



THE BOSTON FAMILY OFFICE INVESTMENT SERVICES

Market Update Third Quarter 2025

Equity Markets:

Global equity markets advanced steadily through the third quarter, supported by a combination of constructive policy developments, resilient economic fundamentals, and stronger-than-expected corporate earnings results.

A key tailwind was the improvement in trade policy visibility. The U.S. secured agreements with several trading partners on terms that were considerably less restrictive than initially anticipated, easing concerns about a protracted global trade conflict. Meanwhile, the U.S. economy demonstrated notable upside: second-quarter GDP growth was revised upward to 3.8% from the initial 3.0% estimate, led by a meaningful positive revision to consumer spending.

Corporate earnings reinforced the constructive backdrop. S&P 500 companies collectively reported 6.4% Q2 revenue growth during the quarter, handily exceeding consensus estimates of 4.2%. More impressively, earnings grew 12% year-over-year, far surpassing the 4.8% analysts had forecasted. These results underscore that the equity market's advance has been anchored in robust fundamentals, rather than speculative excess or a bubble-like rally.

Another encouraging development has been the outperformance of smaller-cap equities, which gained traction and outpaced the S&P 500 in the third quarter—an important signal that market leadership may be broadening beyond the “Magnificent Seven” and other mega-cap names.

Meanwhile, major technology companies continued to make significant capital commitments to artificial intelligence (AI), sustaining one of the most powerful secular growth drivers in the economy. This investment cycle is increasingly viewed as analogous to prior transformative technological waves in its potential to boost productivity and earnings power across multiple sectors.

That said, we remain mindful of even simple limitations such as inadequate power capacity to meet companies' ambitions, and the possibility that this first wave of large spending might not prove particularly profitable for the biggest spenders.

Those companies do have other highly profitable business lines so can absorb such an outcome, and we think that the availability of AI tools will have widespread benefits across the economy once adopted.

Equity Markets (Total Return)	3Q'25	1-Year
Dow Jones Industrial Average	5.7%	11.5%
S&P 500	8.1%	17.6%
S&P 400 Mid-Cap	5.5%	6.1%
S&P 600 Small-Cap	9.1%	3.6%
MSCI All-Country World	7.7%	17.8%
MSCI Foreign Developed Markets	4.9%	15.7%
MSCI Foreign Emerging Markets	10.9%	18.1%

US Bond Markets (Total Return)	3Q'25	1-Year
Bloomberg US Treasury	1.5%	2.1%
Bloomberg US Municipal	3.0%	1.4%
Bloomberg US Corp Inv Grade	2.6%	3.6%

Source: Bloomberg

Fixed Income & Monetary Policy:

Despite the aforementioned strong overall economic growth, the labor market showed clearer signs of cooling during the quarter. Payroll growth moderated, the unemployment rate ticked higher to 4.3%, and surveys of hiring intentions softened. Combined with evidence of waning inflation, these dynamics gave the Federal Reserve the confidence to reduce the Fed Funds Rate (FFR) by 25 basis points in mid-September and an additional 50 basis points of easing are anticipated by year-end.

It is important to distinguish between short-term rates more directly influenced by the Fed and long-term rates set in the marketplace by a wide variety of macroeconomic considerations. The Fed's 50 bp rate cut and subsequent two 25 bp cuts last year were followed by a roughly symmetrical increase in the 10yr Treasury yield and it also rose immediately following the September cut. This counterintuitive move reflects investor demands for higher compensation amid growing fiscal deficits, heavier Treasury issuance, and the possibility of renewed inflationary pressures. Against this backdrop, we believe the Fed's incremental approach—resisting calls for rapid or deeper easing—has been prudent, balancing the need to support growth with the imperative of maintaining credibility.

Federal Reserve Independence:

The Trump administration has intervened in the operations of many Federal institutions, but the Federal Reserve's institutional independence remains a central feature of its credibility and global standing. Its dual mandate of maintaining maximum employment and stable prices requires it to operate free from short-term political influence.

Nonetheless, President Trump has been a vocal critic of the Fed for acting too slowly, arguing that rate cuts should have begun earlier and proceeded more aggressively. His pressure has extended beyond rhetoric: from public suggestions that Chair Jerome Powell resign to attempts to remove Governor Lisa Cook from the Board over allegations of mortgage fraud. While a federal court has thus far blocked such efforts, a successful removal would enable the President to appoint a policymaker more aligned with his views.

Fed Chair Jerome Powell has largely handled these dynamics with remarkable poise and has not succumbed to the pressure from the White House.

It is worth noting, however, that the Fed's reluctance to ease rates earlier was partially attributable to its uncertainty about whether the sweeping tariffs imposed by the Trump administration would reignite inflationary pressure – the irony is glaring.

While we acknowledge the legitimate policy debate over the appropriate pace of easing, we believe attempts to directly pressure or restructure the Fed cross a critical line. The ability of the central bank to withstand political interference is foundational to the U.S. financial system, underpinning global confidence in both the Federal Reserve and the U.S. dollar as the world's reserve currency. Though the Fed's record is far from flawless, its credibility—and its independence—remain indispensable assets for U.S. markets and the global economy.

Looking Forward:

As we approach the final quarter of the year, we expect the major themes to persist – namely continued investment in AI, a resilient U.S. economy, and continued easing of monetary policy. Juxtaposed against this, we recognize that investor expectations have risen following the robust quarterly results which we feel leaves somewhat less room for earnings to exceed estimates as meaningfully as was the case in Q2.

While there are always risks to be mindful of, we don't see anything on the horizon that is causing us to question our long-term themes and as such, we believe near-term risks are more likely to create noise rather than fundamental changes to our investments.

The Information contained in this market update has been taken from sources which we deem reliable. We do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect our judgement at this date and are subject to change.