

Quarterly Newsletter



Clients First

Transparent

Accessible

Volume XXIX

Issue III

October 2025

Market Overview

All three major averages experienced third quarter advances. However, it was the Russell 2000 that outperformed, followed by the Nasdaq, and the S&P 500. The S&P 500 continued to rally from the second quarter as the market broadened and rate cuts added fuel to the fire. The Russell 2000 led the third quarter stock gains, finishing up 12.40%, with the Nasdaq and the S&P 500 gaining 11.41% and 8.12%, respectively.

During the third quarter of 2025 technology was the best performing sector, gaining 11.45%, followed by consumer discretionary at 10.45%, and communication services by 9.45%. The best performing sectors year to date at the end of the third quarter were communication services, finishing up 23.35%, followed by technology at 21.78%, and lastly, industrials which finished in the green up 18.24%. The S&P 500 had one of the best September performance measures in the last 27 years. The tech fueled rally and AI data center theme remained strong as investors are welcoming the whole AI infrastructure build out.

The Federal Reserve ("the Fed") decided to cut interest rates in the third quarter at their September meeting. The cut was 25 basis points (.25%) leaving the effective federal funds rate at 4.00% to 4.25%. The Fed Chair, Jerome Powell, reiterated his cautious stance on inflation and began to hint at the long-term inflation rate being closer to 3%. The Fed acknowledged the weakening in the labor market as part of their dual mandate and rate cuts will now be assessed on a meeting-by-meeting basis. During the third quarter of 2025, the 10-year Treasury yield reached a high of 4.50% on 07/16/2025 and a low of 4.00% on 09/17/2025. Yields started the quarter high and fell throughout the quarter to reach a support level of 4%. The labor market fears and jobs numbers made yields retreat.

Turning to global markets, international and emerging markets experienced third quarter gains maintaining their outperformance over U.S. equity markets. The U.S. dollar had a slightly positive return of 2.34% for the quarter, but remains negative for the year. Turning to commodities, gold continued its march higher during the quarter, almost hitting \$3,900 per ounce at the peak and finished the quarter at the highs. Continued weakness in the U.S. dollar and increased purchases by global central banks allowed gold to breakout of an almost 4-month consolidation range for the next leg higher. Oil remained relatively range bound throughout the quarter with a high of \$70 a barrel and lows around \$61.50 a barrel.

Mark L. Blom, CFP® — Brent Miller, CFA® — Kirk Masci

U.S. Equity Returns Table

Source: Tamarac

U.S. Treasury Yield Table

Source: Treasury

Other Indices Table

Source: Morningstar

Index	Q3 2025 Returns	2025 Returns		09/2025	09/2024	09/2023		Q2 2025 Returns	2025 Returns
Dow Jones	5.67%	10.47%	3 month	3.94%	4.73%	5.55%	Gold (GLD)	16.61%	46.81%
S&P 500	8.12%	14.83%	2 year	3.60%	3.66%	5.03%	Brent Oil (BNO)	2.95%	0.33%
NASDAQ	11.41%	17.93%	5 year	3.74%	3.58%	4.60%	U.S. Dollar Index (UUP)	2.34%	-6.49%
Russell 2000	12.40%	10.39%	10 year	4.16%	3.81%	4.59%	Int'l Equity Markets (EFA)	4.45%	25.62%
MSCI World	7.03%	26.64%	30 year	4.73%	4.14	4.73%	Emerging Equity Markets (EEM)	10.70%	28.91%

1643 E Bethany Home Road, Phoenix, AZ 85016

Phone (602) 997-8882 Toll Free (888) 997-8882 Fax (602) 997-8887

Website: www.bfsg-az.com

Will Economic Uncertainties Derail Market Momentum?

Q3 2025 was a period of continued momentum for U.S. equity markets, building on the strong recovery from earlier in the year amid ongoing adjustments to the evolving macroeconomic landscape. Markets experienced some volatility in late July as the 8/1/25 tariff deadline loomed but quickly stabilized as initial data suggested limited passthrough of higher costs to consumers and businesses.

The S&P 500 and Nasdaq Composite indices advanced 7.8% and 4.4%, respectively, over the quarter, extending their year-to-date gains and pushing both indices to fresh all-time highs by quarter-end. This resilience was fueled by better-than-expected corporate earnings, particularly in technology and AI-related sectors, a shift toward an easing Federal Reserve policy, and signs that trade negotiations with key partners could yield partial concessions, tempering fears of broader escalation.

Recent economic indicators point to a U.S. consumer that remains durable, even as trade-related headwinds persist. The August 2025 Personal Income and Outlays report¹, released by the U.S. Bureau of Economic Analysis on 9/27/25, revealed a 0.6% increase in personal consumption versus the consensus estimate of +0.5%, with goods spending rising by 0.8% and services consumer expenditures increasing by 0.5%. The increase in goods spending was primarily driven by recreational goods and vehicles and gasoline, with lower fuel prices serving as a tailwind for both categories. On the services side of the economy, higher consumer outlays for transportation services and foods services and accommodations pushed spending higher. **Excluding the earlier tariff-front-running distortions, underlying consumption trends suggest steady expansion rather than fragility, though we remain vigilant for any sustained softening in discretionary categories.**

While the trailing consumer demand data provides support for resilient economic growth, **consumer sentiment data is far less sanguine**. The University of Michigan's Index of Consumer Sentiment Index (ICS)² fell to 55.1 in September 2025, down from 58.2 in August. The current ICS level represents a historically low level, reflecting concerns about inflation and deteriorating labor market conditions. Likewise, the Conference Board Consumer Confidence Index (CCI)³ fell to 94.2 from 97.8 in September, representing the lowest reading since April 2025, the month when sweeping new tariff policies were initially rolled out. A key component of the CCI, the Expectations Index, fell to 73.4 and has remained below the crucial 80-point threshold—which often signals an imminent recession—since February 2025.

Will consumer demand continue along its current robust trajectory or sharply deteriorate to better align with negative consumer sentiment? In our view, the answer to this question largely depends on the forward path of inflation and the health of the labor market. Beginning with the latter, **the labor market is showing more significant cracks than previously reported**. The Bureau of Labor Statistics (BLS) released its August report⁴ showing that total non-farm payroll employment changed little, increasing by just 22,000 compared to an expected gain of 77,000. In addition, the previously strong June non-farm payrolls report (+147,000) was revised down significantly to a 13,000 decline. The unemployment rate consequently ticked up to 4.3% in August 2025. Furthermore, a notable concern is the continued unevenness of job growth, with most of the gains concentrated in the Health Care and Social Assistance sectors, while goods-producing sectors have shed jobs. The share of unemployed workers who are now long-term unemployed has also risen to 25.7%, its highest level in over three years, suggesting lengthening job search times.

More recent data confirms this negative trend in employment. On 10/1/25, ADP released its September 2025 National Employment Report, which measures monthly trends in private sector employment. The report stated that the private sector shed 32,000 jobs during the month, marking the first contraction of 2025 and the largest monthly decline since March 2023. This fell well short of economists' expectations for a gain of around 50,000 jobs. The report also included a significant downward revision for the previous month. The August 2025 figure was revised from an initially reported gain of 54,000 jobs to a loss of 3,000 jobs. The ADP report served to reinforce concerns about labor market softening first raised in the August BLS report. Consequently, **recent labor market trends appear to provide support for increasingly pessimistic consumer sentiment. The open questions revolve around whether Fed rate cuts are 1) too late, and 2) if not tardy, whether the cuts will provide the labor market with sufficient stimulus to stop the bleeding.**

1643 E Bethany Home Road, Phoenix AZ 85016

Phone (602) 997-8882 Toll Free (888) 997-8882 Fax (602) 997-8887

Website: www.bfsg-az.com

Will Economic Uncertainties Derail Market Momentum? (continued)

Turning to inflation, the August PCE report offered the latest read on the Federal Reserve's preferred gauge. The headline PCE Price Index rose 0.3% month-over-month and 2.7% over the trailing 12 months, while core PCE (excluding food and energy) increased 0.2% monthly and 2.9% annually. Both measures were in line with preceding consensus estimates. Progress toward the Fed's 2.0% target continues at a measured pace, with **tariff effects appearing contained so far—likely due to supply chain diversification efforts by multinationals and competitive pricing pressures that have absorbed some cost hikes**. That said, **if retaliatory measures from trading partners intensify or businesses tire of eating the lion's share of the tariff costs, we could see upward pressure on import prices, potentially stalling disinflation or in a worst case, reigniting inflationary pressures**. For now, however, the data appears to support the Fed's pivot toward easing without reigniting price pressures.

In terms of monetary policy, the Federal Reserve held the federal funds rate steady at 4.25%–4.50% through its July 2025 Federal Open Market Committee (FOMC) meeting but delivered a 25-basis point cut to 4.00%–4.25% in September, citing cooling inflation and a potentially softening labor market. Fed Chair Jerome Powell highlighted the economy's resilience but struck a cautious tone on inflation uncertainties, noting that further cuts would depend on incoming data. The September Summary of Economic Projections⁵ now pencils in two additional 25 basis point reductions by year-end, with the next cut likely occurring at the FOMC's next meeting in late October. **I align with this view, anticipating that absent a tariff-fueled inflation spike, the Fed will prioritize supporting growth into 2026.**

Putting all of this together, I have revisited the three basis economic scenarios I introduced in my prior quarterly updates.

Upside with Episodic Volatility (Base Case):

Scenario: Continued progress in bilateral trade talks leads to targeted tariff reductions or exemptions for critical supply chains, minimizing disruptions. The labor market stabilizes and inflation trends modestly lower, giving the Fed scope to deliver two additional rate cuts by year-end. Earnings remain resilient, led by technology, communication services, and select consumer sectors.

Market Impact: The S&P 500 could advance another 4% to 6% from quarter-end levels, eyeing 6,900–7,000, while the Nasdaq Composite may target 24,000 with 6%–8% upside in Q4. Some volatility around policy announcements and macroeconomic data release dates but fundamentals dominate, continuing to support an upward trend.

Likelihood: Moderately high, with supportive macro data and earnings momentum.

Implications: Broadly bullish for equities, with outperformance in growth sectors like technology and industrials tied to reshoring and data center expansion. Fixed income faces mild yield pressure as recession odds fade and international bond investors zero in on rising U.S. debt levels. Short-duration bonds could remain attractive in this scenario.

Heightened Volatility with Stagnant Growth (Most Likely Downside Scenario):

Scenario: Stalled trade negotiations result in sustained higher tariffs, eroding business investment and export competitiveness. Consumer spending slows and private sector hiring continues to weaken. Core inflation hovers near 3.0%, constraining the Fed to one additional cut at most.

Market Impact: The S&P 500 and Nasdaq may pull back 8%–12% from September highs amid elevated volatility, with rotations into defensive sectors like healthcare, staples, and utilities.

Likelihood: Moderate. While consumer buffers and Fed flexibility could cushion blows, trade escalation risks linger, and a softening labor market could negatively impact economic growth.

Implications: Cautiously negative for risk assets, favoring value-oriented and dividend-paying stocks. Treasuries rally on haven flows, compressing yields.

1643 E Bethany Home Road, Phoenix AZ 85016

Phone (602) 997-8882 Toll Free (888) 997-8882 Fax (602) 997-8887

Website: www.bfsg-az.com

Will Economic Uncertainties Derail Market Momentum? (continued)

Stagflation Risk (Outlier Downside Scenario):

Scenario: Escalating trade frictions push core inflation above 3.2%, coinciding with GDP growth dipping below 1% due to squeezed margins, falling consumer demand, and deferred capital expenditures. Unemployment rises toward 4.5%. Despite labor market weakness, resurgent inflation causes the Fed to pause or reverse cuts, trapping the economy in a low growth/high prices phase.

Market Impact: Sharp corrections of 15%–25% across the S&P 500 and Nasdaq Composite, with credit spreads widening and equity risk premiums surging.

Likelihood: Low, given current momentum, but could rise if Q4 import data shows tariff passthrough is accelerating and the labor market deteriorates markedly.

Implications: Broadly bearish, with both stocks and bonds under pressure. Safe havens limited to cash equivalents, TIPS, and commodities like gold. Selective equity exposure to inflation-hedged sectors (e.g., energy, materials, REITs) may offer relative protection.

As the above analysis underscores, the Q4 2025 outlook remains tethered to trade policy evolution, the forward path of inflation, and the state of the labor market. Our base case envisions a year-end rally propelled by monetary easing and resilient fundamentals. In addition, even as the Q3 equity market advance has narrowed the field of undervalued growth stocks, we believe pockets of opportunity persist in undervalued cyclicals, beaten down defensives, and overlooked innovators.

Our growth at a reasonable price ("GARP") strategy is calibrated to harness selective growth pockets—such as AI infrastructure, power generation, and domestic manufacturing—while embedding downside protection through quality balance sheets and valuation discipline. We believe our diversified GARP portfolios are well-positioned to navigate episodic volatility, seeking to deliver alpha in both grind-higher and corrective environments as markets scale the "wall of worry" into 2026.

Brent J. Miller, CFA[®] – Senior Portfolio Manager

¹ <https://www.bea.gov/news/2025/personal-income-and-outlays-august-2025>

² <https://www.sca.isr.umich.edu/>

³ <https://www.conference-board.org/topics/consumer-confidence/>

⁴ The government shutdown has delayed the release of the September jobs report, which had been scheduled for release on 10/3/25. The August report can be found at <https://www.bls.gov/news.release/pdf/empst.pdf>

⁵ <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250917.pdf>

1643 E Bethany Home Road, Phoenix AZ 85016

Phone (602) 997-8882 Toll Free (888) 997-8882 Fax (602) 997-8887

Website: www.bfsg-az.com

Disclosures

Disclosure: Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Benefit Financial Services Group ["BFSG"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from BFSG. Neither BFSG's investment adviser registration status, nor any amount of prior experience or success, should be construed that a certain level of results or satisfaction will be achieved if BFSG is engaged, or continues to be engaged, to provide investment advisory services. BFSG is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the BFSG's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.bfsg.com. **Please Remember:** If you are a BFSG client, please contact BFSG, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. **Please Also Remember** to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your BFSG account holdings correspond directly to any comparative indices or categories. **Please Also Note:** (1) comparative benchmarks/indices may be more or less volatile than your BFSG accounts; and (2) a description of each comparative benchmark/index is available upon request.

1643 E Bethany Home Road, Phoenix AZ 85016

Phone (602) 997-8882 Toll Free (888) 997-8882 Fax (602) 997-8887

Website: www.bfsg-az.com