

ECONOMIC SUMMARY

The third quarter exceeded expectations. After a cautious first half of the year, companies broadly raised their expectations and then delivered results that surpassed forecasts (CHART 1). Both revenue and earnings continued to grow, while profit margins expanded to their highest level in more than a decade (CHART 2). In addition, higher-income households maintained strong spending, supported by rising asset prices.

However, concerns about the labor market have grown as unemployment has ticked higher and lower-income households have begun to pull back on spending. Inflation remains stubbornly above the Federal Reserve's (THE FED) 2% target, while ongoing tariff policy discussions in Washington continue to add uncertainty for both businesses and consumers.

Artificial Intelligence (AI) remains a dominant theme this year, driving significant market attention and investment. Companies directly involved in expanding AI capacity, such as chip designers, data center equipment manufacturers, cloud providers, and power and electrical infrastructure firms have generally outperformed, as capital spending continues to accelerate. Conversely, software companies with limited or unclear AI exposure have seen valuation multiples compress as investors rotate toward businesses with stronger AI-driven growth narratives.

The real test for AI will be if reality can meet or exceed the lofty expectations that investors have built into current valuations.

After a wave of enthusiasm and early adoption, the next phase will hinge on tangible productivity gains and sustainable earnings growth tied to AI integration.

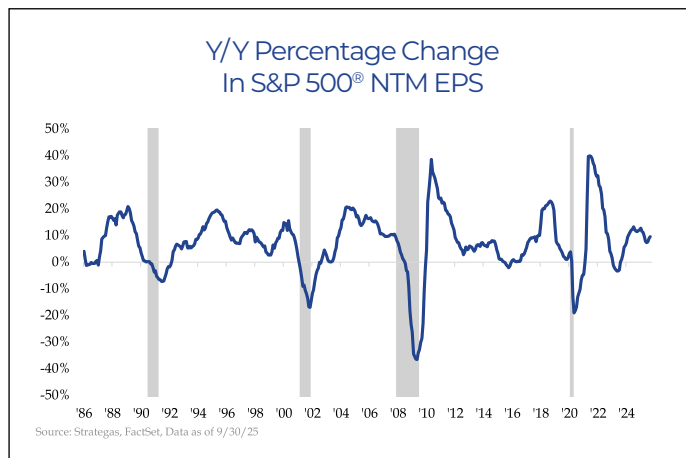


CHART 1

Source: Strategas Research Partners
"Quarterly Review in Charts" – October 1, 2025

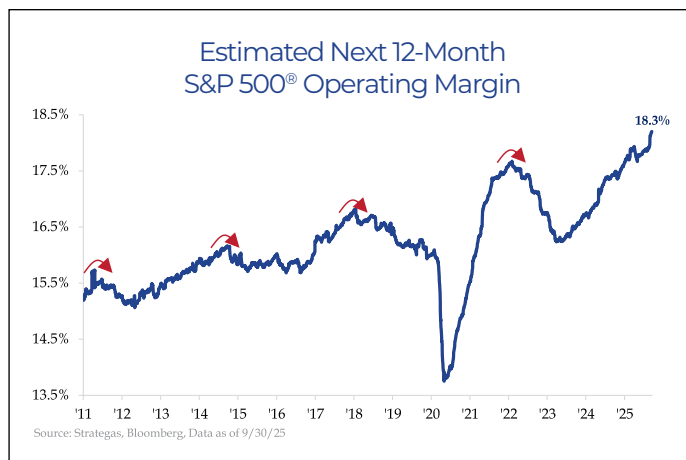


CHART 2

Source: Strategas Research Partners
"Quarterly Review in Charts" – October 1, 2025

Past performance does not guarantee future results.

Billions of dollars have already been invested across hardware, software, and infrastructure, and by some estimates, total spending could surpass a trillion dollars over the next several years. The question now is whether these massive investments will translate into lasting economic and corporate value rather than just short-term market momentum.

THE STOCK MARKET

The small-cap Russell 2000® Index delivered a strong 12.4% total return in the third quarter, outperforming the large-cap S&P 500's 8.1% gain and edging out the tech-heavy NASDAQ Composite, which advanced 11.4%. This marks one of the few periods in recent years where smaller companies outpaced their larger counterparts. However, on a year-to-date basis, large-cap indices continue to hold a commanding lead (CHART 3).

Growth stocks continued to outperform value stocks during the third quarter, with the Russell 1000® Growth Index gaining 10.5% compared to a 5.3% return for the Russell 1000® Value Index. Year-to-date, growth has maintained a sizable lead, outperforming value by nearly six percentage points (CHART 4). Investor enthusiasm surrounding AI and strong earnings from mega-cap technology leaders have been key drivers of this trend.

At the sector level for the S&P 500®, Communication Services, Technology, and Discretionary were top

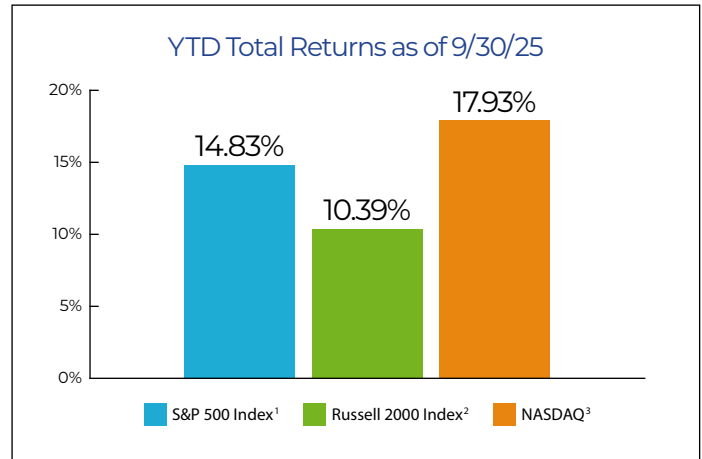


CHART 3

Source: Morningstar Direct

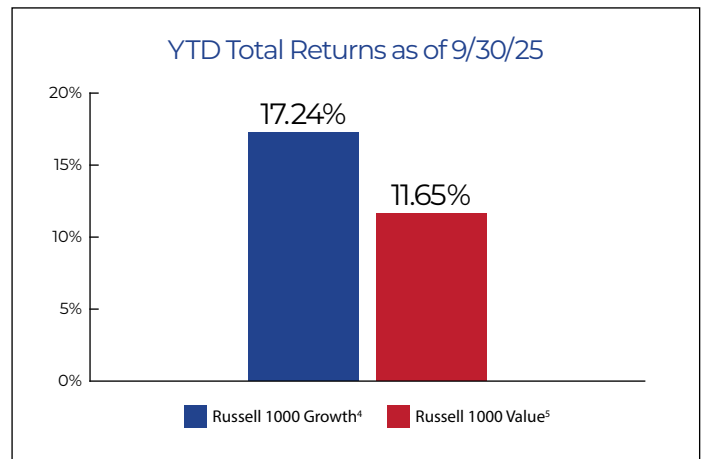


CHART 4

Source: Morningstar Direct

¹ The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

² The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

³ The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks).

⁴ The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

⁵ The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

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MARKET COMMENTARY – Q3 2025

performers for the quarter, delivering returns of 12.6%, 12.2%, and 10.2%, respectively. Conversely, Staples, Healthcare, and Real Estate lagged, posting returns of -2.6%, 1.3%, and 2.1%, respectively.

THE BOND MARKET

The 10-year U.S. Treasury Note started the quarter yielding 4.2% and concluded the period at 4.1%. The Fed cut short-term interest rates once in the quarter from a range of 4.25%-4.50% to 4.00%-4.25%. The market is expecting two additional cuts before year-end, which would lower the range to 3.50%-3.75%. Moving forward, the Fed appears increasingly focused on maintaining full employment, even as inflation remains above its 2% target. This shift in emphasis may provide room for additional rate cuts, even if inflation pressures resurface.

Corporate credit spreads remain near historic lows as investors continue to chase incremental yield over benchmark U.S. Treasuries. In this environment, compensation for taking on additional credit risk is limited, underscoring the need for a highly selective approach when adding corporate bond exposure.

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