

QUARTERLY MARKET REVIEW

THIRD QUARTER 2025



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OCTOBER 6, 2025

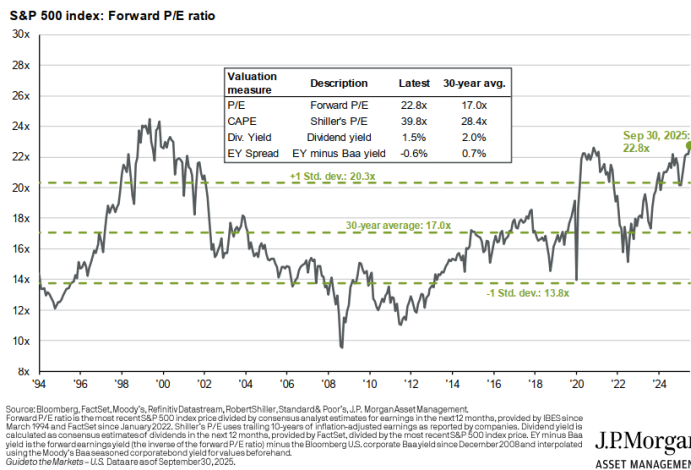
Dear Investors,

Market volatility is an inherent aspect of investing, and 2025 has reinforced this reality. While downturns—like those triggered by tariff concerns—can cause discomfort, they often present chances to purchase assets at more favorable prices. Conversely, when markets rally to all-time highs, investors may feel anxious despite solid fundamental conditions. Regardless of emotion, maintaining discipline in portfolio management is imperative to endure market volatility while keeping long-term objectives in focus.

In the third quarter of 2025, the S&P 500, Nasdaq, and Dow Jones Industrial Average posted gains of 8.1%, 11.4%, and 5.7%, respectively. All three indices set new highs in September, and year-to-date (YTD) they have advanced +14.8%, +17.9%, and +10.5%. International equity markets continue to outpace the U.S. with the MSCI EAFE and MSCI World Ex U.S. posting YTD returns of +25.1% and +26.6%, respectively. In U.S. fixed income markets, intermediate duration bonds, represented by the Bloomberg Barclays U.S. Aggregate Bond Index, returned +2.0% in the third quarter and +6.1% YTD. Gold surged to a record high of \$3,841 per ounce, marking a +16% return in the third quarter, while the U.S. Dollar continued to weaken.¹

As we enter the final quarter of 2025, investors confront contradictory indicators. The S&P 500 achieved fresh record highs in the third quarter, buoyed by robust corporate earnings and excitement surrounding artificial intelligence developments. Simultaneously, labor market conditions have deteriorated notably since early summer, sparking worries about economic fundamentals and consumer financial stability. Nevertheless, GDP expansion has remained solid, and inflation has remained relatively contained.

During contradictory market conditions, the advantages of maintaining long-term investment strategies and financial plans become particularly evident. Instead of responding to news cycles and economic data releases, the priority should be holding thoughtfully constructed portfolios capable of adapting to market transitions. This necessitates recognizing the fundamental forces that will potentially influence markets in coming quarters.

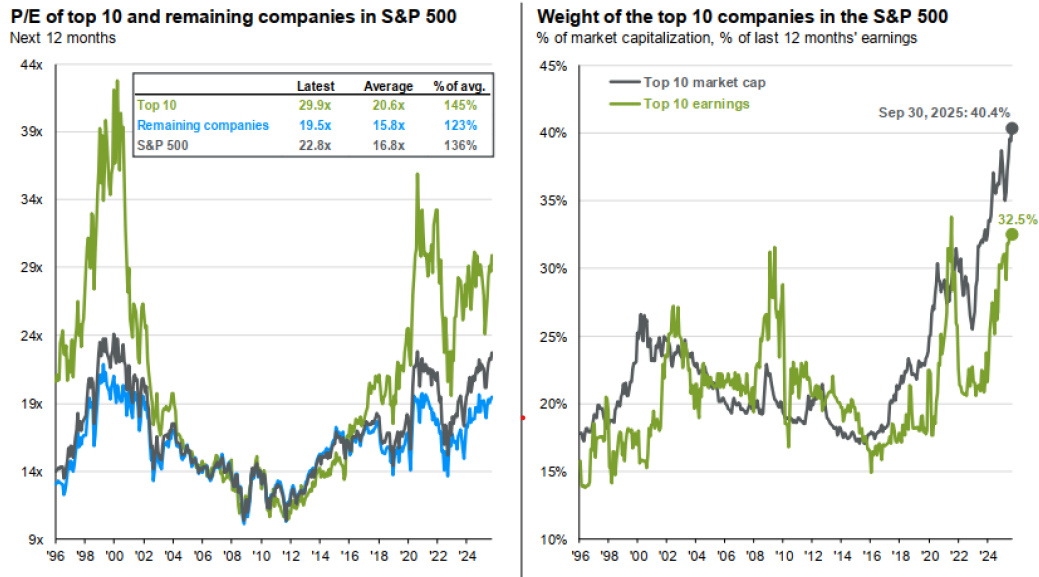


J.P. Morgan. *Guide to the Markets: U.S. 4Q 2025*. Pg. 5. 30 September 2025.

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Assessing overall market valuation levels remains crucial to long-term success, but it is equally important to analyze the underlying attribution of sectors and companies leading to said market valuation. The chart above compares current market valuation measurements versus historical levels. Valuation metrics reveal investor sentiment and expectations regarding earnings, cash flow, sales, dividends, and other corporate indicators. As the top 10 companies become a larger part of the overall index, relative to their 490 counterparts, their attribution to the overall market multiple increases. Elevated expectations on future corporate earnings, specifically for large technology companies, has led to higher current valuation multiples for the S&P 500 relative to its historical valuation over the last 30 years. The two charts below exemplify the size and influence of the top 10 S&P 500 companies on the index while also acknowledging their earnings growth and contribution.ⁱⁱ



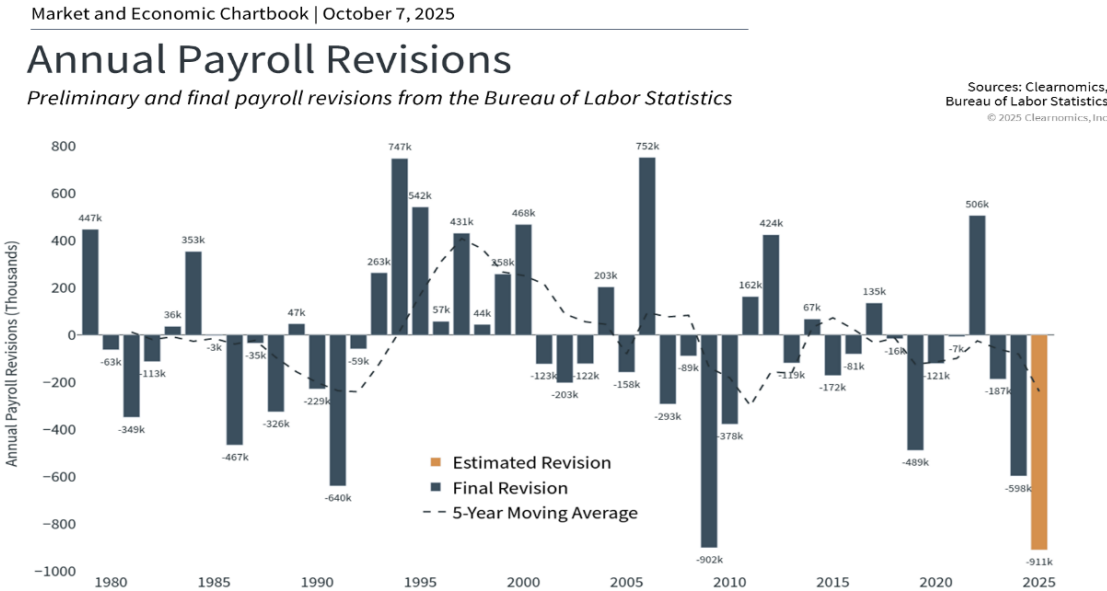
J.P. Morgan. *Guide to the Markets: U.S. 4Q 2025*. Pg.8. 30 September 2025.

These valuation levels are unsurprising given the powerful rally over the past two quarters. The S&P 500 has surged 32.9% since April 8, producing double-digit annual returns. Technology stocks across multiple sectors have spearheaded the advance, just as they led the preceding decline over the first 10 weeks of this year. Although investors increasingly question whether corporate artificial intelligence spending will yield positive revenue streams, this trend has undeniably driven continued expansion of the technology sector, broader market performance, and business capital expenditure.

In September 2025, the Federal Reserve reduced interest rates by 0.25%. This action reflects the Fed's effort to balance persistent inflation above the 2% target against weakening employment conditions. This rate cut was widely expected among market participants, so its impact was largely seen prior to the announcement itself. Additionally, the Federal Reserve officials endorsed two more rate cuts in 2025 and another in 2026. Historically, this has been a positive tailwind for equity markets and longer-duration bonds.

However, several factors distinguish this potential easing cycle. Traditionally, the Fed has implemented rate cuts in response to economic crises or recessions. While some weakness exists today, overall economic growth remains robust. Consequently, recent cuts represent a different approach: an effort to normalize monetary policy and ease labor market concerns following the aggressive tightening cycle initiated in 2022 and unknown tariff impacts. This dovish monetary policy is certainly contributing to the continued multiple expansion and market rise.

Labor market deterioration has emerged as perhaps the most significant factor influencing the Fed's decision. Although the 4.3% unemployment rate remains historically low, job creation has decelerated sharply. August recorded just 22,000 new payroll additions, substantially below the 123,000 average from earlier this year.



Clearnomics. Market and Economic Chartbook. Annual Payroll Revisions. 8 October 2025.

More significantly, payroll revisions indicate that 911,000 fewer jobs were generated during the 12 months ending in March than initially reported, as the chart above demonstrates. The Bureau of Labor Statistics annually revises payroll figures using more precise data than available during monthly releases. While preliminary, a revision of this scale would constitute the largest on record, revealing that employment conditions have been weaker than previously understood. Therefore, the Fed may be implementing rate cuts because it judges that downside risks to employment metrics and economic growth have risen.

Recent years have witnessed numerous episodes of elevated volatility stemming from inflation, trade disputes, unorthodox policy developments in Washington, Federal Reserve actions, recession concerns, geopolitical tensions, and other factors. The current government shutdown represents merely the latest event capable of disrupting markets short-term, even if long-term impacts prove limited. Similarly, tariff policy outcomes and their inflationary effects remain unclear.

For investors, this uncertainty may seem uncomfortable, yet it can fundamentally drive long-term portfolio results. Recent years illustrate the disconnect between investor fears and actual market performance. Rather than treating uncertainty as something to eliminate, successful long-term investors acknowledge it as an inherent market characteristic that generates opportunities to position portfolios for future periods.

Sincerely,

Your Sargent Investment Team

ⁱ Orion Advisor Solutions. *Blended Benchmark Performance*. 30 September 2025.

ⁱⁱ J.P. Morgan. *Guide to the Markets: U.S. 4 Q2025*. Pg.8. 30 September 2025.

Important Considerations:

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