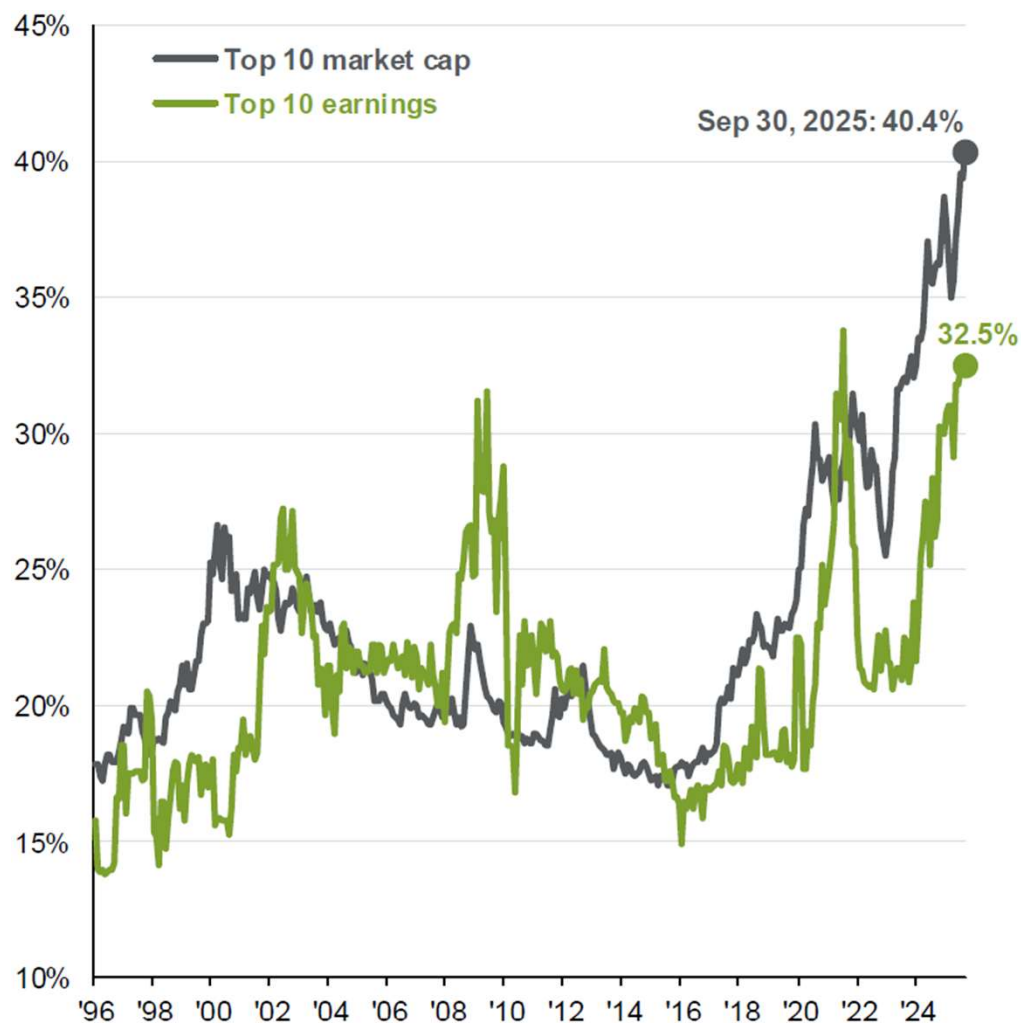
However, it's unclear that hiring has weakened solely or even primarily because of softer demand. Fed Chair Jerome Powell has pointed out that US labor force growth has also slowed, partly due to declining immigration. If both labor demand and supply soften simultaneously, the unemployment rate may stay low, allowing the Fed to proceed cautiously with further rate cuts while it keeps a close eye on inflation, including the impact of tariffs on prices.

S&P 500: Index Concentration

Third Quarter 2025

Weight of the top 10 companies in the S&P 500

% of market capitalization, % of the last 12 months' earnings



The market dominance of the ten most valuable US public stocks continues to grow. Representing only 2% of the companies in the S&P 500, these ten now account for a whopping 40% of the index's total value. As seen on the next page, the top five alone account for nearly 30% of the index value.

Increasingly, the market resembles a winner-take-all game where a handful of technology giants dwarf all other players.

Source: FactSet, Standard & Poor's J.P. Morgan Asset Management. *Guide to the Markets* – US Data are as of September 30, 2025.

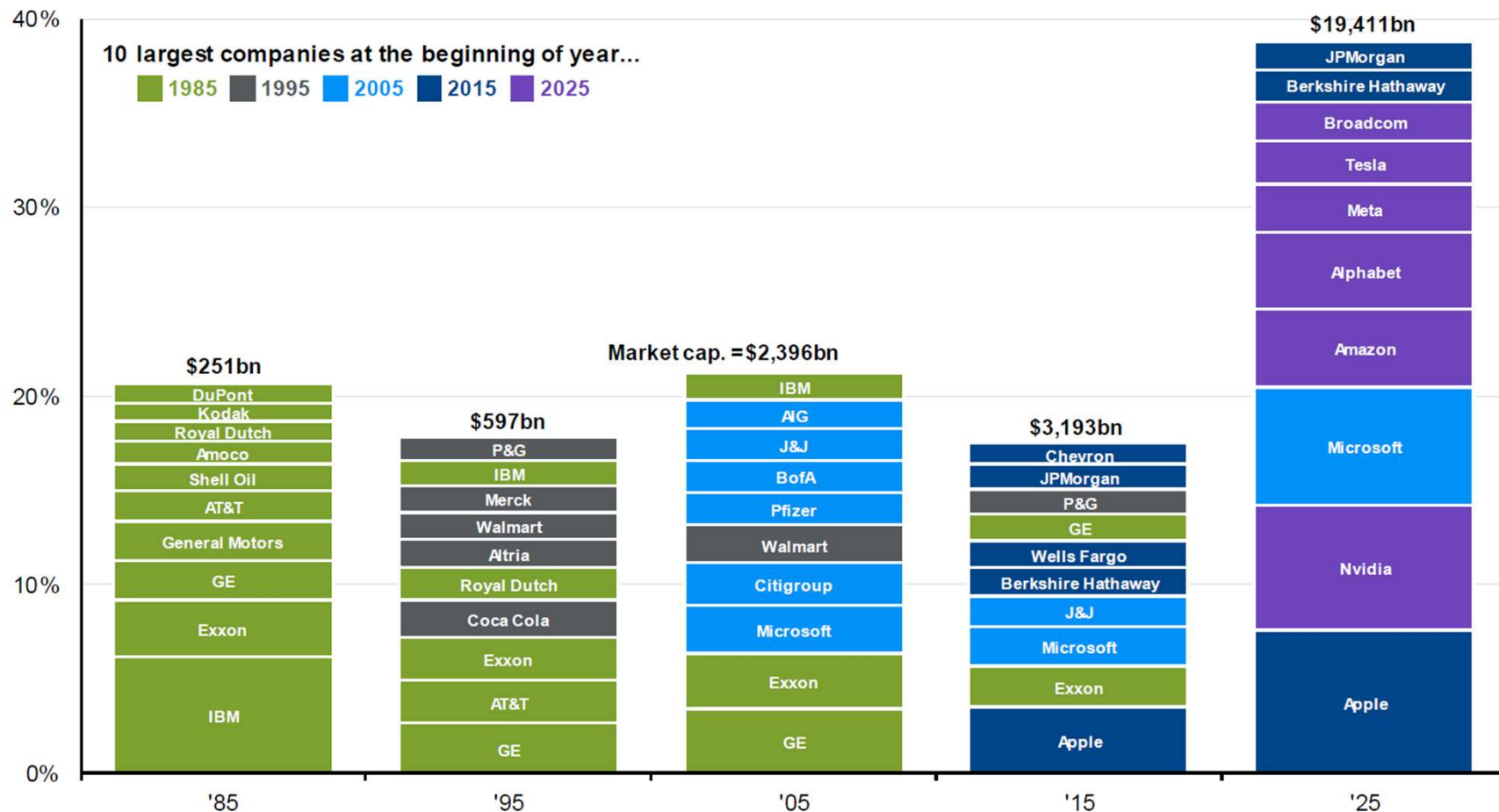
Top 10 Companies by Decade

Third Quarter 2025

Following on the previous chart, the chart below shows the composition and value of the ten largest US stocks at 10-year intervals dating back 40 years. Three things jump out. First, the top ten's dominance has grown dramatically. After averaging roughly 20% of the index value for the first 30 years, its share has doubled to 40%. Second, the dollar value of the top ten has exploded, growing more than 6-fold in the past decade. Third and perhaps most important, the names have changed. Not a single top ten company from 1985 or 1995 is among today's top ten. And Microsoft is the only 2005 member still in today's top ten. This churn reflects a dynamic economy in which the importance of industries changes through time. Below we see a transition from energy to pharmaceuticals to consumer goods, financial services, and now technology. The moral: portfolios must never become anchored to yesterday's leaders. One smart solution: index funds, which assure that investors will participate in today's leaders, as well as tomorrow's.

Top 10 S&P 500 companies by market capitalization

Percent of S&P 500 market capitalization as of the first day of the indicated year



Source: Bloomberg, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets* – U.S. Data are as of September 30, 2025.