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Third Quarter 2025

Economic and Market Outlook

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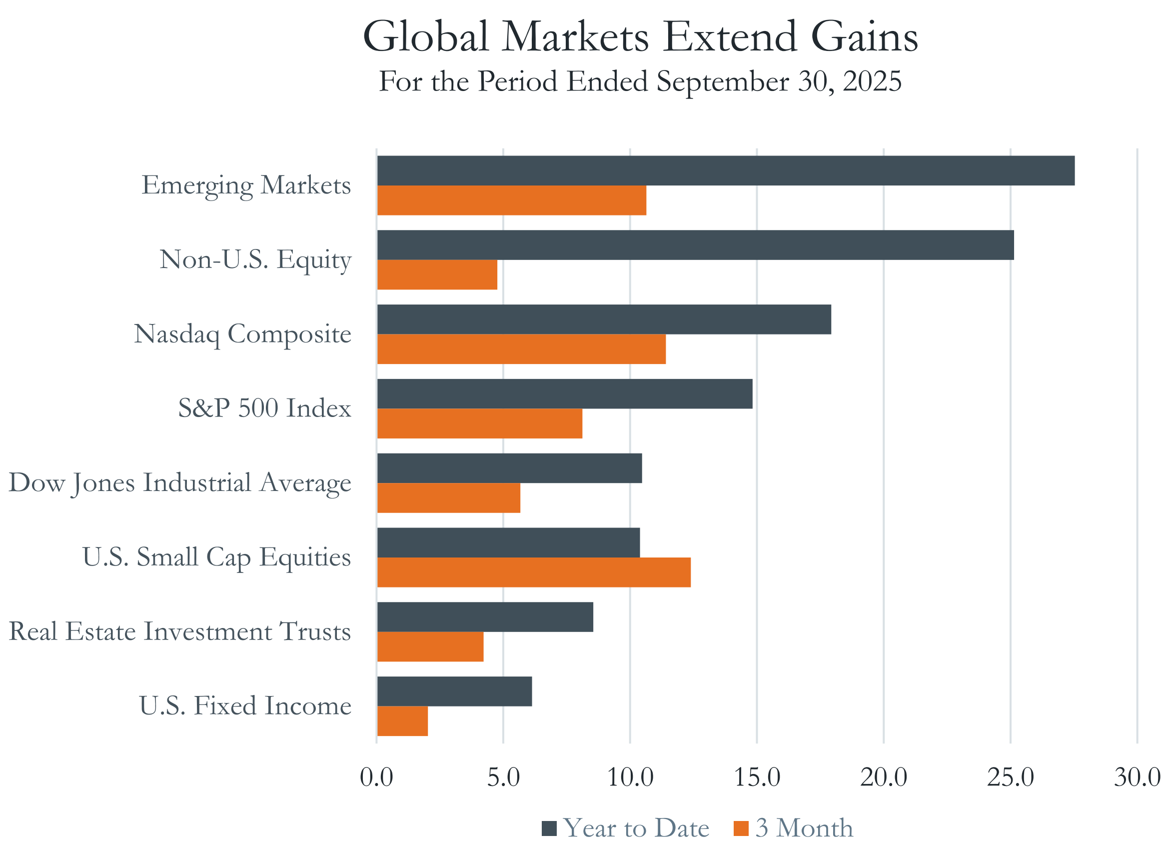
September 30, 2025

Third Quarter 2025 Economic and Market Outlook

Persistent inflation, new tariff threats, a weakening labor market, and an eventual government shutdown were not enough to derail the equity market in the third quarter of 2025. Investors looked through these short-term risks and focused mainly on the September FOMC meeting, at which the Fed cut their policy rate by a quarter point and signaled that further easing may be ahead.

In addition, seemingly insatiable demand for the latest microchips that power the new generative artificial intelligence technology fueled a resurgence of the U.S. technology sector and drove markets to new highs. Major market proxies, such as the S&P 500 Index, are at their most concentrated, with the top 10 constituents accounting for nearly 40% of the market capitalization. Therefore, while stocks are at all-time highs, never have they been as dependent on so few companies.

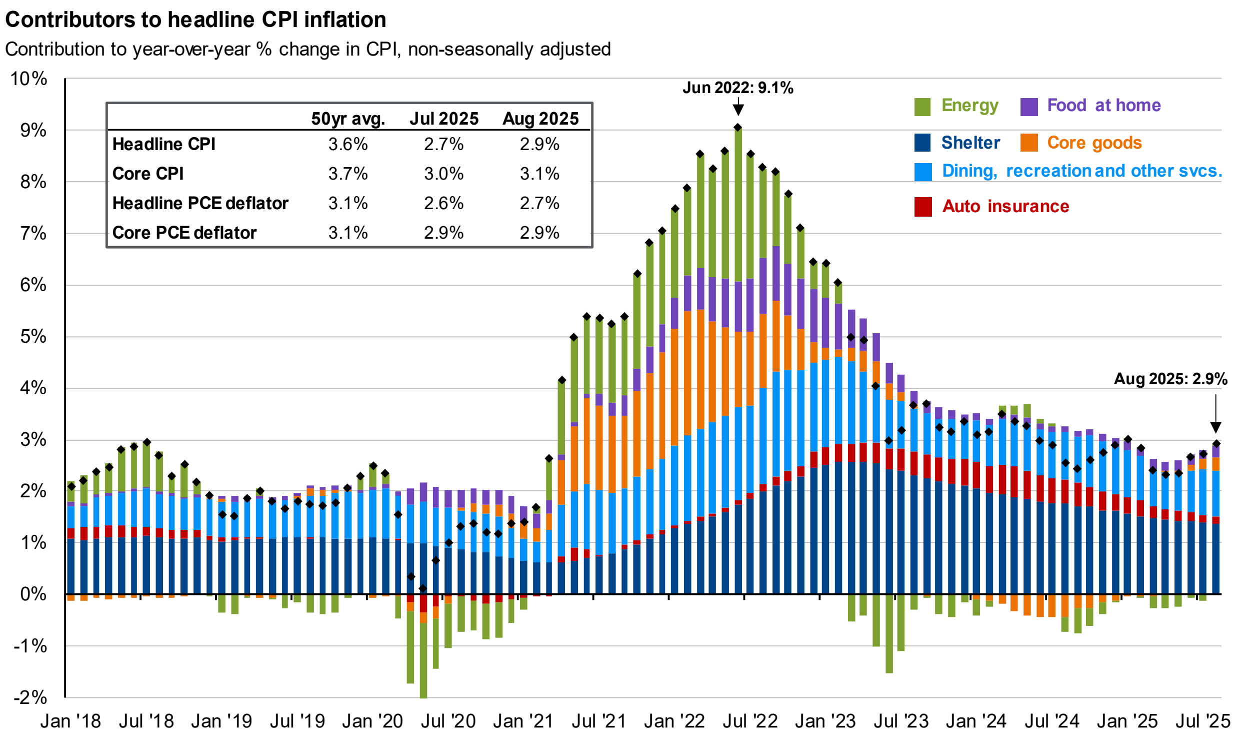
Exhibit 1: Global Markets Build on Gains Despite Headline Risks



Source: Morningstar Direct, Data as of September 30, 2025. Market Indices shown include Dow Jones Industrial Average, S&P 500 Index, Nasdaq Composite, Russell 2000 Index, MSCI EAFE Index, MSCI Emerging Markets Index, Bloomberg U.S. Aggregate Index and S&P Global REIT, An index is unmanaged and is not available for direct investment. Information is subject to change and is not a guarantee of future results.

Mixed economic signals announced over the summer and early autumn, revised unemployment data releases, and lack of reliable information due to the latest government shutdown have clouded the economic outlook. The Federal Reserve opted to cut rates at their September meeting, sighting the balance of risks in the labor market. They note that the number of job openings has come down, but the supply of labor has dropped too – particularly due to immigration policy. However, inflation remains above their target level of 2.0%. Goods inflation, likely influenced by the latest tariffs, ticked higher over the last few months while shelter costs have been steadily declining **(see Exhibit 2)**. Importantly, long-term inflation expectations remain in check, allowing the Fed to focus on their full employment objective when making their latest decision.

Exhibit 2: Fed Signals Lower Rates as Inflation Remains in Check



Source: BLS, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. "Food at home" includes alcoholic beverages. Guide to the Markets – U.S. Data are as of September 30, 2025.

Global markets have risen steadily following the initial shock of the tariff announcements in early April. While higher goods prices have started to show up in the inflation numbers, the impact has been modest thus far. It seems many companies impacted by the tariffs have absorbed the higher input costs rather than passing them along to their customers. With an ever-changing trade landscape, investors are laser-focused on how companies are adjusting to the new environment, whether they will be able to maintain their margins, or if they will have to eventually raise prices.

Bonds began the year with attractive starting yields, which can protect principal in the event of rising interest rates. Conversely, if rates fall, as they have for most of the year, bond prices will rise, resulting in positive total returns. In addition to bonds, gold is often considered a hedge against economic uncertainty as well. Gold has provided strong returns this year, continuing to be a good hedge against U.S. dollar weakness and deteriorating economic conditions.

Economic and Market Outlook

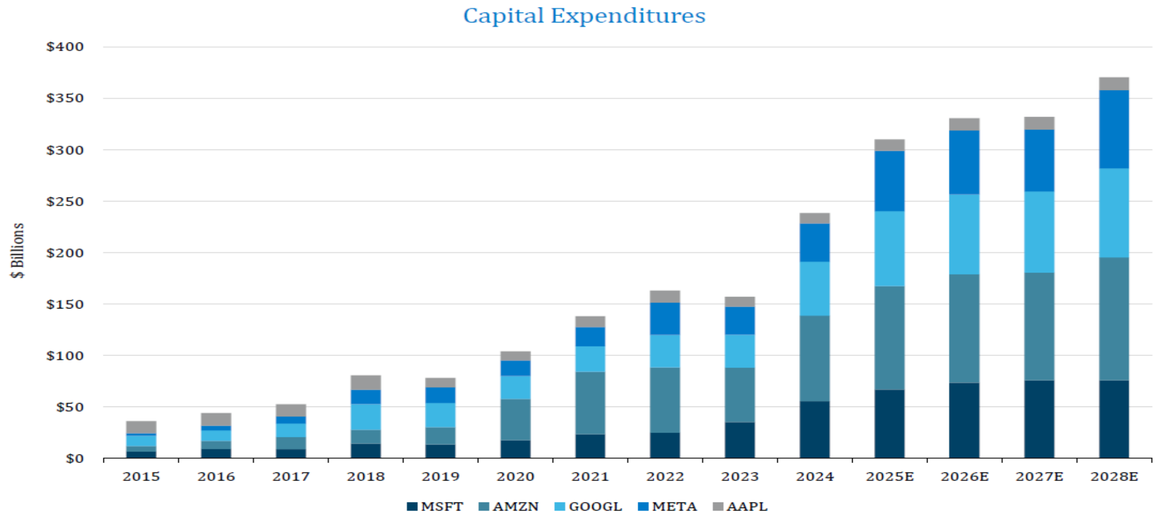
As we start the 4th quarter of 2025, U.S. stock markets are trading near all-time highs and approaching valuation levels last seen during the late 1990s. The Federal Reserve Chairman at the time, Alan Greenspan, infamously warned that investors were suffering from “irrational exuberance”, yet the market continued to grind higher for several years after. Steadily rising interest rates, and the realization that the internet made a few companies very profitable, but evened the playing field for many others, ultimately led to the market correction. The network effects of the internet led to the dominance of the Meta’s and Amazon’s of today. With the rise of generative AI technology, the same evolution in the markets may occur.

There are echoes of this same sentiment today. With swirling headlines raising the specter of a speculative bubble, a lack of clarity for key economic indicators, and the markets continued upward trend, perhaps investors are getting complacent. If the massive investments being made in AI technology infrastructure and the associated datacenters and upgraded power grid were not to pan out as expected, that sentiment could shift quickly. One major difference between the markets in the late 1990s and today is that the companies making the capital expenditures are well-capitalized, cash rich, and expect a positive return on investment in the future. While valuation-levels are high for these companies, so far earnings expectations have largely been met and momentum continues to build as result.

Exhibit 3: AI and Tech Leadership – Major Investments Expected to Continue

Capital Expenditures

Capital expenditures for several of the mega-cap stocks are projected to increase due to investments in AI, but these companies have the free cash flow to organically support grow investments



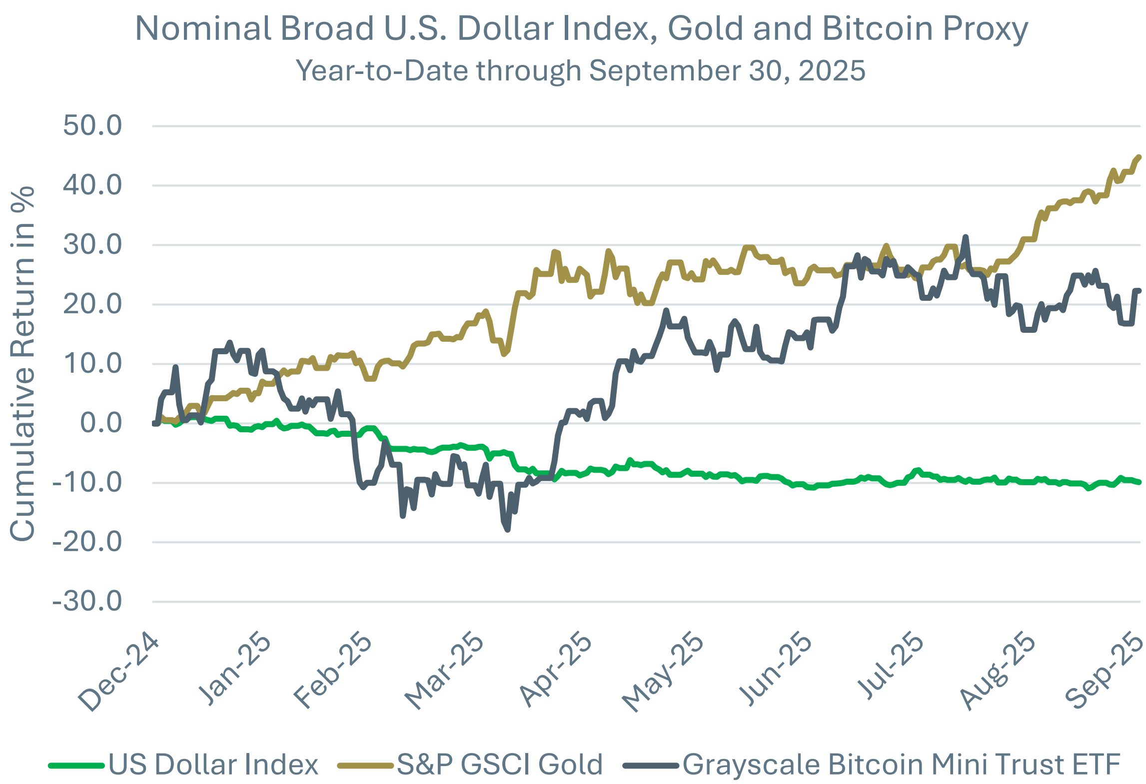
Source: SEC filings and FactSet Consensus Estimates.
No consensus estimates for AAPL in CY'26-CY'28. AAPL's FY'26 CapEx dollar estimate rolled forward to CY'26-CY'28.
References to specific companies are for illustrative purposes only and are not intended as investment advice or a recommendation to purchase or sell any security.

Global Risks Provide Opportunity

The changing policy landscape in the U.S. has led some investors to question whether the U.S. and its currency can remain the global standard. The weakening U.S. dollar comparative to the strength in gold and Bitcoin suggests some are hedging their bets. Despite these concerns, the U.S. bond market remains stable – offering attractive yields and a hedge against a global economic slowdown. While rising government debt and deficits that are resulting in higher interest costs, are a threat to U.S. Treasuries and the U.S. economy, investors have continued to absorb the increased issuance and yields on longer-term bonds, keeping them in check at a higher margin.

However, the upward trend in the U.S. Dollar Index began to shift when new trade policies were announced, and tariffs were applied to U.S. trading partners earlier this year. Trade flows are beginning to shift as a result. Imports have started to decline following a first quarter pre-tariff spike. Questions related to future U.S. policy and renewed investor interest in Europe and Japan have stemmed the demand for the U.S. currency, leading to a nearly 10.0% decline in the U.S. dollar this year through September 30, 2025. Gold, often seen as a hedge against rising economic uncertainty, has surged by nearly 50.0% amid the latest policy shifts. Bitcoin, less proven than gold as a hedge, has also gained this year, although with significantly more volatility.

Figure 4: U.S. Dollar Weakens, Bitcoin Volatile, While Gold Price Soars



Source: Board of Governors of the Federal Reserve System (US), Nominal Broad U.S. Dollar Index [DTWEXBGS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DTWEXBGS, October 1, 2025. S&P GSCI Gold TR. Grayscale Bitcoin Mini Trust ETF sourced from Morningstar Direct

Summary

The global financial markets in 2025 have largely outperformed initial consensus estimates set at the beginning of the year, given political transitions, trade uncertainty, and inflation concerns. The U.S. and global economies have been resilient. The AI boom continues to be a major driver of returns, both in the U.S. stock market and the related infrastructure sector, while shifting trade flows and a weakening U.S. dollar have benefited European, Japanese, and emerging markets.

We know that market leadership can change quickly, with investor sentiment often following suit. There is a balance between capturing the full upside potential of the market and positioning for the next environment. While AI has been the key theme driving markets higher again this year, portfolio diversification remains paramount.

Past Performance is No Guarantee of Future Performance.

Reminder: The returns for your accounts are affected by the timing of new investments, cash flow patterns (deposits, withdrawals, and transfers), client-specific asset allocation policies and retained individual securities. All of these variables may cause dispersion among returns, as compared to our Models.

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**These returns do not represent a composite of actual client accounts; they are based upon actual model allocations and manager returns of the contemporaneously approved models and managers by the Wescott Investment Committee. Model performance results have certain limitations, including the fact that they do not reflect actual trading nor the performance of an actual client account and, accordingly, the performance results may differ significantly from the performance of actual client accounts. Portfolio returns for individual Wescott clients are influenced by, among other things, their individual investment objectives, variations in asset allocation preferences, cash flow patterns, the timing of transactions, and other securities held by clients.*

Wescott returns are calculated assuming annual rebalancing each January and reinvestment of all dividends and capital gains. The model returns assume that the portfolio remained invested for the entire period, with manager changes reflected, but with no deposits or withdrawals. Clients' individual portfolio returns are influenced by cash flow patterns, the timing of transactions, "client-held" securities or managers and client specific asset allocation policies. Investor returns vary due to cash flow patterns and portfolio customizations.

Benchmark returns used in this analysis are net of the underlying managers' fees and trading costs. Wescott returns are also net of the underlying managers' fees and trading costs, but gross of Wescott's management fee. Clients' returns will be reduced by such fees, which are described in the Firm's ADV Part 2A Disclosure Brochure.

Past performance is no guarantee of future results. Investing involves risk, including the possibility of loss.