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Major US equity indexes continued to reach record highs as September wrapped up. September has historically been a weak month for markets, as the S&P 500 has averaged a -4.2% drop for the month over the past five years. This September bucked the trend, with the S&P 500 gaining +3.7% on the month and +8.1% for Q3. The Dow gained +2.0% in September and rose +5.7% in Q3, and the tech heavy Nasdaq led the market with a +5.7% in September and +10.5% in Q3.

The S&P 500 market capitalization has increased by $15 trillion since bottoming in early April, equivalent to half of US GDP. Enthusiasm around artificial intelligence-related investments from retail investors and passive strategies have pushed the US stock markets to new records. This has been a significant boost to the US economy in terms of the wealth effect. The American economy is now closely linked to the US stock market, which is increasingly susceptible to the outcome of AI investment cycle.

The end of the third quarter saw Nvidia's announcement that it will invest as much as $100 billion in OpenAI to support the build-out of new data centers and related AI infrastructure. The news follows several other investments from Nvidia in AI-centric companies.

The AI enthusiasm has also spread to other countries, in particular China. The rally in Chinese technology stocks accelerated recently as domestic AI players are improving their self-sufficiency in advanced chips. This is on the back of the DeepSeek news at the beginning of the year, which boosted entrepreneurial confidence in China.

The Federal Reserve delivered its first 25 bps rate cut of 2025 after a long pause as insurance to tackle a weakening labor market despite above target inflation. The current median dot, which reflects interest rate projections from Federal Open Market Committee (FOMC) members, indicates two additional 25 bps cuts in 2025, followed by one each in 2026 and 2027. This long-anticipated resumption of Federal Reserve easing has provided further support for equity markets. The US Federal Reserve Chair Jerome Powell has dampened market sentiment somewhat, by pointing out the challenges that the Fed currently faces in maintaining its dual mandate in maximum employment and price stability.

Outside the equity markets, another area of strength has been the price gold as well as gold mining stocks that were long ignored. Meanwhile, the long-end of the US Treasury market remains remarkably calm, even as the US dollar remains relatively weak when benchmarked against a basket of the world's major currencies.

Turning to the broad US macro economy, one dichotomy of note has been the combination of strong GDP growth amidst a weakening labor market. The primary culprit for this divergence has been the significant GDP boost from AI-related investments, which added +0.5% to the US GDP growth in early 2025. The resiliency of such investments and the

Third Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	9/30/2025	9/30/2025	% chg	9/30/2024	% chg
DJIA	46,397.89	44,094.77	5.7%	42,330.15	11.5%
S&P 500	6,688.46	6,204.95	8.1%	5,762.48	17.6%
NASDAQ Composite	22,660.01	20,369.73	11.4%	18,189.17	25.4%
Russell 2000	6,055.28	5,405.51	12.4%	5,542.04	10.8%

	Date	1 Quarter Ago		1 Year Ago	
	9/30/2025	6/30/2025	% chg	9/30/2024	% chg
Japan Nikkei 225	44,932.63	40,487.39	8.5%	37,919.55	28.2%
MSCI EM (Emerging Markets)	1,346.05	1,222.78	10.9%	1,170.85	18.2%
MSCI EAFE	2,767.03	2,654.79	4.8%	2,468.66	15.6%
MSCI AC World	984.78	917.89	7.7%	851.78	17.8%
FTSE 100	10,671.06	9,923.86	5.6%	9,079.32	36.3%
SSE Composite Index	3,882.78	3,444.43	13.5%	3,336.50	30.0%

US Equity Sector

	Q3	YTD
Consumer Discretionary	9.5%	5.3%
Consumer Staples	-2.4%	3.9%
Energy	6.2%	7.0%
Financials	3.2%	12.8%
Health Care	3.8%	2.6%
Industrials	5.0%	18.4%
Information Tech	13.2%	22.3%
Materials	3.1%	9.3%
Communication Services	12.0%	24.5%
Utilities	7.6%	17.7%

US Equity Style

	Q3	YTD
Russell 1000 Value	5.3%	16.3%
Russell 1000 Growth	10.5%	0.1%
Russell 2000 Value	12.6%	11.7%
Russell 2000 Growth	12.2%	17.2%

Commodity Prices

	Sep 2025	Dec 2024	1 Yr. Ago
Gold	3,873.20	2,641.00	2,659.40
Crude Oil	62.37	71.72	68.17
UD Dollar Index	97.45	108.30	100.52
Commodity Index	104.63	98.76	100.34

subsequent support to the US economy will no doubt be the focus through the year end.

At the end of September, President Trump unveiled new tariffs on drugs, trucks and furniture, but the announcements did not spark the kind of market volatility seen in April. With all three major indices finishing Q3 with healthy gains, a pervasive sense of complacency is sparking caution among some investors. With increasingly rich valuations for equities, persistently high market concentration, and macro-economic uncertainty, there are reasons for some dose of caution during this period. However, we would not advise dramatic changes to investment strategies as company fundamentals remain strong.

The federal government remains closed in early October amid an impasse on Capitol Hill over competing congressional spending bills, one backed by each party. The Senate is scheduled to reconvene to put the bills to a vote in the coming weeks. White House economic advisor Kevin Hassett said that the government shutdown will cost the US GDP about $15 billion per week. Although shutdowns are not usually market-moving events, a prolonged government shutdown could spark concern given the backdrop of a slowing labor market and a potential downgrade of US credit by rating agencies. In addition, any delay in the collection of economic data resulting from the shutdown could lead to higher uncertainty and subsequently, market volatility.

With risk assets hovering around historic high valuation levels, the market remains vulnerable to a pullback. With lingering macro uncertainties, a modest or temporary slowdown could result in a mild correction in risk assets. Despite afore-mentioned headwinds, JP Morgan's market strategists noted that tariff passthrough to inflation could be partially offset by a productivity boost driven by broad AI adoption and sustained lower energy prices. This deflationary dynamic, coupled with the record-low US household indebtedness, and a declining policy rate trajectory, could be supportive for risk assets.

Third quarter earnings will start in a little over a week with the country's largest banks. Their results and outlook could help us assess whether equities still have room for upside or will give up some recent gains. Analysts currently expect the S&P 500 earnings growth of 9.4% this year,

US Treasury Bond Yields

	Sep '25	Dec '24	1 Yr. Ago
90 Day	3.94	4.32	4.61
2 Year	3.61	4.24	3.64
5 Year	3.74	4.38	3.56
10 Year	4.15	4.57	3.79
30 Year	4.73	4.78	4.13

Interest Rates

	Sep 2025	Dec 2024	1 Yr. Ago
Prime Rate	7.25	7.50	8.00
Federal Funds Rates	4.33	4.58	5.33
30 Year Fixed Mortgage Rate	6.34	6.91	6.12

Exchange Rates

	Sep'25	Dec'24	1 Year Ago
Euro per U.S. Dollar	0.851	0.966	0.896
British Pounds per U.S. Dollar	0.743	0.798	0.746
China Renminbi per U.S. Dollar	7.118	7.299	7.016
Indian Rupee per U.S. Dollar	88.789	85.614	83.801
Japanese Yen per U.S. Dollar	147.685	157.160	143.040

Economic Data

	Aug '25	Dec '24	Jun '24
Unemployment Rate	4.30	4.10	4.10

below the 14% expected at the start of the year. Still, analysts project earnings growth of 13.7% next year. Many remain optimistic that the trade negotiations will mitigate the impact of tariffs. The last reporting season provided a significant boost to equities, with S&P 500 companies delivering outstanding results.

While the past earnings season reaffirmed investor confidence, we are cautious on some of the pull-forward demand and inventory stocking related to tariffs. Valuations remain a headwind, with the S&P 500 trading at 22 times its projected earnings over the next 12 months, above a 10-year average of 19 times. As such, we continue to prefer high quality securities with consistent and growing profits as strong fundamentals will be required to generate returns from these elevated levels.

The first nine months of 2025 saw signs of a slowing labor market, uneven inflation data, and evolving expectations for the US Federal Reserve rate cuts. In addition, the US policy shifts that encompass trade, fiscal, and monetary will continue to affect consumer, business, and market sentiments. As we entered the final quarter of 2025, we remain cognizant of lingering headline risks including policy uncertainty, macro-economic conditions, and high valuations. As we navigate market uncertainties, our investment professionals continue to see opportunities, which include quality assets at attractive prices. We look forward to continuing our partnership and providing investment insights for 2025 and beyond.

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