

MARKET RECAP

RESILIENCE AND ROTATION

Fed cuts, global optimism and sector shifts define the month

KEY OBSERVATIONS

- **Fed cuts:** The Fed initiated its first rate cut since December 2024, reducing the Fed Fund Rate by 25 basis points (or 0.25%).
- **Strong September:** U.S. equities posted their strongest September in over 15 years, driven by AI optimism and monetary support.
- **Emerging markets lead the way:** Equity markets in China, Brazil, Mexico and South Korea pushed higher as emerging markets outperformed their developed peers.
- **Gold bug:** Amid inflation concerns and government shutdown risks, gold prices surged over 10% during the month.

RECAP

September marked a pivotal shift in monetary policy as the Federal Reserve enacted its first rate cut since December 2024, reducing the Fed Funds Rate by 25 basis points (or 0.25%). This move, coupled with signs of labor market softening and persistent inflation concerns, reinforced investor expectations for continued policy accommodation. Despite political uncertainty surrounding a potential government shutdown, markets remained resilient, buoyed by strong corporate fundamentals and improving sentiment across risk assets.

ASSET CLASS	INDEX	SEPTEMBER	Q3	YTD
Global Equity	MSCI ACWI All Cap Index	3.44%	7.71%	18.32%
US Large Cap	S&P 500 Index	3.65%	8.12%	14.83%
US Mid Cap	Russell Mid Cap Index	0.89%	5.33%	10.42%
US Small Cap	Russell Small Cap Index	3.11%	12.39%	10.39%
Us Real Estate	FTSE NAREIT REITs Index	0.43%	2.67%	4.51%
Non-US Large Cap	MSCI EAFE Index	1.91%	4.77%	25.14%
Non-US Small Cap	MSCI EAFE SC Index	1.59%	6.20%	28.39%
Emerging Markets	MSCI EM Index	7.15%	10.64%	27.53%
Cash Equivalent	US 90 Day T-Bills	0.35%	1.07%	3.20%
US Bonds	Bloomberg Agg. Index	1.09%	2.03%	6.13%
US Municipal Bonds	Bloomberg Muni Index	2.32%	3.00%	2.64%
US High Yield Bonds	Bloomberg HY Bond Index	0.82%	2.54%	7.22%

Source: Morningstar as of September 30, 2025

RECAP cont.

The month saw broad-based gains across equities, fixed income, and real assets, with emerging markets and long-duration bonds leading performance.

U.S. equities posted strong gains in September, with the S&P 500 delivering its best monthly return for this period in over a decade. Investor sentiment improved following the Federal Reserve's rate cut and signs of easing inflation, while optimism around artificial intelligence continued to support growth-oriented sectors. Technology and communication services led performance, though financials and industrials also contributed. Small-cap stocks showed renewed strength, with the Russell 2000 index benefiting from lower rate expectations and improving risk appetite. Despite political uncertainty, domestic equities remained anchored by solid earnings and resilient consumer demand.

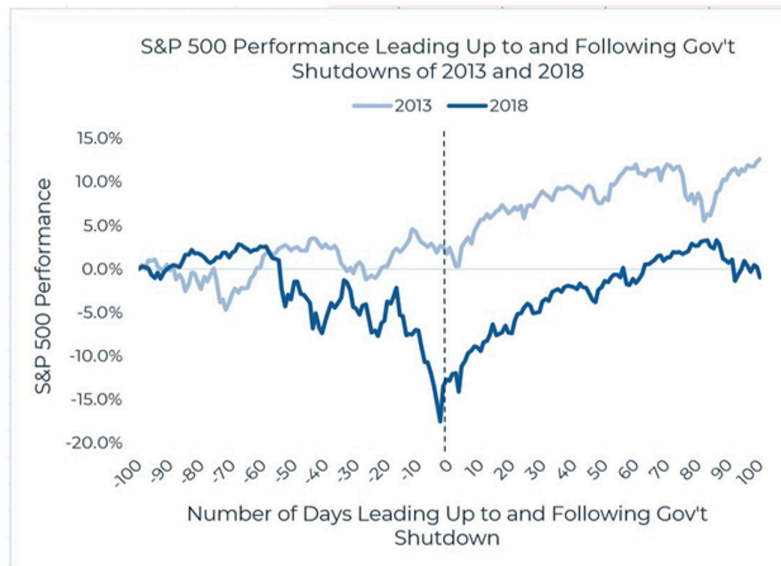
International equities posted mixed results in September, with emerging markets continuing to outperform developed peers. The MSCI Emerging Markets Index recorded its ninth consecutive monthly gain, supported by strength in China, Brazil, Mexico, and South Korea, as well as improving investor sentiment and favorable policy environments. Developed markets delivered modest returns, with gains in Japan, France, and Canada offsetting weakness in Germany. Currency movements played a meaningful role, as U.S. dollar softness provided a tailwind to foreign returns. While the pace of the developed market rally slowed, supportive valuations and accommodative central bank policies remain constructive for global equity allocations.

Fixed income markets posted positive returns in September, supported by the Federal Reserve's decision to cut the Fed Funds Rate. The move contributed to a modest flattening of the yield curve as both short- and long-term rates declined. Long-duration bonds outperformed, benefiting from falling yields and increased demand for duration exposure. Credit markets remained strong, with spreads tightening across investment-grade and high-yield corporates. Favorable corporate fundamentals and a robust earnings season helped sustain elevated valuations, with spreads now near the tightest levels observed in the past decade. Market pricing reflects expectations for two additional rate cuts before year-end, and investor appetite for yield remained resilient amid a stable economic backdrop.

Real assets posted positive returns in September, supported by strength in commodity markets and selective gains across REIT sectors. Gold surged more than ten percent, reaching new highs as investors sought safe-haven exposure amid inflation concerns and heightened political risk tied to a potential government shutdown. Industrial metals also contributed to performance, while timber and forestry lagged. REITs delivered modest gains, with defensive sectors such as healthcare leading the way. Retail REITs benefited from a resilient consumer, though residential REITs faced pressure from declining mortgage rates and supply-demand imbalances. The broader real asset complex continued to offer diversification and inflation sensitivity, reinforcing its strategic role in multi-asset portfolios.

SHUTDOWN WATCH: POLITICAL RISK MEETS MARKET RESILIENCE

As the September 30 deadline passed without a funding agreement, the federal government officially entered a shutdown in October. Historically, shutdowns have been disruptive but not economically catastrophic. Since the 1970s, there have been 21 shutdowns, most lasting only a few days. Even the longest episodes, such as the 34-day closure in 2018, had limited long-term impact on GDP and were largely recovered in subsequent quarters.



Source: Bloomberg Finance, L.P.

From a market perspective, shutdowns are typically treated as short-term political events rather than fundamental economic shocks. Equity markets have shown resilience, with the S&P 500 posting strong gains in the 100 days following both the 2013 and 2018 shutdowns. Bond markets tend to remain stable, as the Treasury continues to make interest payments and conduct auctions. However, delays in releasing key economic data, such as CPI and employment reports, could complicate monetary policy decisions and introduce volatility in rate-sensitive segments. While yields have historically declined during shutdown periods, elevated fiscal uncertainty could exert upward pressure this time around.

LOOKING AHEAD

Looking ahead, markets appear poised to navigate a delicate balance between policy support and macro uncertainty. The Federal Reserve's recent rate cut has eased financial conditions and improved sentiment, but the path forward remains data-dependent. Investors will be closely watching labor market trends, inflation readings, and fiscal developments, particularly as the risk of a government shutdown lingers. While valuations in certain segments have expanded, broader participation across asset classes—evident in the strength of small caps and emerging markets—suggests a more constructive tone. Continued resilience in corporate earnings and a gradual cooling of economic activity could provide a favorable backdrop for risk assets, though volatility may rise as markets recalibrate expectations around policy and growth.