

# SC Capital Advisors Investor Insights

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3rd Quarter 2025

## 2025 3rd Quarter in Review & Outlook

"Be fearful when others are greedy, and greedy when others are fearful." — Warren Buffett

### Global Markets Advance as Concentration Intensifies

Despite a steady drumbeat of concerns about tariffs, economic uncertainty, and stretched stock valuations, the global bull market pressed on through the third quarter of 2025. As shown in the table below, both global equities and bonds delivered strong third-quarter returns, reinforcing the market's resilience despite lingering policy and valuation concerns.

Asset Class Returns 2025 (9-30-2025)

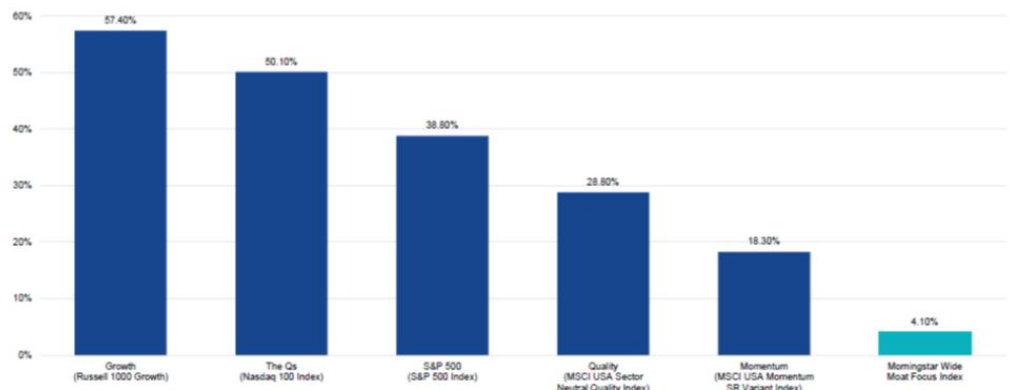
	US Large	US Mid	US Small	REITs	Intl Large	Intl Small	Em Mkts	Bonds
Q1	-4.5%	-6.1%	-9.5%	3.5%	6.9%	3.7%	2.9%	2.8%
Q2	11.1%	6.7%	8.5%	-0.4%	11.8%	16.6%	12.0%	1.2%
Q3	8.0%	5.5%	12.4%	3.1%	4.8%	6.2%	10.6%	2.0%
2025	14.6%	5.8%	10.4%	6.2%	25.1%	28.4%	27.5%	6.1%

Indexes: US Large, Russell 1000; US Mid, S&P MidCap 400; US Small, Russell 2000; REITs, DJ US Real Estate; Intl Large, MSCI EAFE; US Small, MSCI EAFE Small Cap; EM, MSCI Emerging Markets; S&P GSCI TR; Bonds, Bloomberg US Agg Bond. Source: Morningstar.

Yet beneath the surface of this optimism lies an unmistakable concentration risk: returns have become increasingly dominated by a handful of mega-cap technology and AI-related stocks. According to Morningstar, just five companies — Apple, Nvidia, Alphabet, Tesla, and Broadcom — accounted for more than 70% of the S&P 500's quarterly gain, and over half of the market's year-to-date advance.

### Major Indexes are Particularly Concentrated

Exposure to \$1 Trillion Companies / 9/30/2025



Source: Morningstar. Trillion-dollar companies comprise NVIDIA, Microsoft, Apple, Alphabet, Amazon.com, Meta, Broadcom, Tesla, and Berkshire Hathaway. Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. It is not possible to invest in an index. Not intended as a recommendation to buy or to sell any of the securities mentioned herein.

VanEck's analysis shows that trillion-dollar firms now make up more than half the weight of major U.S. indexes such as the Nasdaq 100 and Russell 1000 Growth, while the same few names appear repeatedly across popular ETFs and mutual funds. The result is an unprecedented concentration in cap-

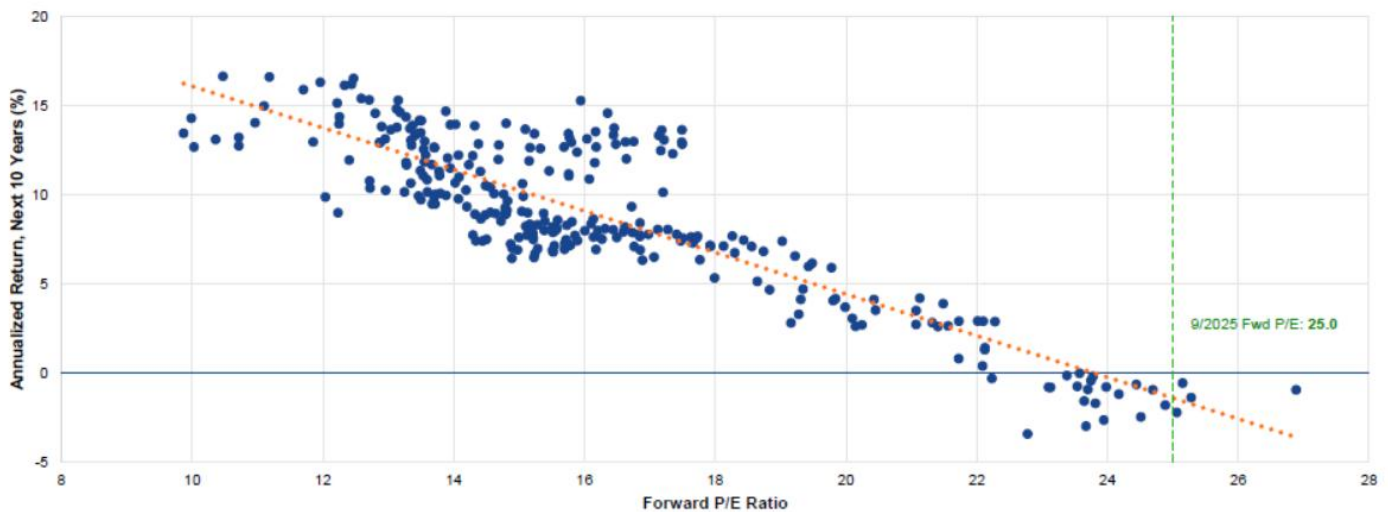
weighted benchmarks — and in the passive products that mirror them — leaving markets increasingly reliant on the continued outperformance of a narrow leadership group.

## Valuations and Long-Term Return Expectations

VanEck’s analysis, below, reinforces the historical link between **valuation extremes and forward returns**. Since 1991, periods when the S&P 500’s forward price-to-earnings (P/E) ratio exceeded roughly 22 times have been followed by **significantly lower 10-year annualized returns**, while cheaper entry points have yielded much stronger outcomes. As of September 2025, the index trades near **25 times forward earnings**, well above its long-term median. That elevated multiple implies more muted long-term gains unless earnings growth accelerates meaningfully. For investors, the takeaway is that valuation discipline still matters: maintaining exposure to undervalued areas—such as smaller-cap or “wide-moat” stocks trading below fair value—can improve expected returns while tempering the risks that accompany today’s high-priced market leaders.

## Stretched Valuations Have Led to Muted Returns

S&P 500 Index Forward P/E Ratios Relative to Future Annualized Return / 8/1991 – 9/2015



Source: FactSet; Morningstar. Past performance is not a guarantee of future results. P/E represents the ratio of price to earnings. In this case, forward P/E represents index stock prices versus forecast earnings one year into the future. Index performance is not illustrative of fund performance. It is not possible to invest in an index. Not intended as a forecast or prediction of future results.

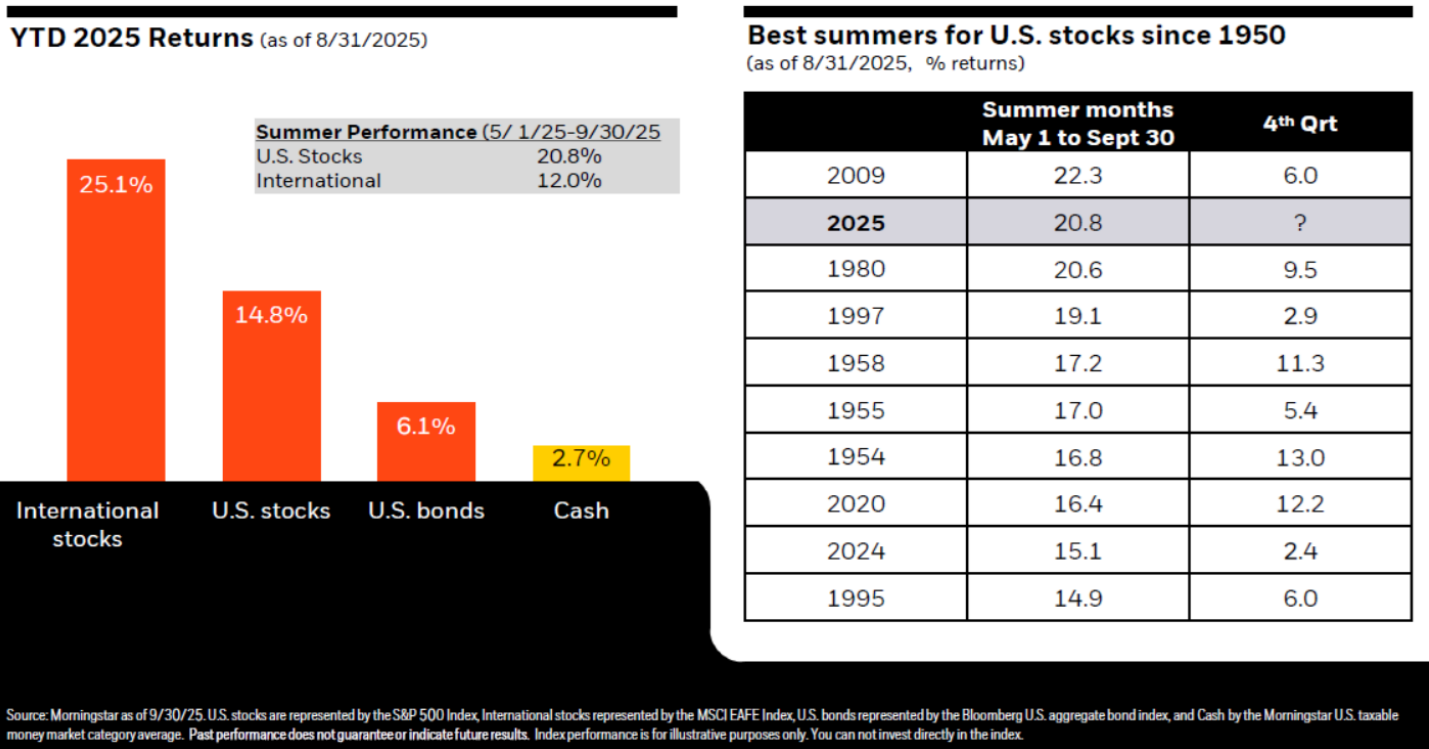
Our approach to mitigating concentration risk involves disciplined rebalancing within the Core Equity allocation — trimming outsized winners and reallocating toward high-quality companies trading at more reasonable valuations. We have also increased allocations to small- and mid-size companies representing significantly better valuations. Our largest equity ETF holding, the **Morningstar Wide Moat Focus ETF (MOAT)**, which targets attractively valued companies with durable competitive advantages, uses an equal-weight—as opposed to a market cap-weight—methodology, to reduce dependence on a handful of trillion-dollar names.

## Seasonal Strength Sets a Constructive Backdrop

Looking ahead, several seasonal and historical patterns support a constructive view as we enter the final quarter. While October has historically been one of the weakest months for U.S. equities, this year began on a notably different footing. According to BlackRock’s *Student of the Market*, the summer of 2025 ranked as the **second-strongest for U.S. stocks since 1950**, with the S&P 500 gaining more than 20% from May through September. History suggests that such powerful summer rallies have *always* been followed by further gains through year-end. Combined with moderating inflation and a Federal Reserve pivot toward rate cuts, that momentum provides a constructive backdrop heading into the final quarter of 2025—even as investors contend with stretched valuations and unprecedented concentration risk.

## 2<sup>nd</sup> best summer for U.S. stocks since 1950

History shows strong summers have always led to year-end gains.



### Limited Market Impact from Government Shutdowns

While headlines around the current government shutdown have heightened investor unease, history suggests that such events tend to have **minimal lasting impact on equity performance**. According to *BlackRock’s Student of the Market (October 2025)*, the **S&P 500 has historically averaged a +0.7% return during shutdowns**, followed by **+2.6% three months later** and a **+12.4% gain one year after**. In other words, markets have consistently looked past short-term political gridlock once funding is restored. For investors, this underscores the importance of staying invested and resisting the urge to react to headlines — a disciplined approach that has historically been rewarded with solid post-shutdown recoveries.

### A Bullish Setup: Rate Cuts Without Recession

According to *BlackRock's Student of the Market (October 2025)*, the current environment—marked by a Federal Reserve pivot to lower interest rates while the economy continues to expand—has historically been one of the **most constructive combinations for both stocks and bonds**. Since 1990, periods when the Fed has cut rates *without* a recession have produced the highest average one-year forward returns across asset classes, with U.S. stocks gaining roughly 13% and bonds 4% on average. By contrast, when rate cuts have coincided with recessions, results have been far more muted. Today's backdrop—moderating inflation, easing policy, and continued corporate resilience—suggests that the Fed's gradual easing cycle could extend the bull market rather than end it, provided growth slows but does not stall.

### Key Takeaways and Summary

- **The bull market continues climbing the wall of worry.** Despite persistent concerns about tariffs, slowing global growth, and lofty valuations, both stock and bond investors enjoyed strong results through the third quarter. The combination of moderating inflation, Fed rate cuts, and resilient corporate earnings has extended the expansion further than many expected.
- **But market leadership remains dangerously narrow.** As AI-related companies continue to dominate performance, a small handful of trillion-dollar firms now account for more than half of major U.S. index weightings. Morningstar notes that the U.S. equity market overall trades at a modest premium to fair value, while small-caps and value stocks remain attractively discounted.
- **Fixed income has quietly contributed again.** Yields declined across the intermediate part of the curve, producing solid year-to-date gains and offering better risk-adjusted returns for active bond managers. Investors who extended modestly in duration or diversified into multisector and derivative-income funds were rewarded as rate volatility subsided.
- **Valuations demand selectivity going forward.** With the S&P 500 trading near 25 times forward earnings, future returns from cap-weighted benchmarks may be more muted. Opportunities appear stronger in small- and mid-caps, international equities, and undervalued “wide-moat” companies where price-to-fair-value ratios remain below 0.85.
- **Diversification and discipline are once again essential.** The extreme concentration in market indexes underscores the importance of maintaining balance across asset classes, factors, and geographies. A thoughtful blend of quality growth, value, dividend income, and active fixed-income exposure may help investors participate in upside potential while mitigating the risks of an increasingly top-heavy market.

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#### In summary:

The third quarter of 2025 reinforced the adage that markets can stay strong even amid uncertainty—but also that strength can mask fragility. As investors look toward year-end and into 2026, the focus should shift from chasing momentum to identifying durable value and ensuring that portfolios aren't overly dependent on the success of a few dominant names.

Please let us know if you have any questions, comments, or concerns.

—Dana L. Crosby, CFA, CFP®

**ETF Returns**

For the period ending 9-30-2025

Name	Ticker	YTD	1 Month	3 Months	12 Months	3 Year	5 Year	10 Year
<b>U.S. Large Cap</b>								
iShares Russell 1000	IWB	14.35	3.31	7.92	17.53	24.40	15.82	14.88
iShares Edge MSCI USA Momentum Factor	MTUM	24.81	5.47	6.97	27.82	26.53	12.96	15.54
iShares Edge MSCI USA Quality Factor	QUAL	9.98	3.19	6.65	9.56	24.67	14.84	14.16
PowerShares S&P 500 Low Volatility ETF	SPLV	6.51	0.16	1.45	4.38	10.67	8.67	9.71
Vanguard High Dividend Yield ETF	VYM	12.61	1.88	6.36	12.93	17.55	15.13	11.86
VanEck Vectors Morningstar Wide Moat ETF	MOAT	6.89	0.63	5.67	3.61	19.58	14.03	15.04
<b>U.S. Mid Cap</b>								
SPDR® S&P MidCap 400 ETF	MDY	5.52	0.42	5.50	5.90	15.49	13.33	10.55
PowerShares S&P MidCap Low Volatil ETF	XMLV	6.82	0.05	3.80	7.15	12.51	11.12	9.26
PowerShares DWA Momentum ETF	PDP	9.90	6.10	8.82	14.67	20.89	9.35	11.74
PowerShares High Yld Eq Div Achiev™ ETF	PEY	2.60	-1.46	4.49	0.61	9.29	12.88	9.71
<b>U.S. Small Cap</b>								
iShares Russell 2000	IWM	10.36	3.18	12.45	10.73	15.12	11.43	9.71
PowerShares S&P SmallCap Low Volatil ETF	XSLV	-0.48	-1.93	2.44	-1.19	6.95	9.26	6.15
<b>REITs</b>								
iShares US Real Estate	IYR	5.93	0.06	3.09	-2.43	8.90	6.69	6.43
<b>International Large Cap</b>								
iShares MSCI EAFE	EFA	25.62	2.07	4.45	15.12	21.90	11.21	8.10
iShares Edge MSCI Intl Momentum Factor	IMTM	29.55	2.88	4.79	21.81	24.33	10.31	9.66
PowerShares DWA Developed Mkts Mom ETF	PIZ	32.98	2.96	3.81	28.46	27.36	10.74	9.44
iShares Edge MSCI Intl Quality Factor	IQLT	20.74	2.43	2.24	9.26	19.66	9.83	8.88
PowerShares S&P Intl Dev Quality ETF	IDHQ	21.29	2.51	3.10	7.46	12.92	10.15	6.36
iShares Edge MSCI Min Vol EAFE	EFAV	22.26	-0.09	0.92	14.07	17.66	7.28	6.20
iShares International Select Dividend	IDV	38.83	1.01	7.01	27.47	24.90	14.79	8.83
<b>International Small Cap</b>								
iShares MSCI EAFE Small-Cap	SCZ	28.18	1.52	5.56	17.32	19.42	8.29	7.71
WisdomTree International SmallCp Div ETF	DLS	30.30	1.39	6.67	20.27	20.74	10.36	7.63
<b>Emerging Markets</b>								
iShares MSCI Emerging Markets	EEM	28.91	7.10	10.70	19.55	18.18	6.29	7.37
PowerShares S&P Em Mkts Low Volatil ETF	EELV	17.93	2.51	3.10	7.46	12.92	10.15	6.36
PowerShares DWA Emerging Markets Mom	PIE	28.73	4.04	16.91	20.22	16.70	7.23	6.97

Data source: Morningstar

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