



## Market & Economic Outlook 2025 – October Update: Let the Good Times Roll

Major Equity Indices	Value (9/30/25)	3Q25 (6/30/25 - 9/30/25)		2025 YTD (12/31/24 - 9/30/25)	
		Price Return	Total Return*	Price Return	Total Return*
NASDAQ Composite	22,660.01	11.2%	11.4%	17.3%	17.9%
<b>S&amp;P 500</b>	<b>6,688.46</b>	<b>7.8%</b>	<b>8.1%</b>	<b>13.7%</b>	<b>14.8%</b>
Russell 1000 Value	1,238.36	4.8%	5.3%	9.9%	11.7%
Dow Jones Industrial Average	46,397.89	5.2%	5.7%	9.1%	10.5%
Russell 2000	2,436.48	12.0%	12.4%	9.3%	10.4%
S&P 500 Equal Weight	7,693.41	4.4%	4.8%	8.3%	9.9%
MSCI Emerging Markets (USD)	82,980.08	10.1%	10.9%	25.2%	28.2%
MSCI EAFE (USD)	1,677.03	4.2%	4.8%	22.3%	25.7%

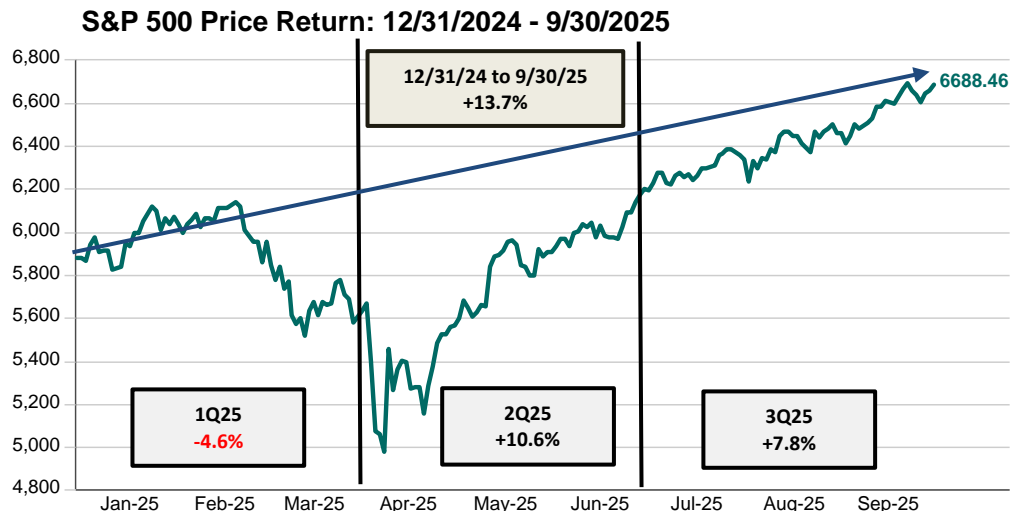
Data Source: FactSet, as of 9/30/25; Further discussion of market indices can be found in the Appendix section. Price returns refer to the change in prices from the beginning of the period to the end of the period. \*Total Return includes dividends and assumes reinvestment.

### Outlook Summary:

Markets in the third quarter of 2025 (3Q25) delivered healthy equity returns and modestly lower interest rates as solid economic data and earnings growth countered risks due to ongoing tariff and trade uncertainty, slowing employment growth, and stubborn inflation. Investor sentiment surged as technology capital investment accelerated and consumer spending rebounded after first quarter weakness. These positive trends, in our view, justified strong gains in U.S. equity indices in 3Q25 and year-to-date (YTD). We have increased our S&P 500 fair value estimate to 6,550 (we started the year with a fair value estimate of 6,300). We also see a higher potential trading range of 6,000 to 6,950, which acknowledges positive economic trends and more accommodative Federal Reserve Bank (Fed) policy (lower interest rates). Since the S&P 500 endured a 7-week peak-to-trough decline of -18.9% that ended on 4/8/25, the index has marched steadily higher with five consecutive monthly gains (May through September) and very low volatility (the largest pullback since early April was -2.7% over four days in May). We remind investors that equity market pullbacks of -5% to -10% are common; we cannot rule out the possibility in the weeks and months ahead of a challenge to bullish expectations.

Investor concerns were addressed with positive reception in the third quarter, with the largest driver being the administration's pivot on tariffs, which convinced investors that tariff policies will be balanced with trade deals and investment commitments. Additionally, the passage of the budget bill in July 2025 removed budget uncertainty (at the time) and included multiple pro-growth incentives. Finally, when the Fed lowered interest rate targets in September and signaled more rate cuts ahead, it confirmed that monetary policy will become more accommodative. We expect multiple growth drivers to remain in place but advise that market valuations are increasingly elevated and recent consumer data has been mixed. We believe that investors should remain committed to well-diversified equity portfolios but scale back return expectations as they look ahead and consider a return of more volatility. Several core points of our outlook are discussed below.

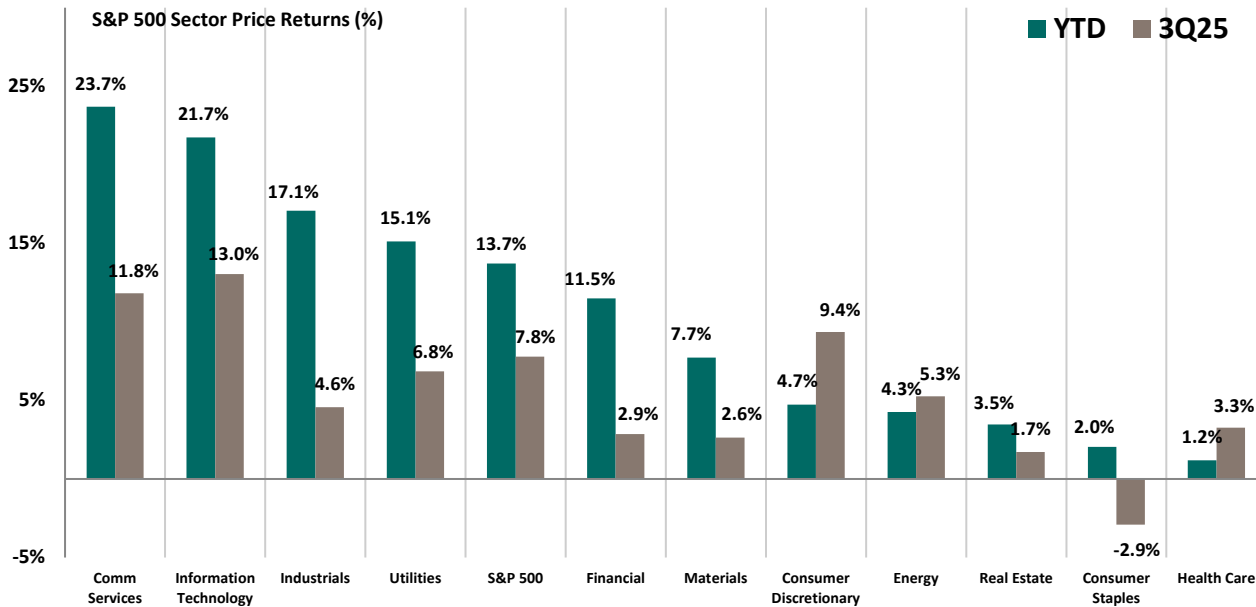
1. Our S&P 500 fair value estimate is 6,550, and we see a potential trading range of 6,000 to 6,950.
2. Momentum can continue over the near-term, but we see value in other sectors.
3. Surging business capital investment, but consumer spending is vulnerable.
4. Earnings become increasingly important.
5. The Fed resumes interest rate cuts, but the yield curve could steepen.



Data Source: FactSet as of 9/30/25. S&P 500 daily closing prices, 12/31/24 to 9/30/25

**Third quarter review.** 3Q25 delivered solid returns for global equity investors, including gains across most of the leading U.S. indices. The S&P 500 equity index increased +7.8% on a price basis (not including dividends), a strong quarter that included gains in all three months (July, August, and September). After closing at an all-time high on the last day of 2Q25 (6/30/25), the S&P 500 went on to close at 23 new all-time highs in 3Q25, an indication of positive investor sentiment and limited resistance. The S&P 500 did not lead market gains, however, as the small-company Russell 2000 index increased +12.0% and the growth- and technology-centric Nasdaq Composite's price return was +11.2%. While the strong performance of the Russell 2000 might be a big story if it signifies widespread gains and broadening participation, its leadership waned in September as momentum returned to technology and growth stocks. In addition, two other indices we follow to measure broadening participation lagged the broad index gains: the Russell 1000 Value Index and Equal Weight S&P 500 (EWSP) increased +4.8% and +4.4% in 3Q25, respectively. Both of these indices are more balanced (by weighting) across sectors, compared to the dominant weighting of Technology in both the S&P 500 and Nasdaq Composite. The good news is that most equity indices and industry sectors gained in 3Q25, but leadership narrowed as the quarter progressed. As we look toward 2026, we would like to see leadership broaden. Within the S&P 500, during 3Q25, 10 of the 11 industry sectors, as measured by MSCI's GICS (Global Industry Classification Standards), were positive (Consumer Staples dropped -2.9% and was the lone detractor), but only three sectors exceeded the S&P 500's +7.8% gain. Those three – Technology, Communication Services, and Consumer Discretionary – are the familiar technology- and growth-centric leaders that include all of the “Magnificent 7” (Mag 7) stocks, and those sectors, as of 9/30/25, collectively comprised 53% of the market capitalization of the index.

For the 9-month (12/31/24 to 9/30/25) year-to-date (YTD) period, global equity indices posted solid gains, with domestic index leadership also from the Nasdaq Composite and S&P 500 price returns of +17.3% and 13.7%, respectively. Including dividends, the S&P 500 total return was +14.8%. Much like 3Q25 returns, the more diverse Russell 1000 Value +9.9% and EWSP +8.3% both posted solid YTD gains but lagged the leaders. We also show two widely followed international equity indices, the MSCI Emerging Markets, +25.2% price return, and MSCI EAFE (a proxy for international developed markets), +22.3%, that have held strong gains from 1Q25, posting a very strong year. Those gains are measured in U.S. dollars and have benefitted from relative U.S. dollar weakness in 2025, although since mid-year 2025, the dollar has been stable to stronger. Within the S&P 500, four sectors exceeded the index return YTD, led by the familiar sectors of Communication Services and Technology, but the two other outperformers were Industrials and Utilities. We attribute strength in those sectors to progress on trade agreements with less tariff uncertainty and capital investment in data centers creating demand for infrastructure and power generation.



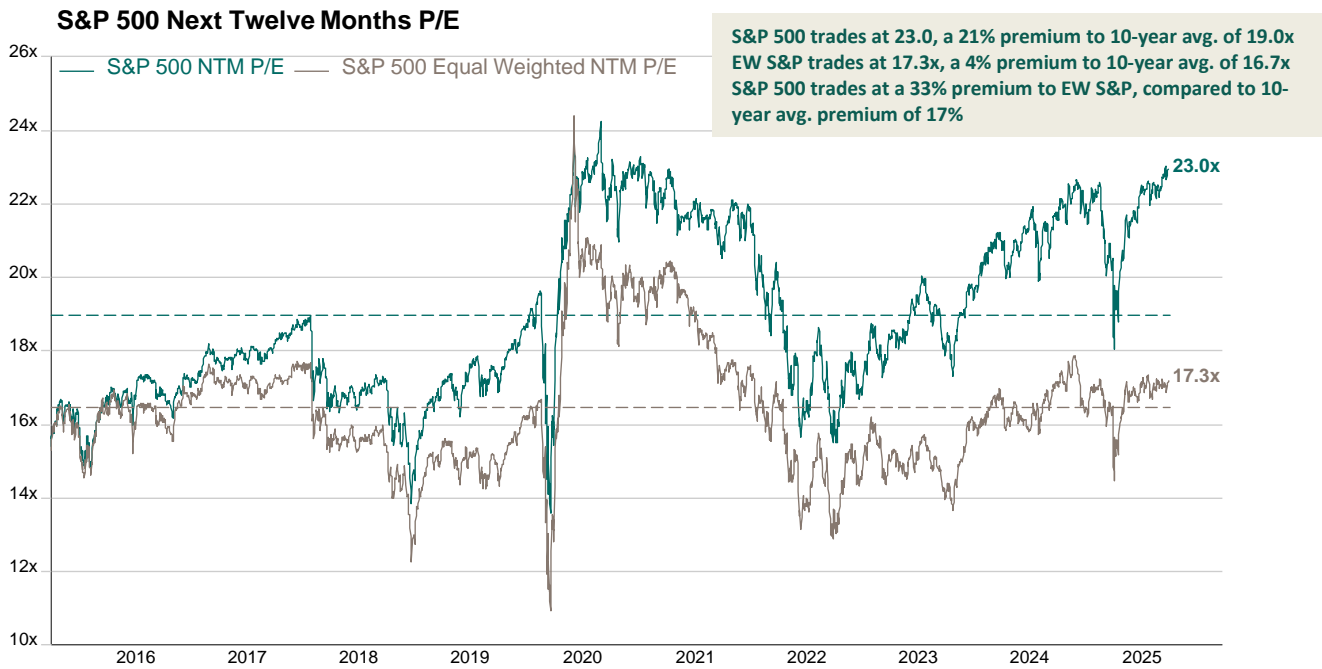
*Data Source: FactSet and closing prices from 12/31/24 to 9/30/25. Price return excludes dividends. Price returns reflect market appreciation or depreciation excluding the reinvestment of capital gains, dividends, interest, and other income. The eleven sectors are the Global Industry Classification Standards (GICS) from MSCI. YTD represents the period from 12/31/24 to 9/30/25. 3Q25 is 6/30/25 to 9/30/25.*

**Our S&P 500 fair value estimate is 6,550, and we see a potential trading range of 6,000 to 6,950.** At the 9/30/25 closing price of 6,688, the index was above our early July fair value of 6,100 and at the high-end of the upper band, 6,600 potential trading range. Our higher fair value of 6,550 and higher trading range incorporates better-than-expected YTD earnings results and economic growth, expectations for sustained growth drivers ahead, and allows for positive investor sentiment to continue. The index today remains above our fair value estimate but is within our potential trading range. We base our fair value on the S&P 500 price level divided by estimated earnings for all companies in the index in future periods. This price-to-earnings (P/E) ratio is often imprecise as actual earnings, once reported, will deviate from estimates, and the P/E multiple investors are willing to pay is often volatile. The P/E is unreliable at predicting exact market tops and bottoms, but we believe that, over time, the S&P 500 will generally trend back to historical averages. Our trading range acknowledges that the index can trade above or below fair value for extended periods. With the S&P 500 trading modestly above our fair value estimate as of early October 2025, we believe that investors should scale back return expectations in future periods with 2025 on pace to become the third consecutive year of double-digit percentage returns.

Our fair value estimate of 6,550 is 22.4x the next twelve months, or NTM (4Q25 to 3Q26), FactSet consensus earnings per share estimate (as of 9/30/25) of \$293 and 19.1x the 2026 consensus estimate of \$302. The S&P 500's 6,688 level at the close on 9/30/25 reflected a multiple of 23.0x the NTM estimate and 22.1x the 2026 estimate. We believe S&P 500 earnings estimates of +11% in 2025 and +14% in 2026 are aggressive, although growth in the first two quarters of 2025 was +12%. Companies still face uncertainties regarding how tariffs will impact margins and the sustainability of consumer spending momentum as the labor market cools. Our upside estimate of 6,950 suggests positive

developments for margins and consumer spending growth, and continued technology investment. We assume investors will continue paying high multiples of earnings (23.0x the 2026 consensus estimate), especially if earnings growth visibility in 2026 and 2027 builds. The low end of our trading range is 19.9x the 2026 consensus earnings estimate and reflects a P/E multiple pullback from current elevated levels.

**Momentum can continue over the near-term, but we see value in other sectors.** Market-leading gains from both the S&P 500 Technology and Communication Services sectors throughout 2025 (beat the S&P 500 broad index returns in 3Q25 and YTD) can be attributed to strong earnings growth as both sectors are expected to deliver annual Y/Y earnings growth of at least +21% in 2025. If above-trend growth continues, growth sectors are likely to remain a favorite of investors. As investors pay increasingly high multiples for earnings growth, risk also rises if that growth slows, creating the potential for disappointment in future periods. At 23.0x forward earnings estimates (as of 9/30/25), the S&P 500 traded at a 21% premium to its 19.0x 10-year average. The EWSP, which gives all S&P 500 stocks an equal weight, and in our view fairly represents the average stock, traded at 17.3x forward earnings estimates, just a 4% premium to its 16.7x 10-year average. Additionally, the S&P 500's P/E is 33% higher than the EWSP P/E, nearly double its long-term average. Over time, we expect this discrepancy to converge. We do not expect the S&P 500 earnings multiple to continue to expand, and if we do see multiple expansion, it is likely to come from other areas such as the EWSP.



Data Source: FactSet, through 9/30/25. The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM) as compiled by FactSet. The green line is the S&P 500 forward P/E from 9/30/15 to 9/30/25. The gray line is the forward P/E for the equal weight S&P 500. The dotted lines are the average P/Es for each index over the past ten years.

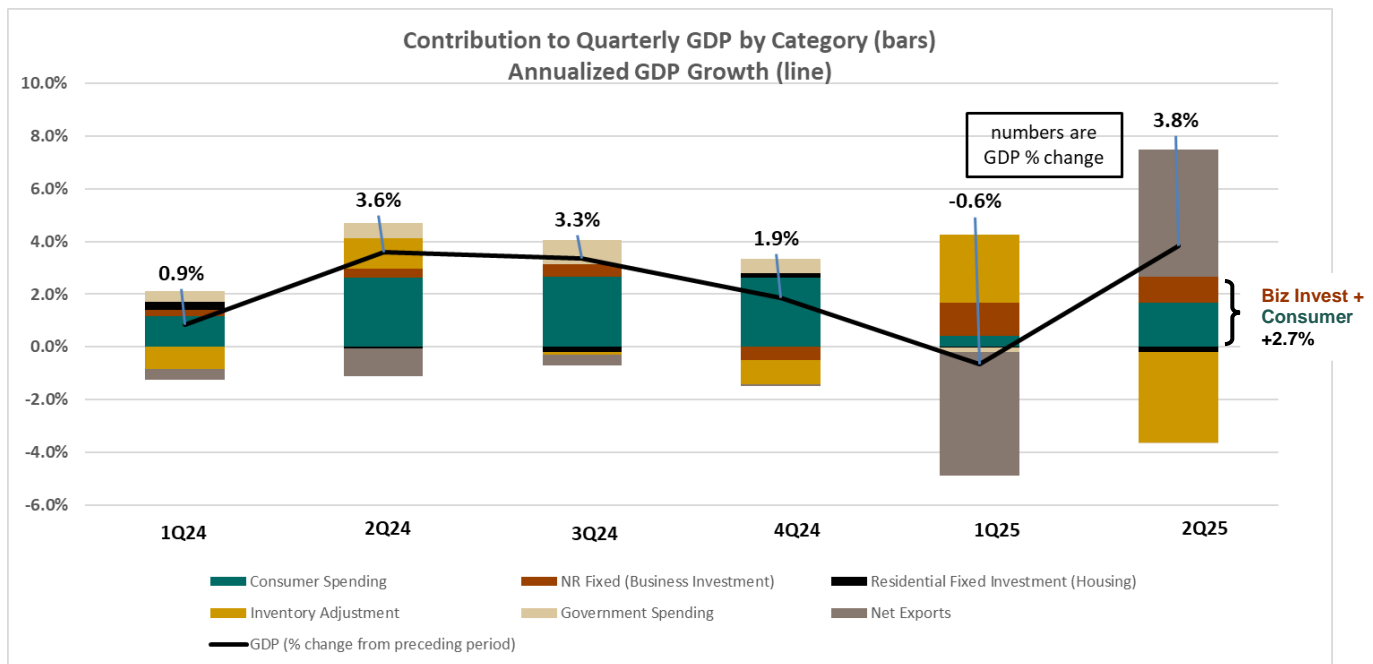
Several S&P 500 sectors trade at a discount to the broader index when adjusting P/E multiples to account for expected annual earnings growth. Typically, we expect investors to pay higher multiples for companies and sectors that have higher expected earnings growth. This makes sense when one accepts that the price of a stock should reflect future expected earnings and cash flow. Using the 2025 P/E multiple and dividing by the average earnings growth over the next three years gives the P/E-to-growth, or PEG, ratio. Five sectors trade at a PEG ratio that is lower than the S&P 500's 2.0x. Those sectors trading at a discount include Health Care, Communication Services, Financials, Materials, and Technology. This does not predict that each of these sectors will outperform over the near term but indicates relative value, in our view.

**S&P 500 GICS Sectors Earnings Growth & P/Es**

10/3/25	Earnings Growth	P/E	3 Year E ('25-'27)	PEG
	2025 E	2025E	Earnings Growth	'25 PE / 3 Year growth
Consumer Staples	-1.4%	23.2	4.6%	5.0
Real Estate	1.7%	18.7	5.2%	3.6
Consumer Discretionary	3.0%	32.7	10.8%	3.0
Utilities	7.1%	20.3	8.2%	2.5
Energy	-10.3%	16.8	7.7%	2.2
Industrials	8.4%	27.5	13.1%	2.1
<b>S&amp;P 500</b>	<b>10.6%</b>	<b>25.3</b>	<b>12.5%</b>	<b>2.0</b>
Info Technology	20.0%	35.4	18.9%	1.9
Materials	6.5%	22.6	12.5%	1.8
<b>S&amp;P 500 Equal Weight</b>	<b>6.7%</b>	<b>18.8</b>	<b>10.3%</b>	<b>1.8</b>
Financials	8.3%	18.0	10.5%	1.7
Communication Services	21.5%	22.3	14.2%	1.6
Health Care	13.0%	18.9	11.5%	1.6

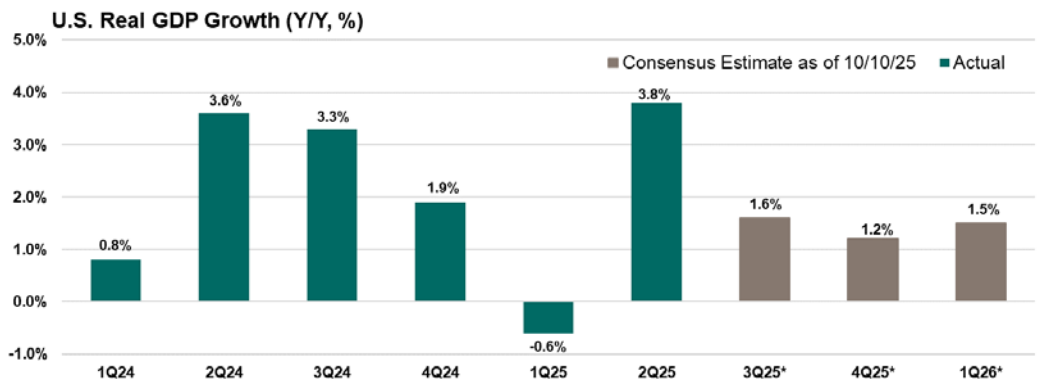
Data Source: FactSet and MSCI, as of 10/3/25.

**Surging business capital investment, but consumer spending is vulnerable.** Reported U.S. economic activity, as measured by gross domestic product, or GDP, was distorted in the first half of 2025 (1Q25 and 2Q25) due to tariff uncertainty as many companies front loaded imports and built inventory ahead of expected rising prices and/or input costs. U.S. reported GDP has four major components: consumer spending, business investment, housing activity, and government expenditures; with two adjustments: net exports (trade - exports less imports) and inventories. Exports add to economic output (exports are produced in the U.S.) and imports subtract from GDP. Inventory growth also adds to GDP, and inventory reductions are subtracted. In 1Q25, reported real GDP (inflation-adjusted) decreased -0.6% (annualized). This was the first reported negative GDP growth in three years (since 1Q22). But the 1Q25 combined imports (subtracted) and inventories (added) was a net adjustment *subtracting* -210 basis points (bp). Excluding the adjustment, 1Q25 GDP increased +1.5%. In 2Q25, reported GDP was +3.8% as the imports and inventory adjustment reversed. The adjustment *added* 140 bp to second quarter real GDP; excluding the adjustment, 2Q25 GDP increased +2.4%. Consumer spending (69% of GDP in 2Q25) and business investment (15%) comprise 84% of U.S. GDP, and fairly represent the private economy. The consumer and business contribution to GDP was +1.7% in 1Q25 and +2.7% in 2Q25 GDP. Consumer spending (in green on the chart below) in the first two quarters of 2025 lagged 2024 levels, but improved measurably in 2Q25 vs. 1Q25, fueling some of the surging investor sentiment. Business investment (red bars) jumped in both 1Q25 and 2Q25, above levels throughout 2024. Above-trend business investment growth was driven by software and information processing equipment, which are directly tied to spending on the build out of generative artificial intelligence (GenAI) and data centers. Visibility for continued technology investment remains high, which supports a positive GDP outlook. But ongoing improvement in consumer spending is needed as well, and uncertainty on that front adds risk to the outlook.



Data Source: U.S. Bureau of Economic Analysis, Real Gross Domestic Product (GDP) report as of 9/25/25. Quarterly GDP is sequential quarterly growth annualized. The bar graphs are from the report's Table 2: contributions to percent change in real GDP.

GDP estimates remain modest over the next few quarters (FactSet consensus estimates of +1.6% in 3Q25, +1.2% in 4Q25 and +1.5% in 1Q26, as of 10/10/25), although we believe that many investors expect that reported data will exceed estimates. If U.S. economic growth exceeds expectations in the quarters ahead, several drivers are needed, some of which are already in place. Current catalysts include sustained high levels of GenAI technology investment and supporting infrastructure, other capital investment incentivized by the July 2025 federal budget bill (due to tax breaks from accelerated depreciation), and lower interest rates from the Fed. Less clear, however, is the path of consumer spending, which improved from first quarter weakness, but remained below its potential in the second quarter.



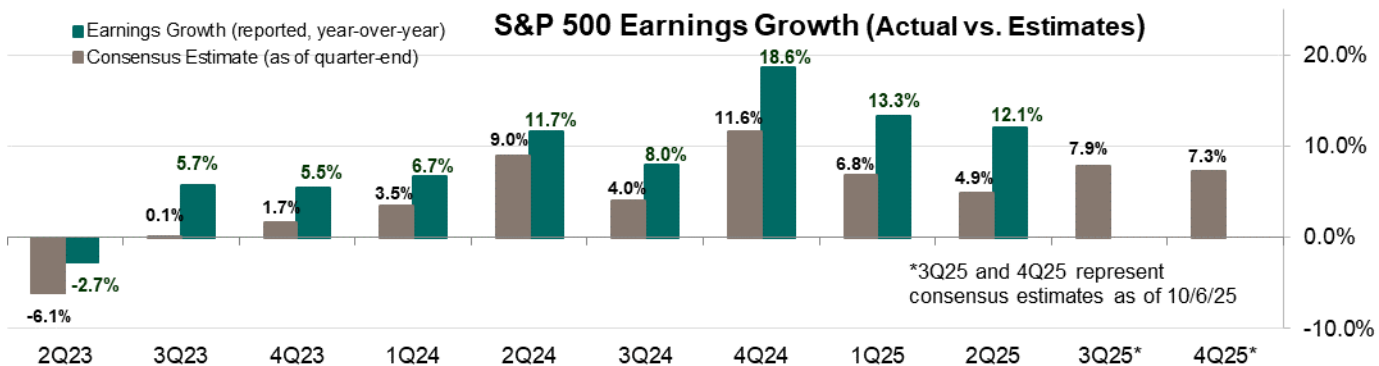
Data Source: U.S. Bureau of Economic Analysis, as of 10/10/25. Real (inflation-adjusted) gross domestic product reported quarterly as sequential growth annualized. Green bars are the six most recently reported quarters and the gray bars are consensus estimates for the next three quarters to be reported.

While 3Q25 U.S. GDP data will not be reported until late October (assuming the prevailing government budget shutdown is resolved), some monthly component data has been reported. The Atlanta Federal Reserve Bank’s GDPNow economic model is a widely followed yardstick of current quarter U.S. GDP trends as it collects monthly reported data to measure the current quarter GDP trends (the model becomes more robust as more data is collected). As of 10/1/25, the GDPNow 3Q25 GDP estimate was +3.8% and included reported personal consumption expenditures (consumer spending) that exceeded expectations in July and August. U.S. consumer spending has remained resilient despite slowing monthly jobs growth and weak consumer confidence. The government budget impasse delayed the release of the Bureau of Labor Statistics’ monthly employment report for September, but August nonfarm payrolls (jobs) increased by just +22 thousand (K) and the three-month average increase through August was +29K, compared to a monthly average increase of +99K for the prior three months ended May 2025. The Conference Board’s (an independent research firm) monthly Consumer Confidence Survey in September was at its lowest level since April 2025, attributed to respondents’ concerns about future job availability and business conditions. Weakness in the survey showed soft consumer views on current conditions and expectations for the months ahead. The Federal Reserve Bank of Boston has noted uneven spending patterns between higher income consumers vs. lower income consumers, concluding that growth in aggregate consumer spending is predominantly driven by the high-income segment. In our view, this helps to explain 2025 resilient spending (below 2024 levels but accelerating in 2Q25 and 3Q25) despite soft confidence and jobs reports.

High earners benefit from strong equity markets gains and a surging technology economy that can increase household wealth (often described as the “wealth effect”). Also helping is that wages, as measured by average hourly earnings (Bureau of Labor Statistics, or BLS), have increased more than inflation, as measured by the consumer price index, or CPI (BLS), in every month in 2025 (through August), suggesting modestly rising purchasing power. Nonetheless, the savings rate (BEA) has dipped, falling to 4.6% of disposable income in August 2025, down from 5.7% in April, and credit card debt for low wage earners has increased (Boston Fed). Some consumers are dipping into savings and using credit to support spending levels. This creates economic risk going forward, although job gains, wage growth, and tax refunds are all factors that can sustain or add to spending growth in 2026.

**Earnings become increasingly important.** The federal fiscal year 2026 (FY26) began on 10/1/25, and as of 10/13/25, the U.S. Congress (Senate and House of Representatives) had not advanced a funding bill (or bills) needed to appropriate government spending. Until a bill or continuing resolution is passed, many government services and programs deemed non-essential are halted. Payments for Social Security, Medicare, and Medicaid have continued, but the shutdown closes many federal agencies that collect and report economic data that are monitored closely by investors, delaying the timely release of data on employment and jobs, consumer spending, and income. While government data releases are limited, investors will rely on other sources including private economic surveys and corporate commentary. Over the balance of October and into November, companies will report financial results for the September (or equivalent) quarter. This will give investors direct commentary on the business and economic environment through September (or October, in some cases).

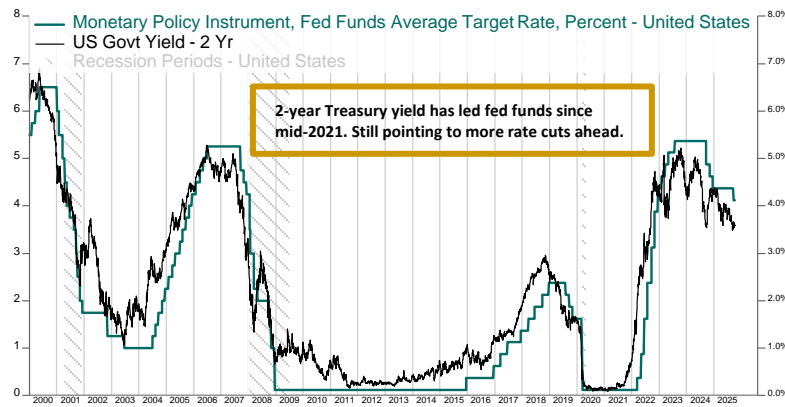
In 3Q25, S&P 500 Y/Y earnings growth is expected to increase +7.9% (the 3Q25 gray bar below), which would be the lowest Y/Y growth in the past four quarters (since +8.0% in 3Q24). It is common for actual reported earnings to exceed estimates, and the table below shows that going back to 2Q23, reported earnings have come in ahead of estimates (on the last day of the quarter) for each of the past nine quarters. In the first two quarters of 2025, S&P 500 earnings increased +13.3% and +12.1% in 1Q25 and 2Q25, respectively. Actual results exceeded the estimates by an average of +680 basis points (bp) in those two quarters, and by an average of +480 bp over the past nine quarters. If 3Q25 earnings growth meets that average, earnings growth could exceed +12% to +13%. We believe that is possible, but if actual earnings growth is reported below +10%, there could be disappointment. Earnings growth in the quarter is expected to be led by the Technology sector with expected growth of +21% (and contributing +460 bp to the +7.9% overall index estimate; Technology comprises the largest sector weight in the index). Financials are estimated to show earnings growth of +13% Y/Y. Earnings growth estimates for the Consumer Discretionary (-1%) and Consumer Staples (-3%) sectors are modestly negative, suggesting that analysts are cautious about consumer trends and perhaps the ability of companies to pass on tariff costs to their customers. If weak results are blamed on slowing demand, economic growth forecasts could waiver. On the other hand, expectations are low, and thus, minor upside to estimates is likely to be well-received. As companies report 3Q25, we expect to hear guidance for the holiday season and 4Q25. Over the past couple of weeks, a handful of consumer companies have provided business updates, and the tone has skewed relatively positive, in our opinion.



Data Source: FactSet, as of 10/6/24. Consensus S&P 500 EPS estimates (Wall Street analysts) as a percentage change from the same quarter in the prior year. Gray bars for 2Q23 to 2Q25 were the estimates in place on the last day of the reported quarter, and the green bars represent the actual reported results at the end of the reporting period. The gray bars for 3Q25 and 4Q25 are the FactSet consensus estimate as of 10/6/25.

**The Fed resumes interest rate cuts, but the yield curve could steepen.** On 9/17/25, the Fed implemented a -0.25% reduction in its overnight bank lending fed funds interest rate target range to 4.00% to 4.25%. This was the first fed funds change in the past six Federal Open Market Committee (FOMC) meetings, going back to December 2024. In its post meeting statement, the Fed indicated that the rate cut was appropriate to address slowing jobs gains, even as inflation “has moved up and remains somewhat elevated.” The Fed operates with a dual mandate to facilitate maximum employment and stable prices (low inflation). While the Fed remains concerned about inflation pressures that have emerged in 2025, Fed Chair Jerome Powell has indicated that because the current fed funds target remains “restrictive” (limits economic growth), the near-term priority is to stimulate the labor market by lowering interest rates. Should the labor market rebound, or inflation surge higher, the path of future rate cuts could slow. U.S. equity markets largely moved higher following the rate decision as investors embraced a multi-decade Wall Street adage, “Don’t fight the Fed.” This reflects a simple market view that investors should increase equity exposure when the Fed pursues interest rate cuts (lower rates are intended to stimulate economic growth) and reduce equity exposure as the Fed raises rates (which removes monetary liquidity). The September 2025 interest rate cut, despite a nine-month pause, continued a rate reduction cycle that began one year ago as the Fed first reduced its fed funds target on 9/18/24 (a -0.50% reduction from the fed funds range at that time of 5.25% to 5.50%). On 9/18/24, the S&P 500 closed at 5,618, so the one-year gain from that date to 6,664 on 9/19/25 was +18.6%. At the 9/17/25 meeting, the Fed updated its Summary of Economic Projections (SEP) and showed a median expectation for a 2025 year-end fed funds level of 3.60% (was 3.90% in June), suggesting -0.50% of rate cuts over the next three months (there are two remaining FOMC meetings in 2025, 10/29 and 12/10). The previous Fed interest rate cutting cycle was in 2019 and 2020. In 2019, the Fed lowered the fed funds target by -0.75% (from 2.25%) over three months, and another -1.50% four months later at the onset of the COVID-19 pandemic. In the first year following the initial rate cut, the S&P 500 gained +9.8% (7/31/19 to 7/31/20) and another +34.4% in the second year (7/31/20 to 7/31/21). Inflation remains a bit of a wild card in the current environment as the full impact of price hikes caused by tariffs has likely not been fully realized, but tariff-driven price increases are unlikely to be repeated and should be transitory. Because of this, we expect two more rate cuts this year, taking the fed funds target to 3.50% to 4.00%.

**U.S. 2-Year Treasury Yield vs. Fed Funds Target (2000-2025)**

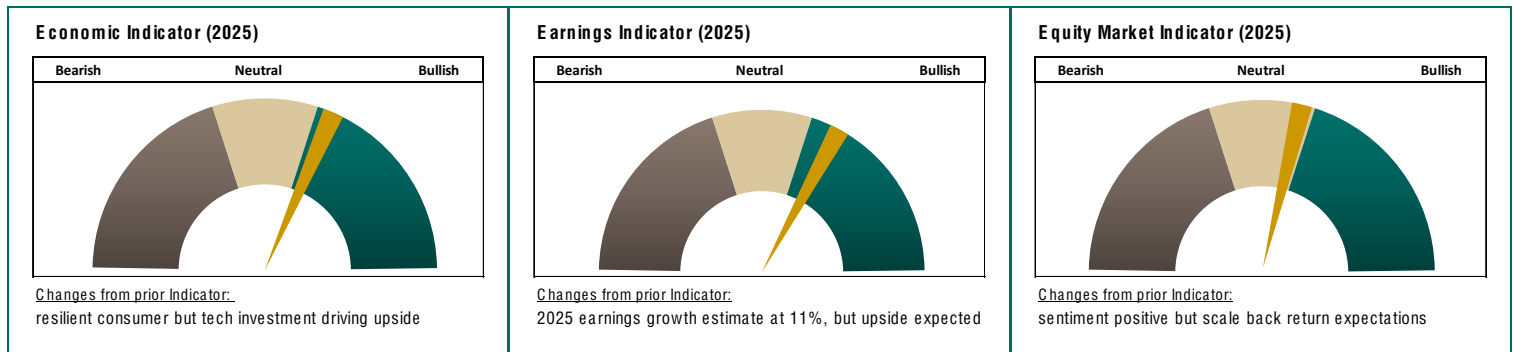


**U.S. 10-year Treasury Yield (past five years)**



Data Source: FactSet and Federal Reserve Bank. 2-year Treasury yield and average fed funds target, daily closing yields 12/31/99 to 10/10/25. U.S. 10-year Treasury yield 9/30/20 to 10/10/25.

U.S. long-term interest rates, as measured by the market-traded 10-year Treasury yield, can be influenced by the Fed’s fed funds target, but long-term yields are often more volatile as they incorporate future expectations for economic growth, long-range inflation expectations, foreign demand, and assessment of the total government debt burden and interest expense. In 2025, the 10-year Treasury yield has moved lower, from 4.57% on 12/31/24 to 4.06% on 10/10/25. This might be expected given that investors have anticipated lower fed funds rates from the Fed, but other factors should also be considered. We believe that the lower 10-year yield reflects a bond market view that inflation trends are manageable and that demand for U.S. Treasury bonds (to finance the budget deficit) remains healthy. But it also could reflect concern about lower economic growth; not necessarily a recession, but growth that remains below-trend due to a weaker consumer. If economic growth delivers a positive surprise as we believe is possible, the 10-year yield could stay above 4.0% and move higher. According to the Congressional Budget Office (CBO), the U.S. full-year fiscal 2025 budget deficit was estimated at -\$1.81 trillion (T), virtually unchanged from -\$1.82T in FY24. Tax receipts (and other revenue, including tariffs) increased +6% in FY25 (to \$5.23T), while spending increased +4.4% to \$7.04T. The deficit was 5.9% of nominal GDP (\$30.5B as of 6/30/25), an improvement from 6.2% of GDP one year earlier, but more progress is needed to avert long-term concerns from bond investors, in our view. One bright spot over the last six months of the federal fiscal year (April 2025 through September 2025) was the 6-month deficit of -\$502 billion (B) compared to -\$768B in the last six months of FY24. This was an improvement of \$266B in the comparable six-month period. Included in this number was \$111B in incremental tariffs from April to September (\$151B in April to September 2025 compared to \$40B for the same period in 2024), and slightly lower spending. For the fiscal year, tariff collections were \$195B, but many of the Trump tariffs are being challenged in court, and potential economic headwinds from current and potential (if trade deals are not completed) tariffs are still playing out. As the fiscal year 2025 ended, however, even though the deficit was once again an alarming number, the trend had improved from earlier in the year, perhaps satisfying investors looking for incremental progress.



**James D. Ragan, CFA**  
 Director of WM Research  
 (206) 389-4070  
[jragan@dadco.com](mailto:jragan@dadco.com)

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**Market Indices:** The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

**Other Disclosures:** The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at [www.bea.gov](http://www.bea.gov).

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2025 returns are calculated as of 9/30/2025. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from [federalreserve.gov](https://www.federalreserve.gov), as of 9/30/24. Year-over-year projections of changes in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the first quarter of the previous year to the first quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the first quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). Non-Residential Fixed Investment reflects capital investment by businesses across the economy, tracking U.S. business investment.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle, and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and also looks at the depth, diffusion, and duration of the downturn.

We define an economic "soft-landing" that continues to grow, but at a rate that is below long-term averages. In the current environment a soft landing would be GDP growth that continues at annual inflation-adjusted growth rate below 2.0%.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work, but excludes benefits).

U.S. monthly receipts, outlays, deficit, or surplus are reported by the U.S. Treasury at [fiscal.treasury.gov](https://www.fiscal.treasury.gov). Supporting data is also available from the Congressional Budget Office (CBO). The U.S. Treasury reports monthly budget details in its Monthly Treasury Statement, and prior to that monthly numbers are estimated by the CBO in its Monthly Budget Review.

The Federal Reserve Bank of Atlanta publishes a current quarter U.S. economic growth, to track real (inflation adjusted) gross domestic product, or GDP. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow – the estimate is based solely on the mathematical results of the model. The most recent GDPNow update for 3Q25 GDP reflected growth tracking at 3.2% (as of 10/1/25) and is one source of our commentary about recent U.S. economic data exceeding expectations.

The Trump Administration on 2/12/25 announced a framework for its Reciprocal Tariffs, with a link to the memorandum, “Fair and Reciprocal Plan.” On 3/26/25 the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a Fact Sheet from the President that outlines the action. The President’s April 2, 2024 Tariff Announcement is also linked. Also linked is the White House Fact Sheet on the U.K. trade agreement. The 90-day pause on Reciprocal tariffs was announced on 4/9/25. On 4/9/25, the White House delayed most reciprocal tariffs, and released a memo, Modifying Reciprocal Tariff Rates. Reciprocal tariff dates were further extended, Extending the Modification on 7/7/25. Frame work trade deals were announced with the European Union on 7/27/25 and Japan on 7/23/25. The U.S. Federal Court of Appeals ruling against many of the reciprocal tariffs is linked.

The U.S. Constitution states that money drawn from the U.S. Treasury must be from appropriations signed by law. Congress has created 12 appropriation committees to approve annual spending in 12 spending categories. Spending bills require a majority vote in the U.S. House of Representatives, and 60 votes in the U.S. Senate, and then a signature from the President. Bills can be combined into an omnibus bill, or funding can be extended through a continuing resolution. The Library of Congress has published a summary of the appropriations process. The shutdown that began on 10/1/25 affects government services deemed non-essential. Funding for essential services, especially Social Security, Medicare and Medicaid will continue. Thousands of government employees will be furloughed, but eligible for back pay once funding is approved. Other essential employees, such as airport security, air traffic control, some military members and others will work without pay, but also will receive back pay in the future.

Personal Income and Savings is reported monthly by the Bureau of Economic Analysis for individuals and is defined as personal income less personal outlays and taxes. The personal savings rate is personal savings as a percentage of disposable personal income.

We track a measure of wages, average hourly earnings (AHE) of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a “gross” basis (includes overtime and late shift work, but excludes benefits).

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities

The term “Magnificent 7” was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla.

The Conference Board publishes a monthly survey of consumer confidence. The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates.

In August 2025, the Federal Reserve Bank of Boston, published a study: Why Has Consumer Spending Remained So Resilient? Evidence From Credit Card Data. This research concluded that high income consumers were spending at high levels, while lower-income consumers were increasingly challenged.

The U.S. Dollar index is a measure used to evaluate the U.S. dollar vs. a basket of currencies from U.S. trading partners. These currencies are the [euro](#), Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona. It has a base of 100 and values are interpreted relative to this base.

In July 2025, the U.S. Congress passed the [One Big Beautiful Bill Act](#) and it was signed by the President. A summary of the Bill’s provision was published by the Tax Foundation. Our discussion about pro-growth business investment incentives tied immediate deduction for capital investment projects and less restrictive limitations on interest deductions and makes permanent Section 179 expensing for small business.