

WAINWRIGHT INVESTMENT COUNSEL, LLC FINANCIAL MARKETS HIGHLIGHTS

Third Quarter 2025

The S&P 500 index of large and mega-sized US stocks gained 8.1% during the third quarter, bringing year to date gains to 14.8%. Technology stocks led, as has been the case, with the S&P 500 Tech sector returning 13.2%. Communication Services and Consumer Discretionary stocks followed, up 12.0% and 9.5%, respectively. The largest stocks in those sectors are Meta, Alphabet, Amazon and Tesla – pretty techy. The Magnificent Seven stocks (now Elite Eight, with the inclusion of semiconductor manufacturer Broadcom), which constitute ~35% of the S&P 500 Index, continue to benefit from their positioning as most prepared to take advantage of the artificial intelligence boom, they are not the only companies who are looking to do so. FactSet's John Butters reported that more than 40% of S&P 500 companies referred to AI during their quarterly calls.

Growth stocks outperformed Value stocks during the quarter. For example, the broad Russell 3000 Growth index was up 10.4%, nearly double the return of its value counterpart. Small-company stocks *generally* outperformed large-company stocks, which has not been the case for some time. And the international markets continued to perform nicely: MSCI EAFE index of developed market stocks and the MSCI Emerging Market stock indexes returned 4.8% and 10.6%, respectively, for

the quarter, and 25.1% and 27.5%, respectively, for the year to date.

The primary driver of stock prices is corporate earnings, and growth remains impressive. According to LSEG I/B/E/S, S&P 500 Q2 revenue and earnings grew 6.4% and 13.8%, respectively, and the outlook through 2026 is similar. Corporate earnings growth correlates with economic growth, and Q2 Gross Domestic Product grew a healthy 3.8%.

Interest rates matter too, a lot, and anticipation of the Federal Reserve's (Fed) September quarter point Federal Funds interest rate cut goosed the stock market higher. Lower rates – as opposed to higher rates - make borrowing cheaper, which is good for companies, and increase the value of future cash flows, which is good for stocks. The cut, while widely expected, was not a foregone conclusion, though, because the Fed's dual mandate of price stability (i.e., low inflation) and full employment (i.e., low unemployment) is becoming increasingly at odds.

Job growth slowed dramatically this summer. The Bureau of Labor Statistics (BLS) reported a loss of 13,000 jobs during June, the first decline since the pandemic. Weak payroll growth in August saw the unemployment rate, while still near historic lows, tick up to 4.3%, the highest since October of 2021. Recent college graduates are

Selected Index Returns (%) as of September 30, 2025 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	<u>July</u>	<u>August</u>	<u>September</u>	<u>QTR</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
S&P 500	2.24	2.03	3.65	8.12	14.83	17.60	24.94	16.47	15.30
S&P 400	1.62	3.39	0.46	5.55	5.76	6.13	15.84	13.61	10.82
Russell 2000	1.73	7.14	3.11	12.39	10.39	10.76	15.21	11.56	9.77
Wilshire US REIT Index	-0.81	4.37	1.17	4.73	4.48	-0.77	11.28	9.41	6.49
MSCI EAFE	-1.40	4.26	1.91	4.77	25.14	14.99	21.70	11.15	8.17
MSCI Emerging Markets	1.95	1.28	7.15	10.64	27.53	17.32	18.21	7.02	7.99
Bloomberg US Aggregate Bond	-0.26	1.20	1.09	2.03	6.13	2.88	4.93	-0.45	1.84
Bloomberg High Yield	0.45	1.25	0.82	2.54	7.22	7.41	11.09	5.55	6.17

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experiencing a far weaker job market than was the case pre-pandemic, and the BLS' measure of underemployment has been trending upwards since late 2022. These factors are supportive of the Federal Reserve lowering rates, but are countered by inflation which remains sticky and about one percentage point above the Fed's long-run 2% target. Fed Chairman Jerome Powell rationalized the decision to cut rates by stating that "the increased downside risks to employment have shifted the balance of risks to achieving our goals."

The Bloomberg Aggregate Bond Index returned 2.0% during the quarter, with the interest rate cut a boon for fixed income investors. Municipal bonds were the top performers (3.0%), outpacing both corporate high yield bonds (2.5%), and Treasury bonds (2.5%). The national average 30-year fixed rate mortgage fell from 6.7% to 6.3%, and the 10-year treasury yield declined slightly from 4.24% to 4.15%. Commodities had a great quarter, with the S&P Natural Resources Index outperforming the market, returning 11.7%, and Gold and Silver surged, up 16.4% and 28.4% respectively. Bitcoin, after peaking at around \$124,000 in mid-August, currently hovers around \$116,000, up ~6.5% for the quarter. Oil prices were relatively unchanged during the quarter, and economists expect them to remain steady throughout the duration of the year, despite a mounting supply from both OPEC+

and non-OPEC producers. The dollar was up modestly against a basket of major currencies during the quarter, following a weak first half of the year.

From all here at Wainwright, we wish you a happy and healthy end of your year. Please be in touch should you require anything.

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