

Quarter/Month-End Summary – September 2025

Market Update

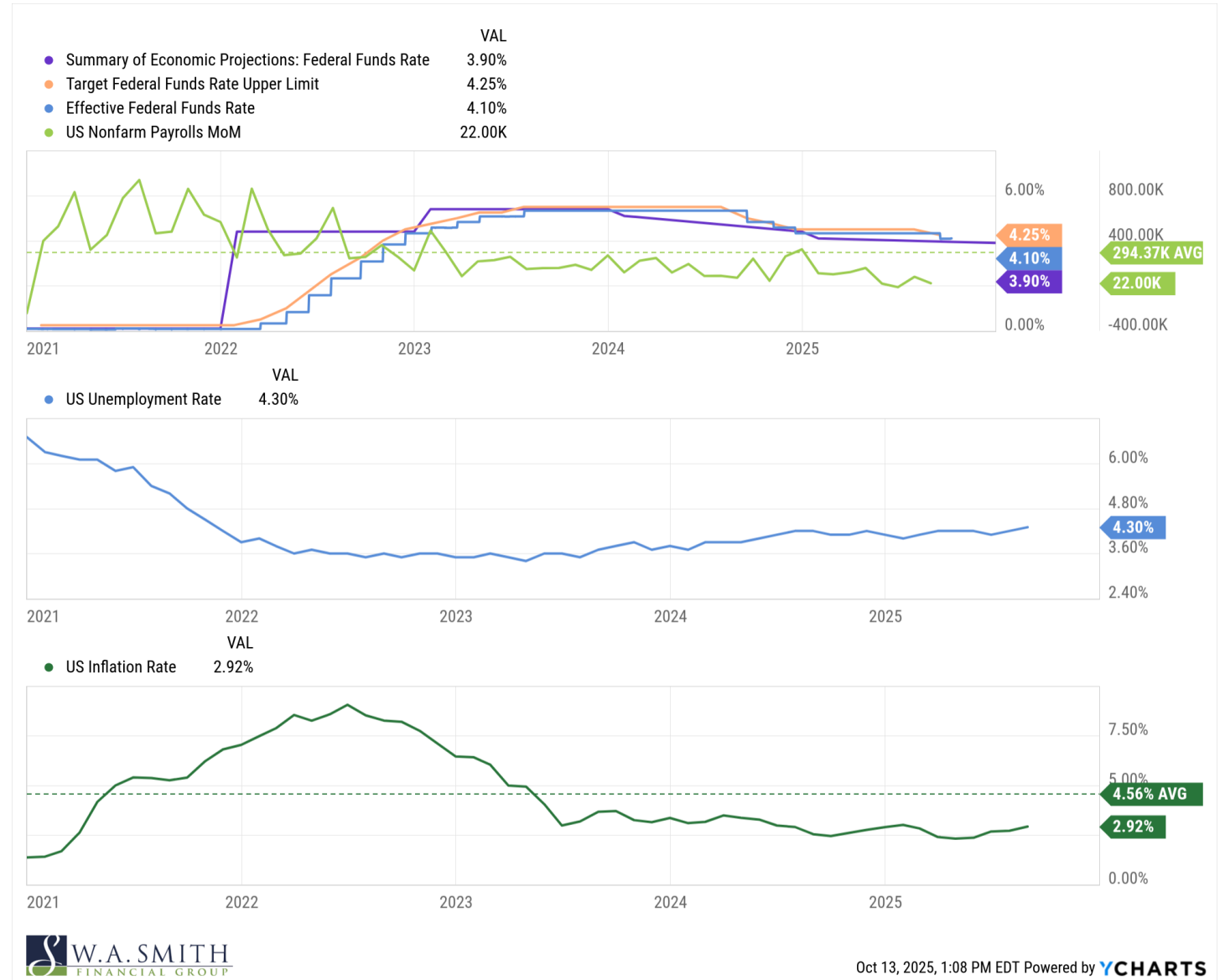
- **S&P 500 and Nasdaq Monthly Performance:**
 - **U.S. equities rallied strongly in September:** S&P 500 +~4.5%, Nasdaq Composite +~7.5%, led by mega-cap tech/AI and improving breadth. The Dow advanced ~2.5%, while small caps rejoined leadership as risk appetite broadened
 - **For 3Q2025, the S&P 500 and Nasdaq advanced by 7.8% and 11.24%, respectively**
 - **Breadth improved vs. August:** participation widened beyond the “AI core,” with cyclicals and small caps contributing; the Russell 2000 even tagged a new high for the first time since 2021
- **Key Drivers of Market Volatility:**
 - **Tariff/jawboning risk lingered but didn’t derail September gains.** Markets advanced through most of the month despite on-again/off-again U.S.–China tariff rhetoric, with investors treating headlines as negotiation noise against a still-constructive earnings/AI backdrop
 - **Oil drifted lower, easing input-cost anxiety.** WTI hovered in the low-\$60s and slid into month-end, as supply signals from OPEC+/non-OPEC and softer demand concerns pressured prices
 - **Rates backdrop supportive.** With the Fed’s Sept 17 cut and calmer term-premium dynamics, risk assets found footing even as policy remained data-dependent
- **Labor Market and Fed Policy Update:**
 - **Labor is cooling at the margin.** Private-sector indications turned softer (ADP Sep: –32k), and official late-Q3 readings showed a slower hiring trend (Aug Non-Farm Payrolls came in light, Unemployment Rate of 4.3%), reinforcing the Fed’s “balance-of-risks” framing
 - Shortly after the end of 3Q2025, the US Government shutdown became a reality, and we will not receive critical economic data until an agreement can be struck b/w the Republicans and Democrats. Given the ongoing sluggishness in the labor markets and persistent inflation, we must get things back up and running in DC so that the investing public and the FOMC have the most up-to-date data to make informed economic decisions
 - **Fed delivered a 25 bp cut on Sept 17 (to 4.00–4.25%)** and kept Quantitative Tightening (QT) on track; minutes emphasized data dependence and openness to further, incremental easing if inflation cools and labor softens. The current expectation is that we will have 2 more 25 bp rate cuts in 2025 (Oct and Dec)

Investment Committee Update

- The Investment Committee (IC) continues to monitor the overall economic and market environment as we make our way towards the end of 2025, which is hard to believe. As always, the below bullet remains in place and is the foundation for our investment decisions
 - Investment Committee continues to actively identify possible alterations (additions/removals) to our various strategies by utilizing our **rigorous 5-step due diligence process**
- Despite intermittent chop, **U.S. equities posted a strong September** and a constructive **3Q 2025**. **Mega-cap tech/AI** leadership persisted, but **breadth improved** late in the quarter as select **industrials, financials, and small caps** rejoined the advance. While **valuations remain elevated**, markets continued to display **resilience** on the back of stable earnings, moderating inflation trends, and growing visibility around policy
- **Volatility was influenced by a combination of factors:**
 - **Policy and trade headlines:** On-again/off-again tariff rhetoric kept intraday swings elevated, even as investors increasingly treated many headlines as negotiation noise.
 - **Mixed macro prints:** Inflation gauges cooled at the margin while **labor softened**, producing a push-pull between rate-cut optimism and growth concerns
 - **Rates recalibration:** With the **Fed cutting 25 bps in Sept** and reaffirming data-dependence, curves saw periods of re-steepening; long rates were steadier into quarter-end
- **Underlying fundamentals continue to remain steady:**
 - **Earnings resilience:** Guidance quality and **free-cash-flow conversion** remained focal—particularly for AI-exposed platforms and power/grid beneficiaries. Margins held up better than feared across several large-cap sectors
 - **Labor and demand:** Hiring cooled but stayed orderly; wage growth continued to normalize, and the consumer showed selective strength (services still outperformed goods)
 - **Disinflation path:** Headline and core measures drifted closer to ~3% y/y, with pipeline prices mixed—supportive of a gradual-easing narrative so long as incoming data cooperate
- **The Investment Committee continues to monitor the US economic and political activity and their potential impact(s) on the US/Global markets.** As you are aware, we were able to take advantage of pockets of volatility to make changes to holdings in many of our strategies from both an equity and fixed income perspective, and this may likely serve us well as we approach the end of 2025 into 2026
- We continue to expect elevated—but navigable—volatility as markets digest policy, growth, and earnings into year-end. Valuations are still rich in several leadership cohorts, but multiple sectors remain attractively priced and have not fully participated in the latest run-up. Our focus remains on quality, cash flow, sensible valuation, and balance-sheet strength

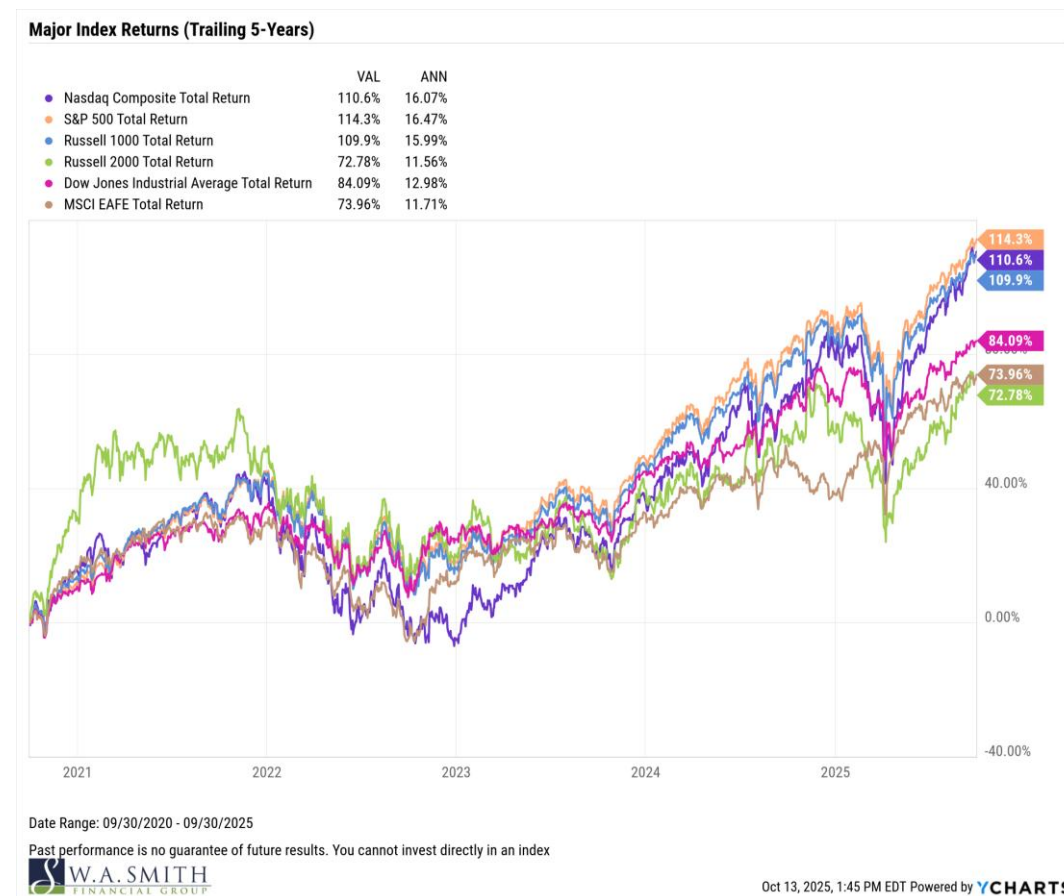
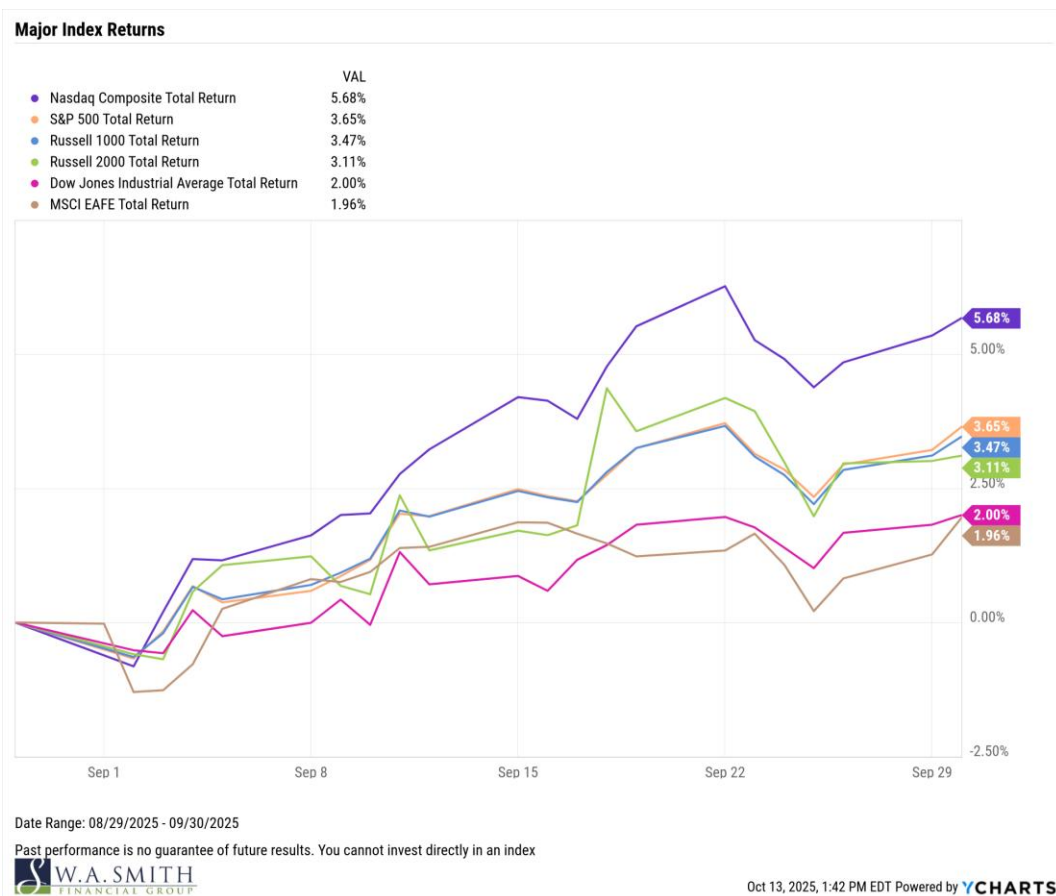
Softening Labor, Sub-3% Inflation; Setup for Gradual Fed Easing

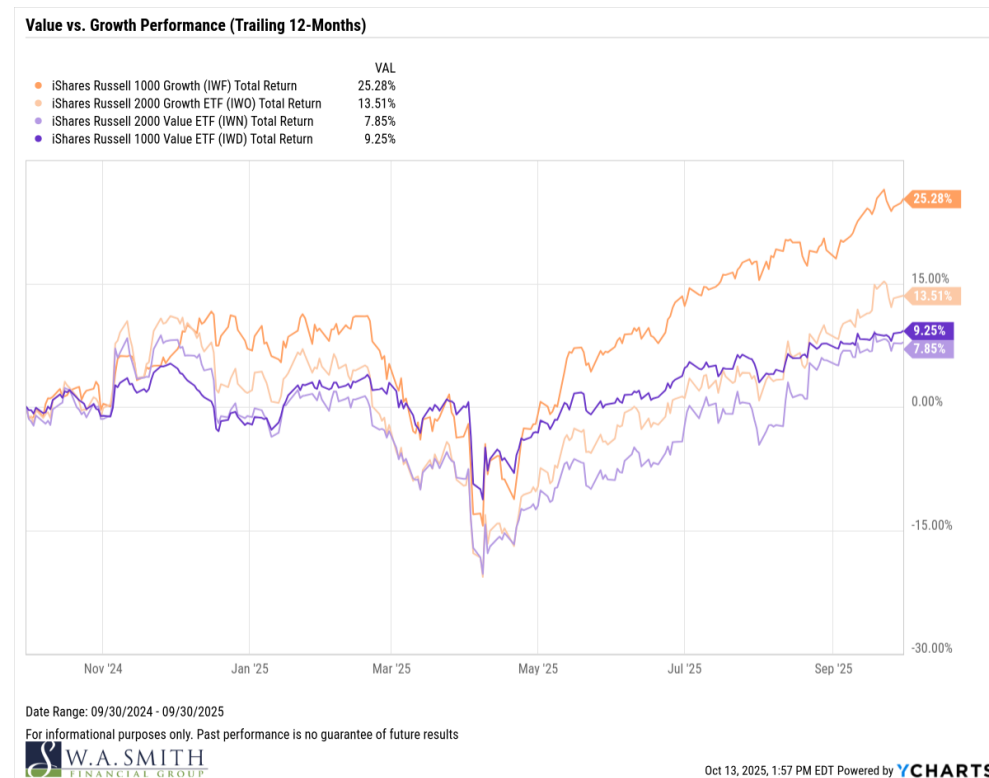
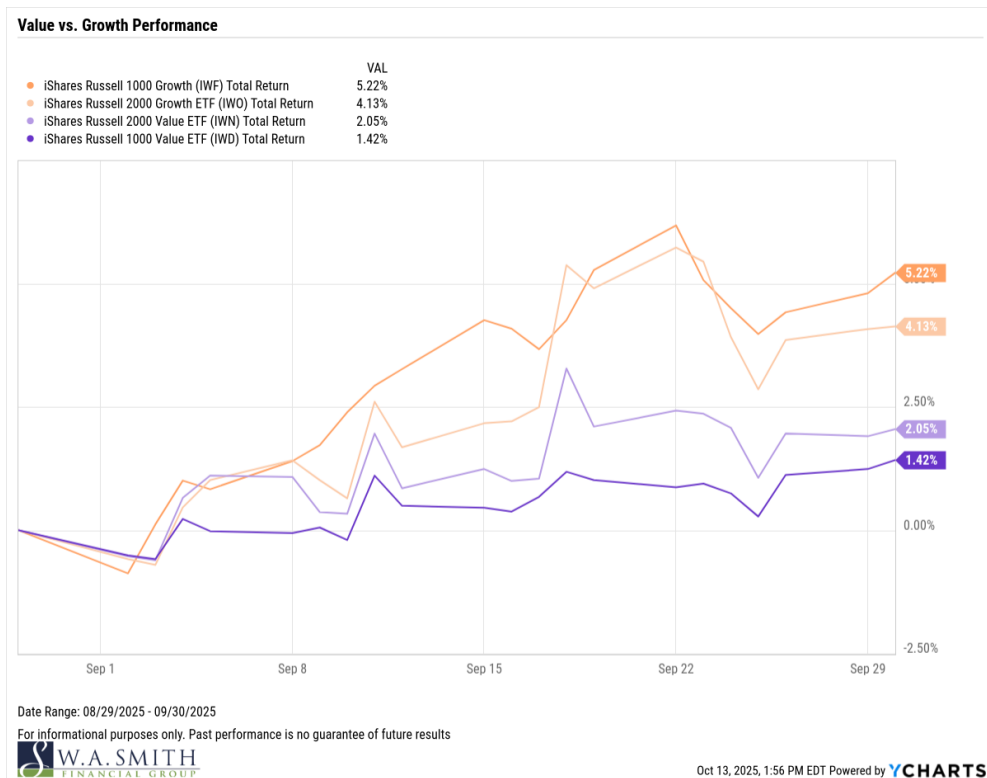
- **Labor is cooling:** Unemployment has drifted up to **4.3%** and **monthly payroll gains (~22k)** are well below the **~294k** average on the chart, pointing to slower hiring and rising slack Waller has been saying over the past several months. While the data is likely providing a runway for the FOMC to continue cutting rates at the October and December meetings this year, we must remain cognizant that any “material” uptick in the inflationary data could lead to a shift in policy
- **Inflation near ~3% with policy easing underway:** Headline inflation at **2.92%** (below the **4.56%** multi-year average) alongside a **4.25%** Fed funds upper bound (**4.10%** effective) and **SEP pointing to ~3.90%** supports a **measured, data-dependent cutting path** rather than aggressive moves. We remain slightly above the FOMC’s mandated 2% goal, but there is a growing sentiment that a rate of ~3% may be the new “normal” level of inflation moving forward



September 2025: Broadening Gains as Jobs Cool & Inflation Stabilizes

- **September 2025 rally led by growth/tech:** Nasdaq +5.7% and S&P 500 +3.7% outpaced small caps (Russell 2000 +3.1%) and value-heavy benchmarks (Dow +2.0%, EAFE +2.0%), with gains highlighting a broadening of market leadership into small caps and international equities after a mega-cap dominated first half of the year (aka, increased market breadth)
- **Five-year scoreboard favors U.S. large caps:** S&P 500 and Nasdaq delivered ~16% annualized (total return), well ahead of small caps (~11–12%) and international developed (~11.7%), underscoring persistent U.S. mega-cap leadership despite interim volatility,





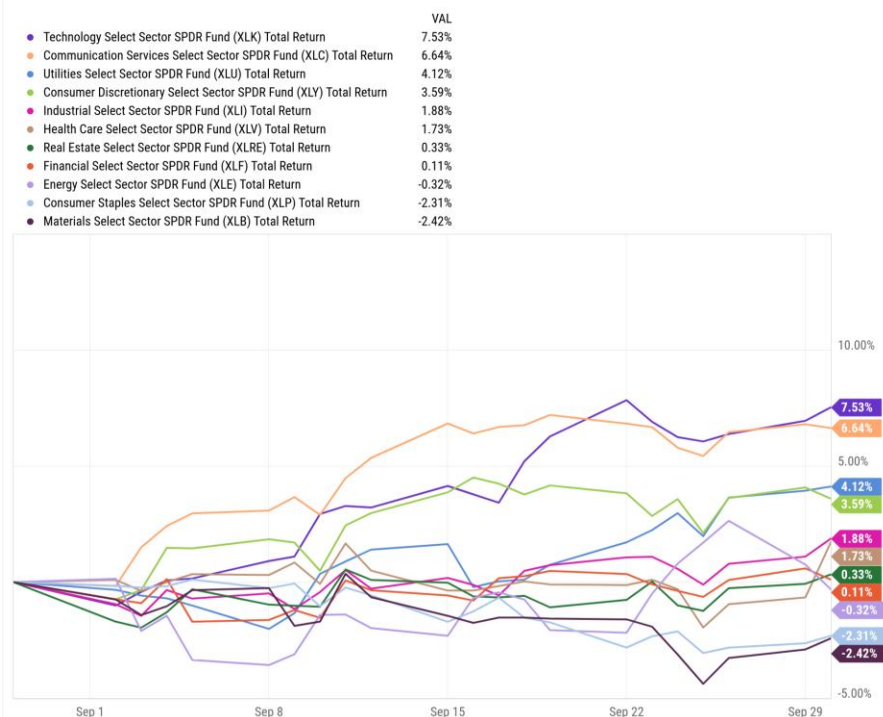
Growth Led in September; Large-Cap Growth Still Dominates Over 12 Months

- September 2025 (1-month):** Large-cap growth (IWF +5.2%) led, followed by small-cap growth (IWO +4.1%); value lagged (IWD +1.4%, IWN +2.1%). Key drivers were likely the September FOMC's 25 bp cut and softer inflation supported duration-sensitive, AI/tech-heavy growth; oil eased, and breadth improved, but not enough to flip leadership. We are still seeing a potential move into relatively "under-valued" names, which further bolsters the case of breadth expansion
- Trailing 12 months:** Large-cap growth (+25.3%) outperformed small-cap growth (+13.5%), large-cap value (+9.3%), and small-cap value (+7.9%). Key tailwinds: AI-driven earnings/margin strength, stronger balance sheets, and falling rate expectations; value names have trailed amid slower nominal growth and tighter credit/commodity volatility -> key takeaway, quality still matters and will remain a primary focus, but the expansion of market breadth is likely providing pathways for additional alpha

Sector Winners & Laggards — September Snapback and Year-Long Tech/Comm Leadership

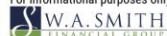
- **September 2025 (1-month):** Tech (XLK +7.5%) and Comm Services (XLC +6.6%) led the rebound, with Utilities (XLU +4.1%) also strong as rate-cut expectations and softer long yields boosted duration-sensitive sectors. **Defensives/commodities lagged** (Materials -2.4%, Staples -2.3%, Energy -0.3%), reflecting easing input costs and weaker oil into the month-end
- **Trailing 12 months:** Leadership remains **growth/AI-exposed**—XLC +32%, XLK +26%, Discretionary +21%—on durable earnings and capex tied to AI/cloud and digital ads, while **Financials +21%** benefited from improving credit trends and a modest re-steepening. **Health Care (-8%), Materials (-5%), Staples (-3%)** lagged amid pricing pressure, inventory normalization, and slower global goods demand
- **Rates & the Fed:** The **Sep 17th 25 bp cut** and cooling inflation (~3% y/y) lowered discount-rate pressure and nudged the curve to **re-steepen**, favoring **duration-sensitive sectors** (Tech, Comm Services, Utilities) and style factors (large-cap growth)
- **Earnings & cash flow quality:** Mega-caps posted **strong free-cash-flow and operating leverage**, outpacing smaller/value cohorts more exposed to **financing costs and slower nominal growth**

Sector Movement



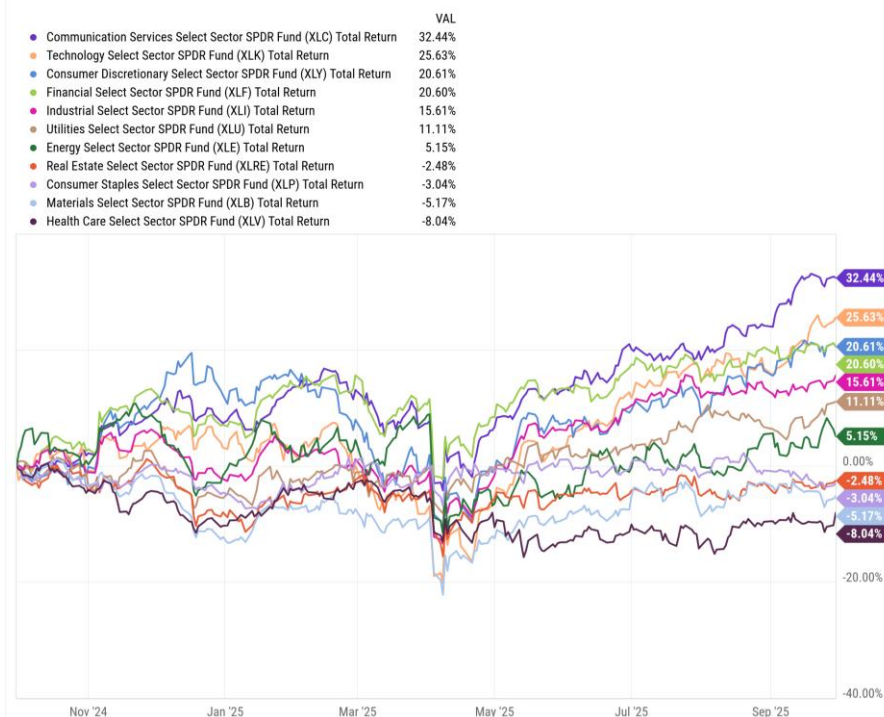
Date Range: 08/29/2025 - 09/30/2025

For informational purposes only. Past performance is no guarantee of future results



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Sector Movement (Trailing 12-Months)

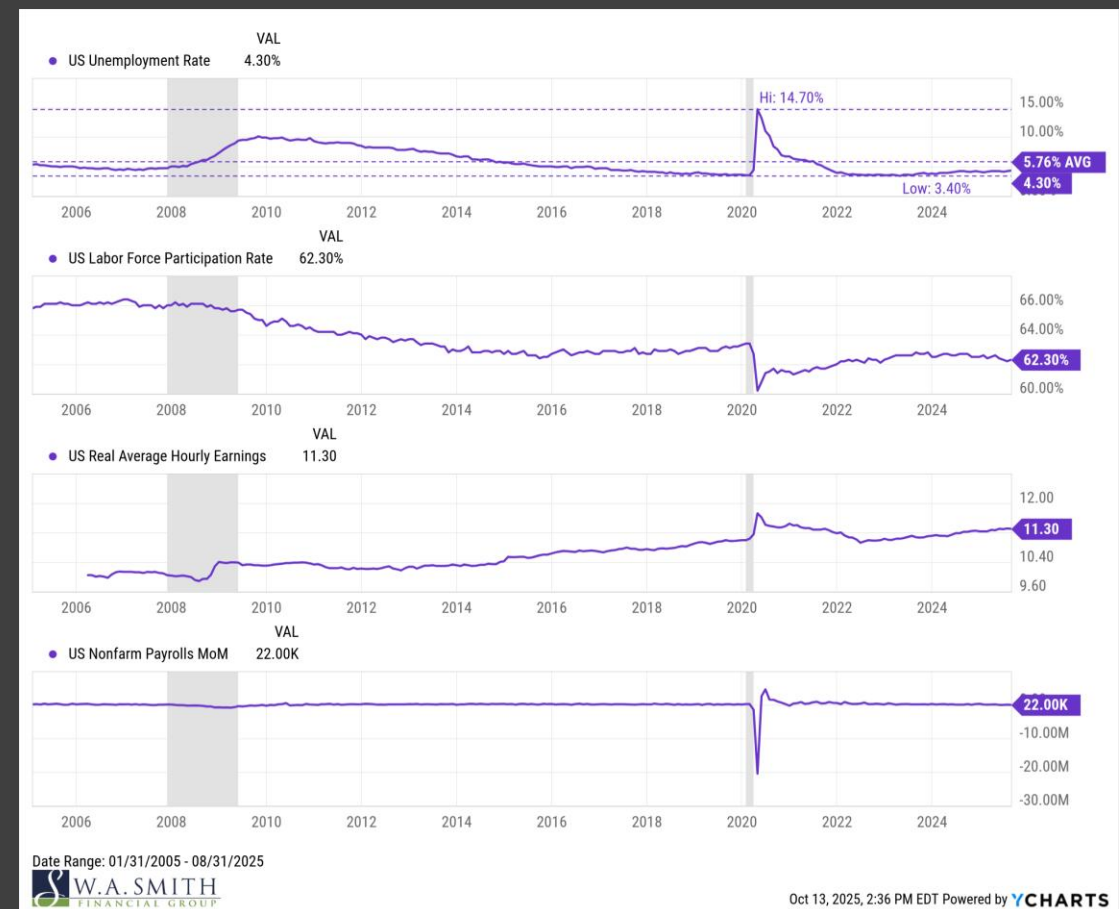
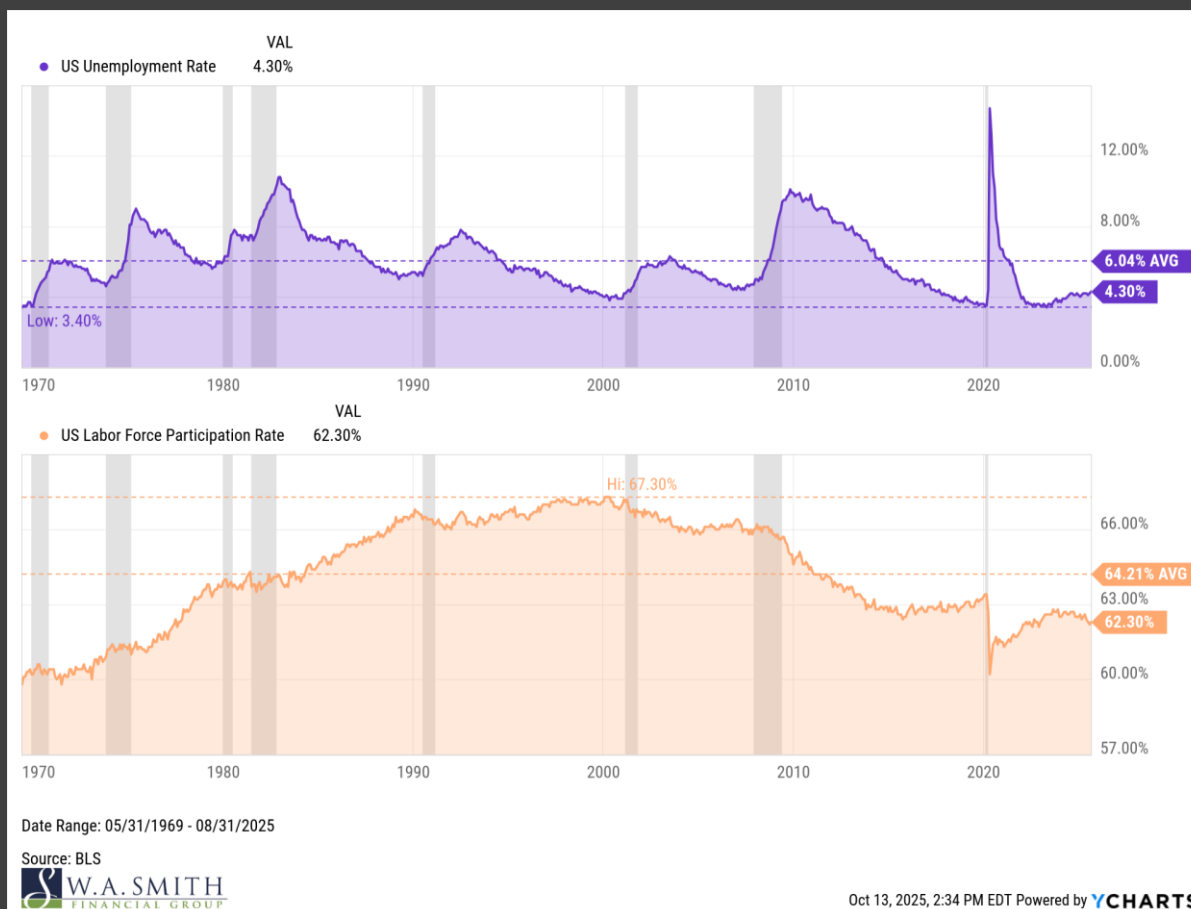


Date Range: 09/30/2024 - 09/30/2025

For informational purposes only. Past performance is no guarantee of future results

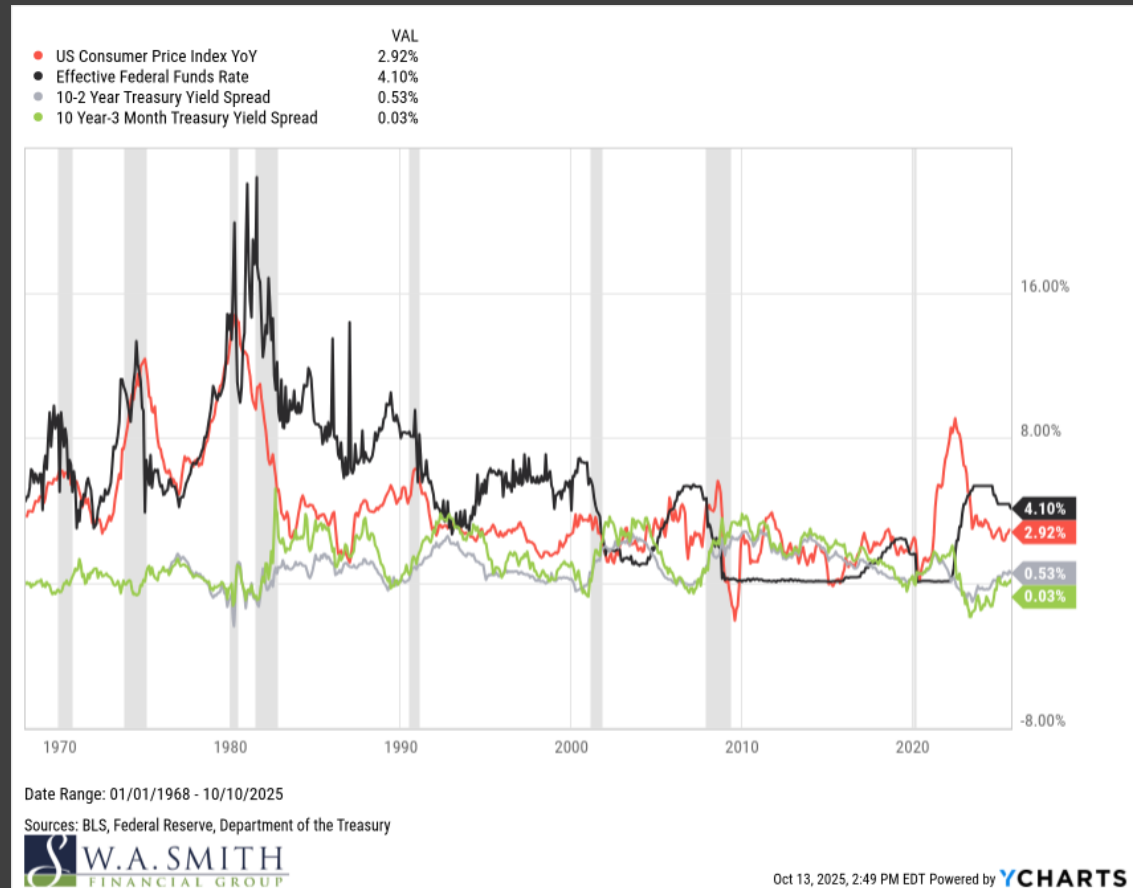
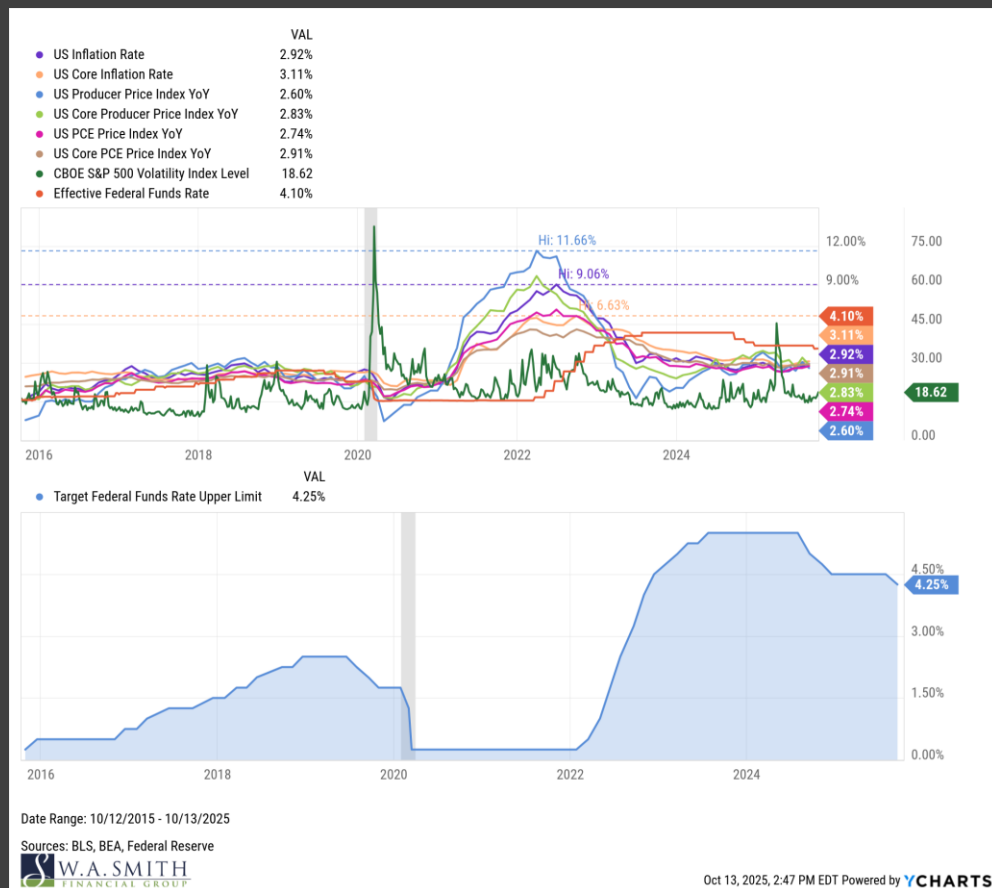


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Labor Is Cooling; Data Visibility Blurred by the Shutdown

- **Unemployment up, participation stable:** The jobless rate has drifted to 4.3% (above the post-pandemic lows and its long-run average of ~6.0%), while the labor-force participation rate sits near 62.3%, roughly flat vs. the past year—suggesting slack is building even as the size of the active workforce isn't accelerating. Hiring slowed materially: Monthly nonfarm payroll gains (~+22k) are well below recent norms, consistent with slower demand for labor and rising caution among employers
- **Historical context:** Relative to prior cycles (1970–present), the current unemployment level is still low, but the direction of change is unfavorable (higher UR, softer payroll prints), which historically precedes slower nominal growth
- **Shutdown effects on the data:** The federal government shutdown has delayed BLS survey processing and publication (e.g., Employment Situation, JOLTS) and has likely reduced response rates, increased subsequent revisions, and widened confidence intervals. Near-term assessments will rely more on private proxies (e.g., ADP, high-frequency claims) and second-round revisions once agencies reopen, so initial prints should be treated as less precise than usual



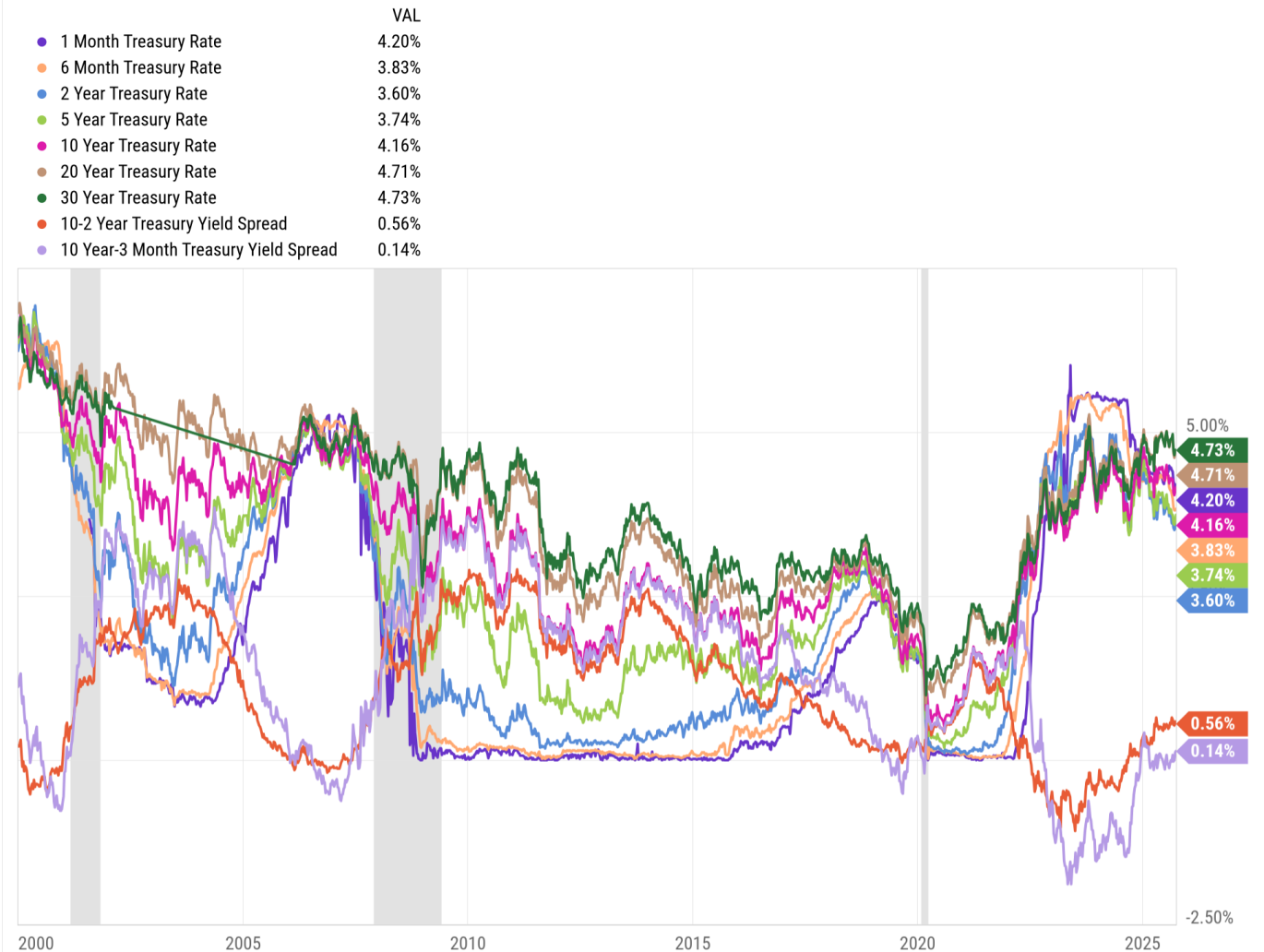
Disinflation Near 3%, Curve Re-Steepens, Policy Still Restrictive...But Easing

- **Inflation cluster ~2.6–3.1%:** CPI **2.92%**, Core CPI **3.11%**, PCE **2.74%**, Core PCE **2.91%**, and PPI **2.60%** show broad disinflation versus 2022–23 peaks, but core measures remain a touch above target—keeping the Fed in “ease, but carefully” mode.
- **Real policy rate still positive:** With the **effective fed funds at 4.10%** (target upper **4.25%**) and inflation **~3%**, the **ex-ante real rate** $\approx +1.1\text{--}1.4\%$ \rightarrow a meaningfully **restrictive stance** that gives the FOMC room to **cut gradually** if labor cools and inflation continues to stabilize
- **Yield curve remains relatively “normalized”, volatility contained:** The **10s–2s spread** $\sim +0.53\%$ and **10s–3m** $\sim +0.03\%$ indicate **re-steepening** from deep inversion, consistent with a late-cycle/easing transition. **VIX ~18–19** signals only **modest market stress**, supportive for risk assets if data don’t re-accelerate and economic shocks are kept in check

Yield Curve Re-Steepens as the Fed Turns Less Hawkish

- **Front-end led the move lower:** After the Fed's dovish pivot/cut, short rates fell more than long rates (≈ 1M 4.20%, 6M 3.83%, 2Y 3.60% vs. 10Y 4.16%, 30Y 4.73%), easing financial conditions at the margin and signaling markets expect additional, gradual cuts
- **From inversion toward normal:** The curve has re-steepened to about +56 bps (10s–2s) and +14 bps (10s–3m)—a notable shift from the deep inversion earlier this year that typically accompanies tightening. This is consistent with an **easing cycle** rather than an acceleration in growth
- **Term premium sticky, long end anchored:** Long yields remain near 4.2–4.8% as supply/term-premium and inflation risk keep a floor under the back end, even while policy expectations pull the front end down—**implying a gradual, not aggressive, decline in borrowing costs**
- **Portfolio & market implications:** A steeper curve + lower front end favors duration in high-quality bonds, supports carry/roll-down strategies, and is modestly constructive for rate-sensitive equities (utilities, housing, quality growth), while the higher long end keeps valuation discipline in focus

US Treasury Yield Curve



Date Range: 12/31/1999 - 09/30/2025

Source: Department of the Treasury



New Timeseries Analysis

Data as of: Oct. 13, 2025

Date Range: 12/30/2022 to 09/30/2025

Frequency: Monthly

Aggregation: End of Period (default)

Fill Method: No Fill

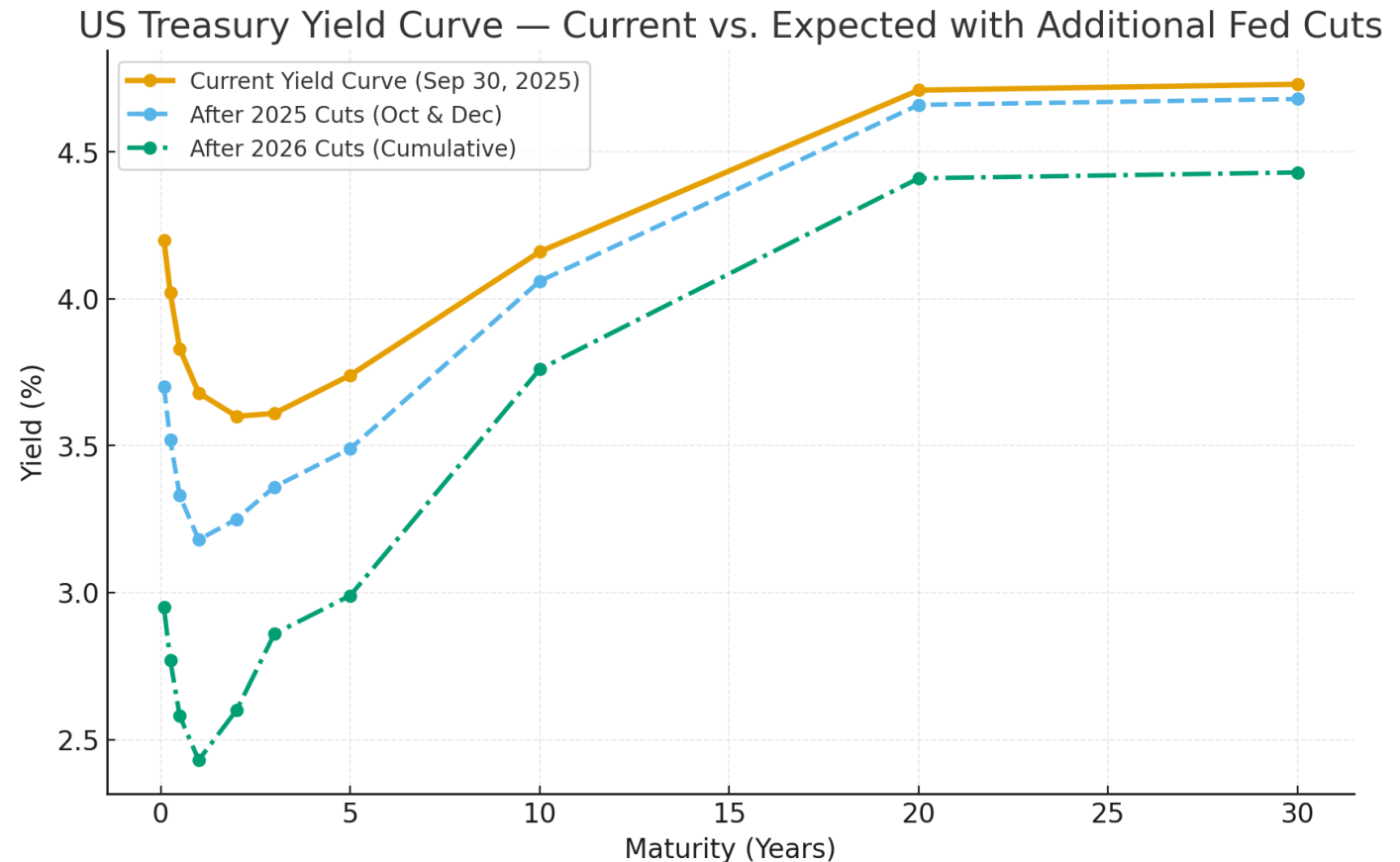
Symbol	Name	Metrics	Sep 30 '25	Aug 31 '25	Jul 31 '25	Jun 30 '25	May 31 '25	Apr 30 '25	Mar 31 '25	Feb 28 '25
I:10YTCMR	10 Year Treasury Rate		4.16%	4.23%	4.37%	4.24%	4.41%	4.17%	4.23%	4.24%
I:1MTCMR	1 Month Treasury Rat...		4.20%	4.41%	4.49%	4.28%	4.33%	4.35%	4.38%	4.38%
I:1YTCMR	1 Year Treasury Rate		3.68%	3.83%	4.10%	3.96%	4.11%	3.85%	4.03%	4.08%
I:20YTCMR	20 Year Treasury Rate		4.71%	4.86%	4.89%	4.79%	4.93%	4.68%	4.62%	4.55%
I:2YTCMR	2 Year Treasury Rate		3.60%	3.59%	3.94%	3.72%	3.89%	3.60%	3.89%	3.99%
I:30YTCMR	30 Year Treasury Rate		4.73%	4.92%	4.89%	4.78%	4.92%	4.66%	4.59%	4.51%
I:3MTCMR	3 Month Treasury Rat...		4.02%	4.23%	4.41%	4.41%	4.36%	4.31%	4.32%	4.32%
I:3YTCMR	3 Year Treasury Rate		3.61%	3.58%	3.89%	3.68%	3.87%	3.58%	3.89%	3.99%
I:5YTCMR	5 Year Treasury Rate		3.74%	3.68%	3.96%	3.79%	3.96%	3.72%	3.96%	4.03%
I:6MTCMR	6 Month Treasury Rat...		3.83%	4.01%	4.31%	4.29%	4.36%	4.19%	4.23%	4.25%

Post-Cut Move: Short Rates Down, Term Premium Holds

- **Broad m/m decline led by the front end:** From Aug → Sep '25, front-end yields fell the most (1M 4.41% → 4.20%, -21 bps; 3M 4.15% → 4.02%, -13 bps; 6M 4.01% → 3.83%, -18 bps; 1Y 3.83% → 3.68%, -15 bps). The long end also eased (30Y 4.92% → 4.73%, -19 bps; 20Y -15 bps; 10Y -7 bps), while the belly was mixed (2Y ~flat at 3.60%; 3-5Y up ~3-6 bps). Net: financial conditions nudged easier with a modest re-steepening bias vs. mid-summer levels
- **FOMC impact:** The September FOMC rate cut, and dovish guidance pulled policy-sensitive bills/notes down as markets priced additional, gradual easing. Long maturities declined too, but term-premium/supply kept a floor under the back end—consistent with a measured easing cycle, not an aggressive pivot which is typically what one would expect to see in an environment of stimulating a slowing economy as opposed to reacting to a negative shock (e.g., financial crisis, Covid, etc.)

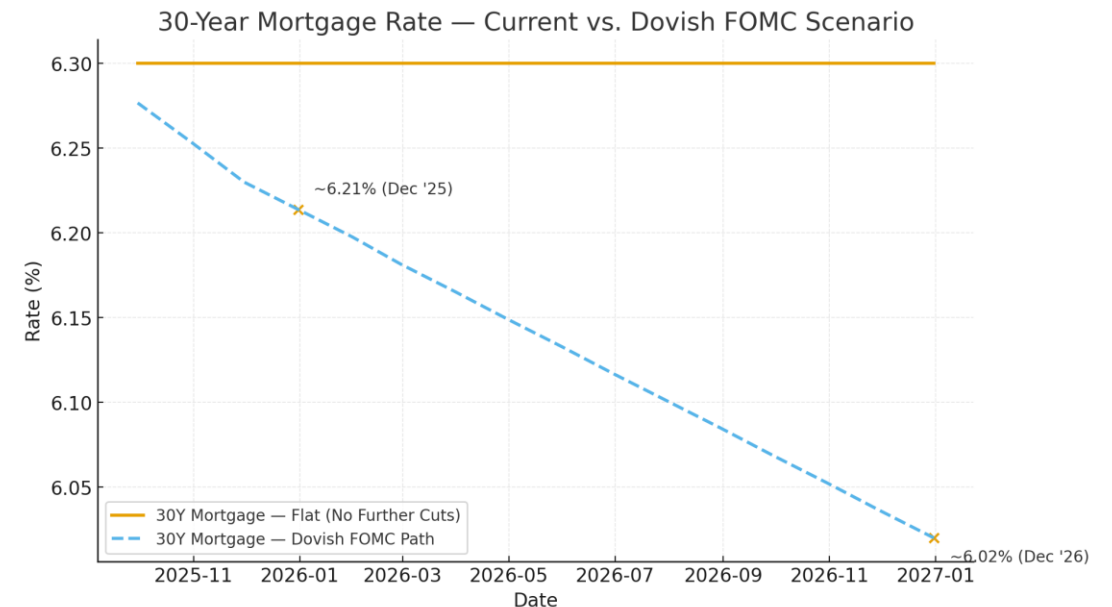
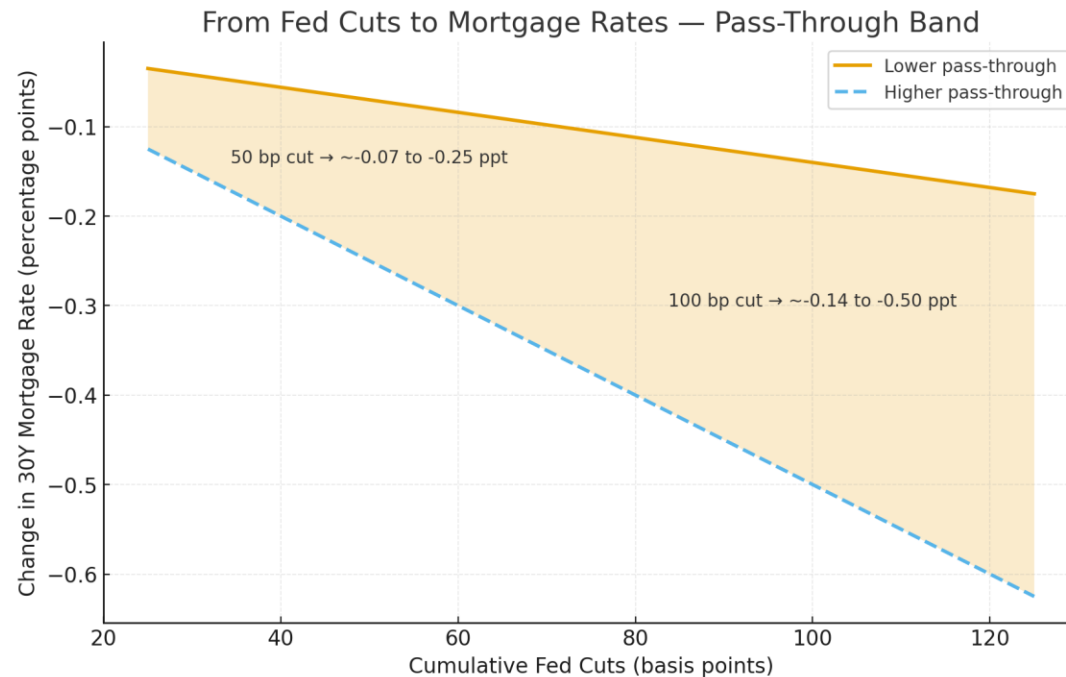
How Fed Policy Shifts Could Reshape the Curve

- **Where we are & what's priced:** After the September cut, policy sits around 4.10% effective (4.25% upper bound). Markets lean toward ~50 bps more easing into year-end 2025 (two 25s) and a further potential ~75 bps in 2026, concentrated at the front end
 - *Please note that this is a hypothetical chart that shows what may happen in the event of a series of 25 bp rate cuts to end the year*
- **Curve dynamics:** Additional cuts should pull bills/1–2y down faster than the long end, extending the re-steepening we've started to see (e.g., 10s–2s ~+50–60 bps, 10s–3m near zero). The long end stays stickier as term-premium, supply, and inflation risk keep a floor under 10–30y yields
- **Credit spreads:** A softer policy path plus stable growth typically tightens Investment Grade (IG)/High Yield (HY) spreads and supports new issuance, while higher all-in yields at the back end still reward quality carry. If labor weakens more than expected, HY could re-widen, which is another reason to remain vigilant when investing in HY
- But what does this mean in the real world, let us look at a few examples on the next page w/ a focus on the impact of lower rates on equity valuations...



What a Dovish Fed Potentially Means for Mortgages & Housing

- **What the Fed means for mortgages:** If the Fed keeps easing, mortgage rates don't fall one-for-one—but they usually drift lower. A full 1.00% of Fed cuts has historically translated to roughly 0.15%–0.50% off a 30-year mortgage rate
 - *Please note that this is a hypothetical chart that shows what may happen in the event of a series of 25 bp rate cuts to end the year and into 2026*
- **A potential base path:** From today's ~6.3%, a modestly more dovish Fed could take 30-year mortgages toward ~6.2% by year-end and ~6.0% during 2026, assuming long-term Treasury yields ease a bit and market volatility stays contained
- **Housing impact:** Lower rates typically boost buyer demand first (more applications and showings). Listings follow with a lag as the “rate-lock” effect eases, and move-up sellers return
- **Home prices:** With demand improving and supply rising slowly, we expect stable to modest price gains—supportive for sellers while keeping conditions more balanced for buyers than in recent years, which have been difficult for individuals trying to buy a home or leave an existing home due to previously attractive rates they may have locked in before 2022



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- **S&P 500** – measures the performance of 500 widely held stocks in US equity market. Standard and Poors chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied. It is market-capitalization weighted.
- **NASDAQ Composite Index** – a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **Russell 1000** – The index measures the performance of the large-cap segment of the US equity securities. It is a subset of the Russell 3000 index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.
- **Dow Jones Industrial Average Price Return Index** – a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.
- **Russell 2000 Index** – measures the performance of the small-cap segment of the U.S. equity universe.
- **MSCI EAFE Index** – a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI, Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.