TILLER
PRIVATE WEALTH

Q3 2025 Market Update

Market Snapshot

Dow Index 46,398	**10-year Treasury rate** 4.16%
S&P 500 Index 6,688	**1-year Treasury rate** 3.68%
NASDAQ Index 22,660	**Prime mortgage rate** 7.25%

**As of 9/30/2025*

By the Numbers

- The S&P 500, Nasdaq, and Dow Jones Industrial Average gained 7.8%, 11.2%, and 5.2%, respectively, during the third quarter, with all three reaching new record highs in September. Year-to-date, they have risen 13.7%, 17.3%, and 9.1%.
- The Bloomberg U.S. Aggregate Bond Index gained 2.0% in the third quarter and is now up 6.1% year-to-date. The 10-year Treasury yield ended the quarter at 4.15% after falling as low as 4.02% in September.
- Developed market international stocks (MSCI EAFE) rose 4.2% and emerging market stocks (MSCI EM) increased 10.1% in the quarter.
- The U.S. Dollar Index fell to a low of 96.63 in September before ending at 97.78 for the quarter. So far this year, the dollar has declined 9.9%.
- The Consumer Price Index increased 2.9% in August while core CPI rose 3.1%.
- Only 22,000 net new jobs were created in August according to the latest report by the Bureau of Labor Statistics. Since May, the average monthly pace of job gains has been only 26,800.
- At its September meeting, the Federal Reserve cut rates by 0.25% to a range of 4% to 4.25%.

Fed Rate Cut Amid Job Weakness

The Federal Reserve cut interest rates by 0.25% in September 2025, resuming its easing cycle after holding rates steady through much of the year. This decision reflects the Fed's attempt to balance stubborn inflation with a weakening labor market. This rate cut was widely expected and has served as a tailwind for markets in recent months.

While there are some signs of weakness today, overall growth remains healthy. So, recent cuts represent something different: an attempt to normalize policy after the rapid tightening cycle that began in 2022. This is one reason the Fed is easing policy even while the economy remains in expansion and markets trade at all-time highs.

Perhaps the most important factor driving the Fed's decision has been the deterioration in the job market. While the unemployment rate of 4.3% remains low by historical standards, the pace of job creation has slowed dramatically. August saw only 22,000 new payrolls added, well below the average of 123,000 from earlier in the year. Even more striking are the payroll revisions, suggesting that 911,000 fewer jobs were created over the twelve months through March than originally reported.

Thus, the Fed is cutting rates because, according to the latest FOMC statement, it “judges that downside risks to employment have risen.” For investors, rate cuts typically provide support for both stocks and bonds if the economy remains strong.

Then Why Are the Markets Up?

Investors today frequently ask, “If jobs are weak, stock prices are stretched high and there is so much policy uncertainty, why do the markets keep climbing?” Fair question, indeed. The current government shutdown makes this even more perplexing, so we’ll attempt to offer some context.

As it relates to policy uncertainty, it appears the April Tariff Tantrum has eased from full boil to low simmer, and making the tax cuts permanent gives investors clarity to make more confident financial decisions.

While job growth is slowing, unemployment remains at a manageable, and historically low, 4.3%. Corporate earnings have been sturdy, borrowing costs have eased and consumers are still spending, despite stubborn inflation.

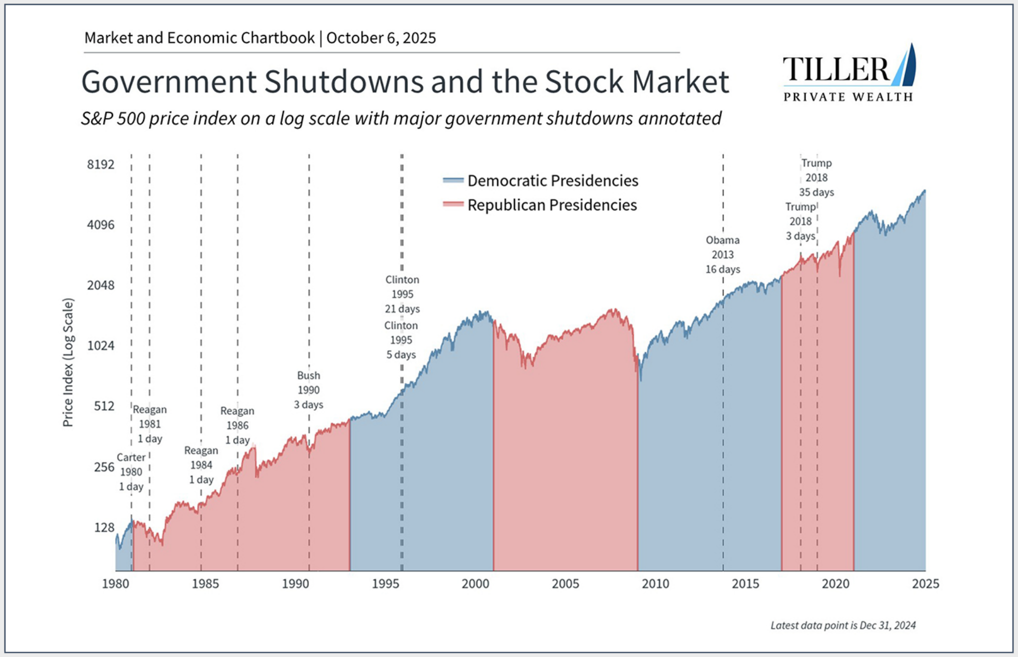
Most saliently, in our view, is the magnitude of investment into AI technology, and the waterfall effect that is having on the economy. This sector is booming regardless of politics or policy. Unlike the dotcom boom & bust when investors were buying little more than ideas, today's technology leaders are well established, dominant market leaders with deep pockets to fund the expansion of data centers, energy production, chip production and all the ancillary businesses that benefit from such spending.

While investors are increasingly questioning whether corporate spending on artificial intelligence will generate a positive return, the reality is that this has been a key driver of the broader market and business expansion.

What Shutdown?

Political drama in Washington can create uncertainty, but history shows that government shutdowns typically have limited impact on financial markets, as seen on the accompanying chart. While the toll that shutdowns have on government workers can be real, their effect on financial markets has historically been minimal. For long-term investors, these episodes highlight the need to separate political views from financial plans. This is especially important when daily headlines focus on controversial topics that have not historically affected portfolios.

Chart of the Month



Sources: Clearnomics, Congressional Budget Office

Data sources: Clearnomics, YCharts, The Wall Street Journal, Charles Schwab Asset Management, The Economist, Congressional Budget Office, US Treasury Department, & US Federal Reserve.