

KEY TAKEAWAYS

Financial markets continued their strong rebound

following their negative reaction to the Liberation Day tariff announcement, reflecting optimism around easing trade tensions, easier financial conditions and resilient corporate earnings.

Revisions to previously reported job data have provided the Federal Reserve (the “Fed”) with greater flexibility to implement additional interest rate cuts.

Corporate earnings growth, led by technology and AI-related sectors, has been strong, and the passage of the One Big Beautiful Bill Act (OBBBA) is expected to provide an additional near-term tailwind toward improved profitability.

The combination of looser monetary policy and solid earnings growth should create a constructive environment for equities in the near term.

The OBBBA also offers benefits to individual taxpayers, in addition to corporate incentives.

Gridlock in D.C.: U.S. Government shutdowns have historically had limited effects on the economy and financial markets.

Financial markets delivered broad-based gains in the third quarter of 2025, with most major asset classes posting positive returns amid a constructive economic and policy environment. Easing trade tensions, highlighted by the U.S. reaching new agreements with several key partners, helped reduce global uncertainty and supported investor confidence. Continued enthusiasm for artificial intelligence (AI) and strong earnings results from leading AI-linked technology companies further fueled equity market gains, underscoring the sector’s role as a powerful growth driver. At the same time, increasing expectations for near-term interest rate cuts by the Fed, ultimately realized with a September cut, reinforced investor conviction that monetary policy is shifting toward supporting growth rather than fighting inflation. Together, these developments created a favorable backdrop in which the S&P 500® Index reached

new all-time highs, rising 8.11% for the quarter (+14.81% YTD). Looking internationally, emerging markets outpaced domestic equities, buoyed by a weaker dollar, falling interest rates, and signs of renewed Chinese economic growth. The MSCI Emerging Markets Index gained 10.92% for the quarter (+28.17% YTD). Developed foreign markets also posted gains but lagged U.S. indices, weighed down by concerns over fiscal stress and muted growth in the United Kingdom. The MSCI EAFE Index, which represents developed international markets, advanced 4.87% for the quarter (+25.83% YTD). In fixed income, the Bloomberg U.S. Aggregate Bond Index rose 2.03% in the third quarter (+6.13% YTD), supported by rising expectations for continued Fed rate cuts and growing concerns about labor market weakness.

INTEREST RATES, EARNINGS AND A CONSTRUCTIVE OUTLOOK FOR EQUITIES

Markets extended their strong recovery following their negative reaction to the Liberation Day announcement in early April, with the S&P 500 now more than 35% above its April 8th low. After such a strong rally, the question that investors must now ask themselves is whether this momentum can be sustained. From our perspective as long-term, fundamental-driven investors, equity markets are ultimately driven by interest rates and corporate earnings. In our opinion, the current backdrop remains constructive on both fronts. Looking ahead, we believe the combination of easier financial conditions and solid earnings growth should provide a favorable environment for equities in the near term.

In our last quarterly update, we questioned whether the Fed would ultimately follow through with the pace of rate cuts implied by the Fed Funds futures market, given its preference to wait and assess the full impact that tariffs might have on inflation. At that time, we considered the possibility that interest rates might remain higher for longer than the market anticipated. However, the Fed's calculus shifted meaningfully over the summer as the labor market picture grew more complex. A key turning point came with the Bureau of Labor Statistics' (BLS) annual benchmark revision, which showed that the number of jobs created in the U.S. from April of 2024 to March of 2025 was 911,000 fewer than the original estimate. By way of background, the BLS conducts this benchmark revision each year to align its monthly survey-based payroll estimates with more comprehensive employment data derived from unemployment insurance tax records reported by state agencies. While the monthly survey offers a timely snapshot of labor market trends, the annual reconciliation provides a more accurate gauge of underlying employment conditions. This revision, one of the largest in recent years, revealed that hiring had been consistently weaker than initially reported, and that labor market momentum had been slowing earlier than policymakers realized. Against that backdrop, the Fed moved decisively

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"Against that backdrop, the Fed moved decisively in September with a 0.25% rate cut, marking a clear pivot in emphasis away from inflation management and toward safeguarding labor market strength. (As a reminder, the Fed is guided by its dual mandate to promote maximum employment and maintain price stability.)"

in September with a 0.25% rate cut, marking a clear pivot in emphasis away from inflation management and toward safeguarding labor market strength. (As a reminder, the Fed is guided by its dual mandate to promote maximum employment and maintain price stability.) Inflation, on the other hand, has been on a steady downward trajectory since the Consumer Price Index (CPI) peaked at 9.1% in June 2022, with the most recent reading at 2.9%. While this remains above the Fed's 2.0% target, interest rates remain somewhat restrictive (with the federal funds rate currently at 4.0%–4.25%) because they continue to exceed most estimates of the economy's "neutral rate," or the level consistent with stable inflation and full employment. In practical terms, borrowing costs for businesses and consumers remain elevated, weighing on capital investment, housing affordability, and credit-sensitive spending. This restrictive stance helps ensure inflation expectations remain anchored. However, given the disinflationary trend, it also appears to give policymakers some latitude to ease. The magnitude of the BLS's benchmark revision has increased the likelihood that September's cut was not a one-off adjustment, but rather the opening move in a broader easing cycle. Markets are now pricing in the potential for two additional 0.25% cuts before year-end, as Fed officials seek to cushion the economy against labor market deterioration and support the economy. While tariff policy remains a wild card and could still introduce temporary inflationary pressures, the Fed has signaled that protecting employment will be the guiding priority in the months ahead.

S&P 500 Returns After the Fed Cuts Within 2% Of An All-Time High

S&P 500 Index Returns					
Date of Cut	% Away from ATH (Day Before Fed Cut)	Next Month	Next 3 Months	Next 6 Months	One Year
7/25/1980	-0.59%	3.6%	7.2%	7.5%	7.6%
1/11/1983	0%	-0.5%	6.9%	13.5%	15.2%
2/28/1983	0%	2.4%	11.1%	9.5%	7.6%
1/15/1985	-1.24%	7.3%	6.1%	14.0%	21.9%
5/20/1985	0%	-1.6%	-1.8%	4.7%	24.5%
3/7/1986	-0.78%	3.5%	8.9%	11.0%	28.9%
4/21/1986	-0.26%	-3.5%	-3.5%	-2.4%	16.9%
8/26/1986	-1.94%	-8.3%	-2.1%	12.3%	33.2%
7/31/1989	0%	1.1%	-3.2%	-6.0%	2.6%
7/13/1990	-0.65%	-8.1%	-19.8%	-14.2%	3.5%
3/8/1991	-0.41%	-0.3%	1.3%	4.1%	8.1%
8/6/1991	-1.23%	-0.1%	0.2%	6.1%	8.8%
10/31/1991	-1.01%	-2.8%	4.3%	5.2%	7.4%
7/2/1992	-1.88%	3.2%	1.1%	5.8%	9.0%
9/4/1992	-1.67%	-2.4%	3.6%	9.0%	10.6%
7/6/1995	-0.69%	0.9%	5.0%	11.5%	21.4%
1/31/1996	0%	1.3%	2.9%	0.6%	21.5%
7/31/2019	-0.42%	-1.9%	1.9%	10.2%	8.9%
9/18/2019	-0.67%	-0.3%	6.2%	-19.9%	11.6%
10/30/2019	-0.08%	3.1%	5.9%	-7.1%	8.6%
Average		-0.2%	2.1%	3.8%	13.9%
Median		-0.2%	3.3%	6.0%	9.8%
% Higher		45%	75%	75%	100%

Source: FactSet 08/12/2025

Historically, equity markets have responded favorably when the Fed begins a rate-cutting cycle, particularly when stocks are trading near all-time highs, as they are today. Since 1980, there have been 20 instances when the Fed began easing while the S&P 500 was within 2% of a record peak, and in each of those cases, the index posted positive returns over the following 12 months, with an average gain of 13.9% and a median gain of 9.8% (see table above). Moreover, the current easing cycle technically began in September 2024, when the Fed initiated its first rate cut after a prolonged period of tightening. This was accompanied by additional reductions in November and December, followed by a meaningful pause before the most recent cut this past September. Historically, there have been eight prior instances where the Fed resumed cutting after a pause of at least 120 days, and in all eight cases, the S&P 500 was higher one year later, with an average gain of 16.8%. While past performance is not a guarantee of future results, this historical pattern indicates that the current shift in monetary policy may continue to provide support for equity markets.

The recent downward revision to job growth warrants close attention, but at this point, we do not believe it is cause for alarm. Rather, it reflects a natural slowing of momentum in the labor market following the post-COVID recovery. The unemployment rate remains near multi-decade lows at 4.3%, underscoring the continued stability of the labor market. In our opinion, much of the current softness in job creation reflects a “no hire, no fire” environment as companies are holding on to workers but are hesitant to expand payrolls meaningfully. We think there are several structural factors that help explain the slowdown in job growth. First, government hiring was artificially elevated throughout 2022, 2023, and early 2024 as a result of various post-pandemic stimulus programs, infrastructure initiatives, and temporary public-sector support measures. That surge has now fully unwound as the efforts of the Department of Government Employment (“DOGE”) moved to normalize headcount in the public sector. In addition, reduced immigration has constrained labor supply, while demographic trends—particularly baby boomer retirements—have further

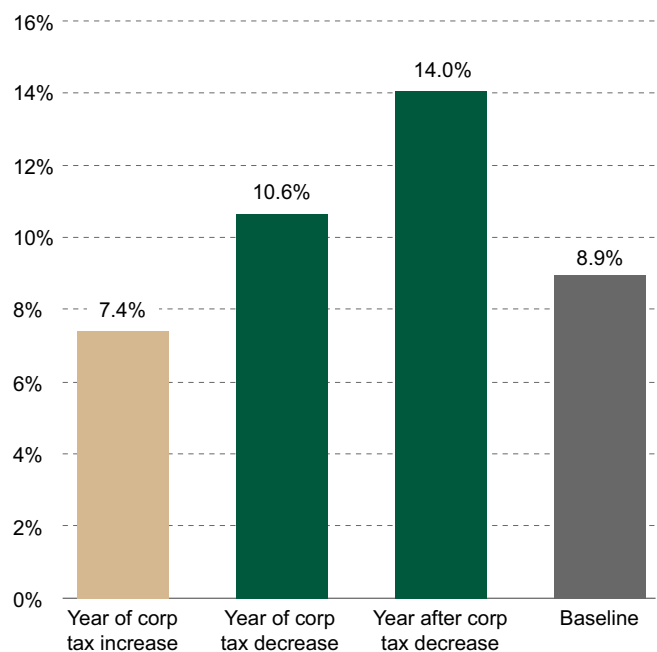
"If history is a guide, the enhanced expense provisions under the OBBBA could extend and strengthen this capex recovery, supporting a more durable phase of productivity-enhancing investment."

tightened workforce availability. The ongoing adoption of AI and automation has also tempered hiring needs in certain sectors. The bottom line is that the weaker labor market data reflect softer labor supply rather than a decline in labor demand. If slower hiring were truly signaling an economic downturn, we would expect to see corresponding weakness in GDP, consumer spending, and capital expenditures—but all three remain solid. In fact, personal spending grew at a 2.5% annualized rate in the second quarter and is expected to accelerate in the third when the data is released in late October. Looking ahead, the prospect of additional Fed rate cuts should help bolster business confidence and may encourage employers to resume hiring as financial conditions ease, potentially revitalizing job growth.

Shifting focus from monetary policy to corporate earnings, the second quarter of 2025 marked another period of solid performance for S&P 500 companies, underscoring the resilience of U.S. earnings growth despite a complex trade environment. Reported during the third quarter, the second quarter S&P 500 earnings results showed year-over-year sales growth of 6.3% and earnings growth of 12.1%, both well ahead of analyst expectations of 4.2% and 4.8%, respectively. These results extend the positive momentum achieved since late 2024, highlighting how corporate America continues to adapt effectively to evolving policy dynamics. That said, performance across sectors remains uneven, reflecting the growing divergence created by tariff-related uncertainty. Technology and AI-related industries remained the primary growth drivers, supported by sustained demand for cloud infrastructure, semiconductor capacity, and AI-enabled software solutions. These sectors continue to benefit from robust capital spending and accelerated digital transformation initiatives and appear to be insulated from trade-related pressures. In contrast, tariff-sensitive sectors such as consumer goods, energy, and materials have encountered headwinds. Consumer-facing companies have struggled with input cost volatility and shifting spending patterns, while energy and materials producers have faced softer global demand and rising trade frictions. Importantly, the full impact of tariffs on corporate profitability has likely

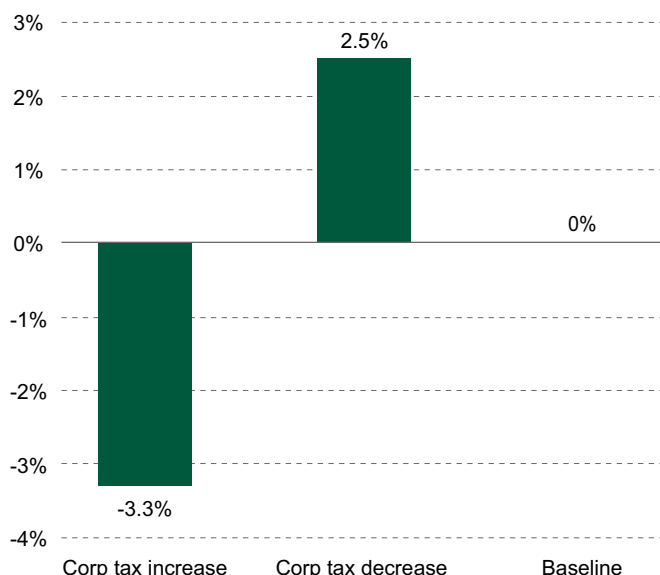
yet to materialize for these industries. Historically, the earnings effects of trade policy changes lag implementation by several quarters, suggesting that any measurable drag may not become fully evident until late 2025 or early 2026. In the meantime, these companies will look to employ mitigation strategies, to minimize the effects from tariffs. However, as we look ahead, recent corporate tax changes may help boost earnings, business investment, valuations, and ultimately stock prices. The passage of the OBBBA is expected to provide an additional near-term tailwind toward improved profitability. The legislation allows companies to immediately depreciate the full cost of investments in areas such as equipment, software, and research and development—accelerating deductions that would otherwise be spread over several years. This change could reduce the effective corporate tax rate by as much as 7%, providing a meaningful boost to after-tax earnings and free cash flow. According to a recent white paper published by Fidelity Investments, periods following corporate tax reductions have coincided with above-average stock market performance, powered by increases in both earnings and valuations (see chart below). Moreover, tax incentives of this kind have tended to stimulate capital expenditures (capex) as highlighted in the chart on the next page, which shows the change in capex (as a percentage of sales) coincident with corporate tax increases or decreases. Capex spending has been trending higher since 2022, fueled by the AI investment cycle.

Annual S&P 500 Returns and Corporate Tax Changes, 1962-2024



Source: Haver Analytics and Fidelity Investments, as of 12/31/2024

Change in Capital Expenditures as a Percentage of Sales Coincident with Corporate Tax Increases or Decreases, 1962-2024



Source: Haver Analytics and Fidelity Investments, as of 6/30/2025

If history is a guide, the enhanced expense provisions under the OBBBA could extend and strengthen this capex recovery, supporting a more durable phase of productivity-enhancing investment. Lastly, stronger capital spending has historically correlated with higher valuation multiples. According to the white paper, since 1985 the S&P 500's average price-to-earnings (P/E) ratio has risen in 81% of years when the capex-to-sales ratio increased. That relationship has been even stronger—86% of the time—when valuations were already in the top quartile, as they are today. This suggests that even in a high-valuation environment, robust investment activity and fiscal incentives such as the OBBBA can reinforce market resilience and support continued equity market strength.

2025 TAX ADVISORY

The passage of the OBBBA also offers several benefits for individuals. As our tax team begins planning for the 2025 tax year, we wanted to highlight some of the key changes that could affect you in 2025 and beyond. Our goal is to help you better understand how these updates may impact your financial planning, recognize new opportunities for savings or deductions, and ensure you're well-prepared to make the most of the new provisions under the law.

Senior Deduction

For tax years 2025 through 2028, taxpayers ages 65 and older can claim an additional deduction of \$12,000 for married couples filing jointly (MFJ) and \$6,000 for Single filers. This new deduction is in addition to the current standard deduction for seniors under existing law. The deduction is not available for those utilizing the Married Filing Separate status.

This deduction begins to phase out at a modified adjusted gross income (MAGI) of \$150,000 for MFJ and \$75,000 for Single tax return filers. It phases out completely at \$250,000 for MFJ and \$175,000 for Single filers.

State and Location Tax Deduction

The cap on deductions for state and local taxes is temporarily raised to \$40,000 for MFJ, Single, and Head of Household filing statuses (\$20,000 for Married Filing Separately) for tax years 2025 through 2029. This amount is phased out for those taxpayers with MAGI over \$500,000 and completely phases back down to a \$10,000 cap when MAGI is \$600,000 or above.

Automobile Deductions and Credits

For 2025 through 2028, individuals can deduct up to \$10,000 for interest paid on new vehicle loans. The vehicle must meet specific requirements to qualify, including being assembled in the U.S. The deduction phases out for income between \$200,000 to \$250,000 for MFJ, and \$100,000 to \$150,000 for Single filers. The deduction is available above the line, meaning taxpayers can claim it even if they do not itemize their deductions.

Federal clean vehicle tax credits of up to \$7,500 for new electric vehicles (EVs) and up to \$4,000 for used EVs were terminated as of September 30th. To qualify, a binding purchase agreement must have been signed by the deadline, though delivery could happen later.

Charitable Contributions (beginning with 2026 tax year)

Taxpayers who take the standard deduction will also be able to claim an additional deduction for cash contributions to eligible public charities. The maximum deduction is \$2,000 for MFJ and \$1,000 for Single filers.

There will be a 0.5% of Adjusted Gross Income (AGI) floor for charitable contributions. Thus, charitable contributions are only deductible to the extent they exceed 0.5% of the taxpayer's AGI. For taxpayers in the highest tax bracket (37%), the maximum tax benefit from itemized charitable deductions is capped at 35%.

Trump Accounts

Effective for tax years beginning in 2026, OBBBA introduces Trump Accounts, a new tax advantaged account for minor children. Structured like a traditional IRA, these accounts impose no income-based contribution limits, and allow anyone (parents, relatives, employers, etc.) to contribute up to \$5,000 (collectively) per year per child, and the contribution amount is indexed for inflation after 2027.

Employers may contribute up to \$2,500 of the \$5,000 total per year tax-free on behalf of their employees' dependents or their teenage employees. The federal government will contribute \$1,000 to Trump Accounts for those children born from 2025 through 2028. Contributions may be made to an account until the minor attains age 18. The growth is tax deferred, and withdrawals after age 18 enjoy long-term capital gains treatment when used for higher education, first home or small business costs.

529 Education Accounts

OBBBA increases the annual tax-free amount that can be withdrawn from a 529 education account, and used for elementary and secondary school tuition, from \$10,000 to \$20,000.

Tax Cuts and Jobs Act of 2017 (TCJA)

Finally, many of the temporary provisions of the TCJA were made permanent.

GRIDLOCK IN D.C.

Congressional gridlock has struck once again, with the U.S. government officially shutting down as of October 1st. The current impasse centers on a Republican-crafted bill designed to fund the federal government through November 21st while lawmakers negotiate a full-year spending package. Senate Democrats have so far refused to advance the so-called "continuing resolution" unless Republicans agree to extend certain health care subsidies under the Affordable Care Act that are set to expire soon and reverse Medicaid cuts enacted earlier this year. Over the past four decades, government shutdowns have typically been short-lived, averaging nine days, with some resolving in just one or two days. However, in recent years, an increasingly polarized political climate has produced longer standoffs, including the notable 34-day shutdown during President Trump's first term. For investors, it is important to note that historical data suggests government shutdowns have typically had limited effects on the economy and financial markets. The short duration of most shutdowns prevents sustained macroeconomic disruption, and federal employees generally receive back pay once the impasse is resolved. The table below illustrates the performance of the S&P 500 during previous U.S. government shutdowns, highlighting the market's resilience even amid political uncertainty. While shutdowns can temporarily affect consumer confidence, delay certain government services, and create headline volatility, they rarely derail broader market trends or long-term investment strategies. For market participants, the current shutdown

Historical U.S. Government Shutdowns

Budget Authority Expiration (end of day)	Appropriation Act or Resolution	Number of Full Days Without Budget Authority	S&P 500 Return During Shutdown
11/20/1981	11/23/1981	2	0%
9/30/1982	10/2/1982	1	0%
12/17/1982	12/21/1982	3	-0.9%
11/10/1983	11/14/1983	3	1.1%
9/30/1984	10/3/1984	2	-1.5%
10/3/1984	10/5/1984	1	0.3%
10/16/1986	10/18/1986	1	0%
12/18/1987	12/20/1987	1	-2.5%
10/5/1990	10/9/1990	3	0.6%
11/13/1995	11/19/1995	5	0.9%
12/15/1995	1/6/1996	21	0.2%
9/30/2013	10/17/2013	16	2.4%
1/19/2018	1/22/2018	2	0%
12/21/2018	1/25/2019	34	9.3%

Source: BTIG Research

appears to be more of a near-term political story than a signal of fundamental economic weakness.

IN CLOSING

Prospects for further Fed rate cuts, combined with the benefits of the OBBBA for corporate earnings, should provide tailwinds for equities—at least for the time being. However, inflation remains the primary risk to monitor. If the current disinflationary trends were to reverse, it could limit the Fed's ability to ease policy further, potentially putting downward pressure on valuations and dampening investor optimism. In addition, the effects of tariffs do not appear to have fully permeated the broader economy, which could affect corporate earnings growth, particularly for companies in tariff-sensitive sectors. While these potential headwinds may not materialize, they underscore the importance of remaining attentive to macroeconomic trends.

Market volatility this year has felt particularly pronounced, driven by a mix of headline-grabbing events and ongoing policy uncertainty. The “Liberation Day” announcement, shifting narratives around tariffs (often fueled by conflicting news and social media posts about whether measures are being implemented or rolled back), and concerns over a potential government shutdown have all contributed to a heightened sense of unpredictability. While the S&P 500 experienced a drawdown of nearly 19% at one point this year, this level of volatility is not unusual. Historically, the stock market experiences an average decline of approximately 14% at some point each year. Although such fluctuations can be uncomfortable, they are normal and highlight the importance of maintaining a long-term investment perspective.

We believe a well-structured and diversified asset allocation strategy, tailored to an investor's financial situation, risk tolerance, and time horizon, is critical for navigating volatility. By aligning investments with specific goals and timelines, investors should be better positioned to withstand short-term market swings, benefit from compounding returns, and realize asset appreciation over the long term. Ultimately, we believe patience, discipline, and a thoughtful investment plan remain the most effective tools for achieving financial objectives.

We thank you for your ongoing confidence and trust. Please reach out to your relationship manager with any questions, or if you wish to discuss your portfolio allocation.

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The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays US Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

The Consumer Price Index (CPI) is issued by the U.S. Bureau of Labor Statistics and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

Artificial intelligence (AI) is a wide-ranging branch of computer science concerned with building smart machines capable of performing tasks that typically require human intelligence. While AI is an interdisciplinary science with multiple approaches, advancements in machine learning and deep learning, in particular, are creating a paradigm shift in virtually every sector of the tech industry. Artificial intelligence allows machines to model, or even improve upon, the capabilities of the human mind. And from the development of self-driving cars to the proliferation of generative AI tools like ChatGPT and Google's Bard, AI is increasingly becoming part of everyday life — and an area companies across every industry are investing in.

Please contact us for more information on how we can assist you with your financial needs.

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Additional note on chart labeled Frequent Portfolio Evaluation can Lead to Risk-adverse Behavior: In the study, subjects were assigned simulated conditions that were similar to making portfolio decisions on a monthly or yearly basis.