

Quarterly Insights

EXECUTIVE SUMMARY

Domestic Stocks Perform Well In Q3

In the Third Quarter, the domestic S&P 500 Index was up 8.12%, out-performing Europe, matching Japan, and slightly lagging Emerging Markets. In our view, US exposure had the best risk/return tradeoff. In Q3, China (+20.70%) heated up after cooling off in Q2 (+2.01%). The leading sector performers in Q2, Technology and Communication Services, were also the leading sector performers in Q3. In its September 17 meeting, the Fed announced a 0.25% rate cut and indicated two possible future rate cuts. In Q3, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) rose 2.03%.

When Bad News Is Good News

The market continued to rise in Q3 despite negative headlines:

1. Weaker Jobs Growth
2. Inflation Above The 2% Fed Target
3. Negative Consumer Sentiment

The Fed's dual mandate is stable prices and full employment. Employment concerns push the Fed towards a rate cut(s), but the tradeoff is delayed progress on inflation control. The key driver to the stock market rise is where the market anticipates the Fed will set its target interest rate. The lower the rate, the better the market tends to perform. In both Q2 and Q3, the market viewed the Fed direction as accommodative (a lower interest rate policy), and this sentiment alone prevailed over all the "bad news".

Third Quarter 2025

In This Issue

2	<u>When Bad News Is Good News</u>
4	<u>Stock Market Spotlight</u>
5	<u>Bond Market Spotlight</u>
6	<u>Financial Planning Spotlight</u>
7	<u>Outside The Box</u>

www.trivant.com

1-866-4-TRIVANT

toll free

Deliberate Investing
For Your
Peace Of Mind

The Market Continued To Rise In Q3 Despite Negative Headlines

In our previous report (Quarterly Insights July 2025, page 2), we discussed the rising S&P 500 Index (+10.94% in Q2) in the context of "Climbing The Wall Of Worry". This is the market's ability to advance in the face of persistent skepticism and negative sentiment. The Q2 "bad news" was tariffs, a static Fed rate, and recession fears. Amidst more "bad news" in Q3 (weaker jobs growth, inflation, negative consumer sentiment), the climb continued as the S&P 500 rose 8.12%. Year to date, the Index is +14.83%.

The Market Is Solely Focused On The Fed

There were three main concerns that the market overcame in Q3.

1. Weaker Jobs Growth

The U.S. is currently experiencing significantly weaker jobs growth. Recent revisions from the Bureau of Labor Statistics (BLS) showed that 911,000 fewer jobs were created between April 2024 and March 2025 than previously reported. Tariff uncertainties and advances in artificial intelligence (AI) are inhibiting hiring and precipitating layoffs. Recent college graduates are experiencing heightened difficulties in finding jobs.

2. Inflation

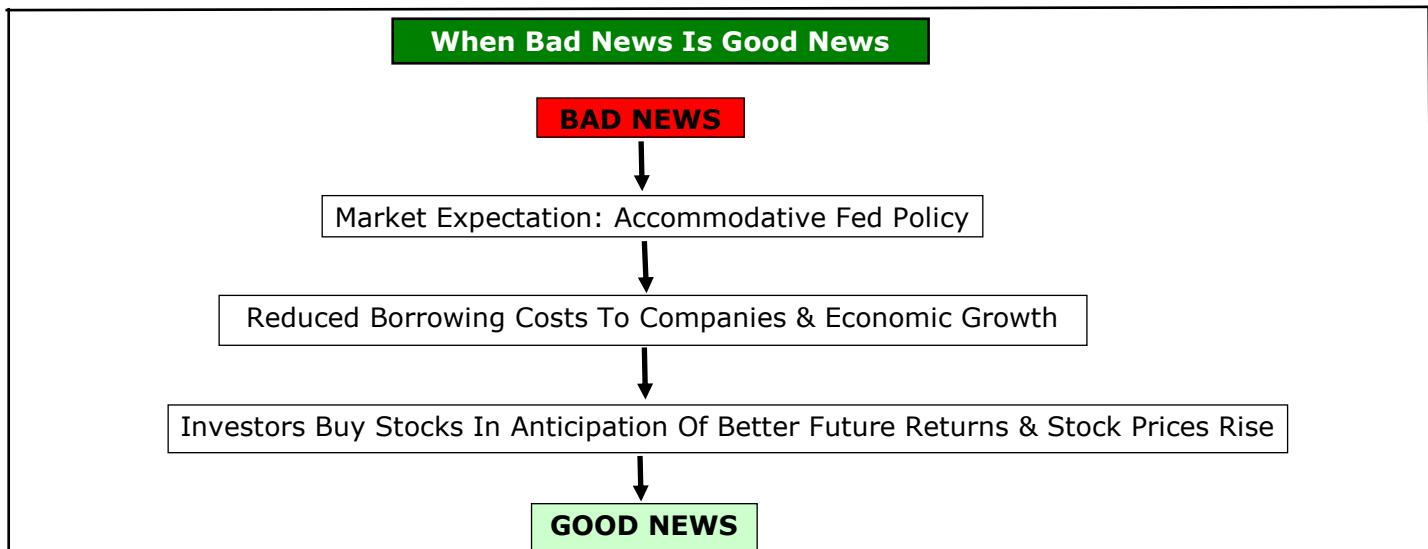
The current U.S. inflation rate remains somewhat elevated, with the Fed projecting PCE inflation at 2.7% for 2025 and not expecting to reach its 2% target through 2028 and over the longer term. The main causes of inflation are persistent price and tariff pressures as well as consumer sentiment and expectations.

3. Negative Consumer Sentiment

The University of Michigan Consumer Sentiment Index fell from 61.7 in July to 55.4 in September, its lowest since May. Key factors for the drop include inflation concerns, worsening business conditions, tariffs, and job security. Sentiment is weakest among lower-and-middle-income households.

Bear in mind that the Fed has a dual mandate: price stability and full employment. This is a balancing act. Employment concerns push the Fed towards a rate cut(s), but the tradeoff is delayed progress on inflation.

The key driver to the stock market rise is how the market anticipates the Fed will respond to this dilemma in setting its target interest rate. The more accommodative the Fed sets its policy (lower rates), the better the market tends to perform. In Q2 and Q3, the market viewed the Fed direction as accommodative, and this sentiment alone prevailed over any and all "bad news". **This was good news for stocks!**



Follow The Fed

While the stock market has averaged roughly a 10% historical annual rate of return, average returns greatly differ depending on prevailing Fed policy. With accommodative policy (lowering the target rate), the annualized return is roughly 16%. With restrictive policy (raising the target rate), the average is roughly 5%.

US Stock Market Performance: January 1966 - December 2013				
	All Monetary Conditions (576 Months)	Expansive Monetary Conditions (172 Months)	Indeterminate Monetary Conditions (209 Months)	Restrictive Monetary Conditions (195 Months)
S&P 500 Return (Annualized)	10.56%	15.18%	11.10%	5.89%

Source: Invest With The Fed

US Stock Market Performance: January 2014 - December 2024				
	All Monetary Conditions (132 Months)	Expansive Monetary Conditions (50 Months)	Indeterminate Monetary Conditions (38 Months)	Restrictive Monetary Conditions (44 Months)
S&P 500 Return (Annualized)	13.16%	18.14%	17.03%	4.66%

Source: TriVant

We Expect The Fed Will Continue To Be Accommodative For The Next Year Or Two

The Fed Open Market Committee (FOMC) met from September 16-17 and released their projections of the most likely outcomes for gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2025 to 2028 and over the longer run:

- GDP growth is projected at 2.6% through 2028 and over the longer run
- The unemployment rate is projected at 4.6% through 2028 and over the longer run
- PCE inflation is projected at 2.7% through 2028 and over the longer run

While there is no guarantee it will happen, the Fed has signaled two further 0.25% rate cuts for this year. With the most recent rate cut and its comments, the Fed appears to be prioritizing full employment versus target inflation in its target. Fed Chair Jerome Powell's term ends on May 15, 2026 and we anticipate the next appointed Chair by the current Administration will lean towards an accommodative Fed policy. For all of these reasons, we expect the Fed will continue to be accommodative for the next year or two.

Accommodative Fed Policy Is Good For Stocks And Not So Good For Bonds

Accommodative Fed policy benefits stocks in the following ways:

1. Stocks are more attractive than lower-yielding bonds, which prods investors to shift from bonds to stocks.
2. Lower interest rates allow corporations to refinance their existing bonds or take on new debt at low rates. This lowers their interest expense and increases profit, which helps stocks. Bonds become less attractive.

This does not mean we move away from bonds in an accommodative Fed policy environment. Bonds are an important component of portfolio risk control. Riskless Treasurys are currently yielding around 4% (not bad).

Domestic Stocks Perform Well In Q3

In the Third Quarter, the domestic S&P 500 Index was up 8.12%, out-performing Europe, matching Japan, and slightly lagging Emerging Markets. In our view, US exposure had the best risk/return tradeoff. In Q3, China (+20.70%) heated up after cooling off in Q2 (+2.01%). We remain cautious about Chinese stocks. There are issues with government intervention, property rights, and accounting standards.

Equity Index Performance

Index	Q3 2025	Q2 2025
S&P 500 (Domestic)	8.12%	10.94%
MSCI EAFE (Foreign) *	4.77%	11.78%
MSCI Emerging Markets	10.64%	11.99%
MSCI EMU (European Monetary Union)	4.37%	14.05%
MSCI Japan	8.02%	11.36%

* Europe, Australia and the Far East

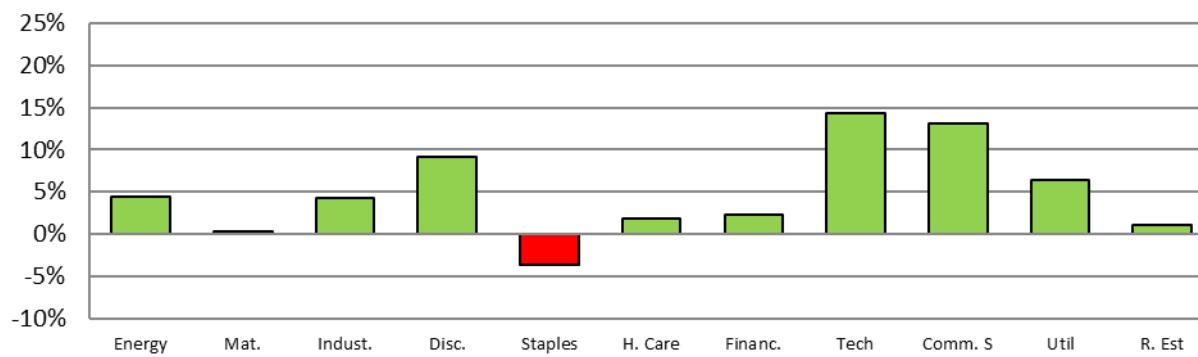
"Climbing The Wall Of Worry" In Q3: The Same Sector Leadership As The Q2 Climb

The negative sector performers in Q1 - Technology, Communication Services, Consumer Discretionary, and Industrials - were the leading positive sector performers in Q2 as the market "climbed the wall of worry".

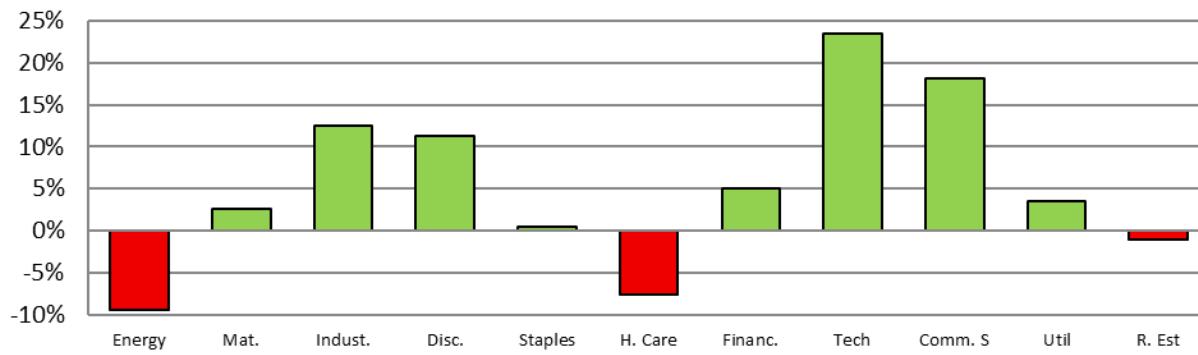
The same sector leadership pattern occurred in Q3 as the market continued to "Climb The Wall Of Worry".

Excitement regarding artificial intelligence (AI) catapulted Technology and Communication Services. While we see no immediate signs that this enthusiasm will subside, we are conscious that momentum can change quickly. We have not made oversized bets in these two sectors and continue to have a diversified portfolio.

S&P 500 Index Sector Performance - Q3 2025



S&P 500 Index Sector Performance - Q2 2025



Bonds Rise In Q3

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, rose 2.03% in the Third Quarter and is up 6.13% year-to-date. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures Index, rose 2.9% in August. In its September 17 meeting, the Fed announced a 0.25% rate cut and indicated two possible future rate cuts.

Key US Interest Rates	Sept. 30, 2025	June 30, 2025	Change
Federal Reserve Board Funds Target Rate	4.00% - 4.25%	4.25% - 4.50%	- 25 basis points
2-Year Treasury (Constant Maturity)	3.60%	3.72%	- 12 basis points
5-Year Treasury (Constant Maturity)	3.74%	3.79%	- 5 basis points
10-Year Treasury (Constant Maturity)	4.16%	4.24%	- 8 basis points

Why We Have Treasury-Inflation Protected Securities (TIPS) In The Bond Portfolio

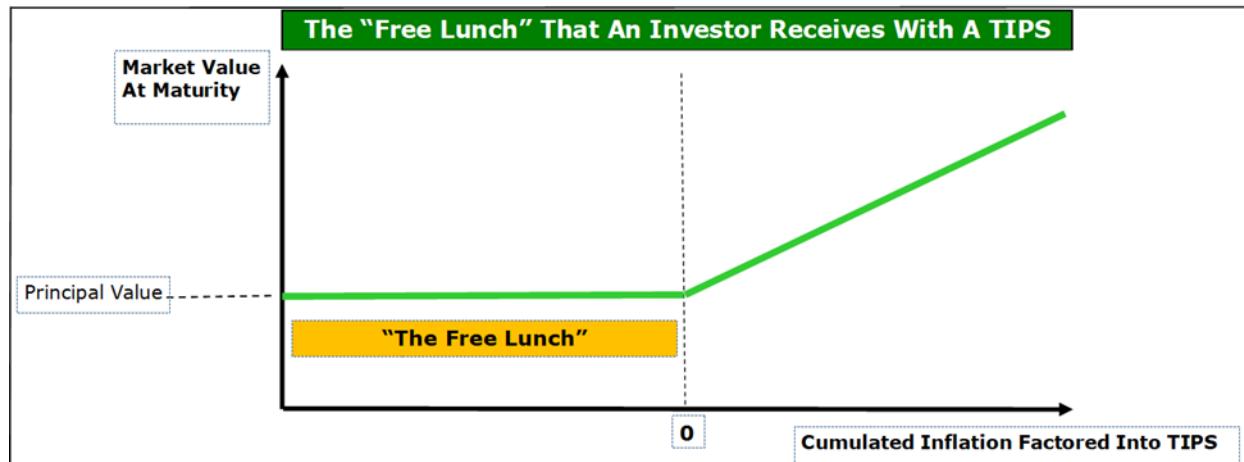
Inflation is a going concern and TIPS provide inflation protection. The coupon rates of TIPS and "regular" bonds (such as US Treasurys and corporates) are not directly comparable. While both bond types bear interest risk (when interest rates rise, bond prices fall), only the regular bonds bear inflation risk. With a regular bond, investors bear inflation risk because principal (par value) and interest payments are fixed and could be eroded by inflation. With a TIPS, principal and payments are guaranteed to keep pace with inflation as defined by the Consumer Price Index (CPI) through semi-annual adjustments.

Looking only at the quoted coupon of a TIPS can be misleading. It is the total return (appreciation) that is key. Calculating the total return of a TIPS is complicated because there are two components to consider:

1. The value of the TIPS will adjust upward for rising inflation and downward for falling inflation
2. The value of the TIPS will adjust upward with falling interest rates and downward with rising rates

Bond Type	Interest Risk (Yes/No)	Interest Rates Rise	Interest Rates Fall	Inflation Risk (Yes/No)	Inflation Rate Rises	Inflation Rate Falls
Regular Bond	YES	Bond Price Falls	Bond Price Rises	YES	Bond Price Falls	Bond Price Rises
TIPS	YES	Bond Price Falls	Bond Price Rises	NO	Bond Price Rises	Bond Price Falls (par value limit)

At a minimum, an investor will receive the principal value of the TIPS at its maturity no matter what happens with inflation over the duration of the TIPS. This "free lunch" reduces portfolio risk.



Three Important Tax Rule Changes For 2025

We want to highlight three important tax rule changes for 2025 that may impact you.

1. SALT Rule

For tax year 2025, the federal SALT (State and Local Tax) deduction cap has been increased from \$10,000 to \$40,000 for most taxpayers. This change is temporary and applies for tax years 2025 through 2029, after which the deduction cap reverts back to \$10,000 in 2030. Allowable deductions include state and local income taxes, property taxes, and state and local sales taxes. This change is especially impactful for residents of high-tax states such as California, New York, and New Jersey. If you are itemizing, additional common allowable deductions are mortgage interest, charitable gifts, and eligible medical expenses.

The increased SALT cap is phased out for higher-income taxpayers: the cap is reduced once modified adjusted gross income (MAGI) exceeds \$500,000 (or \$250,000 for individual or married filing separately).

EXAMPLE

Itemizing with the new \$40,000 SALT cap in 2025 is financially beneficial if your total itemized deductions exceed the new standard deduction: \$16,000 for single filers and \$32,000 for married couples filing jointly.

Suppose a married couple has \$40,000 in local/state taxes, has incurred \$10,000 in mortgage interest, and has made \$2,000 in charitable donations. The total itemized deductions are \$52,000.

Since \$52,000 (itemized) is greater than \$32,000 (standard), itemizing will save this couple money. By increasing their deductible amount by \$20,000 (\$52,000 - \$32,000), and assuming a 24% tax rate, this couple would reduce their federal taxes by \$4,800.

2. Inherited IRAs (Non-Spouse)

The rule for required minimum distributions (RMDs) for non-spouse beneficiaries takes effect this year. For date of death January 1, 2020 or later, RMDs are calculated based on the beneficiary's life expectancy. The Inherited IRA must be depleted by December 31 of the 10th year after the original owner passed.

Lets say the death was in October 2024: the Inherited IRA must have a zero balance by December 31, 2034. A date of death December 31, 2019 or earlier does not have the 10 year rule.

We are closely monitoring non-spouse Inherited IRAs and will be in touch if we have not already done so.

3. Income Limits To Stay In The 0% Capital Gains Tax Rate

For the 2025 tax year, the income limits to qualify for the 0% long-term capital gains tax rate are:

- Married Filing Jointly: Up to \$96,700 of taxable income
- Single Filers: Up to \$48,350 of taxable income
- Married Filing Separately: Up to \$48,350 of taxable income

If taxable income exceeds these thresholds, the capital gains tax rate moves to 15% and then to 20% for higher income levels.

Steering a ship is analogous to managing a portfolio. Both require careful navigation, balance, and the ability to adapt to changing conditions to reach a desired destination safely.

A ship must be aimed at a destination and adjusted for safe travel. A portfolio needs clear long-term objectives and routine re-balancing to stay on course.

The ship's captain makes ongoing judgments based on weather and tides. The portfolio manager responds to market fluctuations and changing client personal goals.

A balanced ship relies on ballast for stability and sails for propulsion. A balanced portfolio relies on bonds for stability and stocks for growth.

Safety measures on a ship, like life vests, mirror contingency planning and risk management in investing.

Steering requires vigilance and ongoing corrections to keep a steady course despite unpredictable weather. Portfolio management requires adjustments for market conditions, liquidity needs, and personal priorities.

Uncontrollable forces such as storms and waves represent market downturns, economic recessions, or political changes. Preparation through diversification and safety nets help weather these storms.

Thank you for trusting us to steer the ship.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.