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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

As we close out the third quarter of 2025 and head into the end of the year, the U.S. economy and financial markets have performed well despite persistent uncertainty. That uncertainty has come from multiple directions. The Federal Reserve continues to navigate its dual mandate of stable prices and maximum employment in an economy that has remained relatively strong while contending with trade and fiscal policies that may work against its objectives.

The Trump administration has reintroduced a more protectionist tilt to economic policy, emphasizing tariffs and reshoring initiatives. While these policies aim to strengthen domestic industry and reduce foreign dependence, they also have the potential to place upward pressure on input costs and inflation expectations. This dynamic has complicated the Fed's task as it balances a labor market that remains solid but is gradually softening against the risk of reigniting price pressures.

At the same time, financial markets have been contending with fiscal policy uncertainty. The federal deficit remains elevated, and ongoing debates around spending priorities and tax policy have added volatility to bond yields and investor sentiment. Long-term U.S. Treasury rates have fluctuated meaningfully as investors assess the balance between the government's borrowing needs, inflation, and growth. As concerns over the national deficit have grown and the U.S. dollar has weakened, investors have moved toward safe-haven assets such as gold, a trend reinforced by global central banks increasing gold allocations within their foreign exchange reserves.

Despite these crosscurrents, corporate earnings have largely held up, and consumer spending has remained resilient. Equity markets continued to rise in the third quarter, with the S&P 500 gaining +8.12% as the largest companies continued to capitalize on AI-driven growth. Late in the quarter, the Federal Reserve lowered the Fed Funds rate by 0.25%, reinforcing investor expectations for a less restrictive policy stance. This shift supported U.S. mid-cap stocks, which returned +5.55%, and small-cap stocks, which gained +9.11% in Q3. International equities also extended their strong year-to-date performance, with the MSCI EAFE Index returning +4.77% and the MSCI Emerging Markets Index up +10.64% for the quarter, supported by a weaker U.S. dollar, easing trade tensions, and accommodative policy abroad. U.S. bonds posted a +2.03% gain for the quarter as rate cuts signaled a move toward looser monetary conditions amid a cooling labor market.

The broader theme this year has been resilience amid uncertainty. Despite a complex policy environment and uneven global growth, businesses and consumers have continued to adapt. Labor markets are softening but remain solid, inflation has not significantly increased but risks of a renewed pickup persist, and strong corporate balance sheets continue to provide a buffer against shocks. Looking ahead, uncertainty will remain a defining feature of the landscape. The government shutdown and an upcoming court ruling on the legality of certain tariffs pose additional near-term risks that could influence both fiscal and trade policy. Moreover, elevated SPAC issuance in 2025 and the continued proliferation of crypto assets and crypto-related treasury businesses highlight areas of heightened speculation. While these developments have drawn investor attention, they carry meaningful risks and reinforce the importance of maintaining disciplined, fundamentally driven investment strategies rather than chasing speculative trends.

As a firm, we continue to emphasize balance and diversification across portfolios. Equities remain a key driver of long-term growth, supporting our clients' ability to meet future obligations. Fixed income, by contrast, provides stability and serves as a reliable source of income for shorter-term needs. In the current environment, bonds continue to represent an attractive opportunity, offering relatively high all-in yields while helping to reduce portfolio volatility. Within equities, we favor companies with strong cash flow, healthy balance sheets, and pricing power that can navigate an evolving economic environment. We continue to closely monitor small and mid-cap companies, as well as select international markets, for emerging opportunities.

While headlines often focus on uncertainty, the broader picture remains constructive. The U.S. economy continues to adapt, inflation is showing signs of stabilization even as risks persist, and opportunities are emerging across both equity and fixed income markets. We remain committed to long-term fundamentals, disciplined portfolio construction, and helping our clients navigate changing conditions while staying aligned with their financial goals.

We appreciate the opportunity to serve as your investment advisors.

Paul Warholak Jr
Senior Research Analyst

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives