

Q3 2025 COMMENTARY

“Run it hot” appears to be the market’s current playbook, as equity markets extended their impressive momentum to multiple new all-time highs in the third quarter, fueled by optimism that monetary and fiscal policies will sustain strong U.S. economic conditions. The S&P 500 gained just over 8% for the quarter and is now up nearly 15% year to date. From April’s lows, the market has surged 35%, highlighting robust investor sentiment despite ongoing macroeconomic uncertainties. Even amid some volatility in interest rates, bonds delivered solid returns, with the Bloomberg U.S. Aggregate Index returning 2% for the quarter and over 6% year to date.

The Federal Reserve dominated the macro narrative, cutting rates in September after a summer of shifting expectations. Fed Chair Jerome Powell’s dovish tone at Jackson Hole set the stage for the move, though uncertainty remains over the policy path ahead. Markets currently expect two additional 25-basis-point cuts by year-end.

Economic data painted a mixed picture. Labor market weakness became increasingly apparent after only 22,000 jobs were added in August, and historical revisions showed over 900,000 fewer jobs created in the year through March 2025 than previously reported. Inflation, meanwhile, remains stubbornly above the Fed’s 2% target, with both CPI and PCE running close to 3%. Trade, immigration, and fiscal implications from the OBBBA could keep upward pressure on prices into next year.

Corporate earnings continue to be a bright spot. The S&P 500 posted 11.7% earnings growth, marking the third straight quarter of double-digit gains, and more than 80% of companies beat expectations. Optimism around AI innovation helped lift sentiment, even as broader economic momentum has started to fade.

Looking ahead, investors are keeping a close eye on Washington, as a government shutdown could delay key economic data releases and weigh on consumer spending. Despite these risks, markets have remained

resilient—supported by strong corporate results and expectations that the Fed will remain flexible as growth cools.