INVESTMENT STRATEGY UPDATE

MARKET REPORT
OCTOBER 2025

ASCENTIAL WEALTH ADVISORS

EQUITY RALLY CONTINUES

Index	*2025 (through 9/30)*
S&P 500	+14.83
Dow Jones Ind. Avg.	+10.47
MSCI EAFE	+25.14
BC US Aggr. Bond	+6.13

Dow Jones Relative Risk Benchmarks	
Conservative	+5.86
Moderate	+12.10
Aggressive	+17.66

Equity markets extended their rally through the third quarter of 2025 with several indices touching new all-time highs. US equities shook off trade policy concerns, focusing on the potential surrounding Artificial Intelligence (AI) investment and the benefits of fiscal stimulus from the One Big Beautiful Bill Act passed on July 4th. While performance in the US equity markets was strong, international equities continued to outperform, remaining at the top of the charts for the year despite possible longer-term impacts from trade policy changes.

Both foreign developed and emerging market stocks benefited from the decline in the US dollar and higher uncertainty in the US. The MSCI Emerging Markets Index finished the third quarter the top performer, up 27.53% year-to-date. Within the US, the large cap growth category remained strong, with the NASDAQ increasing 11.24% for the third quarter and 17.34% year-to-date. Although lagging larger companies year-to-date, for the third quarter the Russell 2000 Index of small companies posted the strongest performance, rising 12.39%. Smaller companies generally carry higher leverage and therefore can benefit more from falling interest rates.

The US Federal Reserve has been closely watching economic data to determine when to lower interest rates and made the first rate cut for the year in September after labor market statistics weakened over the summer. The benchmark interest rate was lowered by 0.25%. The Fed is facing a conflict between its two mandates, with a weakening labor market indicating a need for rate cuts while above target inflation supports maintaining higher rates.

With rates falling bonds also delivered positive returns. The yield curve has moved toward a more normal position with short-term yields, which are more closely influenced by the Fed, falling below long-term yields. After the September rate decrease markets also priced in two additional anticipated rate cuts yet in 2025. The 10-year US Treasury closed the third quarter yielding 4.16%, down from a yield of 4.58% at the end of 2024. We expect short-term rates to continue a downward trend, whereas long-term rates could remain elevated due to persistent above target inflation and deficit concerns.

The outlook remains mixed, with economists trying to understand how the combination of current monetary policy, trade policy, and fiscal policy decisions will play out. We remain cautiously optimistic that markets and the economy can remain resilient but also recognize that markets may be priced to perfection.

OUR VIEW

FIXED INCOME:
Bond markets are anticipating the Fed to continue lowering short-term interest rates, and yields on short-term investments such as money markets, commercial paper and short duration CDs will continue to fall alongside Fed rate cuts. Longer-term rates are less directly controlled by the Fed and have the potential to remain higher as they are more influenced by other factors, such as long-term inflation expectations and credit risks. Given this potential risk, we are in favor of a blend of traditional fixed income and fixed income alternatives to hedge against interest rate uncertainty. We also favor shifting away from short-duration fixed income for funds that are not needed in the near term.

US EQUITY:
At the end of the third quarter, the S&P 500 index traded at almost 23 times earnings, with the top ten companies rising to almost 30 times earnings as they were pushed higher by AI enthusiasm. Profit margins and earnings have remained firm despite tariffs as companies

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US EQUITY (CONT.):

implemented strategies to mitigate the impact. Small cap equities also participated in the rally for the quarter and should benefit from lower interest rates, providing the economy remains strong. At current price levels, expectations are high, and risks remain surrounding trade policy and the slowing economy. On the other hand, we anticipate an economic boost from the tax bill passed this summer and the continued prospects for productivity from AI. Given these factors and current elevated valuations, we are neutral on US equities while focusing on selectivity and flexibility.

INTERNATIONAL EQUITY:

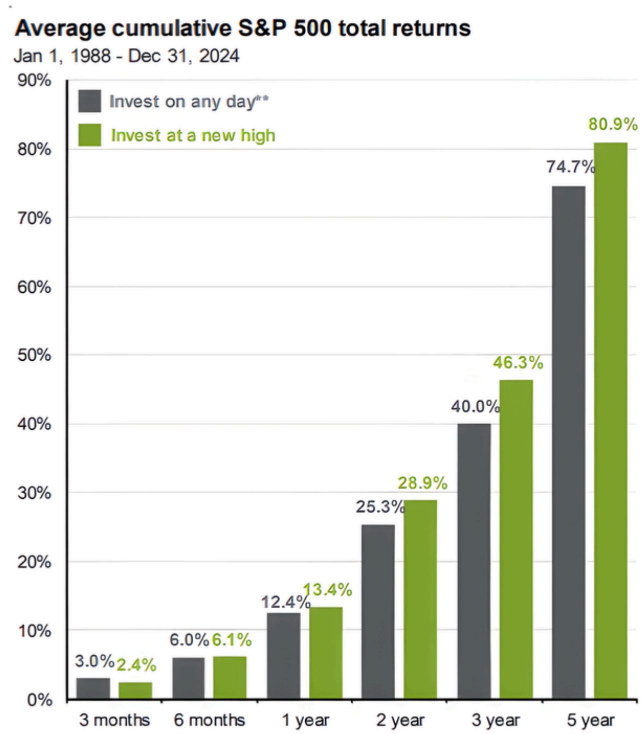
International equities have been the true standout in 2025. Foreign stock outperformance has likely been the result of a combination of factors including cheaper valuations, investors' desire to geographically diversify in a changing trade landscape, a falling US dollar, and commitments by many foreign governments for additional economic stimulus. Even after this period of outperformance, foreign stock valuations remain cheaper than their historical average relative to US stocks. Additionally, foreign equities tend to perform well in periods of a weaker US dollar. Based on these factors, we believe there is more potential in foreign equities and are in favor of maintaining a slightly higher weighting.

Investing in Rising Markets

With the equity markets reaching new all-time highs, investor concerns about a potential downturn are rising, and investors can get particularly nervous about putting additional money into the market. While it is impossible to predict when markets will peak or pull back, history shows that broad equity markets tend to trend upward over time, despite short-term volatility. In fact, investors in the S&P 500 who put money to work at market highs have historically seen higher average cumulative returns than those who invested on average days. For long-term investors, time in the market matters more than timing the market.

What Could Keep the Rally Going?

- **Stimulus Boost:** Economic impact from the One Big Beautiful Bill Act is projected to peak in 2026.
- **Rate Cuts:** Federal Reserve rate reductions may further stimulate growth.
- **Valuation Gaps:** The current rally has been primarily driven by tech and AI stocks, while other sectors remain less expensive and may offer more upside.
- **AI Investment:** Capital spending on AI is projected to continue rising for the next several years.
- **Cash Reallocation:** Falling money market yields may shift a projected $7 trillion of cash from money market funds into other investments.



Source: J.P. Morgan Guide to Markets, October 2025.

***"Invest on any day" represents average of forward returns for the entire time period whereas "invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-month, 6-month, 1-year, 2-year, 3-year, and 5-year intervals, with data starting 1/1/1998 through 12/31/2024.*

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