

# Quarterly Market Update

## Third Quarter 2025

The summary below is for educational purposes only. Please call us with any questions and if you would like to schedule a review or discuss other financial matters.

### Government Shutdown

The U.S. government shut down on October 1 due to Congress's failure to pass the necessary funding bill for the new fiscal year.

A government shutdown generates plenty of political theater, but its economic bite tends to be limited, and with it, the impact on the stock market. Historically, markets have largely shrugged off shutdowns, as they rarely cause significant disruptions to the broader economy.

Index	Q3 Return*		YTD Return*
DJIA <sup>1</sup>	+5.22%		+9.06%
NASDAQ Composite <sup>2</sup>	+11.24%		+17.34%
S&P 500 Index <sup>3</sup>	+7.79%		+13.72%
The Global Dow <sup>4</sup>	+7.27%		+21.72%
Bond Yields	Yield as of Sept 30	& Q3 Change*	Yield as of Dec 31, 2024
3-month T-bill	4.02%	-0.39%	4.37%
2-year Treasury	3.60%	-0.12%	4.25%
10-year Treasury	4.16%	-0.08%	4.58%
30-year Treasury	4.73%	-0.05%	4.78%
Commodities	Price as of Sept 30	& Q3 Change*	Price as of Dec 31, 2024
Oil per barrel <sup>5</sup>	\$62.37	-\$2.74	\$71.72
Gold per ounce <sup>6</sup>	\$3,873.20	+\$565.50	\$2,641.00

Sources: U.S. Treasury, MarketWatch \*Q3: June. 30, 2025 – Sept 30, 2025, and YTD: Dec. 31, 2024 - Sept 30, 2025

Chart reflects price changes, not total return because it does not include dividends or splits.

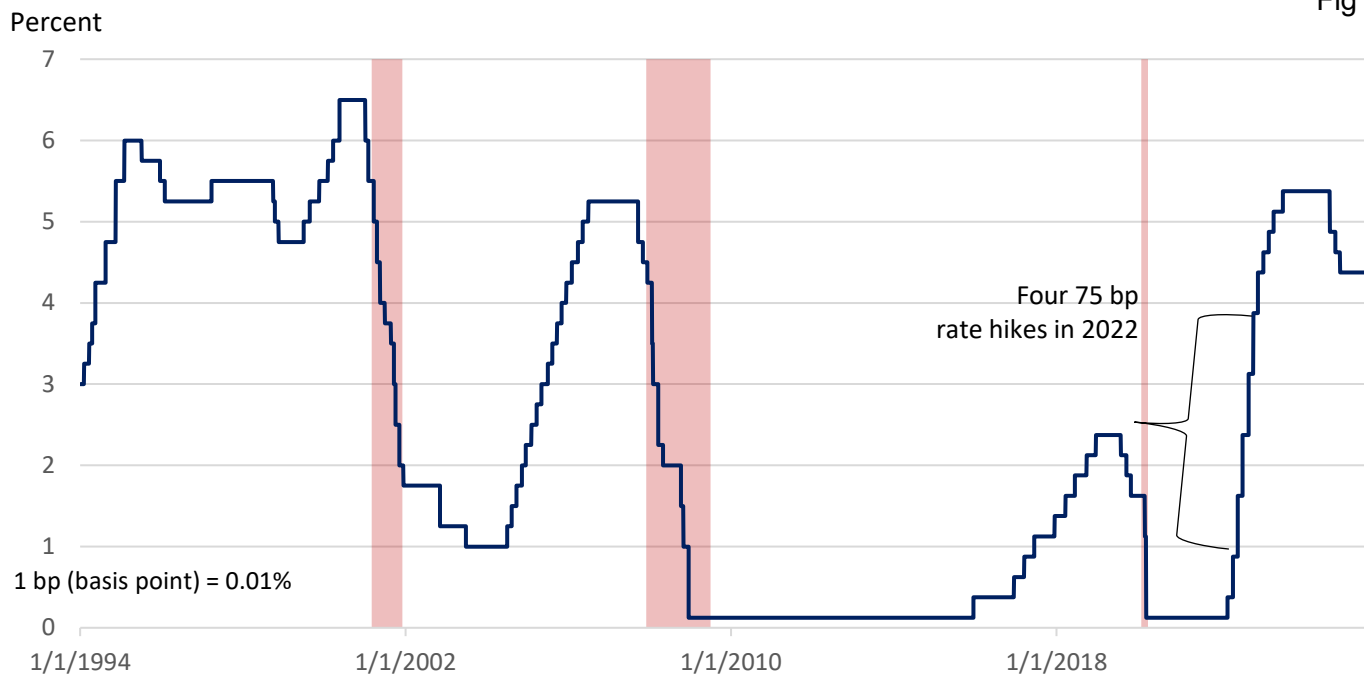
### Rate Cut Roulette: What the Fed's Latest Move Means to You

The Federal Reserve surprised virtually no one last month when it announced a cut to its benchmark interest rate - the first since last December.

The only real suspense was whether the reduction would be a bold half-point or a more cautious quarter-point. In the end, the Fed opted for the latter, trimming the fed funds rate by 25 basis points (bp, 1 bp = 0.01%) to a range of 4.00% to 4.25% (Figure 1).

## Fed Funds Rate

Fig 1



Data Source: St. Louis Federal Reserve, NBER 9/30/2025

Shaded areas mark recessions.

Starting 12/16/2008, graphic represents the middle of a 25 bp range for the fed funds rate.

It's not as if inflation is back to the Fed's 2% annual target. In fact, it's been stuck over the last year in a somewhat elevated range that's not far from 3%. As some have expected, the so-called last mile back to the target is proving to be a challenge.

What has caught the Fed's attention has been the slowdown in job creation and the slight uptick in the unemployment rate. Notably, one industry, healthcare, has contributed almost 90% of new private sector jobs this year, per U.S. Bureau of Labor Statistics data (through August). For an industry that accounts for about 17% of all private sector jobs, the current breakdown is unbalanced.

The Fed's growing concern: focus too narrowly on driving inflation back to 2%, and it risks accelerating a rise in unemployment.

Per economic theory, reduce rates and borrowing costs, and businesses and consumers might be more willing to borrow and spend. Yet, the Fed is keeping a cautious eye on inflation.

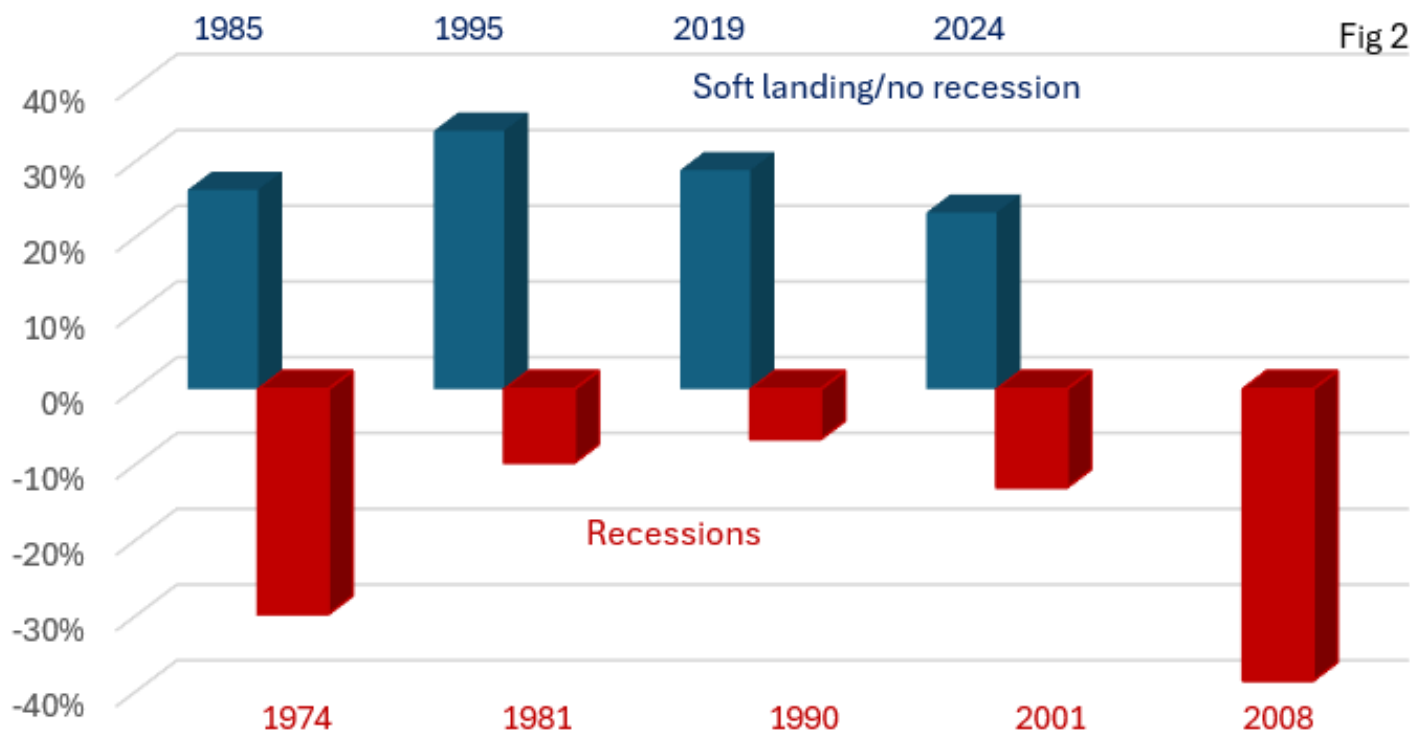
Given recent remarks from Fed Chief Powell and year-end rate projections from the Fed, the door is open to at least one more rate reduction before the year ends.

## Historical Reaction to Rate Cuts

Figure 2 illustrates market reaction to rate cuts when the economy avoided a recession and when rate cuts were unable to prevent a recession.

When the Federal Reserve 'can' cut rates (meaning inflation is reasonably under control and the economy is stable) it's often seen as a positive signal suggesting the Fed has flexibility and can proactively support growth or ease financial conditions. Investors tend to respond favorably because it implies economic growth.

## S&P 500 Annual Returns



Data Source: Macrotrends, St Louis Federal Reserve, NBER  
Returns exclude reinvested dividends. Past performance is no guarantee of future results.  
The S&P 500 Index is an unmanaged index and cannot be purchased directly.

On the other hand, when the Fed is 'forced' to cut rates (typically due to economic distress, recession risks, or financial instability) it's viewed as a reactive measure by investors and can trigger concerns about underlying economic weakness, leading to more cautious or even negative market reactions.

Put another way, a reduction in interest rates reduces competition between cash investments and stocks. With declining rates, some investors may see a move to stocks as advantageous. On the other hand, when a recession has ensued, the drop in corporate profits has more than offset any tailwinds from lower rates.

History offers an interesting split as explained in the following example.

Since 1984, the Fed has cut rates 28 times when the S&P 500 was within 3% of an all-time high, according to LPL Research.

In the 21 instances when the Fed cut rates, and a recession was avoided, (defined as cuts occurring at least six months or more before any downturn) the S&P 500 delivered an average one-year gain of 18%.

In the 7 instances when the Fed cut rates, and a recession coincided with or closely followed, the S&P 500 posted an average one-year decline of 2.7%.

Of course, this is simply a guide, and past performance is no guarantee of future results. But historical data suggests that the outlook is positive if a recession is avoided.

## A Strong Q3

The themes that supported equities during Q3 include:

1. The AI story has been a significant support to many large tech companies
2. Stubborn inflation didn't delay last month's rate cut
3. The Fed is open to at least one more reduction in interest rates this year
4. Long-term Treasury bond yields have been stable/falling
5. S&P 500 profit growth has been strong, according to LSEG
6. The economy has been expanding

As we move forward, the focus remains on the labor market, which could play a key role in shaping the Fed's next steps.

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**Please let us know if you have any questions and if you would like to schedule a review or discuss other financial matters.**

<sup>1</sup> The Dow Jones Industrials Average is an unmanaged index of 30 major companies which cannot be invested into directly. Past performance does not guarantee future results.

<sup>2</sup> The NASDAQ Composite is an unmanaged index of companies which cannot be invested into directly. Past performance does not guarantee future results.

<sup>3</sup> The S&P 500 Index is an unmanaged index of 500 larger companies which cannot be invested into directly. Past performance does not guarantee future results.

<sup>4</sup> The Global Dow is an unmanaged index composed of stocks of 150 top companies. It cannot be invested into directly. Past performance does not guarantee future results.

<sup>5</sup> CME Group front-month contract; Prices can and do vary; past performance does not guarantee future results.

<sup>6</sup> CME Group continuous contract; Prices can and do vary; past performance does not guarantee future results.

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