



Strong Earnings & Trade Deals Power Stocks Higher in Q3

Quarterly Insights by Peter G. Carolan

Major stock indices continued the 2025 rally and surged to new all-time highs in the third quarter as economic growth remained stable, tariff increases were no worse than feared and the Federal Reserve cut interest rates, beginning the long-awaited rate-cutting cycle.

Markets started the third quarter with a continuation of the year-to-date rally thanks, initially, to the passage of the One Big Beautiful Bill Act in early July. This legislation contained several pieces of economic stimulus including making the 2017 tax cuts permanent, reintroducing accelerated depreciation and committing billions to the development of domestic industries, providing the markets and the economy with a fresh dose of fiscal stimulus. But while that was the first positive market event in July, it was not the last. Second-quarter corporate earnings results (released in mid-July) were stronger than expected and importantly showed no significant signs that tariffs or policy uncertainty were weighing on results. Finally, in mid-to-late July, the Trump administration announced trade agreements with some of the largest U.S. trading partners including the EU, Japan and South Korea, while the U.S. and China agreed to extend their trade “truce” as the two sides negotiated toward a larger trade agreement. These trade “deals” reduced investor anxiety stemming from the re-imposition of reciprocal tariffs in early August and lowered trade-related concerns among investors. These factors, along with stable economic and inflation readings, helped to push the S&P 500 steadily higher and the index rose 2.24% in July.

The beginning of August brought an economic surprise, however, that temporarily paused the rally in stocks. The July jobs report, released on August 1st, was much weaker than expected, not just because job growth in July disappointed but also because there were substantial negative revisions to the May and June reports. The underwhelming employment data introduced the idea that the labor market was weaker than expected and that did slightly increase economic slowdown risks. However, the soft employment data also boosted expectations for a Fed rate cut, and at the Jackson Hole Economic Symposium Fed Chair Powell strongly hinted that a rate cut was coming at the September Fed meeting. Rising rate cut hopes helped to offset the underwhelming employment data and stocks ultimately continued their advance, as the S&P 500 rose 2.03% in August.

The rally accelerated in September despite growing signs that the labor market is indeed seeing some deterioration. The August jobs report was another underwhelming print showing just 22,000 jobs added that month, well below the consensus estimate. But like in August, the expectation for Fed rate cuts helped offset that negative employment report and the Fed did cut interest rates at the September meeting. Equally as importantly, Fed members signaled they expected two more rate cuts this year via the “dot plot.” The start of a Fed rate-cutting cycle, which should support the economy, combined with strong AI-related tech stock earnings sent stocks higher and major U.S. stock indices all hit new all-time highs following that Fed rate cut, capping a moderate increase in September.



In sum, the third quarter was resoundingly positive for the U.S. economy and markets as economic data showed solid growth, inflation readings stayed mostly stable, the Fed cut interest rates, the U.S. reached trade agreements with major trading partners and AI-linked tech companies continued to produce better-than-expected earnings. Given these positives, major U.S. stock indices rallied solidly in the third quarter, just as they should have given this news.

Third Quarter Performance Review

Rising expectations for a rate cut; strong AI-related corporate results, and stable economic growth helped propel the major stock averages solidly higher in the third quarter.

Starting with market capitalization, small caps outperformed large caps for the first time in 2025 as investors rotated out of large-cap stocks and into more economically sensitive small caps, as they historically have received the most benefit from lower borrowing costs that come with falling interest rates.

On a sector level, 10 of the 11 S&P 500 sectors finished the third quarter with a positive return. Tech and tech-aligned sectors (consumer discretionary and communications services) comfortably outperformed other market sectors and posted strong quarterly returns. Positive earnings results from tech kept investor enthusiasm for AI-related investments high and that powered tech and communications services higher. The consumer discretionary sector, meanwhile, benefited from solid economic growth and expected lower interest rates, which should support consumer spending.

Looking at sector laggards, consumer staples was the only sector that finished the third quarter with a negative return. Investor preference for more economically sensitive sectors (given falling interest rates) and tariff related concerns pressured that sector, which finished the third quarter with a modest loss.

US Equity Indexes	Q3 Return	YTD
S&P 500	8.12%	14.83%
DJ Industrial Average	5.67%	10.47%
NASDAQ 100	9.01%	18.10%
S&P MidCap 400	5.55%	5.76%
Russell 2000	12.39%	10.39%

Source: YCharts (a/o 9/30/2025)

Internationally, foreign markets saw mixed performance vs. the S&P 500 as emerging markets outpaced U.S. stocks in the third quarter while foreign developed markets posted a positive return but relatively underperformed the S&P 500. Emerging markets handily outperformed the S&P 500 in Q3 thanks primarily to a weaker dollar, falling interest rates and a rebound in Chinese economic growth. Foreign developed markets also rallied in the third quarter but lagged the S&P 500, due in part to concerns about fiscal stress and slow growth in the United Kingdom.

International Equity Indexes	Q3 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	4.83%	25.72%
MSCI EM TR USD (Emerging Markets)	10.95%	28.22%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	7.03%	26.64%

Source: YCharts (a/o 9/30/2025)

Commodities were solidly higher in aggregate in the third quarter but that result somewhat masked mixed internal performance. Gold surged to fresh all-time highs in the third quarter thanks to elevated inflation and the weaker U.S. dollar. Oil, however, declined as increased production from OPEC+ and concerns about global economic growth weighed on oil prices, especially late in the third quarter.

Commodity Indexes	Q3 Return	YTD
S&P GSCI (Broad-Based Commodities)	4.07%	6.09%
S&P GSCI Crude Oil	-3.94%	-12.88%
GLD Gold Price	16.87%	47.05%

Source: YCharts/Koyfin.com (a/o 9/30/2025)

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) saw a strong quarterly return despite elevated inflation readings, as expectations for rate cuts and labor market deterioration boosted demand for both short- and longer-term debt.

Looking deeper into the bond markets, longer-duration bonds comfortably outperformed those with shorter durations as investors reached for longer-term yield amidst underwhelming labor market data. Shorter-duration bonds also saw a positive return, however, as investors anticipated the start of a rate-cutting cycle by the Fed.

Turning to the corporate bond market, both investment grade bonds and lower-quality, high-yield bonds saw strong gains in the third quarter. Investment grade bonds slightly outperformed high yield bonds as the weakening labor market and slight uptick in economic concerns boosted the attractiveness of higher credit quality corporate bonds.

US Bond Indexes	Q3 Return	YTD
BBgBarc US Agg Bond	2.03%	6.13%
BbgBarc US T-Bill 1-3 Mon	1.10%	3.25%
ICE US T-Bond 7-10 Year	1.76%	7.20%
BbgBarc US MBS (Mortgage-backed)	2.43%	6.76%
BbgBarc Municipal	3.00%	2.64%
BbgBarc US Corporate Invest Grade	2.60%	6.88%
BbgBarc US Corporate High Yield	2.54%	7.22%

Source: YCharts



Fourth Quarter Market Outlook

Markets begin the final quarter of 2025 in a decidedly positive macroeconomic environment as the Fed is cutting interest rates, tariffs have not disrupted the U.S. economy (so far), broader economic growth remains stable and investment enthusiasm for AI-linked tech stocks remains high. Those factors propelled stocks steadily higher throughout the third quarter, added to already-solid year-to-date gains for major U.S. stock indices and boosted investor enthusiasm.

However, while the current macroeconomic setup is positive, it should not be confused with a riskless environment and continued gains in stocks are far from promised. And as always, there are risks to the markets and economy we must monitor.

First, the labor market is deteriorating and that is an economic risk that needs to be monitored closely. Numerous employment indicators, in addition to the monthly jobs report, are signaling a loss of momentum. For now, they are not at levels that would increase concerns about overall U.S. economic growth, but if we see the unemployment rate continue to rise, investors will become more concerned about the state of the U.S. economy and that could be an unexpected negative influence on the markets, as an economic slowdown is not currently anticipated by investors or analysts.

Additionally, inflation remains stubbornly high. Headline CPI remains just under 3.0%, solidly above the Fed's 2.0% target. Meanwhile, tariffs are now starting to impact broader parts of the U.S. economy and while analysts generally believe tariffs will produce only a one-time price increase and not create broader inflation, that outcome remains uncertain. Bottom line, there is a chance that tariffs further boost inflation in the fourth quarter and that could result in the Fed having to reconsider future rate cuts, which would produce a negative surprise.

Staying on tariffs, there remains substantial policy uncertainty with regard to trade and tariff policy. The Supreme Court will hear arguments on most reciprocal tariffs in November and if the Supreme Court upholds the lower court ruling invalidating tariffs, it could cause market volatility. While the removal of tariffs may initially boost stocks, it will also extend broader policy uncertainty, as the administration will likely try to reimpose tariffs using different legislation. Bottom line, markets embrace clarity and the longer trade policy uncertainty exists, the greater the chance that it becomes a headwind on growth.

Finally, AI and tech enthusiasm has driven the valuation of the S&P 500 to a historically high level. While elevated valuation, by itself, isn't a negative influence on stocks, the high valuation does underscore this reality: A lot of profit growth is priced into the largest tech stocks and if AI-related capital expenditures from major tech firms begin to decline or AI adoption disappoints investor expectations, it could be a substantial surprise negative for markets.

In sum, the macroeconomic environment is currently positive as the economy and markets are benefiting from rate cuts, fiscal stimulus (via the One Big Beautiful Bill Act) and continued investor enthusiasm. But we also recognize that risks remain on the periphery of both the markets and the economy.

Lastly, investors still expect two interest rate cuts from the Federal Reserve between now and year-end; however, the unknown impact from tariffs on economic growth and inflation make rate cuts in 2025 far from certain. If the Federal Reserve does not cut rates in the coming months, that will increase concerns about an eventual economic slowdown and that could weigh on markets.



Bottom line, markets have been impressively resilient so far this year, but as we start the fourth quarter of 2025 there remain numerous, potentially significant risks to the markets and the economy and we will not let the market's resilience create a sense of complacency.

To that point, at Stelvio Private Wealth, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

We remain focused on both opportunities and risks in the markets, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

A handwritten signature in black ink, appearing to be "PGC", written in a cursive style.

Peter G. Carolan
Managing Partner



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Index return information is provided for illustrative purposes only. Index returns do not represent investment returns or the results of actual trading nor are they forecasts of expected gains or losses a fund [portfolio] might experience. Index returns reflect general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from those of the fund [portfolio]. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison. There is no guarantee that any of the securities invested in by the fund [portfolio] are included in the Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P SmallCap 600 Index in size: between \$1-4 billion.

The MSCI All Country World ex USA Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the USA. The Index consists of 45 country indices comprising 22 developed and 23 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

The MSCI Emerging Markets Index is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg U.S. 1-3 Year Government Bond Index is composed of all publicly issued, non-convertible domestic debt of the U.S. government and its agencies. The Index also includes corporate debt guaranteed by the U.S. government. Only notes and bonds with a minimum maturity of one year up to a maximum maturity of 2.9 years are included.

The Bloomberg Mortgage Backed Securities Index is an unmanaged index of mortgage pools of the Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association.

The Bloomberg Corporate High Yield Municipal Bond Index covers the universe of fixed rate, non-investment grade debt.

The Bloomberg Municipal Bond Index is an unmanaged index of a broad range of investment-grade municipal bonds that measures the performance of the general municipal bond market.

The Bloomberg Corporate Bond Index is an unmanaged market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.