

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW THIRD QUARTER 2025

What Happened:

September is historically a challenging month for the market, but not this year. In fact, all the major stock indices hit new highs in September. This market is shrugging off the proliferation of negative headlines—government shutdowns, continued wars abroad, a softening labor market and political strife in Washington D.C. Instead, the market is keenly focused on the potential of better-than-expected corporate earnings and enthusiasm over artificial intelligence (AI).

Interestingly, one aspect of this stock rally that is often overlooked is the breadth of the market's advance. That is to say, the top stock performers are not exclusively technology and AI stocks as in previous quarters. On the contrary, we're seeing strength in many sectors and stock sizes, including international stocks. This is a welcome departure from the past few years and, most importantly, a good indication the overall economy is doing well. Moreover, high market breadth is historically associated with strong forward stock returns.

Another encouraging sign is the significant inflow of money into stocks, particularly ETFs (exchange traded funds). ETFs are similar to mutual funds but offer distinct tax advantages over mutual funds. YTD inflows into ETFs are nearly a trillion dollars so far in 2025 and may surpass 2024's inflows of \$1.1 trillion. Total ETF investments have reached over \$12 trillion. That is a lot of money and suggests that investors as a whole are feeling positive about the markets.

Year-to-Date Performance Through September 30, 2025:

S&P 500 Index (large stocks)	14.8%
Russell 2000 Index (small stocks)	10.4%
MSCI EAFE Index (international stocks)	25.1%
Bloomberg U.S. Aggregate Bond Index (bonds)	6.1%

Prognosis:

We have seen many indicators that suggest a relatively stable and growing economy, including estimates of GDP growth for the third quarter ranging from 3.0% to 3.8%. Also, interest rates have fallen this year, and the Federal Reserve is expected to lower rates further in the coming months. Inflation remains tame, below 3%. Personal consumption is strong.

As we look ahead, we do not foresee any significant headwinds for stocks. Stock valuations are on the high side in historical terms, but any concerns will be tempered by solid earnings reports in the coming weeks. We expect impressive earnings growth overall. Stock performance will be choppy, as it usually is, but the trend should be upward. What's more, the 4th quarter is generally the best quarter for stock performance. It is a good time to be an investor.

Enjoy the fall colors! Wishing you all the best as the holiday season approaches!

SCK