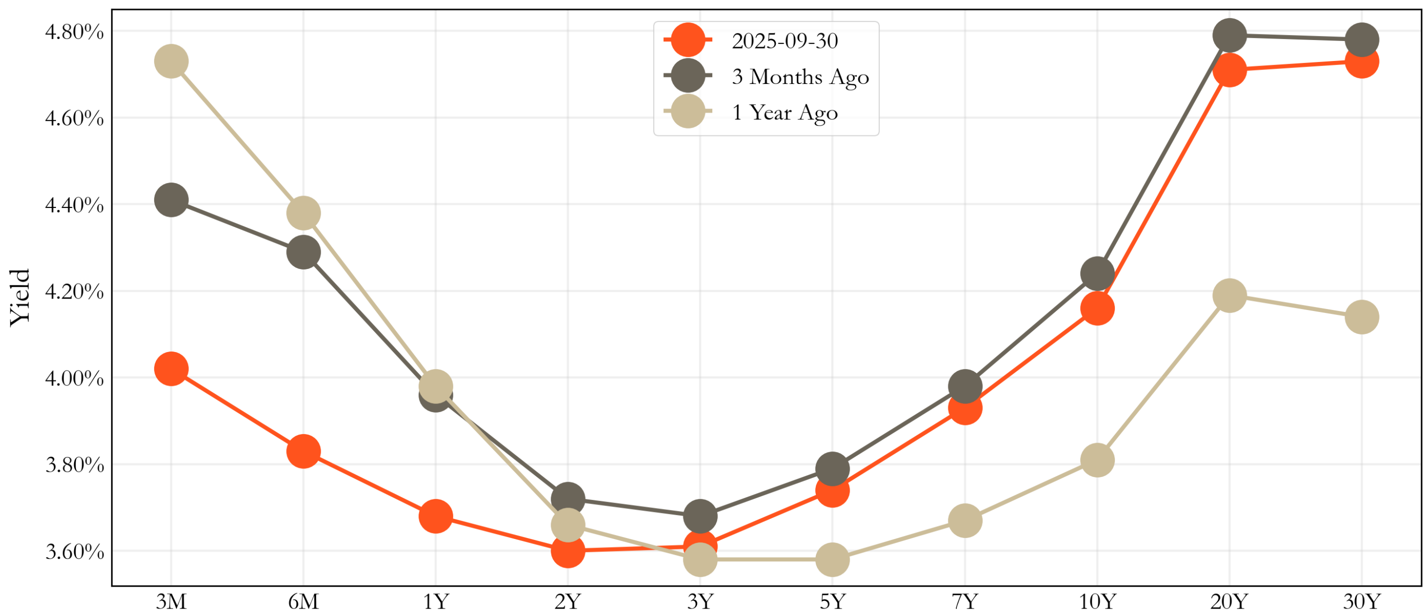
Q3 2025 Commentary

Despite initial concerns, tariffs have proven less disruptive than anticipated. Expectations of additional Federal Reserve rate cuts, deregulation, surging enthusiasm for AI-powered growth, and robust corporate earnings to date have eclipsed worries about a looming economic slowdown, inflation, and geopolitical risks. However, economic data has not been all rosy.

In late September, the Federal Reserve reduced the federal funds target rate by 25 basis points, as emerging labor market vulnerabilities and risks of economic deceleration took precedence over concerns about inflation. While the quarter-point cut was broadly anticipated and already factored into market expectations, investors drew encouragement from the Federal Open Market Committee's (“FOMC”) voting tally: 11 of the 12 members endorsed the magnitude of the move, with the last remaining member voting for a half point cut. In turn, the short end of the US Treasury yield curve continued to decline, with expectations of further Fed cuts. Yet, the long end of the curve has steepened significantly in comparison to the same period last year.

U.S.Treasury Yield Curve

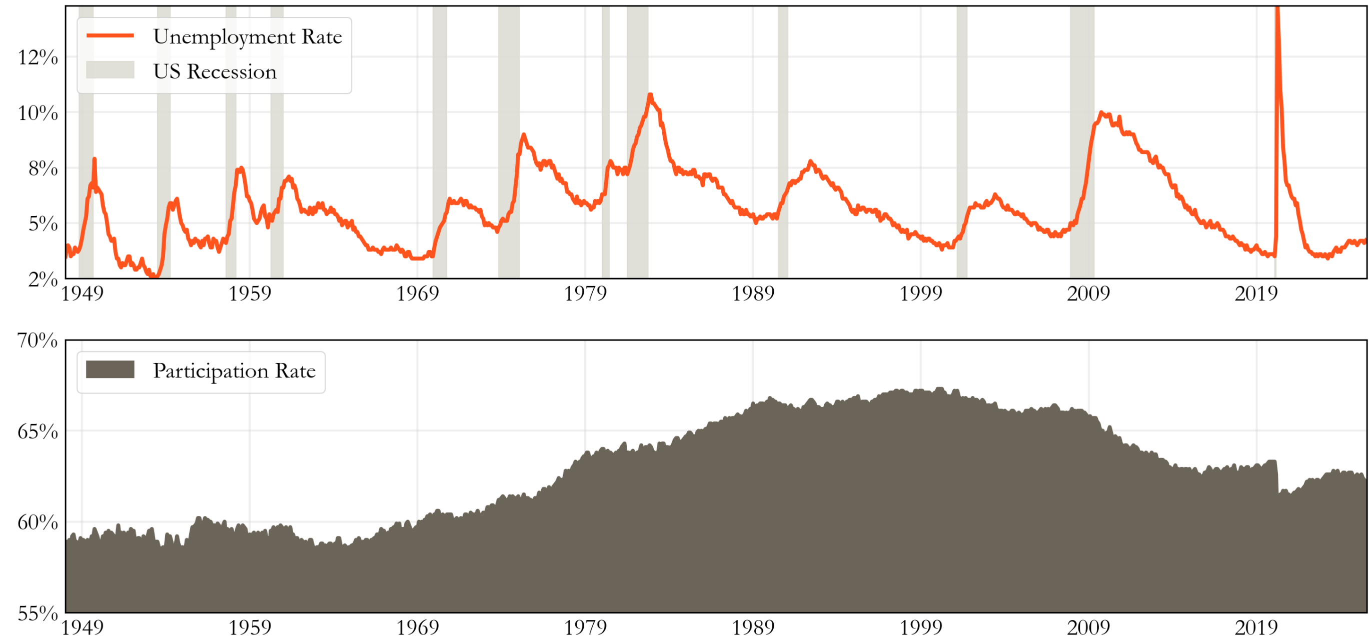


	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
2025-09-30	4.02%	3.83%	3.68%	3.60%	3.61%	3.74%	3.93%	4.16%	4.71%	4.73%
2025-06-30	4.41%	4.29%	3.96%	3.72%	3.68%	3.79%	3.98%	4.24%	4.79%	4.78%
2024-09-30	4.73%	4.38%	3.98%	3.66%	3.58%	3.58%	3.67%	3.81%	4.19%	4.14%

IRON Financial | Data: FRED | 2025-09

The Federal Reserve rationalized the rate cut, citing the U.S. unemployment rate, which rose to 4.3%, as an indication of a slight softening of the labor market amid broader economic uncertainties. This uptick unfolds against a pattern of significant downward revisions to employment figures over the past two years, including a staggering 911,000 fewer jobs created between April 2024 and March 2025 than initially reported—the most substantial adjustment since the Great Recession. Additionally, labor force participation has declined compared to the same time last year.

Unemployment & Labor Participation Rates

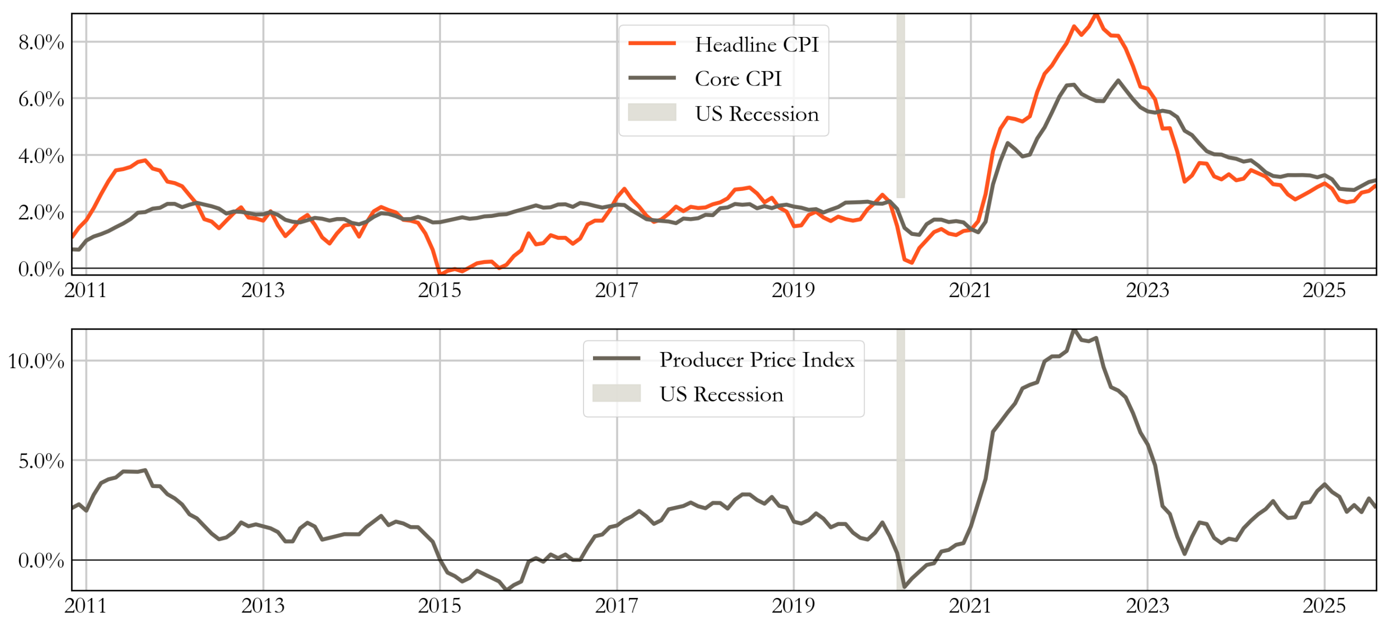


	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06	2025-07	2025-08
Unemployment Rate %	4.1%	4.1%	4.2%	4.1%	4.0%	4.1%	4.2%	4.2%	4.2%	4.1%	4.2%	4.3%
Participation Rate %	62.7%	62.5%	62.5%	62.5%	62.6%	62.4%	62.5%	62.6%	62.4%	62.3%	62.2%	62.3%

IRON Financial | Data: FRED | 2025-08

The Fed's rate cut arrives as inflation lingers above the 2% target, with the Consumer Price Index ("CPI") climbing to 2.9% year-over-year in August—up from 2.7% in July. Meanwhile, producer price inflation eased to 2.6% annually in August, down from 3.1% the prior month. Nonetheless, the Fed has indicated a greater emphasis on employment metrics, even if inflation persists.

U.S. Inflation

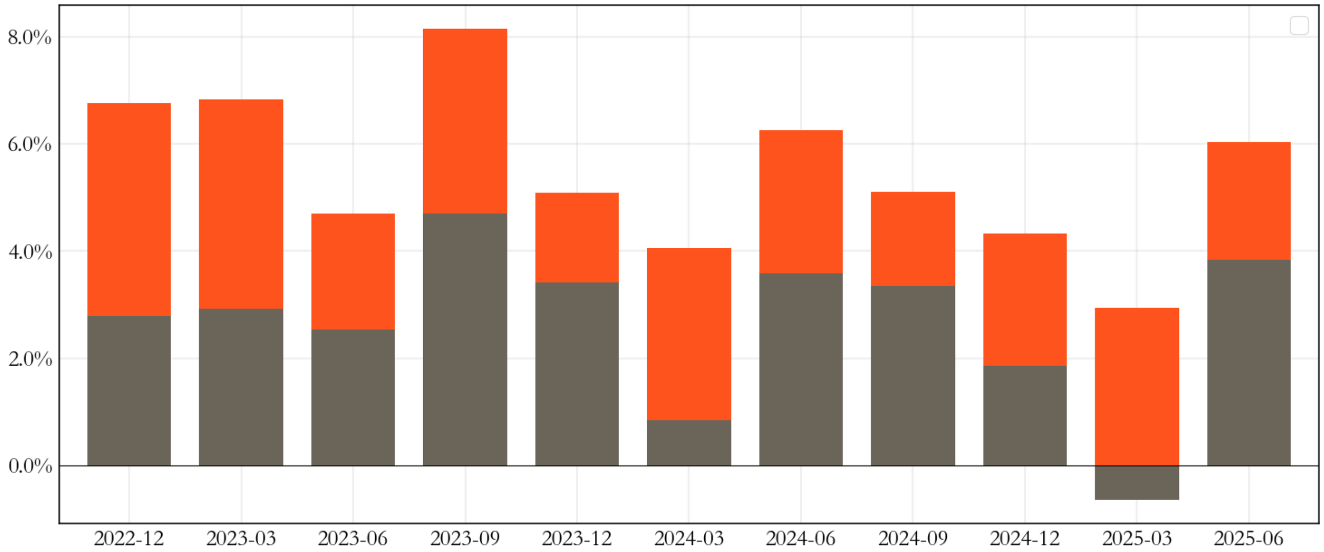


	2024-09	2024-10	2024-11	2024-12	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06	2025-07	2025-08
Headline CPI	2.43%	2.57%	2.71%	2.87%	3.00%	2.81%	2.41%	2.33%	2.38%	2.67%	2.73%	2.94%
Core CPI	3.29%	3.29%	3.28%	3.21%	3.29%	3.14%	2.81%	2.78%	2.77%	2.91%	3.05%	3.11%
Producer Price Index	2.14%	2.84%	2.90%	3.46%	3.80%	3.41%	3.17%	2.41%	2.75%	2.40%	3.09%	2.61%

IRON Financial | Data: FRED | 2025-08

Following a negative Real GDP print in the first quarter, Real GDP growth rebounded, recording a 3.8% annualized gain for the second quarter of 2025.

U.S. Nominal & Real GDP

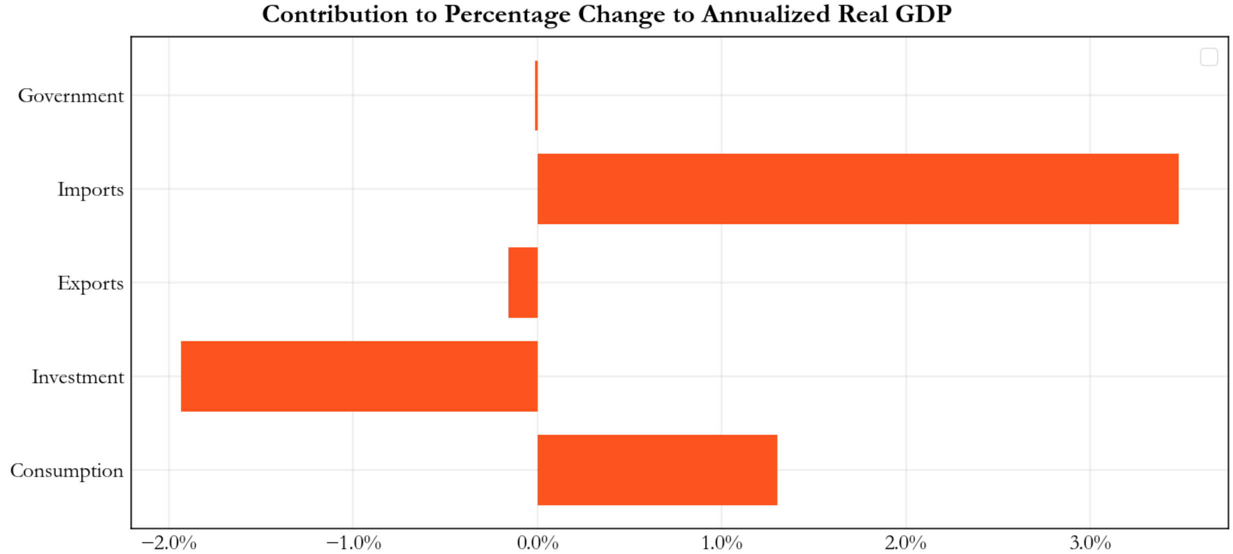


	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12	2025-03	2025-06
Nominal GDP	6.8%	6.8%	4.7%	8.2%	5.1%	4.0%	6.3%	5.1%	4.3%	2.9%	6.0%
Real GDP	2.8%	2.9%	2.5%	4.7%	3.4%	0.8%	3.6%	3.3%	1.9%	-0.6%	3.8%

IRON Financial | Data: US Bureau of Economic Analysis | 2025-06

However, in contrast to Q1 2025, real GDP increased in Q2 due to a decrease in imports. A decline in imports reduces the value subtracted from the total, effectively boosting GDP growth. This adjustment prevents double-counting, as imported goods are already reflected in consumption, investment, and government expenditure figures, ensuring that GDP accurately reflects only domestic production. Notably, investments and exports decreased in Q2 relative to Q1.

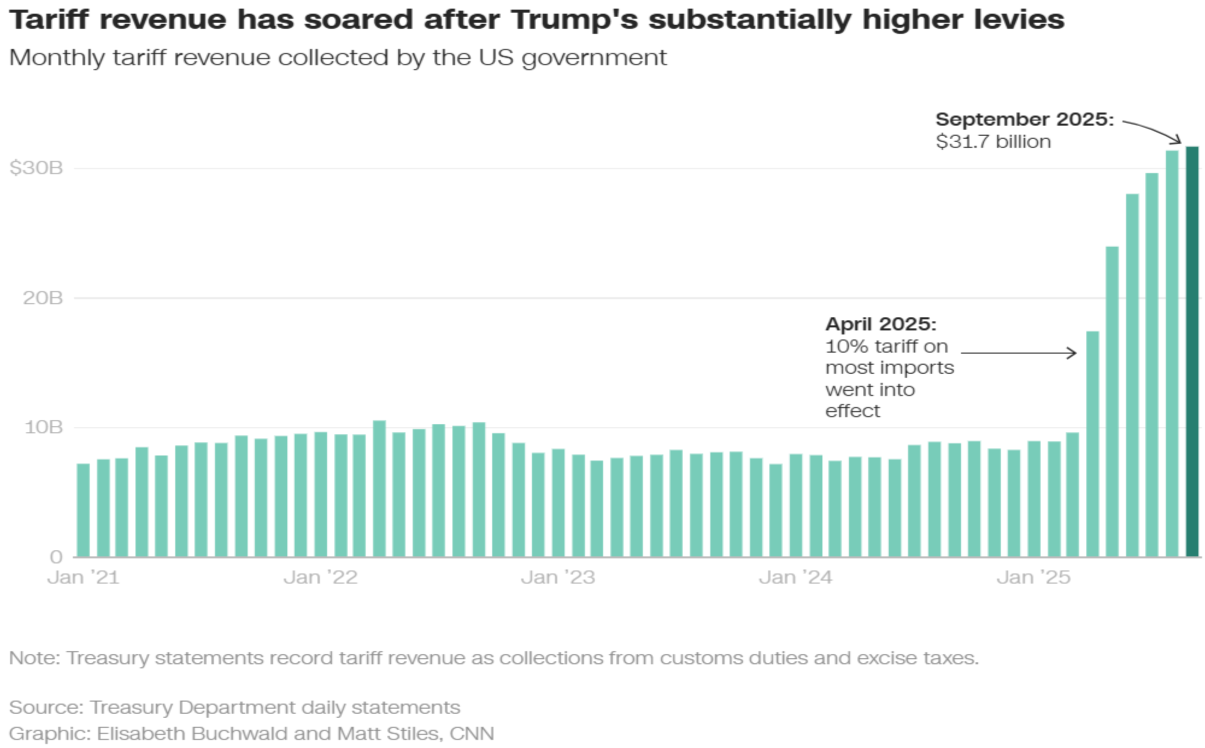
Contribution to Percentage Change to Annualized Real GDP



	Consumption	Investment	Exports	Imports	Government
Real GDP Contribution	1.3%	-1.9%	-0.2%	3.5%	-0.0%

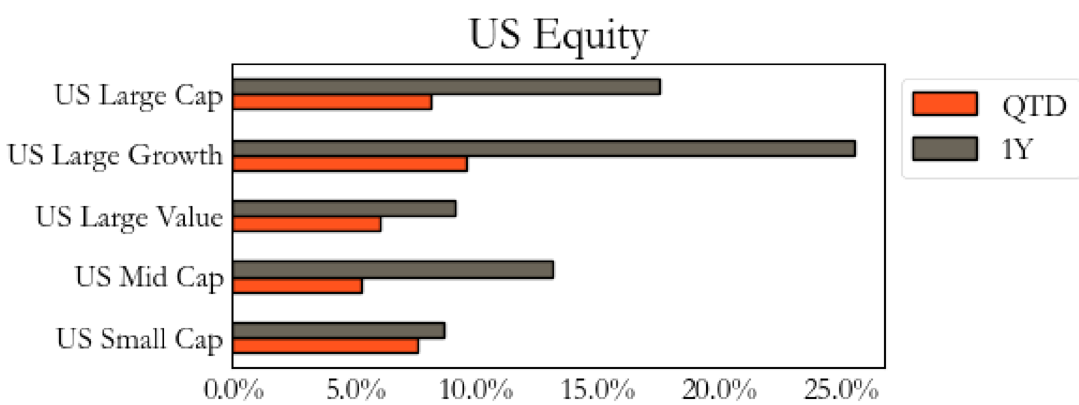
IRON Financial | Data: US Bureau of Economic Analysis | 2025-06

Higher tariffs are expected to reduce import volumes over time as the economy shifts toward domestic production and alternative sourcing. This will change the composition of U.S. GDP. Further, the recently generated tariff revenue is substantial enough to influence federal budgeting.



Equity Markets
The third quarter of 2025 was yet another strong quarter for equities. The S&P 500 companies delivered stronger-than-expected second quarter (Q2) earnings, posting an impressive 11.7% year-over-year growth rate—the third consecutive quarter of double-digit expansion. Notably, more than 400 of the 500 constituents (81%) exceeded consensus earnings per share ("EPS") estimates, marking the highest beat rate since the third quarter of 2023. Overall, the US equity market gained 8.2%, with growth stocks outperforming the broader market. US Large Growth equities gained 9.6%, while US Value stocks posted a gain of 6.0%. Small and mid-cap equities trailed larger-cap equities. While large caps overall posted a gain of 8.1%, small caps posted a 7.6% gain, and mid-caps posted a 5.3% gain.

Over the past year, US All-Cap Equities have gained 17.3%. During the same period, US Large Growth stocks have gained 25.5%, while US Large Value stocks posted a yearly gain of 9.2%. Small-Cap equities continued to underperform large-caps, posting an 8.7% gain. The US Mid-Cap equities performed better, posting a gain of 13.1%.

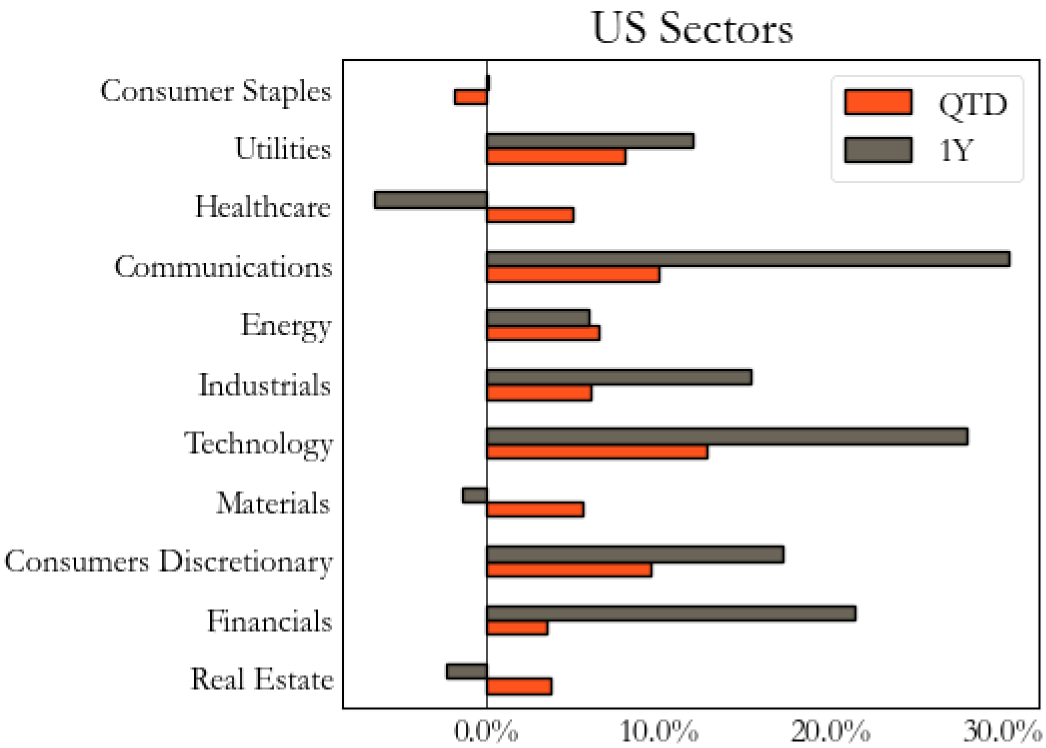


Source: September 2025 – IRON Financial

The decline in the VIX (the CBOE Volatility Index, which measures the stock market's expectation of volatility for the next 30 days) after the April tariff tremors continued. Overall, expected volatility declined by 2.7% during Q3. U.S. market uncertainty has declined on a one-year basis as well, with the VIX moving lower by 2.7%.

Equity sector performance in Q3 was mixed. The top-performing sectors were Information Technology, Communication Services, and Consumer Discretionary, which posted gains of 12.8%, 10.0%, and 9.6%, respectively. The Consumer Staples sector was the only sector to post a loss, a decline of 1.9%. Financials, Real Estate, and Healthcare also trailed other sectors by posting smaller gains of 3.5%, 3.7%, and 5.0%, respectively. Overall, the defensive sectors continued to underperform, except for the Utilities sector. Utilities posted a respectable gain of 8.0%, as electricity prices rose due to the demand for AI data centers. Elsewhere, the Energy, Industrials, and Materials sectors posted gains of 6.5%, 6.0%, and 5.6%, respectively.

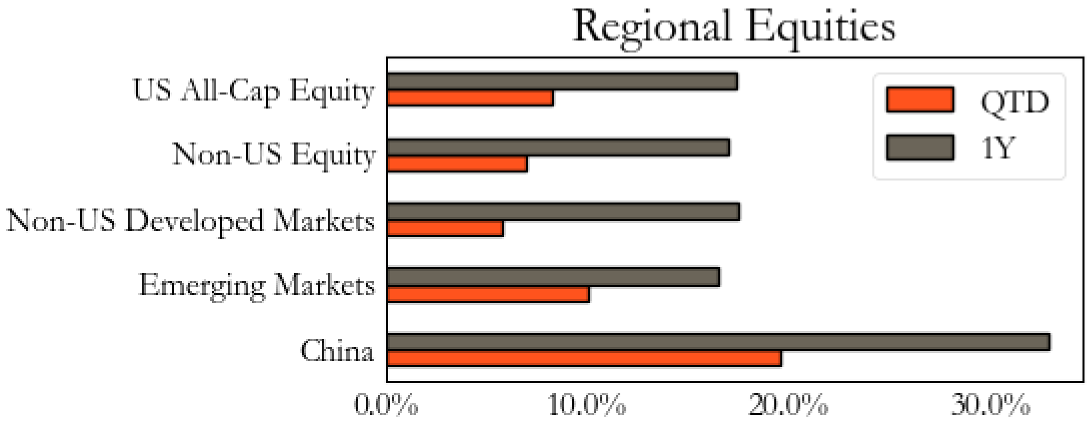
On a one-year basis, the top performing sectors were Communications, Technology, and Financials, which gained 30.4%, 27.9%, and 21.4%, respectively. Healthcare and Real Estate were the worst-performing sectors. Healthcare equities lost 6.6%, while Real Estate equities lost 2.3%.



Source: September 2025 – IRON Financial

International stocks also had a good quarter. Non-US Equities overall gained 7.0% during Q3. Non-US Developed Markets posted a gain of 5.8%. Emerging Market equities beat Non-US Developed Markets, posting a gain of 10.1%. In particular, Chinese equities performed well, posting a 19.6% gain.

On a one-year basis, international equities have performed similarly to their US counterparts. Non-US Equities overall posted a gain of 17.0%. Non-US Developed Markets gained 17.4%, while Emerging Markets posted a gain of 16.5% over the past year. During this period, Chinese equities were the top performers, posting a substantial 32.9% gain.



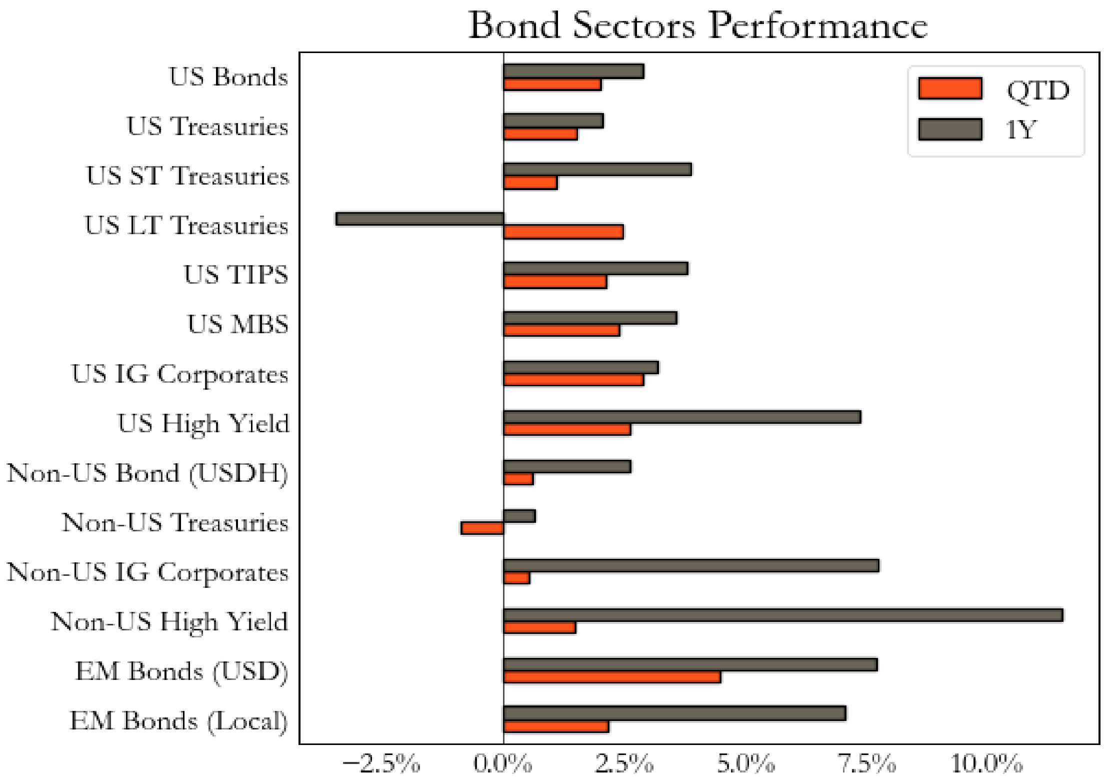
Source: September 2025 – IRON Financial

Fixed Income Markets

The bond market also posted decent gains in the third quarter. Like U.S. equities, the economically sensitive U.S. fixed income sectors outperformed. U.S. high-yield bonds posted a gain of 2.6%, while US IG (Investment Grade) Corporates gained 2.9%. US MBS (Mortgage-Backed Securities) gained 2.4%. The worst fixed-income performers were U.S. short-duration Treasury bonds, which gained 1.1%. Long-duration bonds did better, as US LT (Long Term) Treasuries gained 2.5%. US TIPS (Treasury Inflation-Protected Securities) posted a gain of 2.1%, while broad US Treasuries gained 1.5%. Overall, U.S. Bonds gained 2.0% during the quarter.

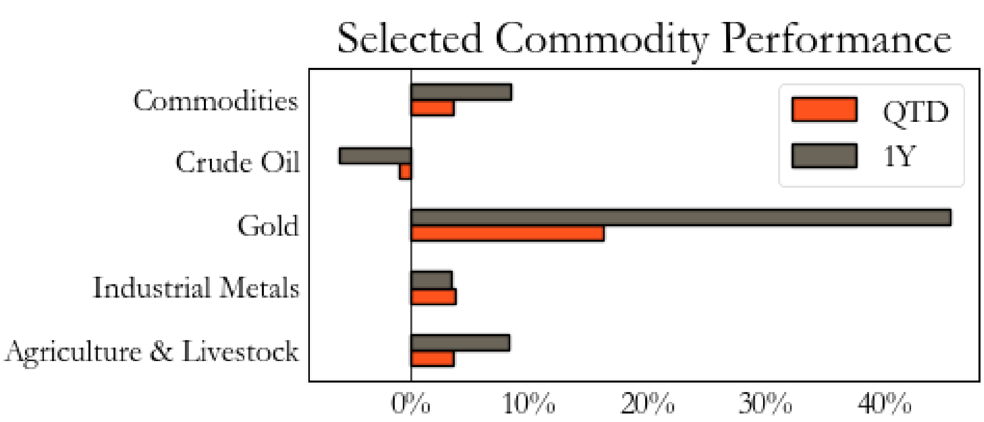
Non-US Developed Market Bonds trailed US Bonds, but EM (Emerging Market) Bonds were the top performer overall. US Dollar-Hedged non-US developed bond markets (“USDH” in the chart below) gained only 0.6%. Non-US Treasury Bonds lost 0.9%, while non-US IG Corporates and non-US High Yield bonds gained 0.5% and 1.5%, respectively. EM bonds denominated in US Dollars gained 4.5%, while local currency EM Bonds gained 2.2%.

Bonds have performed well over the past year. U.S. bonds have gained 2.9%. The top-performing U.S. fixed-income instruments were U.S. high-yield bonds, which gained 7.4%. The worst performer was US LT Treasuries, which lost 3.5%. Non-US bonds in the aggregate gained 2.6% on a one-year basis. The top outperformers overall were non-U.S. high-yield bonds, which posted a gain of 11.6%. Additionally, EM Bonds (USD), EM Bonds (Local), and Non-US IG Corporates gained 7.7%, 7.1%, and 7.8%, respectively.



Source: September 2025 – IRON Financial

Commodities & Currency Markets
Overall, Commodities, as measured by Morningstar's index, posted a positive return of 3.6% for the most recent quarter and an 8.5% gain on a one-year basis. Amid persistent geopolitical uncertainties, a softening U.S. dollar, and strong inflows from central banks, gold prices soared to unprecedented levels. The precious metal price exceeded $3,800 per ounce, posting a 16.4% gain for the quarter. Over the past year, gold has emerged as a standout asset class, delivering gains surpassing 45% - its most robust annual performance since 1979. Elsewhere, Crude oil prices moved lower by 0.9%, while Agriculture and Livestock commodity futures posted a 3.7% gain. Industrial Metals posted a gain of 3.9%.

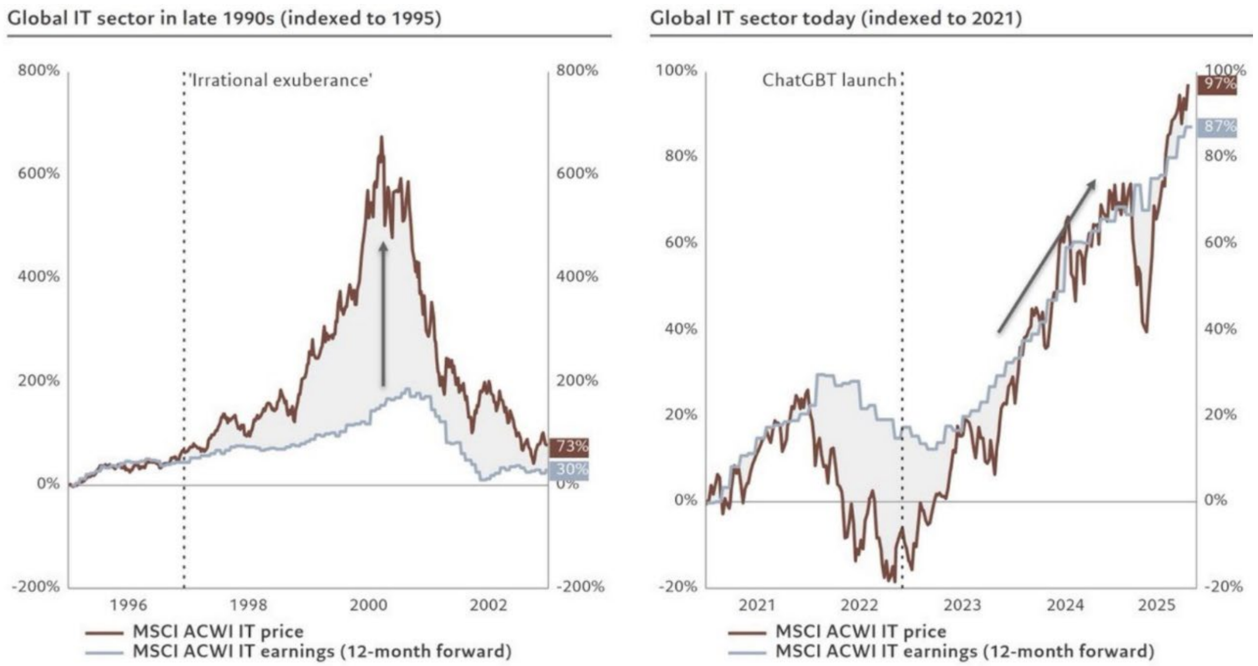


Source: September 2025 – Morningstar Inc, IRON Financial

The U.S. dollar decline was interrupted by a gain for the third quarter. The world's top reserve currency gained 0.9% against a basket of other major currencies[1]. The U.S. Dollar has performed poorly on a one-year basis, depreciating 3.0% against that basket.The cryptocurrency market performed well, with Bitcoin ending September at $114,058, a gain of 6.5% for the quarter.

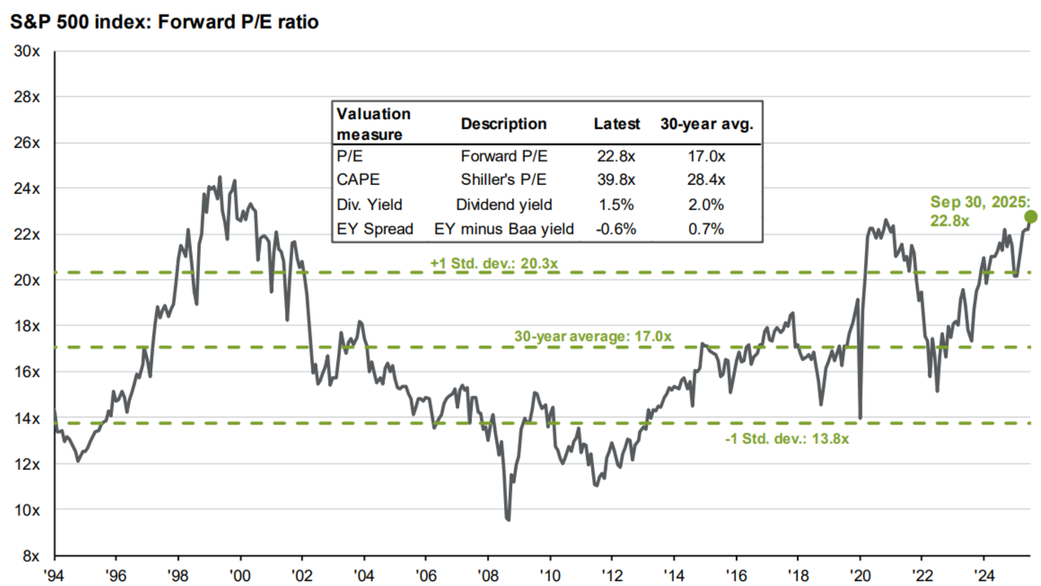
Outlook

Most investors believe that we are either in a 2000-style bubble or on the verge of experiencing accelerated economic productivity growth from the AI boom. Echoing the late 1990s dot-com era, the global IT (Information Technology) sector has experienced a sharp rally, but with some differences. Indexed to 1995, the MSCI ACWI IT index (a proxy for the global IT sector) surged over 800% by 2000 before plummeting amid the bubble burst, far outpacing 12-month forward earnings, which remained relatively flat. In contrast, from 2021 to mid-2025, this same index has risen approximately 100%, closely aligned with forward earnings growth of around 87%, suggesting a more earnings-driven advance, driven by AI enthusiasm rather than pure speculation.



Source: Refinitiv, Pictet Asset Management

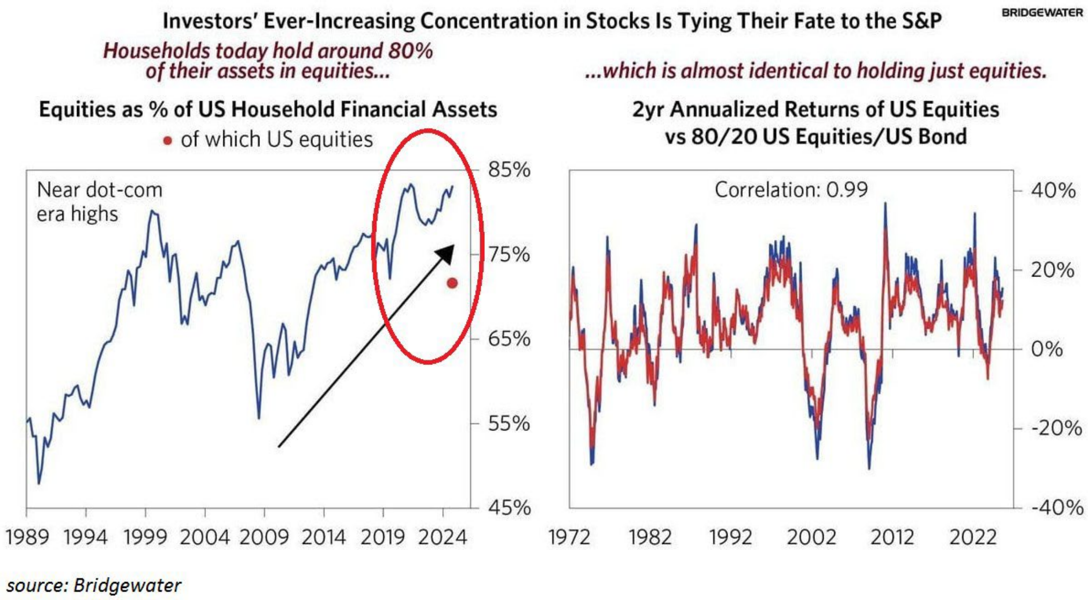
However, valuations paint a different picture. The S&P 500 Index is currently trading around record levels based on Forward P/E, Shiller P/E (calculated as current stock market price divided by average inflation-adjusted earnings from previous 10 years), Dividend Yield, and Earnings Yield Spread to Baa Bonds.



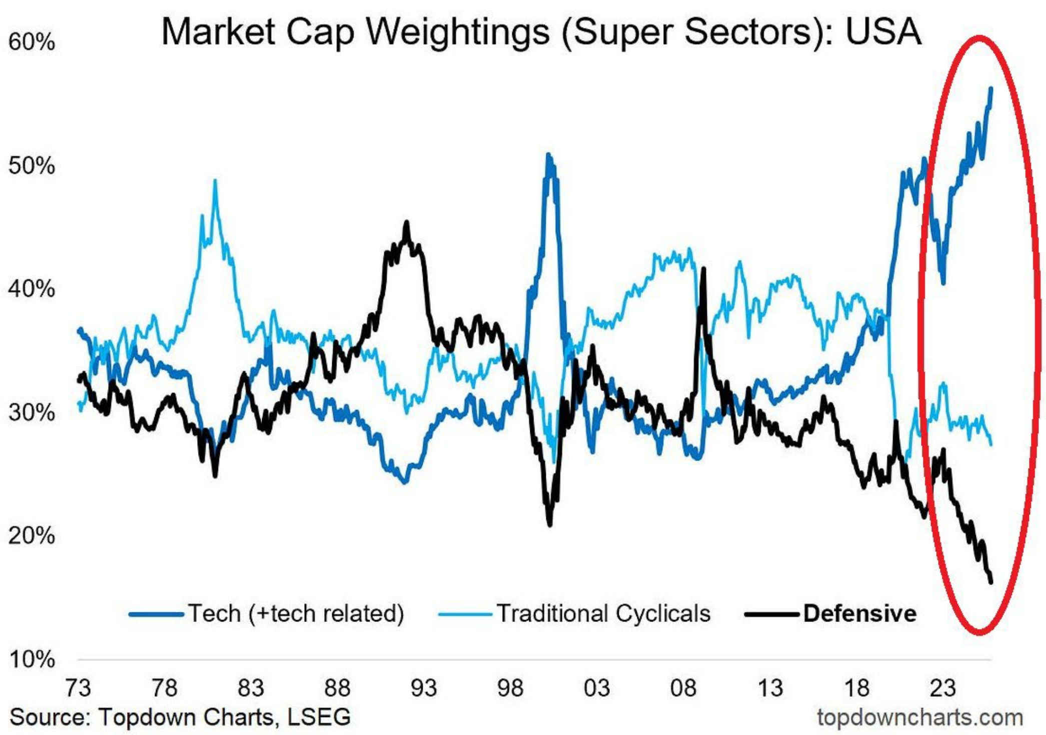
Valuation measure	Description	Latest	30-year avg.
P/E	Forward P/E	22.8x	17.0x
CAPE	Shiller's P/E	39.8x	28.4x
Div. Yield	Dividend yield	1.5%	2.0%
EY Spread	EY minus Baa yield	-0.6%	0.7%

Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.

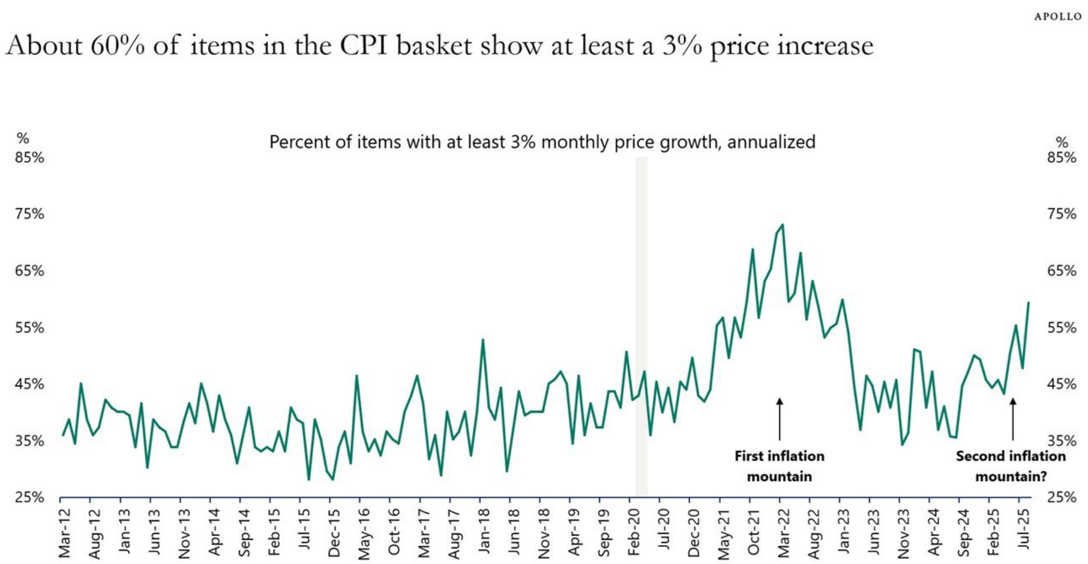
Furthermore, U.S. households have increased their equity exposure, with stocks comprising around 80%-85% of financial assets by 2024—approaching dot-com era highs—closely tying their fates to S&P 500 performance. According to Bridgewater Associates, the two-year annualized returns of U.S. equities exhibit a 0.99 correlation with a traditional 80/20 equity-bond portfolio, indicating diminished diversification benefits.



Concurrently, market cap weightings have become increasingly concentrated in technology companies (including related sectors), as these stock weightings have surged to over 50% when dividing U.S. companies into 3 "super sectors". At the same time, the weights of traditional cyclicals and defensives (the other 2 super sectors) have declined, amplifying concentration risks.

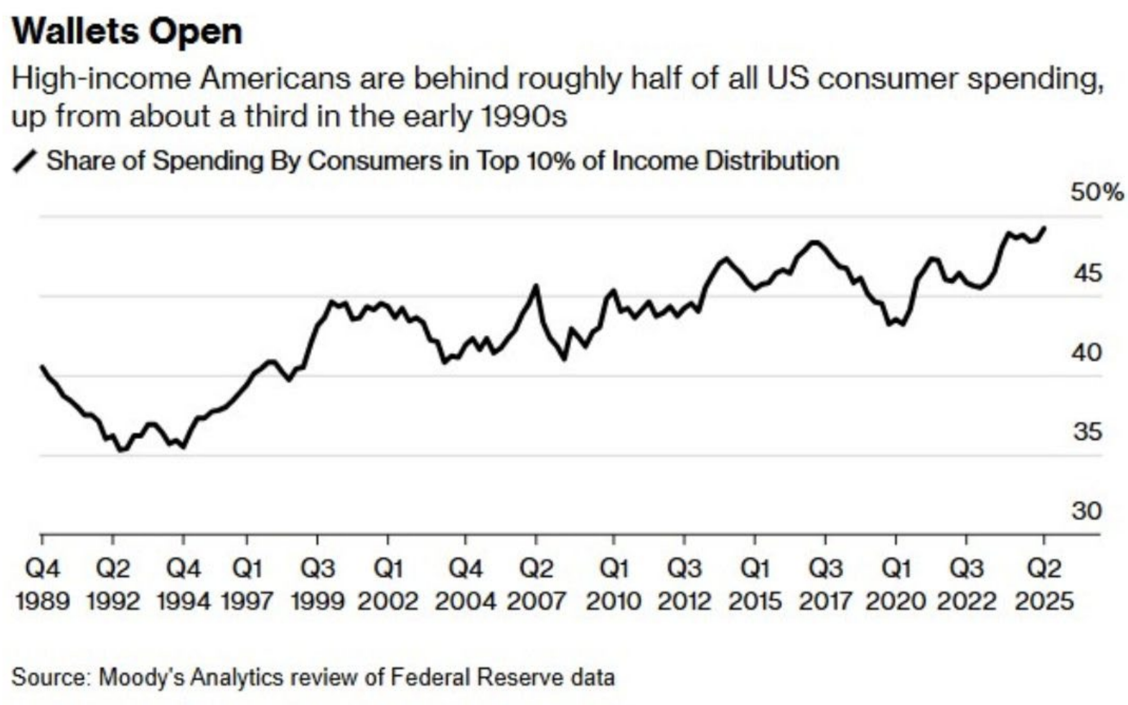


If U.S. equity earnings growth falters, a significant correction could occur. There are a few scenarios that could cause that. For example, the Federal Reserve could be making a mistake by lowering interest rates. Inflationary breadth remains a concern, with roughly 60% of items in the CPI basket demonstrating at least 3% annualized monthly price growth as of July 2025—up from recent lows. This uptick underscores sticky price pressures across categories, even as headline CPI hovers near 2.9% year-over-year.

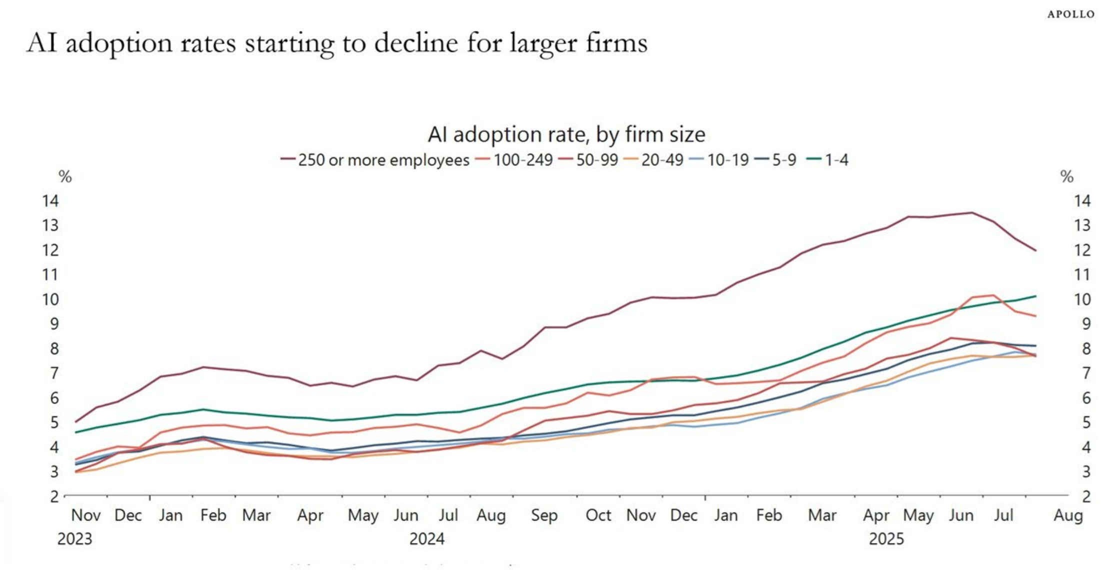


Source: Apollo

As evidenced by the inflationary surge of 2021-2023, lower-income households bear the disproportionate burden of price increases, often cutting back on essentials while wealthier consumers remain resilient. A renewed spike could exacerbate economic vulnerabilities, particularly in an environment where high earners increasingly dominate consumer spending: the top 10% of income earners accounted for 49.2% of total U.S. consumption in Q2 2025—the highest share since 1989—up from about one-third in the early 1990s.



Additionally, the AI adoption rate could decline, which in turn could trigger a reversal in CAPEX spending and taper investors' optimism. Recent data from the U.S. Census Bureau's biweekly surveys of 1.2 million businesses indicate that AI usage may be plateauing. However, this decline could be only temporary.



Source: Apollo

Given the prevalent market belief that "this time it's different", we believe investors should exercise caution. Diversification now matters more than ever, as most investors and indices appear overly concentrated in assets with record-high valuations.

Market Performance Table

Equities						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US All-Cap Equity	Vanguard Total Stock Market ETF	VTI	8.24	14.34	17.34	24.09
US Large Growth	Vanguard Growth ETF	VUG	9.57	17.36	25.54	31.67
US Large Value	Vanguard Value ETF	VTV	6.04	11.98	9.17	17.62
US Mid Cap	Vanguard Mid-Cap ETF	VO	5.26	12.61	13.11	17.95
US Small Cap	Vanguard Small-Cap ETF	VB	7.56	6.89	8.67	15.94
US Large Cap	Vanguard S&P 500 ETF	VOO	8.11	14.80	17.56	24.90
VIX	CBOE Market Volatility (VIX) PR USD	VIX	(2.69)	(6.17)	(2.69)	(19.85)
Consumer Staples	Vanguard Consumer Staples ETF	VDC	(1.91)	2.81	0.08	10.27
Utilities	Vanguard Utilities ETF	VPU	7.99	18.28	11.99	13.57
Healthcare	Vanguard Health Care ETF	VHT	4.97	3.58	(6.55)	6.71
Communications	Vanguard Communication Services ETF	VOX	10.03	22.03	30.35	33.03
Energy	Vanguard Energy ETF	VDE	6.46	6.30	5.94	11.07
Industrials	Vanguard Industrials ETF	VIS	6.04	17.33	15.31	25.12
Technology	Vanguard Information Technology ETF	VGT	12.78	20.56	27.90	35.36
Materials	Vanguard Materials ETF	VAW	5.57	10.42	(1.48)	13.34
Consumers Discretionary	Vanguard Consumer Discretionary ETF	VCR	9.56	6.13	17.21	20.10
Financials	Vanguard Financials ETF	VFH	3.46	12.46	21.44	23.35
Real Estate	Vanguard Real Estate ETF	VNQ	3.72	5.73	(2.34)	8.95
Non-US Equity	Vanguard FTSE All-Wld ex-US ETF	VEU	6.95	26.46	16.99	21.00
Non-US Developed Markets	Vanguard FTSE Developed Markets ETF	VEA	5.82	27.84	17.44	22.03
Emerging Markets	Vanguard FTSE Emerging Markets ETF	VWO	10.09	23.15	16.51	17.37
China	iShares MSCI China ETF	MCHI	19.57	41.16	32.87	18.76

Fixed Income						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
US Bonds	Vanguard Total Bond Market ETF	BND	2.00	6.10	2.90	4.94
US Treasuries	iShares US Treasury Bond ETF	GOVT	1.51	5.36	2.03	3.56
US ST Treasuries	Vanguard Short-Term Treasury ETF	VGSH	1.10	3.95	3.86	4.33
US LT Treasuries	Vanguard Long-Term Treasury ETF	VGLT	2.46	5.68	(3.48)	0.41
US TIPS	Schwab US TIPS ETF™	SCHP	2.12	6.89	3.78	4.85
US MBS	Vanguard Mortgage-Backed Secs ETF	VMBS	2.40	6.76	3.58	5.20
US IG Corporates	iShares iBoxx $ Invmt Grade Corp Bd ETF	LQD	2.87	7.50	3.18	7.29
US High Yield	SPDR® Portfolio High Yield Bond ETF	SPHY	2.61	7.10	7.38	11.06
Non-US Bonds	Vanguard Total International Bond ETF	BNDX	0.61	2.48	2.60	4.97
Non-US Treasuries	SPDR® Blmbg Intl Trs Bd ETF	BWX	(0.87)	9.48	0.65	5.20
Non-US IG Corporates	SPDR® Blmbg Intl Corp Bd ETF	IBND	0.54	15.57	7.76	11.45
Non-US High Yield	iShares International High Yield Bd ETF	HYXU	1.47	17.87	11.55	16.34
EM Bonds (USD)	iShares JP Morgan USD Em Mkts Bd ETF	EMB	4.49	10.17	7.69	11.88
EM Bonds (Local)	iShares JP Morgan EM Local Ccy Bd ETF	LEMB	2.16	13.40	7.07	9.05

Commodities & Currency						
Asset Class	**Proxy**	**Ticker**	**QTD**	**YTD**	**1Y**	**3Y**
Commodities	abrdn Blmb AllCmdStrK1Fr ETF	BCI	3.59	9.05	8.54	2.37
Crude Oil	Oil Price Brent Crude PR	OIL	(0.87)	(9.24)	(5.95)	(8.66)
Gold	LBMA Gold Price PM USD	GOLD	16.36	46.61	45.45	31.77
Industrial Metals	S&P GSCI Industrial Metal TR USD	INDMETAL	3.85	11.71	3.36	7.62
Agriculture & Livestock	S&P GSCI Agrcl&Livestock TR	AGRI&LIVES	3.68	5.11	8.36	2.10
US Dollar	US Dollar	DXY	0.93	(9.87)	(2.98)	(4.46)

Source: Morningstar Direct (as of 9/30/2025)

1 With respect to valuation of the US Dollar, the basket of other currencies is defined as follows: Euro (EUR) 57.6%, Japanese Yen (JPY) 13.6%, British Pound (GBP) 11.9%, Canadian Dollar (CAD) 9.1%, (SEK) 4.2%, (CHF) 3.6%.

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