

## Q3 2025 – Market Review and Outlook

October 8, 2025

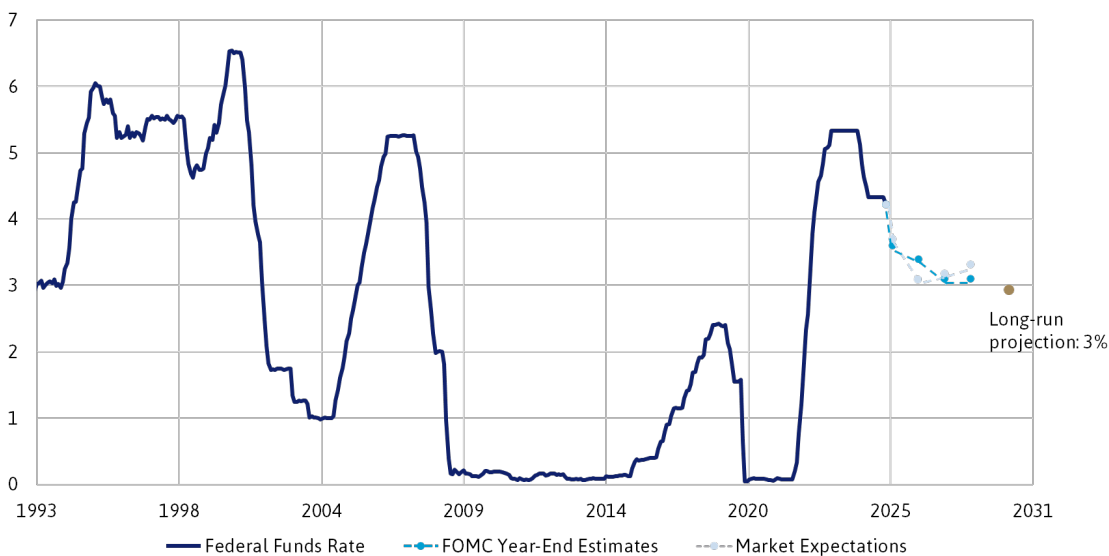
The big American companies keep on getting bigger – and better, to judge by earnings growth and market valuations. The S&P 500, led by the biggest technology companies, rose 8.1% on strong company earnings growth in the third quarter, and is up 14.8% year to date<sup>1</sup>. International stocks also performed well, up 7.1% and 26.7% over the same time periods, while core bond indices (the Barclays Agg) and stores of value (gold, Bitcoin), also climbed.

How can assets across all categories continue to do so well, in an environment where political and economic policy uncertainty, and, as of writing, a U.S. government shutdown, are elevating perceived risk levels? Implemented tariff rates are the highest they've been since the 1930s, and debt to gross domestic product, or GDP, continue to rise in United States and around the developed world.

Globally, and in the United States in particular, consumer sentiment remains weak, despite a balanced labor market and low unemployment rate and strong consumer balance sheets. High inflation (relative to 30-year norms), low housing affordability, political polarization, and concentrated income, spending and wealth, are all contributing to the sour mood.

Clearly, investors are looking past these troubles, focusing instead on the potential for two major positives – lower interest rates and higher/faster AI adoption.

The Federal Reserve began cutting interest rates in September, signaling further cuts, which market participants now expect.



Source: Bloomberg, New York Fed, J.P. Morgan Asset Management. Data as of September 30, 2025.

<sup>1</sup> September 30, 2025

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Lower interest rates could bolster the housing market, which is in any case showing nascent signs of life, as evidenced by home sales data, as well as other interest rate-sensitive parts of the economy, such as insurers, banks, auto manufacturing, and other industrials.

As for AI, related investment continues to grow at a remarkable pace, across semiconductors, data centers, power generators, and other forms of infrastructure. While the hyperscaler's annual capex growth rate - about 40% expected in 2025 - may eventually slow, the annual dollar amount - about \$370 billion - looks set to keep rising, as the companies investing to drive productivity broadens. We do remain wary of companies taking on too much leverage to build out AI infrastructure. The returns on invested capital will ultimately determine the longevity of the earnings cycle.

If history is any guide, political trouble at home and abroad, including this shutdown, won't matter much to the markets or the economy, assuming the duration of the government closure stays within the historical range (the longest on record was 34 days). That said, we view the secular escalation of political rancor and divisiveness as unhealthy for both the markets and the economy in the long term. This bears continued monitoring.

### CASH & DEFENSIVE ASSETS

Cash yields remain attractive around 4%, keeping after-tax returns roughly in line with inflation for many investors. With policy rates likely to drift lower over the near-term and the curve still embedding long-run inflation, we have maintained an intermediate duration profile in high-quality municipal and investment-grade corporate bonds where appropriate, emphasizing resilience and negative correlation potential to equities.

Municipals have become expensive relative to Treasuries for shorter maturity securities. We are focused on underlying credit quality and on thoughtfully adding intermediate exposure to lock in real yields while maintaining flexibility.

### CREDIT ASSETS

Credit spreads, or the difference between yields on Treasuries and credit risky securities, continued to narrow through the quarter but still offer income that can compound. We continue to favor diversification within credit, balancing traditional high yield and private loans owned via business development corporations with asset-backed opportunities (e.g., pools secured by real estate, autos, aircraft leases, and royalties) that can deliver attractive yields with underlying assets that may be less correlated to the corporate earnings cycle.

### DIVERSIFIED MARKET STRATEGIES

With global debt burdens elevated and deficits on a challenging trajectory, client portfolios can benefit from intentional diversification. We view gold as a strategic hedge and store of value against policy and currency regime risks amid rising central bank allocations; for appropriate investors with high risk tolerance, a small allocation to Bitcoin can function as a nascent and high volatility store-of-value complement to gold. Sizing and liquidity discipline are essential.

### GROWTH ASSETS

With forward price to earnings, or P/E ratios near multi-decade highs, there is less room for error. But corporate margins and earnings growth remain resilient. Revenues and earnings growth from the Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) have continued to outstrip the rest of the market and their margins are more than double those of the other 493 constituents of the S&P 500. But as

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described above, the Mag-7 is becoming more capital intensive. The group's ability to outgrow the broader market will depend on the return on capital of their current AI related investments.

Internationally, this year's outperformance has been driven largely by valuation expansion and currency tailwinds with earnings growth still relatively modest outside of the U.S.; durability will hinge on increasing earnings as Europe leans into fiscal support and Japan's governance reforms continue to positively impact corporate profits. We continue to favor modest international exposure but remain well underweight the 35% MSCI ACWI global benchmark allocation. We invest with active managers, with long-term records, in this space.

### PRIVATE MARKETS

Private markets remain an important complement for qualified investors able to accept illiquidity and commit to investing programmatically. In private equity, we are currently focused on buyout and growth opportunities, investing with managers able to add operational value and generate attractive long-term return streams. In private credit, senior-secured, floating-rate structures offer durable income and private real estate can provide access to income generating real assets, enhancing portfolio diversification.

### CONCLUSION

We expect the U.S. economy to remain on track into year-end, with earnings growth supported by productivity gains. Diversification—not just across assets, but across drivers of return—remains the best defense against policy swings and macro surprises. Our goal is to build portfolios on behalf of our clients that can withstand a wide range of outcomes while meeting near-term liquidity needs and long-term objectives.

### Disclosures:

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Illiquid Assets may be chosen as an asset class to allocate to investments with potential for high-growth returns. These investments have long-term investment horizons and provide limited or no liquidity. Sample assets in this class may include private equity, venture capital and illiquid real estate investments.

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