Q3 2025
SECURITIES MARKET NEWSLETTER

EDGETECH

Solid earnings and economic growth lead to broad participation in third quarter stock rally.

Calm, cool, and collected. This was the stock market's third quarter. July, August, and September revealed a market that has learned to navigate uncertainty with remarkable clarity and calmness. Despite persistent tariff headlines, political turbulence in Washington, and ongoing inflation, the stock market largely kept its cool. Stocks advanced across most sectors, volatility remained muted, and breadth improved meaningfully as smaller companies joined the rally that has long been led by mega-cap technology names. The combination of resilient corporate earnings, lower interest rates, and stable economic growth provided a solid foundation for another quarter of gains.

Index	Q3	YTD
World ex-United States	6.9%	27.5%
Nasdaq	11%	17.3%
S&P 500	8%	14.8%
Vanguard Balanced	5.3%	12.4%
Dow Industrials	5.7%	10.5%
Russell 2000 Small Cap	12%	9.3%
S&P 500 Equal Weight	4.4%	8.4%
Aggregate Bond Index	2%	6%

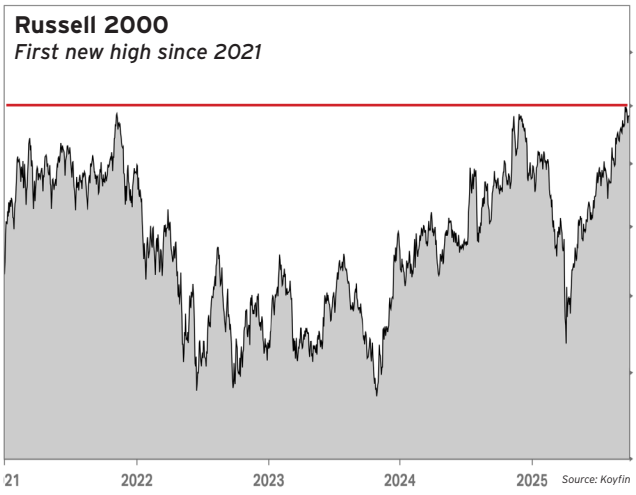
Source: EdgeTech

The story of Q3 was one of stabilization and growth. After a turbulent first half dominated by tariff drama and policy speculation, markets steadied as investors revisited their outlooks and expectations. Focus moved beyond immediate sensationalist headlines to instead concentrate on core concerns; namely corporate fundamentals and the economic outlook, both of which continued to justify the optimistic third quarter rally.

As we learned in the first half, the market is prone to fits of emotion, but it is also capable of looking past the crisis de jour and focusing on fundamentals to provide longer term stability. This was the third quarter in a nutshell. The renewed emphasis on facts and fundamentals over emotion has helped stabilize sentiment, foster resilience, and extend the bull market's reach. Short-term volatility is always a possibility though, especially amidst a government shutdown and the ongoing tariff trade war. The extent to which markets and investors will be able to continue to tune out the noise and concentrate on the signal will determine the path forward through the end of the year.

QUARTERLY ROUNDUP

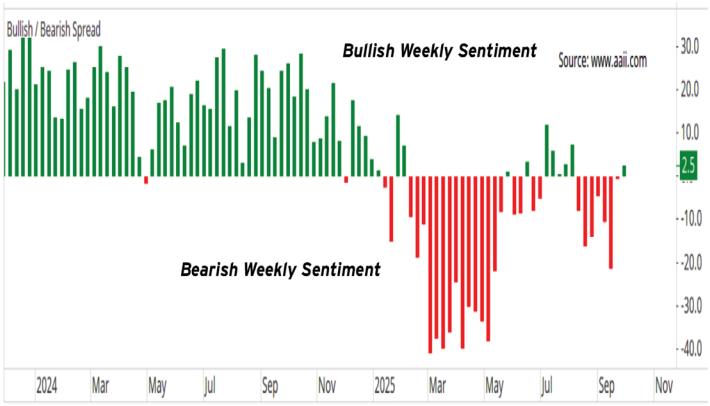
The third quarter extended the market's steady upward trajectory it has been on since the tariff disruption in April. The S&P 500, Dow Jones Industrial Average, Nasdaq Composite, and the small cap Russell 2000 index each set new all-time highs. That all four indexes were able to set new records underscores both the strength and breadth of the market's 2025 rally. The Russell 2000 had not hit a new all-time high since November 2021 (see chart below).



No longer is this a market being led by a tiny handful of stocks. To be sure, the Magnificent 7 stocks (Apple, Amazon, Google, Meta, Microsoft, Nvidia, Tesla), which dominated returns since 2023, are still doing well; they are now joined in their

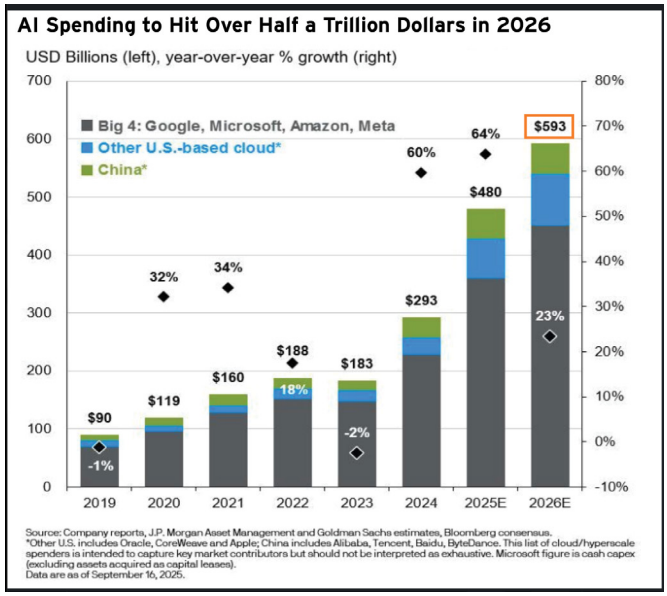
positive performance by "the rest of the market." In fact, the New York Stock Exchange composite index does not contain any of the Magnificent 7 stocks, yet it still was able to hit fresh new all-time highs in the third quarter. And by late September more than half (60%) of all domestic stocks traded above their 200-day moving averages. This is an indicator of long-term trend and demonstrates that large, medium, and small size stocks are now participating in this three-year-old bull market. A sustainable bull market cannot rest on the laurels of its biggest names; it needs to be supported by other companies rising to the occasion. That's what can extend a three-year rally into an even longer bull market.

It remains the case that this bull market is climbing a wall of worry. Individual investor sentiment has been bearish more than it has been bullish this year (see chart). In fact, heading into the last week of the quarter, sentiment had been bearish for six straight weeks.



This raises the question: how could such downbeat attitudes support a broadening, record-breaking stock market? We would argue that it is because disciplined investors are now relentlessly forward-looking. Future expectations are positive and improving. What's happening right now—trade war, inflation, government shutdown—causes discouragement and pessimism, which lead to daily volatility. But reasonable, future-focused investors have been able to look past the day-to-day and concentrate on the optimistic long-term trend.

Economic data remained broadly supportive of a growth trajectory. Second quarter GDP growth came in at its highest since 2023 at almost 4% annually. And the most recent estimate of third quarter growth is right at 3.9%. Business investment is particularly robust, driven by capital expenditures on Artificial Intelligence (AI)-related infrastructure. In fact, American companies are on track to invest more than half a trillion dollars on AI infrastructure in the coming years.



According to analysts at Renaissance Macro, in the first half of this year spending on software and AI-infrastructure contributed more to GDP growth than consumer spending.

To help foster this economic growth and to maintain a full jobs market, the Federal Reserve cut interest rates by .25% at their September meeting. The jobs market is showing some early signs of weakening this year. June saw a net monthly loss of jobs for the first time in over four years and the hiring rate is at its lowest since 2013. That said, the slowdown is starting from an already breakneck pace and the unemployment rate is running

below its long-term average. The Fed, under the guidance of Chairman Jerome Powell, has two goals at the moment: (1) they want to head off any further jobs market deterioration and (2) they want to start getting interest rates down from their currently elevated levels. As of this writing, markets expect two more rate cuts by the end of the year.

The president's trade and tariff developments will continue to influence the investment backdrop. Legal challenges to the administration's tariffs remained unresolved. So far it's the uncertainty surrounding the tariffs rather than the tariffs themselves that concerns markets. Corporations, particularly in manufacturing and retail, adapted quickly to the tariffs by adjusting supply chains and absorbing cost increases to protect market share. While uncertainty around trade persists, the feared inflationary spiral tied to tariffs has not materialized.

THE ROAD AHEAD

As we enter the final quarter of 2025, investors face familiar opportunities and uncertainties. Earnings estimates so far for the third quarter are being revised upward. This rarely happens: earnings are usually revised down throughout the quarter as positive expectations run into negative reality. We haven't seen earnings revised up for a quarter since the post-covid year of 2021. Companies are showing an endurance and strength in a difficult environment and are being rewarded for it by the stock market. Remember that earnings are the ultimate driver of stock prices.

Economic growth, which slowed earlier this year, is back on track and set to expand further in the months ahead. Helping this growth along, despite the uncertainty, are the deregulation (cutting red tape) and tangible tax benefits going into effect next year as a result of the One Big Beautiful Bill passed in the summer.

In addition, the Fed has commenced their rate cutting cycle. Speculation about the timing and number of rate cuts is exhausting and pointless. What really matters, and what investors traded on in the third quarter, is the overarching trend for where rates are headed. And the trend for rates is downward. Cuts may not be as immediate or as frequent as some would like, but the fact is, when all is said and done, that rates are going to come down. This is a good thing for companies and for the investors in those companies.

Inflation remains a stubborn ongoing concern and one that we will be monitoring closely. Tariff-related disruptions have been manageable thus far, and businesses appear adept at adapting to shifting trade conditions. Geopolitical risks have lessened somewhat with the ceasefire in Israel but China's defiant stance in the trade war can and will cause volatility in the fourth quarter. Our base case remains cautious, optimistic, and realistic: broadening market participation, supportive pro-growth policy, and steady earnings growth through the end of the year. Investors willing to stay invested through near-term noise are positioned to benefit.

In this environment, our approach remains disciplined and data-driven with an emphasis on what's working right now. This can include a

mix of exposures across large-cap leaders, smaller companies as they surge forward on the prospect of lower interest rates, and select international exposure when and where it can complement a portfolio. Within fixed income, the gradual normalization of rates supports adding measured duration exposure (i.e., intermediate-term bonds) while maintaining quality to provide ballast to conservative portfolios.

Our EdgeTech technology works to identify areas of relative strength and detect early signs of deterioration, helping portfolios remain positioned for resilience. Ultimately, markets reward patience, adaptability, and a focus on fundamentals. Short term volatility is a given. But if the focus stays on current company and economic strength and the long-term direction of interest rates, then the stock market may have further to climb, and justifiably so.

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