PDS Wealth Management

Quarterly Investment Report – Q3 2025

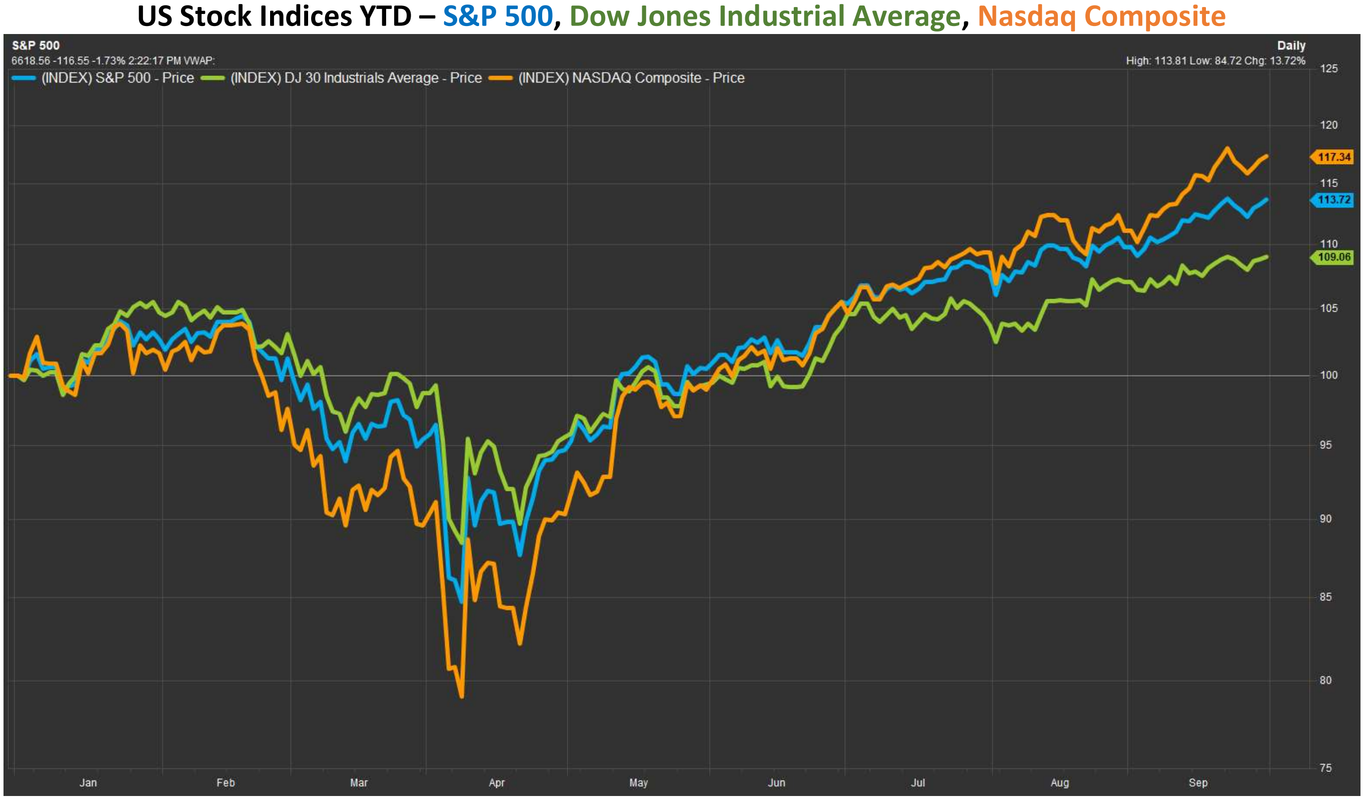
It has been just over six months since the tariff tantrum in early April. After the tariff threats were dialed back, stocks commenced one of their greatest comebacks ever. As we enter Q4, the government is shut down, and tariff threats have returned to the fore. Thus far markets have shrugged off the headlines, though, perhaps indicating they've seen the movie before and know how it ends.

As we look forward to turning the calendar to 2026, below we take a look in the rearview mirror to see where we've come from. If we can offer any further insights around the topics of this report, please feel free to check in.

Markets

Stocks

US Stock Indices YTD – S&P 500, Dow Jones Industrial Average, Nasdaq Composite



Source: FactSet; as of September 30, 2025

The charge higher off the April lows continued for stocks during Q3 with little interruption. Technology, especially those companies associated with AI, were the outperformers. For the quarter, the Dow Jones Industrial Average added 5.2%, the S&P 500 gained 8.1%, and the Nasdaq posted a +11.4% return. Despite some recent volatility following renewed trade/tariff fears, the markets are hovering near their all-time highs.

For the second quarter in a row, the higher growth sectors led markets higher. Technology and Communication Services were the big winners, posting gains of 13.2% and 12%, respectively. Consumer Discretionary followed close behind with a +9.5% return; Utilities added 7.6%. Energy tacked on 6.2% while Materials, Financials, Industrials, and Healthcare all rose between 3-5%. The Consumer Staples sector was the only group that lost ground during Q3, falling 2.4%.

Bonds

Yields drifted lower (prices higher) throughout Q3 in anticipation of rate cuts from the Federal Reserve, which arrived with a 25bp cut in mid-September. The yield on the 10-Year Treasury Note fell 8bps to 4.15% during Q3. Markets expect two more 25bp cuts before the end of 2025.

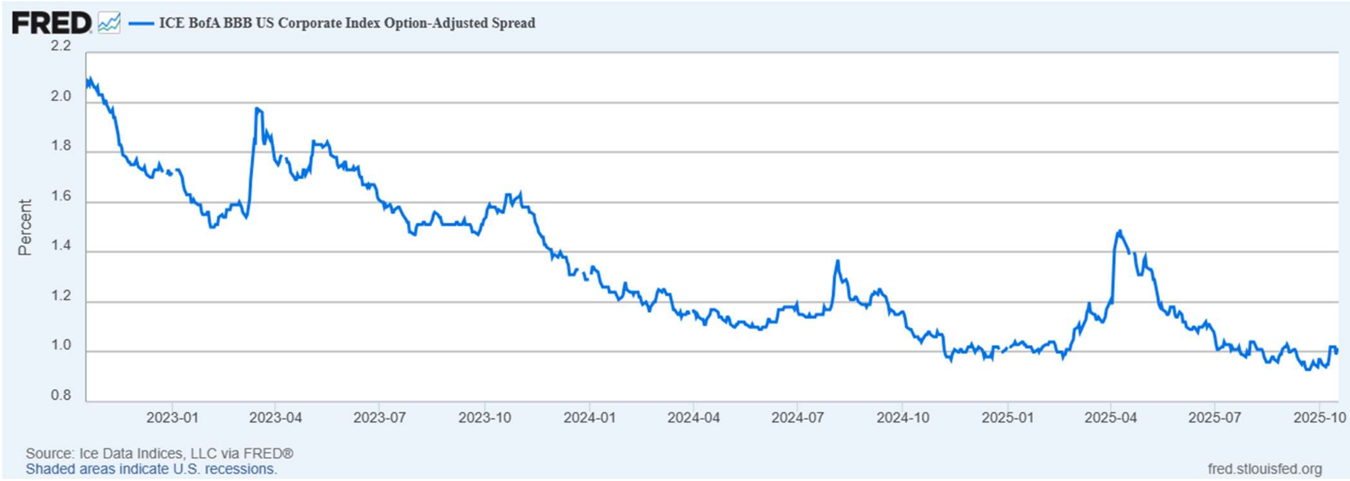
10-Year US Government Note Yields

Source: FactSet; as of October 21, 2025

The Barclays Aggregate Bond Index returned 2.1% in Q3 and has delivered a 6.1% total return year-to-date through the end of September. The S&P 500 Bond Index (investment-grade corporate bonds) added 2.5% in the quarter, and the S&P 500 High Yield Corporate Bond Index rose 2%. Those indices have returned +6.6% and +7% year-to-date, respectively.

Despite recent headlines highlighting stress in some corners of the credit markets, corporate bond spreads have barely budged.

BBB US Corporate Bond Option-Adjusted Spread

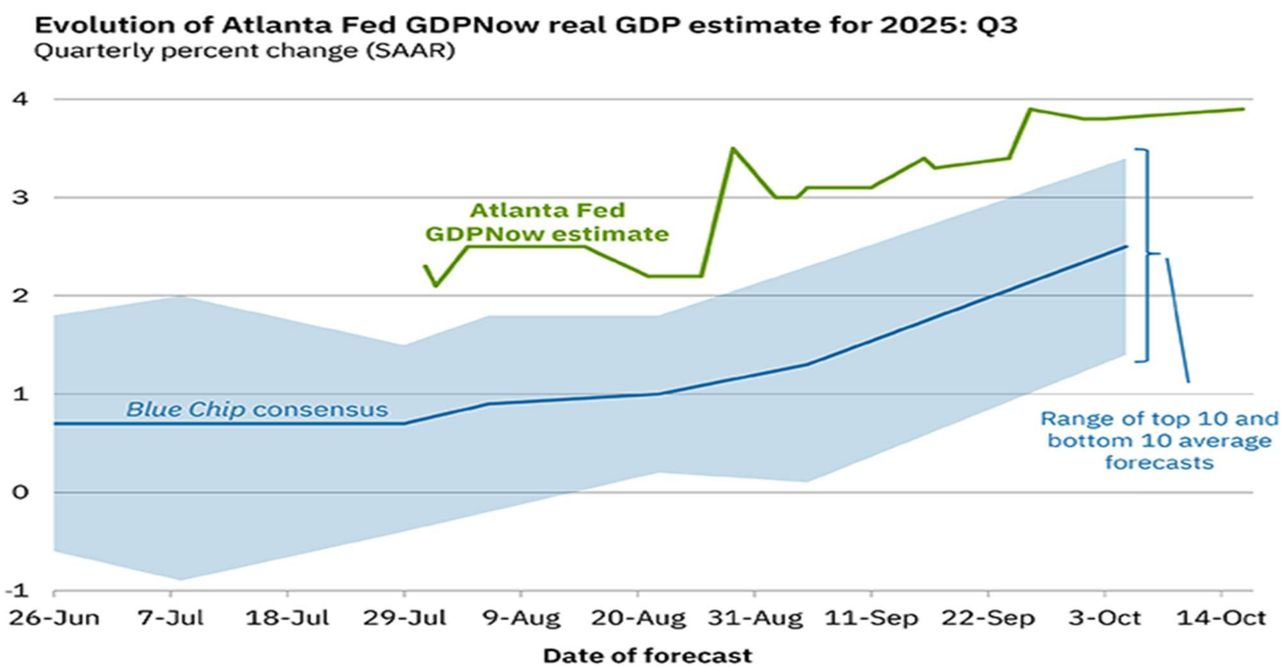


Source: St. Louis Federal Reserve; as of October 21, 2025

Economics

The US economy continues to chug along following the Q1 GDP slide of 0.5%, which was impacted by the growth scare following "liberation day." GDP rebounded to 3.8% in Q2 and is tracking at a similar pace for Q3.

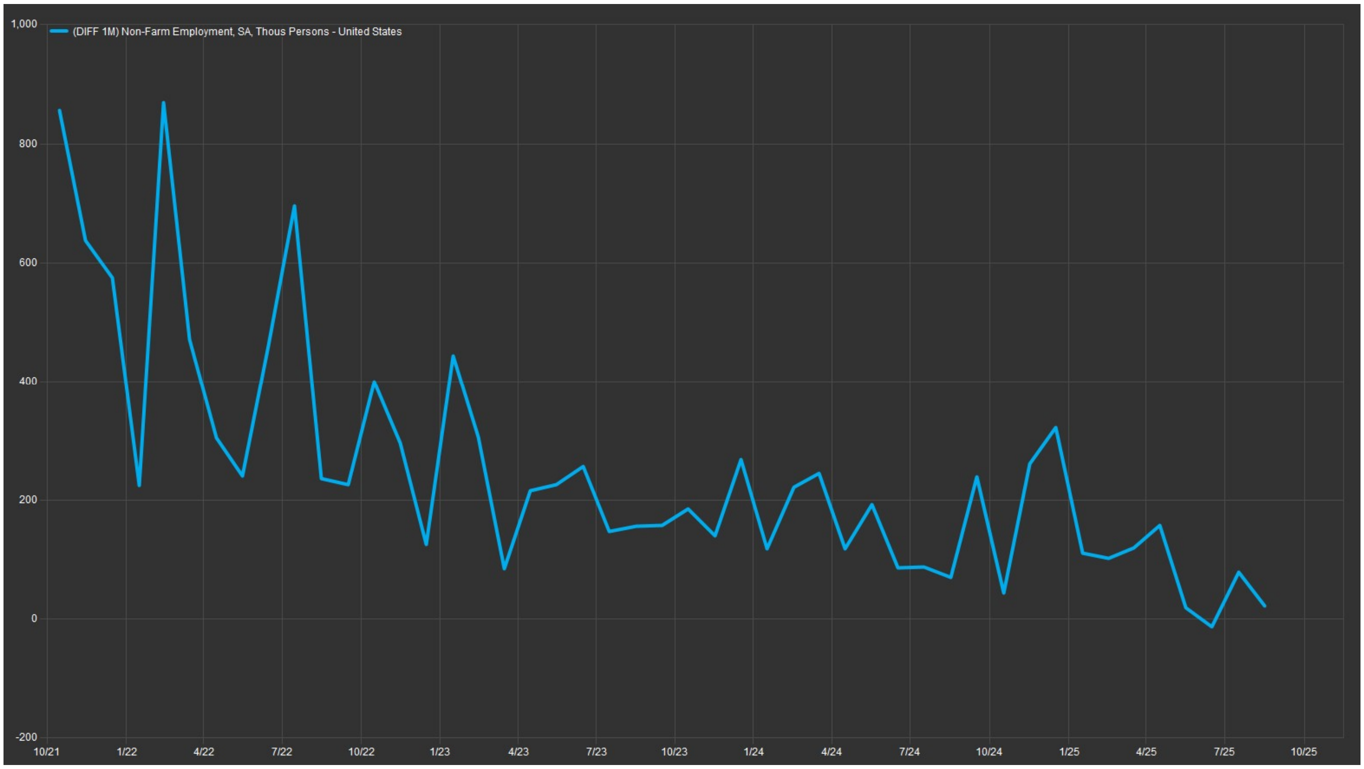
GDPNow Estimate



Source: Federal Reserve Bank of Atlanta; as of October 21, 2025

However, sluggishness has emerged in the job market as employment growth was lackluster throughout the third quarter. Payrolls in August (the last report released given the government shutdown) showed a modest 22,000 increase in nonfarm payrolls. That report was followed a week later by the largest downward revision to monthly jobs reports in history - the BLS revision showed 911,000 fewer jobs were created over the 12 months ending in March 2025 than was previously reported.

M/M Change in Nonfarm Payrolls



Source: FactSet; as of September 5, 2025

The labor market weakness has given the Fed cover to embark on further interest rate cuts, which has been supportive of risk assets. Markets are placing a high probability of another 25bp cut at next week's Fed meeting and another in December.

Conclusion

While we don't have a crystal ball, we hope this report offers some insight into where we've been and where we stand now. We wish you and your families a healthy and peaceful holiday season. Please let us know if we can answer any questions or offer any guidance.

Paul Spencer, CFA®

Director