

Third Quarter 2025 Review and Outlook

This quarter was all about AI. A continuing boom in datacenter and chip spending and investment drove enthusiasm for all things AI. Key players announced significant investments and partnerships to get ahead of the anticipated demand for artificial intelligence in the future. This enthusiasm for AI drove the market higher. This was further supported by a 25-basis point cut in interest rates by the Federal Reserve. Against this backdrop, the S&P 500 was up 8.1%, the DJIA was up 5.7% and the NASDAQ advanced 11.4% for the quarter. The Bloomberg Aggregate Bond index advanced 2%. Growth stocks continued to outpace value, but small cap value outperformed large cap value during the quarter. International stock markets were all positive with the exception of India. All of the bond categories were positive for the quarter as well. Gold also performed extremely well. Historically, gold has performed well when other risk assets (stocks) have declined. Its outperformance this year in conjunction with increases in the stock market is unusual. That said there is speculation that this phenomenon is being driven by investors move away from sovereign debt (US Treasuries) due to lack of faith in those assets due to ever increasing deficits.

All of this good news in the markets ran contrary to a disappointing jobs report, declines in consumer confidence, industrial production and a moribund housing market. While GDP surprised slightly to the upside (2.8%) for the quarter, it is still unclear what the full impact of tariffs will be on consumer spending, business profitability and inflation.

On the geopolitical front, the war in Ukraine became a focal point once again as Russian drones were shot down over/near NATO countries. An escalation here is a concern. In the conflict in Gaza, a proposal put forth by the Trump administration shifts the onus to HAMAS to release the hostages and step up to begin negotiations to end the conflict.

As always, China, Russia, Iran and North Korea are waiting in the wings to work together to advance their own agendas and priorities. This remains a potential risk factor.

Lastly, the US government shut down and the markets barely blinked.

	QUARTER Ending 9/30/2025	12 MONTHS Ending 9/30/2025	THREE YEARS Ending 9/30/2025	FIVE YEARS Ending 9/30/2025
DJIA	5.7%	11.5%	19.6%	13.0%
S & P 500	8.1%	17.6%	24.9%	16.5%
NASDAQ Composite	11.4%	25.4%	29.9%	16.1%
Bloomberg Agg. Bond	2.0%	2.9%	4.9%	-0.5%
<i>Mutual Funds</i>				
<u>Domestic</u>				
<i>Large Cap</i>				
Growth	7.6%	21.7%	28.1%	13.7%
Value	5.5%	9.7%	17.1%	14.1%
<i>Small Cap</i>				
Growth	7.5%	8.1%	14.0%	7.7%
Value	8.3%	5.1%	14.0%	15.4%
<u>International</u>				
Europe	3.2%	17.1%	22.7%	11.6%
Latin America	7.8%	18.4%	12.9%	11.7%
Japan	8.4%	19.2%	22.4%	10.6%
Pacific ex Japan	11.4%	18.7%	17.8%	6.5%
China	21.2%	27.6%	13.0%	0.7%
India	-5.8%	-9.6%	10.8%	12.6%

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<u>Corporate Bond</u>				
Long	3.5%	1.5%	6.2%	-2.2%
Intermediate	2.0%	3.0%	5.0%	-0.3%
Short	1.4%	4.7%	5.6%	2.3%
<u>Government Bond</u>				
Long	1.9%	-3.4%	-0.1%	-8.0%
Intermediate	1.8%	2.8%	4.2%	-0.5%
Short	1.2%	3.7%	4.4%	1.2%
<u>Municipal Bond</u>				
Long	3.2%	0.3%	5.0%	0.7%
Intermediate	2.6%	1.8%	4.6%	1.0%
Short	1.5%	3.1%	3.8%	1.5%

Market Outlook

Leading economic indicators continue to trend downward and the DOW Theory (a rules-based investing program) remains in bear territory. Gross domestic product is expected to decline but remain positive for the year and into 2026. The Federal Reserve is still expected to make at least one more rate cut this year which should eventually filter into the mortgage market. However, the benefits of rate cuts will only translate into lower longer-term rates (mortgage rates) as long as the bond market continues to support purchases of longer-term Treasuries despite the growth in the US deficit.

We continue to recommend that investors maintain their asset allocation targets and keep cash/bond investments in the short to intermediate range.

MSM FINANCIAL STRATEGIES
October 6, 2025

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