



Investment Perspective

3rd Quarter 2025

Globally, equity markets continued to rise in the third quarter with the S&P 500 Index, Russell 2000 Value Index, and the MSCI EAFE Net Index rallying 8.12%, 12.60%, and 4.77%, respectively.

Easing financial conditions, combined with relatively benign inflation and employment reports, set off a powerful risk-on rally in the second half of the quarter. Investors began reducing bearish positioning, leading to a strong move in the most heavily shorted stocks and price appreciation was inversely correlated with the market capitalization of the underlying security. Such price action is consistent with broad market participants' positioning being out of step with the underlying economic fundamentals. Once the short covering and repositioning are complete, security prices should adjust back to their underlying fundamentals.

With the sharp equity market appreciation over the last two quarters, some short-term price consolidation may be necessary; however, we expect conditions to remain relatively supportive of equity markets. Inflation should continue to rise minimally over the very short term but is expected to peak at levels that will not harm equity valuations. Economic growth should also continue to improve during the fourth quarter and into the first half of 2026. The inflation and growth outlooks are already reflected in the current Treasury yield curve, as yields at the short end have fallen with rate cuts, while yields beyond three years have risen over the last twelve months.

The Bloomberg Aggregate Index and the ICE BofA 1-10 AAA-A Municipal Index advanced 2.03% and 2.26%, respectively, for the quarter. The Federal Reserve cut interest rates by 25 basis points in September, citing a slowing labor market and a relatively stable inflationary environment. The Fed indicated that more cuts are likely, but decisions will be made on a meeting-by-meeting basis, depending on the data. Currently, the market is pricing in one to two additional 25 basis point cuts by year-end, which would lower the target rate to 3.75-4.00%.

During the quarter, Treasury yields were relatively stable. Bond yields inside one-year to maturity declined approximately 25 basis points, reflecting the Fed's cut, while all other key maturity rates declined by only 5-10 basis points. Investment-grade credit spreads tightened 9 basis points during the quarter, ending at +70 basis points over Treasury yields. Credit spreads are likely to trade in a relatively tight range as growth and tariff risks are offset by strong demand for corporate bonds and potential "puts" by policymakers. With spreads still trading inside historical averages and with low volatility levels, we look to add to corporate bonds opportunistically for the balance of the year.

There were no material changes to duration during the quarter. We continue to add longer-duration bonds to our strategies to lock in attractive total returns over time.