

October 2025

“Those who bring sunshine into the lives of others cannot keep it from themselves”

James M. Barrie

Q3/25 Market Recap

Equity markets have shown resilience and strength in recent months, supported by a combination of a slowing but still positive jobs market, mild inflation, and a policy pivot by the Federal Reserve. U.S. stocks and bonds generally outperformed their developed market peers with notable strength in small caps, as measured by the Russell 2000 Index. Despite concerns over tariffs, inflation and jobs, most asset classes have delivered positive returns, both in the third quarter and year-to-date.

Asset Class	Benchmark	Year-to-Date	
		Q3/2025	2025
U.S. Large Cap Stocks	S&P 500 TR USD	8.1	14.8
U.S. Small & Micro Cap	Russell 200 TR USD	12.4	10.4
Intl Developed Stocks	MSCI EAFE NR USD	4.8	25.1
Emerging Market Stocks	MSCI ACWI NR USD	10.6	27.5
Global Stocks	MSCI ACWI NR USD	7.6	18.4
U.S. Municipal Bonds	Bloomberg Municipal TR USD	3.0	2.6
U.S. Taxable Bonds	Bloomberg US Agg Bond TR USD	2.0	6.1
U.S. High Yield Bonds	Bloomberg US Corporate High Yield TR USD	2.5	7.2
Intl Developed Bonds	S&P International Sov Ex-US Bond TR USD	-1.0	10.0
U.S. REITs	MSCI US REIT NR USD	4.5	3.7
Broad Commodity Futures	Bloomberg Commodity TR USD	3.6	9.4
Energy Partnerships	Alerian MLP TR USD	-1.2	5.7
Gold	DJ Cmmnty Gold TR USD	16.4	44.8

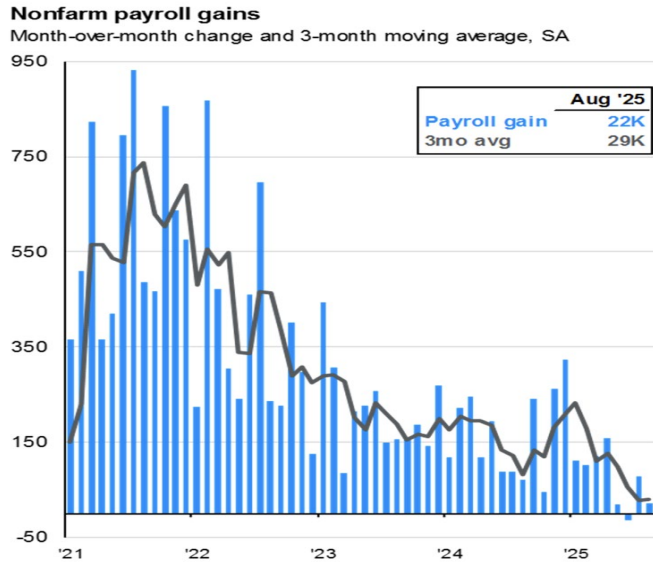
Source: Morningstar as of 10/1/2025

Two Key Questions

Investors spent the first half of September focused on two key questions: whether the data pointed to a further slowing in the jobs market or to a greater pass-through of tariff-related price hikes in the inflation data. The August employment report revealed that gains in the labor market slowed to a crawl, with only 22,000 new jobs added and downward revisions for prior months. This slowdown is attributed to strict enforcement of immigration laws and increased tariffs, which have heightened uncertainty for households and businesses. Since April, when reciprocal tariffs were announced, monthly job gains have averaged just 27,000, a significant decline from the

168,000 monthly average in 2024. Businesses have responded by prioritizing productivity and efficiency over hiring, attempting to offset the impact of tariffs through operational improvements.

Despite the weaker labor market, the economy grew by 2.0% year-over-year through the first quarter of 2025, with fewer workers employed than previously thought. This points to stronger productivity, which is a key driver of higher living standards and earnings growth. S&P 500 companies reported a 9.7% year-over-year gain in earnings for the second quarter of 2025, and the outlook for continued earnings growth remains strong. On the inflation front, the producer price index fell by 0.1% in August and is up 2.6% year-over-year. Consumer prices rose 0.4% in August, but core prices are up 3.1% year-over-year, unchanged from July. The data suggests that tariff-related price increases are modest and not expected to cause persistent inflation.



Source: J.P. Morgan

Households are adjusting their spending patterns in response to cumulative price increases since 2021, but retailers and manufacturers are absorbing most of the tariff costs, limiting the impact on consumer prices. Inflation-adjusted median household income in 2024 was unchanged from 2019, indicating that consumers are managing the effects of inflation without significant changes to their purchasing power.

Federal Funds Rate: Historical Data and FOMC Projections

Each dot represents one FOMC member's federal funds rate forecast.



Source: Federal Reserve. Data as of Sept. 17, 2026.

Stock market performance has been robust, with major indices rising between 1.9% and 5.6% in September. Year-to-date, these indices are up 9.1% to 17.3%, and since the April lows, they have gained between 23.2% and 48.4%. The rally accelerated after weak jobs data signaled that a rate cut was imminent. The Federal

Reserve responded by lowering the target range for the federal funds rate by 25 basis points to 4.0%-4.25% at the September FOMC meeting, marking the first rate cut of 2025. This move was prompted by deteriorating employment data, and while the Summary of Economic Projections

suggests that further cuts may be possible, FOMC members are divided on the outlook for additional rate reductions. Some expect two more cuts this year, while others anticipate none.

Political Developments

Political developments have added complexity to the policy environment. President Trump's attempt to remove Governor Lisa Cook from the Federal Reserve Board was blocked by the courts, allowing Cook to participate in the September meeting. Additionally, Stephen Miran, Chair of the White House's Council of Economic Advisors, was confirmed to the Fed Board just before the meeting, serving concurrently with his White House role. These events have raised questions about the independence of the Federal Reserve, but independence is expected to be maintained, with Treasury Secretary Bessent likely to guide future nominations toward pragmatic candidates

who support the central bank's credibility.

Household debt service ratio

Debt payments as % of disposable personal income, SA



Source: J.P. Morgan

Looking ahead, the economic outlook is cautiously optimistic. The economy appears to be emerging from a tariff-related stall, and earnings growth is supporting household income and spending. Lower Treasury yields and the start of a rate-cutting cycle should provide support for growth into year-end. Tax

cuts and business incentives are expected to boost the economy in early 2026. The biggest risk is a mild recession that could lead to job cuts and weaker earnings, but credit markets do not currently indicate recession concerns, as yield spreads are below historical averages. It is important to monitor recession signals, particularly in labor and earnings data.

In the Treasury market, yields have trended lower for the year, especially at the short end. The two-year Treasury yield ended September at 3.62%, down from 4.25% at the end of 2024, while the ten-year yield ended September at 4.16%, down from 4.58%. Tariffs are expected to add about \$350 billion annually to Treasury revenue, which helps but does not solve the nation's budget deficit imbalance.



Welcome Chris Frey, CFP®!

We are pleased to welcome **Chris Frey, CFP®** to the PCM family as an Advisor. A former soccer player and coach, Chris brings a collaborative approach, a strong team spirit and a desire to excel to PCM. Chris is a native of Nebraska and a graduate of The University of Nebraska-Lincoln. With over ten years of industry experience and the Certified Financial Planner® designation, Chris is a great addition to our team.

While the markets have been positive this year, we understand that many investors and the public remain unsettled and uncertain about the future. Collectively, the Private Capital Management Team has decades of investment experience. We are here to help. Please feel free to reach out to your Advisor with any questions. Thank you for your continued trust. We enjoy working with you.

Sincerely,

The Private Capital Management Team

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