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Quarterly Economic Update

U.S Markets

Stocks powered ahead in the third quarter as solid economic data, strong corporate results, and a positive shift in Fed policy drove market momentum.

The Standard & Poor's 500 Index advanced 7.79 percent while the Dow Jones Industrial Average gained 5.22 percent. The tech-heavy Nasdaq Composite led the way, gaining 11.24 percent.[1]

A Jumpstart in July

Stocks rose steadily in July as investors viewed economic updates, trade development, and second-quarter corporate results in a positive light. The White House announced a trade agreement with Japan, which helped push the Nasdaq above 21,000 for the first time.[2,3]

Investors largely yawned at the news of the trade agreement between the U.S. and the E.U. but were unsettled when the Fed decided to hold rates steady at the end of the month.[4]

An August Advance

In August, a sluggish jobs report, followed by upbeat inflation news, appeared to crack the door for the Fed to adjust short-term rates.[5]

Stocks pushed higher after Fed Chair Powell, speaking at the Fed's annual symposium in Jackson Hole, contended that the downside risk of employment is greater than the upside risk of inflation. To investors, that seemed to indicate that the Fed was ready to move.[6]

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A September Splash

September's markets slowly built momentum as tech stocks rallied, accelerating further following the Fed's long-anticipated rate cut. Powell's cautious comments about valuations rattled the markets for a day, but stocks ended the quarter on a powerful note despite the Congressional budget deliberations.[7]

The Dow closed the quarter at an all-time high, while the S&P 500 and Nasdaq closed just below their all-time peaks.[8]

Sector Scorecard

Ten of the 11 S&P 500 Index sectors finished the month in the green.[9]

Technology (+11.31 percent), Consumer Discretionary (+10.27 percent), and Communication Services (+9.07 percent) were the clear double-digit winners over the quarter, besting the index by 2-3 percentage points. Utilities (+6.80 percent) lined up not far behind the overall Index, while Energy (+5.34 percent), Industrials (+4.55 percent), and Health Care (+3.25 percent) all posted solid gains. Gains made in Financials (+2.86 percent), Materials (+2.06 percent), and Real Estate (+1.71 percent) were more modest.[9]

Consumer Staples (-3.21 percent) was the sole sector to lose ground during the quarter.[9]

U.S. Market Recap

	September 2025 (%)	Q3 2025	YTD (%)
S&P 500	3.53	7.79	13.72
Nasdaq	5.61	11.24	17.34
Russell 2000	2.96	12.02	9.25
10-Year Treasury Notes	4.15	-0.08	-0.43

Yahoo Finance, September 30, 2025. The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

What Investors May Be Talking About in October

By mid-October, companies will start to report their third-quarter corporate results. Two key drivers of stock prices are earnings and the value investors are willing to pay for those earnings.

So, expect Wall Street to watch the corporate reports and look for any insights into 2026.[10]

Later in the month, investors will get the advanced estimate on third-quarter gross domestic product. Economists have been revising their GDP outlooks higher since August, with some estimates topping three percent. Wall Street will want to learn what's driving growth as they start to make their 2026 outlooks.[11]

World Markets

The MSCI EAFE Index rose 4.23 percent in Q3. While it trailed all three major U.S. markets in Q3, it's up 22.34 percent year to date.[12]

Most European markets advanced over the course of the quarter. Spain (+10.60 percent), Italy (+7.37 percent), the United Kingdom (+6.73 percent), and France (3.0 percent) posted the best gains for the quarter. Germany (-0.12 percent) lagged.[12]

Pacific Rim markets posted solid gains. China added 11.56 percent, South Korea picked up 11.49 percent, and Japan rose 10.98 percent. Australia (+3.59 percent) and Mexico (+9.51 percent) also had a strong Q3.[12]

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World Market Recap			
Index	September 2025 (%)	Q3 2025 (%)	Year-to-Date (%)
Emerging			
Hang Seng (China)	7.09	11.56	33.88
KOSPI (Korea)	7.49	11.49	42.72
Nikkei (Japan)	5.18	10.98	12.63
Sensex (India)	0.57	-3.99	2.72
EGX 30 (Egypt)	4.33	11.60	23.30
Bovespa (Brazil)	3.40	5.32	21.58
IPC All-Share (Mexico)	7.17	9.51	27.07
ASX 200 (Australia)	-1.39	3.59	8.45
Europe			
DAX (Germany)	-0.09	-0.12	19.95
CAC 40 (France)	2.49	3.00	6.98
IBEX 35 (Spain)	3.61	10.60	33.46
FTSE 100 (United Kingdom)	1.78	6.73	14.41
IT40 (Italy)	1.25	7.37	24.98

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Indicators

Gross Domestic Product (GDP): The economy grew 3.8 percent in the second quarter, according to the final revision of GDP, up from the 3.0 percent initial estimate. By comparison, the economy contracted by 0.5 percent over the first quarter. Second-quarter growth was largely driven by consumer spending.[13]

Employment: Employers added 22,000 jobs in August, which is lower than the 75,000 economists had expected. Unemployment crept up to 4.3 percent—the highest level in nearly four years. Annualized hourly wage growth rose 3.7 percent in August, as expected.[14]

Retail Sales: Consumer spending rose 0.6 percent in August over the prior month, at twice the pace economists expected. It marked the third consecutive month that retail sales rose. Back-to-school categories—such as clothing, bookstores, sporting goods, and musical instrument retailers—led the gains.[15]

Industrial Production: Industrial output ticked up 0.1 percent in August, slightly higher than expected. A 2.6 percent rise in motor vehicles and parts manufacturing offset a 2 percent drop in utilities.[16]

Housing: Housing starts unexpectedly fell 8.5 percent in August compared to the prior month, marking its largest decline since May. Both single-family (-7.0 percent) and multifamily homes (-11.0 percent) were under pressure as elevated mortgage rates kept buyers on the sidelines.[17]

Sales of existing homes slid 0.2 percent in August over the prior month. Sales were strongest in the Midwest and slowest in the Northeast. The median existing home sales price in August was $422,600, slightly higher than a year ago.[18]

New home sales unexpectedly jumped 20.5 percent in August over the prior month to their highest level in more than 3½ years as buyers took advantage of steep price discounts. It marked the biggest monthly percentage increase in 3 years. The median new home sales price in August rose to $413,500, from $395,100 in July. The inventory of unsold new homes on the market dropped nearly 18 percent in August, to a 7.4-month supply at the latest sales pace.[19]

Consumer Price Index (CPI): Consumer prices rose 0.4 percent in August over the prior month, higher than the 0.3 percent rise economists expected. Year-over-year prices rose 2.9 percent, in line with economists' expectations. Core inflation, which excludes volatile food and energy prices, rose 0.3 percent month-over-month and 3.1 percent year-over-year—both in line with expectations.[20]

Durable Goods Orders: Orders of manufactured goods designed to last three years or longer increased 2.9 percent in August, beating market expectations for a 0.5 percent drop and rebounding from two consecutive months of declines.[21]

The Fed

The Fed convened two official meetings and its annual symposium in Q3.

The Federal Open Market Committee (FOMC) held rates steady at its July meeting and hinted at growing concern for the labor market at its symposium in Jackson Hole, Wyoming. In his symposium speech, Powell highlighted the "curious" situation in an apparently stable U.S. labor market where the supply of and demand for workers were dropping, and made the case that some softening in the labor market would act as a check against inflation.[22]

At its September meeting, the FOMC not only lowered rates by a quarter percentage point but also telegraphed that more adjustments were being considered before year's end. The widely expected cut in September brought the Fed Funds Rate to a 4.0–4.25 percent target range.[23]

The Federal Reserve has two more scheduled meetings this year: on October 28-29 and December 9-10.

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