Q3 Market Review
Reality Check

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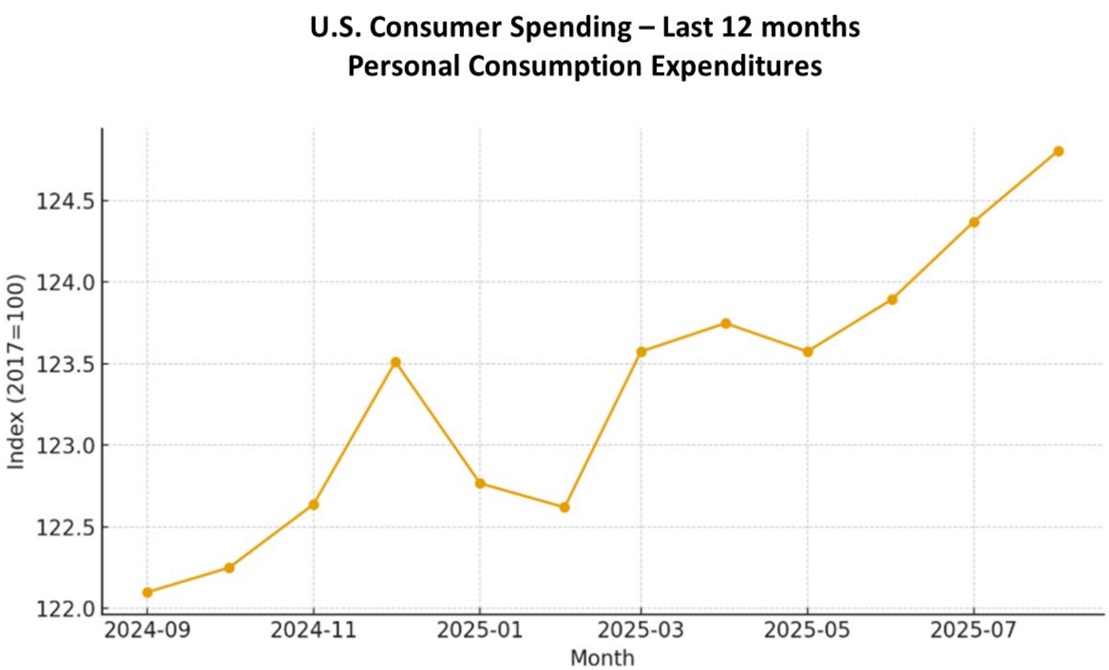
In the third quarter of 2025, U.S. equity markets posted solid gains. The rally was underpinned by stronger-than-expected corporate earnings and optimism around a pivot by the Federal Reserve toward rate cuts. The S&P 500 rose +8.1% this quarter, bringing its year-to-date return to roughly +14.8%. The Nasdaq Composite finished up +11.2% for the quarter and +17.3% year-to-date, while the Dow Jones Industrial Average was +5.7% and +10.5% respectively. Growth stocks, particularly large-cap technology names tied to artificial intelligence, continued to outpace, fueled by growing investor confidence in longer-term investments in AI infrastructure. Gains were not limited to just large-cap tech stocks as the broader market rally was supported by improving market breadth with many other sectors seeing significant gains as well. At the same time, signs of a softening labor market raised concerns about economic momentum. Despite those mixed signals, the third quarter marked a durable extension of the strong market run from the second quarter. For the fourth quarter, it is possible we'll continue to see modest gains amid a slowing economy. While a correction is possible if any headwinds crystallize, we do not believe it is imminent. As we evaluate portfolio positions, we will closely monitor several factors that could impact market performance including the U.S. economy, inflation, interest rates, consumer spending, corporate earnings and, of course, the opportunities and risks associated with the Magnificent Seven's continued dominance.

The Economy

While official data for the third quarter are still in flux, indicators suggest the U.S. economy continued to grow, but at a modest pace. The Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters projects real GDP growth at about 1.3% annualized and consumer spending continued to climb, per *Figure 1*, ahead of expectations.

Figure 1



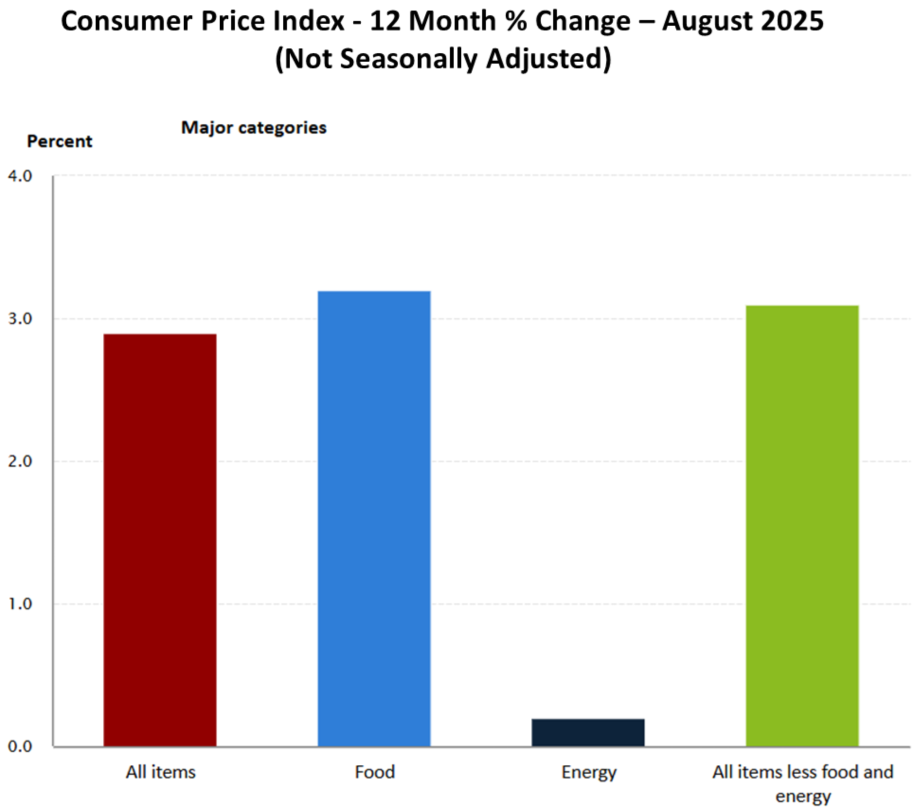
Source: Bureau of Economic Analysis

Business sentiment and hiring appear to be cooling, according to the Bureau of Labor Statistics, and continued uncertainty from tariffs and monetary policy is dampening investment momentum. Overall, data suggests that the economy is holding up well enough to avoid recession but not accelerating strongly. Continued growth is likely, but we believe it will be well below earlier peaks and highly dependent upon consumer outlays and pockets of investment.

Inflation and Interest Rates

With the Fed holding rates steady at 4.25%–4.50% in late July – and then trimming 25 bps to 4.00%–4.25% in mid-September – financial conditions eased a touch at quarter-end but remained restrictive enough to cool interest-sensitive sectors like housing and big-ticket durables while, at the same time, allowing capex tied to AI and infrastructure to keep humming. Inflation progress was mixed. Headline CPI for "all items" re-accelerated from 2.7% YoY in July to 2.9% in August (*Figure 2*) leaving the Fed cautious about declaring mission accomplished. At the same time, the continuation of Section 301 tariffs—especially the 2024 increases on targeted Chinese goods rolling through 2025—kept a floor under prices in select categories (EVs, batteries, solar inputs), tilting relative prices and nudging supply chains toward

Figure 2



Source: Bureau of Labor Statistics

domestic and non-China sources without yet generating broad-based inflation. Interpreting September's end-of-quarter inflation pulse was complicated by the temporary delay of the September CPI due to federal government shutdown, but the policy takeaway was clear to us: tariffs sustained micro-level price pressures while still-high policy rates restrained aggregate demand, producing a late-quarter glide toward disinflation rather than a sharp slowdown.

The Consumer

Consumer sentiment remained weak and broadly deteriorated in the third quarter. Per *Figure 3*, the all-items Index of Consumer Sentiment declined from 61.7 in July to 58.2 in August, and further to about 55.1 in September — the lowest level since May. This drop reflects growing unease among households about current economic conditions, future job prospects, inflation and business risks. The Current Consumer Expectations and Economic Conditions sub-index both fell as well to 51.7 from 55.9, and 60.4 from 61.7, respectively. With consumer sentiment stuck in the mid-50s, households appear increasingly cautious about making major purchases and are more attentive to inflation, job security and broader macro risks. This suggests to us that the backdrop for consumer spending may be under pressure heading into the final quarter of the year.

Figure 3

University of Michigan Consumer Sentiment Survey

Consumer Sentiment as of: September 2025	55.1
Consumer Expectations as of: September 2025	51.7
Current Conditions as of: September 2025	60.4

Source: University of Michigan Research Center

The U.S. Stock Market

Some Wall Street analysts are increasingly cautious, flagging that the current surge in artificial-intelligence enthusiasm is showing many of the classic signs of a bubble. Soaring valuations, aggressive deal-making and massive infrastructure spending - that isn't yet backed by proportional profits – all raise warning signals that this disconnect could lead to a sharp correction if "the math doesn't add up." At the same time, other market experts argue that while AI is over-hyped, it's not quite a simple rerun of the late-1990s internet era – citing that many leading companies are profitable, strong cash-generators and have large, real operational footprints. Jeremy Siegel, an Emeritus Professor of Finance at the Wharton School, has been one of the most respected market strategists for decades. Back in 2000, Dr. Siegel wrote a cautionary Op-Ed in the Wall Street Journal titled, "Big Cap Tech Stocks Are A Sucker Bet." The Op-Ed was timely as it was published on March 14, 2000, just 3 days after the NASDAQ average peaked at an all-time high of 5,000. It is considered by many to be one of the best market calls in history. In *Figure 4*, the table from

Figure 4

Projected Price-to-Earnings Ratios of Stocks over $85 Billion in Market Cap
March 7, 2000

Ticker (rank)	Name	Market Capitalization ($, billions)	P/E Ratio 1999	IBES Est. 5-YR EPS Growth (%)	P/E Ratio in 5-YRS 15% Return	P/E Ratio in 10-YRS 15% Return
CSCO (2)	Cisco Systems	$452	148.4x	29.5%	73.9x	40.9x
AOL/TWX (6)	America Online / Time Warner	$232	217.4x	31.5%	100.0x	51.1x
ORCL (9)	Oracle Corporation	$211	152.9x	24.9%	91.3x	60.5x
NT (13)	Nortel Networks	$167	105.6x	20.7%	74.5x	58.4x
SUNW (14)	Sun Microsystems	$149	119.0x	21.1%	82.8x	64.0x
EMC (18)	EMC Corporation	$130	115.4x	31.1%	54.0x	28.1x
JDSU (27)	JDS Uniphase	$99	668.3x	44.0%	195.5x	63.5x
QCOM (30)	Qualcomm	$91	166.8x	37.3%	61.8x	25.5x
YHOO (31)	Yahoo!	$90	623.2x	55.9%	122.6x	26.8x
Stocks with P/E Ratio > 100		**$1,621**	**208.2x**	**30.4%**	**88.6x**	**47.5x**
Top 18 Tech Stocks (Market Cap)		**$3,554**	**125.9x**	**25.2%**	**64.9x**	**43.6x**
Top 15 Non-Tech Stocks (Market Cap)		$2,361	30.4x	13.7%	23.8x	20.3x
S&P 500 Index		$11,381	28.6x	12.5%	23.8x	21.3x

Source: Wall Street Journal

Siegel's Op-Ed article shows that – on March 7, 2000 – the Average Price/Earnings Multiple for the Top 18 Tech stocks was a 125.9 times earnings valuation. By contrast, data from JP Morgan presented in *Figure 5*, shows that – as of September 30, 2025 – the Average Price/Earnings Multiple of the Top 10 Stocks in the S&P 500 was a 29.9 times earnings valuation or just 24% of the valuation at the peak of the Tech Bubble in 2000.

Figure 5

S&P 500 Price/Earnings Multiples
January 1, 1996-September 30, 2025

	Latest	Average	% of Average
Top 10	29.9x	20.6x	145%
Remaining Companies	19.5x	15.8x	123%
S&P 500	22.8x	16.8x	136%

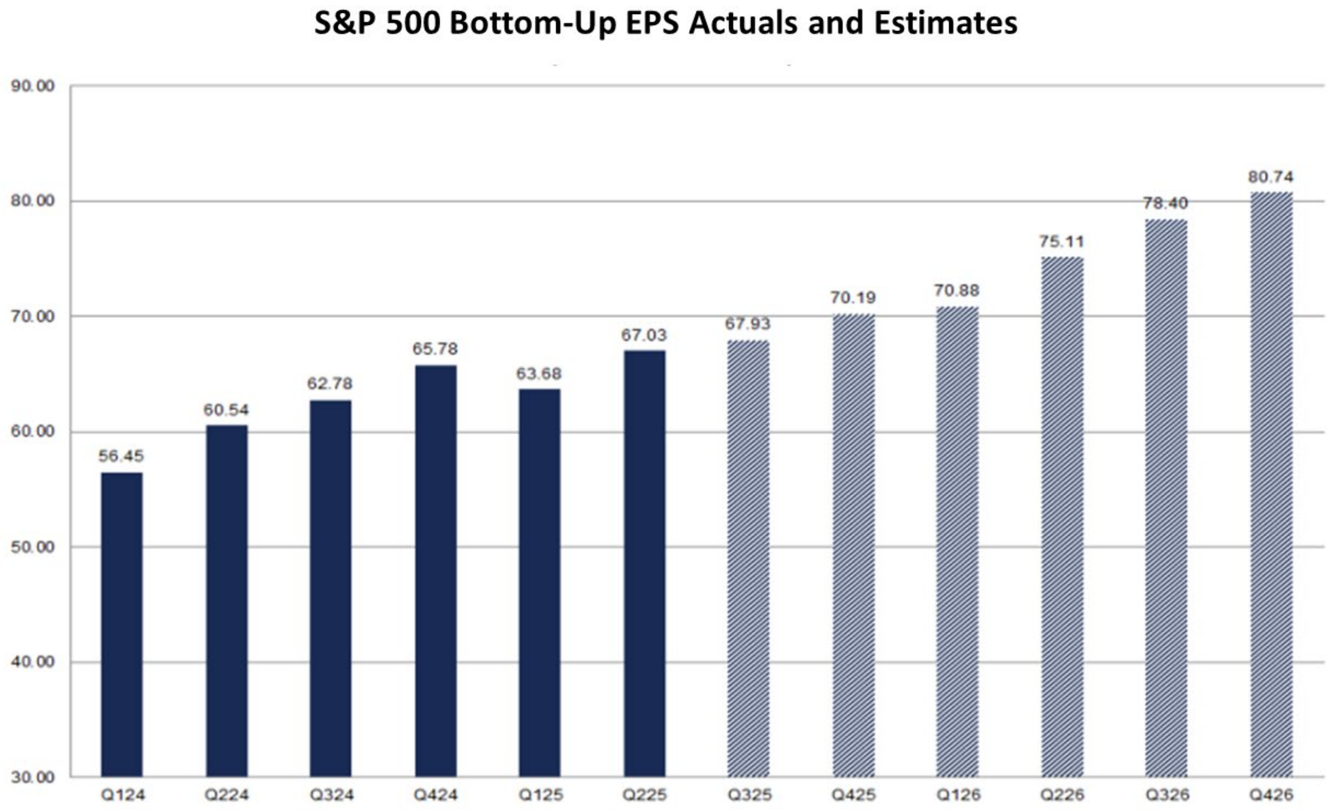
Source: JP Morgan Asset Management

While this is not an apples-to-apples comparison, the purpose of comparing *Figures 4* and *5* is to illustrate that the tech sector may not be as overvalued as some analysts anticipate and the bubble fears are not necessarily supported by all the data. As investors, it is important that we find balance between the noise and what our research is telling us and, at the moment, we believe the market may not be in the same bubble territory that it was around 1999-2000.

Earnings Projections

According to data from FactSet in *Figure 6* (following page), Wall Street analysts currently project that earnings per share (EPS) for the S&P 500 will grow roughly 8% -- 8.5% year-over-year in Q3 2025. The blended earnings growth estimate stood at about 7.9% at the end of September but has since ticked up to around 8.5%. Revenue growth expectations are more modest, with analysts expecting around 6.6% growth in revenues for the quarter. The growth is expected to be quite concentrated: the Technology sector is seen delivering the strongest earnings gain (around 21%), followed by Financials and Utilities (about 18% and 17% respectively), while sectors such as Energy and Healthcare may see year-over-year earnings declines. Despite the moderate growth forecast, analysts at Goldman Sachs believe that the consensus may be too conservative and that the underlying economy and corporate fundamentals are more resilient than many expect. They argue that analyst revisions – for the first time in years – were positive during the quarter (i.e., estimates were raised rather than cut), suggesting improving confidence. Nonetheless, elevated valuations and margin-expansion constraints may limit upside potential.

Figure 6

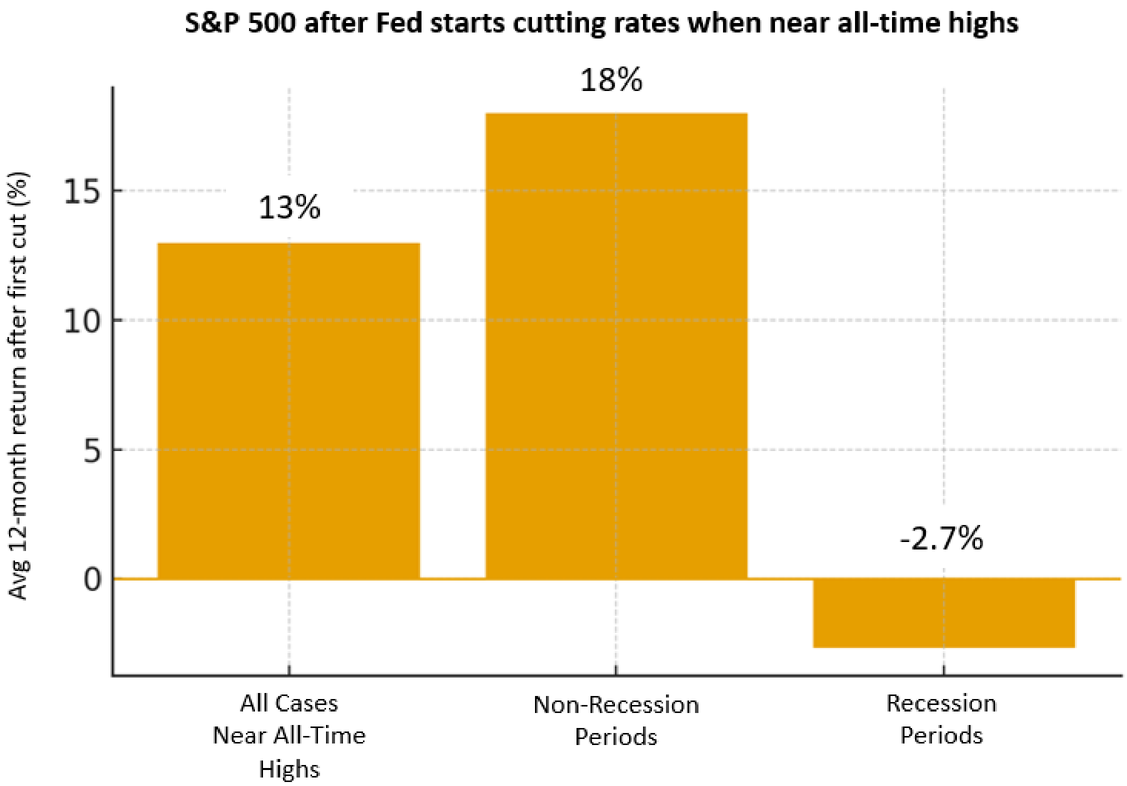


Source: FactSet

Pulling It All Together

Large-cap growth and technology names, especially those with exposure to artificial intelligence, led the third-quarter charge, even as valuations climbed ahead of long-run norms and concentration in the largest players remained elevated. At the same time, broader economic headwinds — including inflation, policy uncertainty, trade friction and modest GDP growth — have given investors a "reality check" and may temper the market's upside opportunity. Nevertheless, the Fed began to lower interest rates last month and it signaled that additional rate cuts would be made later this year. From a historical perspective, when the Federal Reserve starts cutting rates while stocks are near all-time highs, the S&P 500 tends to rise over the next year. Per *Figure 7* (following page), the average 12-month return after the first rate cut is about +13% across all such instances since 1984, +18% when the economy avoids recession, and -2.7% when cuts coincide with a recession. In other words, rate cuts near all-time highs, like the present, have usually been constructive for equities if growth holds up. The opposite is true when the cuts are responding to an oncoming contraction. For the fourth quarter, we recommend all our clients remain fully invested to their appropriate equity allocation as we believe that the current market environment will favor disciplined investors who focus on the fundamentals and remain patient.

Figure 7



Source: LPL Financial

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*GIPS Composite Data and Verification Information Available Upon Request

