

MARKET OVERVIEW

4th Quarter 2025

Central Bank Wealth Management Group

Market Review

- The third quarter of 2025 was defined by market optimism despite economic and political uncertainty. The S&P 500 rose 8.11% in the third quarter while making 23 new all-time closing highs. From the lows on April 8th, the S&P 500 has surged 34.2% and has increased 14.81% year to date. This surge was driven by investor enthusiasm for artificial intelligence (AI) and robust corporate earnings. A September interest rate cut by the Federal Reserve, the first since 2024, further boosted sentiment. However, persistent inflation concerns, weakening labor market indicators, and ongoing geopolitical and trade policy uncertainty present headwinds as we head into the fourth quarter.

Economy

- Real GDP growth is projected to remain modest for the balance of 2025, with GDP growing at annual rate of 1.6% to 1.7%. Inflation remains a concern with the CPI Index staying stubbornly above the Fed's 2% target. Continued concern over tariff hikes are expected to boost core inflation to the 3.00-3.50% range. Expect court rulings later this year regarding the legality of the administration's tariff implementation.
- The Federal Reserve implemented its first rate cut for 2025 in September. The .25% reduction brought the federal funds rate down to the 4.25%. Intended to support a softening economy balanced against lingering inflation concerns. Two additional quarter point cuts are anticipated before year end. The labor market shows clear signs of softening with a rise in the unemployment rate and a deceleration of job creation. Unemployment is expected to modestly rise through the balance of 2025.
- Potential risks to the US economy for the rest of the year include the continuation of global conflicts (Russia/Ukraine, Israel/Gaza, etc.), administrative policies such as global tariffs, and sticky inflation/higher long-term interest rates.

Equities

- Investor sentiment is a mix of optimism and fragility. The record setting stock market has boosted confidence but concerns about overvaluation and potential volatility remain. The AI theme is likely to drive technology and related sectors; however, investors need to be selective regarding quality and concentration risks.
- International developed and emerging equities continued their strong run in the third quarter, with the MSCI EAFE Index returning 4.77% while the MSCI Emerging Markets Index returned 10.92%, respectively. While US stock valuations remain elevated, international equities seem more reasonably valued.
- If US market leadership broadens beyond the mega-cap tech stocks, other cyclical sectors stand to benefit from lower interest rates and AI efficiencies. While AI presents opportunities, some AI start ups are at extreme levels, leading to a concern over a potential "AI bubble."
- We are focusing on companies with strong fundamentals and a proven track record of delivering earnings growth, especially in sectors that have shown resilience to recent market volatility such as established technology, financials, and health care.

Fixed Income

- The Federal Reserve cut rates in the third quarter with the 10yr Treasury yield falling from 4.22% to 4.15% for the quarter. Bond markets may continue to face persistent inflation and high government deficits, potentially keeping longer-term yields elevated. We continue to recommend quality short and intermediate term fixed income in the US government, corporate, emerging debt and high yield markets.



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