

Third Quarter 2025 – Wealth Management Insights



Economic Overview

Steve Scranton, CFA, SVP, Economist

Despite all the noise and drama from the political front and social media, the economy continued to grow in the 3rd quarter. Although the first estimate for the 3rd quarter Gross Domestic Product (GDP) will not be released until late October, the forecasts currently anticipate growth. The Atlanta Federal Reserve's model is the most optimistic as it forecasts growth at a 3.9% annualized rate. The New York Federal Reserve's model forecasts 2.5% growth and the median forecast from 67 economists surveyed by Bloomberg is the most cautious at 1.5%.

Consumer Spending

The consumer continues to be the driving force behind economic growth as consumer spending accounted for 69% of 2nd quarter GDP growth and that appears to have continued into the 3rd quarter. The most recent data through August shows that consumer spending grew 5.6% on a year-over-year basis. If we adjust for inflation, personal spending grew 2.7%. If we examine discretionary spending what we learned was Retail Sales rose 5.0% before inflation and 2.1% after adjusting for inflation. Those remain solid growth numbers. The caution is that the consumers' health is a bifurcated picture. A recent study from Moody's showed that the top 10% of income earners are accounting for 50% of consumer spending. Lower income earners are struggling to make ends meet.

Business Spending

Business spending was more of a mixed picture. Non-residential equipment spending as well as continued spending on technology made a positive contribution. Residential and non-residential construction spending created a drag on growth as the most recent construction spending data showed a 2.8% year-over-year decline. Overall business spending declined due to falling inventories and weak construction spending.

Government Spending

Government spending had a slightly negative effect on GDP growth in the 3rd quarter. While federal outlays remained stable, cost-cutting initiatives and reduced investment in infrastructure resulted in a slight headwind to growth.

Conclusion

Economic growth in the 3rd quarter was tempered growth with consumer spending continuing to provide stability, business spending providing a mixed contribution and government spending subdued. While challenges persist, the economy continues to navigate them with measured resilience.

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Strategy Review

Derrick Wilson, CIMA®, VP, Portfolio Manager

What happened to quiet markets over the summer months? During the 3rd quarter, geopolitics continued to simmer, with trade and tariff chatter persisting. More recently, attention turned toward signs of a slowing labor market, and the Federal Reserve cut rates for the first time since last December. Through it all, markets moved higher – faster than in prior quarters.

Global equities rose more than 7% in the 3rd quarter, with US equities once again outpacing international markets. Year-to-date, however, international equities still hold a notable lead, up 26.6% compared with 14.8% for the S&P 500. A nearly 1% gain in the US dollar during the quarter has not offset its nearly 10% decline this year, a factor supporting international performance.

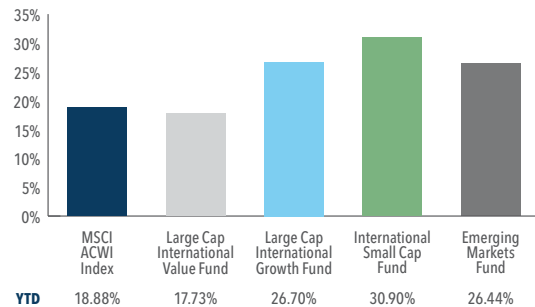
Emerging markets led all regions, advancing nearly 11% as Chinese equities rebounded sharply. Despite ongoing structural economic challenges, optimism surrounding Chinese AI drove a surge in local investor demand, while selective easing of government policies toward certain industries provided an additional lift.

Fixed income markets delivered steady gains. Investment-grade bonds advanced between 1% and 2%, with shorter maturities at the lower end and intermediate maturities closer to 2%. Declining yields across the curve supported returns, and taking credit risk paid off – corporates outperformed Treasuries. High-yield bonds gained 2.4%, while emerging-market debt returned roughly twice that.

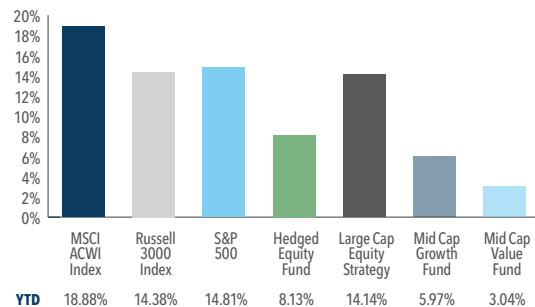
Gold surged more than 16% as foreign buyers, especially China, sought to diversify away from the US dollar. Oil, in contrast, was little changed in the quarter and remained modestly negative for the year on concerns of weakening demand. Broad commodities gained 3.6%, while real estate and global infrastructure gained 2.7% and 3.7%, respectively. Overall, real assets were somewhere between stocks and bonds.

Looking ahead, the current environment underscores the importance of diversification and discipline. Market leadership has rotated across regions and asset classes, often driven by shifting narratives around growth, inflation, and policy. A balanced allocation across equities, fixed income, and real assets provides resilience against uncertainty and positions portfolios to capture opportunities as conditions evolve. Remaining disciplined in this approach is key to long-term success.

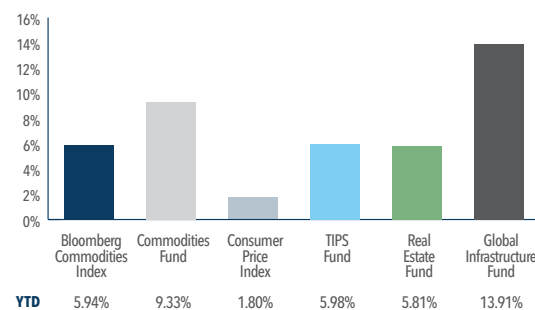
INTERNATIONAL DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



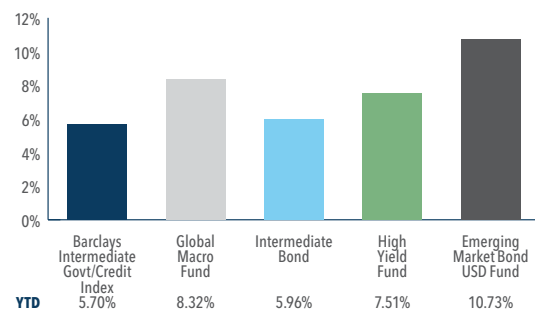
DOMESTIC DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



REAL RETURN (INFLATION PROTECTION) DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



INCOME DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



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Domestic Equities

Gayle Sprute, VP, Senior Portfolio Manager

US stocks delivered across-the-board gains during the 3rd quarter. Momentum was fairly steady – and a welcome change after the wild volatility and painful market drawdown experienced from mid-February to early April. For the 3rd quarter, the major equity indices' gains were as follows: Dow Jones Industrial Average (Dow) +5.7%, S&P 500 +8.1%, Nasdaq Composite +11.4%, Russell Mid Cap +5.3%, and Russell 2000 +12.4%. Interestingly, the S&P 500 and Nasdaq Composite each logged their best 3rd quarter since 2020 and their strongest September since 2010. Meanwhile, the Russell 2000 posted its best 3rd quarter since 2009.

The equity market has been on a roll since tariff posturing and gamesmanship turned more constructive in early April. The subsequent easing of worst-case tariff fears contributed, in part, to the S&P 500 recording five straight monthly gains and the Nasdaq Composite posting six consecutive months of gains. As of September 30, year-to-date gains for the indices had all climbed into double digit territory: Dow +10.5%, S&P 500 +14.8%, Nasdaq Composite +18.0%, Russell Mid Cap +10.4%, and Russell 2000 +10.4%. In addition to easing tariff concerns, the rally has been fueled by:

- **Passage of the "One Big, Beautiful Bill."** The combination of tax cuts, incentives, and business-friendly measures are expected to be stimulative, although some features could drive debt and deficits higher longer term.
- **Resumption of Interest Rate Cuts.** Quarter-long expectations were fulfilled in September, when the Federal Reserve (Fed) lowered interest rates by 0.25% and indicated that there could be another 0.50% of rate cuts this year.
- **Better Than Expected Earnings.** 2nd quarter earnings season was a bright spot. Earnings grew by 11.9% year/year, well above the 4.8% expected prior to the end of the quarter. In addition, 3rd quarter estimates have been revised modestly higher.
- **Continued Tech Stock Rally.** Large-cap technology companies (particularly artificial intelligence (AI) related stocks) continued to provide outsized performance leadership. The seven best-performing stocks during the quarter contributed 5.8% of the S&P 500's 8.1% gain (or 71% of the gain).

At the sector level, leadership came from information technology +13.2% and communication services +12.0%. Only one sector was in the red during the quarter – consumer staples, -2.4%. The second-worst performing sector was real estate, +2.1% Growth continued to outpace value, rising by 9.8% versus value's 6.2% gain.

Heading into the 4th quarter, equity investors are hoping that if employment data continues to cool and inflation remains stable, it could provide the Fed room to cut rates further. Trade policy negotiations remain a potential headwind, while upside earnings surprises could provide a tailwind. With the market's valuation level elevated there is little room for disappointment relative to expectations.



Fixed Income

Callen Young, VP, Portfolio Manager

The 3rd quarter of 2025 wrapped up with solid gains across major fixed income indices, though the path there wasn't exactly smooth. Early in the quarter, the 10-year Treasury yield hovered near 2025 highs of 4.35% – 4.45%, and credit spreads widened as inflation came in hotter than expected and political uncertainty weighed on sentiment. But as the quarter progressed, the tone in the bond market shifted from cautious to more constructive.

In September, the Federal Reserve cut its overnight borrowing rate by 25 basis points, reinforcing expectations for further policy support. Treasury yields fell across the curve, and the yield curve steepened over the quarter – short-term rates dropped more than long-term ones – signaling investor concern about the longer-term economic outlook. The Bloomberg US Treasury Index returned 1.51%, while credit outperformed, with the Bloomberg US Credit Index gaining 2.57%.

Much of the rally in longer-duration Treasuries came in September, driven by softer labor market data and cooling inflation. These developments gave the Fed room to act, but hawkish guidance and signs of resilient growth kept intermediate yields and market expectations for future cuts mostly unchanged. Heading into the September FOMC meeting, investors were bracing for potential dissent – some even expected a 50 basis point cut. In the end, only one dissent emerged: newly appointed Governor Stephen Miran favored a larger cut, arguing that the neutral rate is much lower than his peers' estimate. While Miran's term ends in January, his views could shape future policy discussions, especially as Fed leadership changes.

Municipal bonds also staged a strong comeback after a sluggish first half. The Bloomberg Municipal Bond Index posted a 3.02% return for the quarter, supported by the Fed's rate cut and renewed investor demand. Attractive yields and greater clarity around tax-exempt status helped drive the rally.

The quarter ended with a partial federal government shutdown, which has disrupted the release of key economic data. With job growth slowing and inflation still above target, the Fed's data-dependent approach faces new challenges. The shutdown may distort labor market readings and delay clarity, increasing the risk that markets and policymakers misread the economic landscape.

Meanwhile, trade policy remains a wildcard. Tariff-related headlines continue to stir uncertainty, and there's still a risk that cost pressures could flow through to consumer prices or corporate margins – potentially impacting asset valuations and the federal budget outlook.

Looking ahead, we expect economic data to remain the key driver of monetary policy, with volatility likely to persist amid ongoing uncertainty.

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International

Matthew Clarke, CIMA*, VP, Senior Client Portfolio Manager

The backdrop of policy uncertainty, tariffs, and slowing trade is causing the global economy to cool. Real global growth is expected to slow to under 3% by the end of the year, down from approximately 3.3% in 2024. **With the acknowledgement that the markets are not the economy, it was interesting to watch international stocks grind higher for a third consecutive quarter.**

The MSCI All Country World Index (ACWI) Ex-US index returned 7%, just shy of the S&P 500's 8%. Majority strength came from countries like China, Japan, Spain, and Mexico. While international as a whole lagged the United States (US), **on a year-to-date (YTD) basis international is still leading by a significant margin.** The MSCI ACWI Ex-US index is up 26%, versus the S&P 500 at 14%.

Through the quarter, developed international stocks added nearly 5% as measured by the MSCI Europe, Australasia, and the Far East (EAFE) index. In Europe, the gains were primarily positive but modest – helped by spending on defense and infrastructure. The UK's FTSE 100 index gained 7.5%, France's CAC 40 rose 3.3%, while the German DAX lost -0.1%, weighed down by industrial weakness. The Japanese Nikkei was a bright spot, adding 11% on a weaker yen and corporate governance reforms.

Emerging markets stocks continued to benefit from a weaker dollar, outpacing both developed international small and large-cap stocks. Both Taiwan and South Korea benefited from strength in semiconductor manufacturing on enthusiasm for all things artificial intelligence (AI). China (albeit increasingly difficult to think of as emerging) continues to struggle with persistent structural weakness and slowing demand for exports but still had a strong quarter. The Chinese Shanghai Shenzhen CSI 300 returned 19% as the government stepped in with stimulus to stabilize its property markets and boost domestic consumption.

Global bonds were volatile with the Bloomberg Global Aggregate Bond index returning only 0.6%. Euro area bonds edged slightly lower, while emerging market debt outperformed at 4.4%. In the UK, growing concerns about fiscal policy sent 30-year gilt yields to levels we haven't seen since the late 1990s. In terms of monetary policy, **the European Central Bank (ECB) opted to "wait and see", keeping their benchmark rate unchanged at 2%.** With eurozone annual core inflation holding at 2.3% it's unlikely additional cuts are warranted this year, but we'll see. Nearby, the Bank of England (BOE) cut rates for a third time in August, bringing their benchmark rate to 4%. At the same time, the Bank of Japan (BOJ) held rates at 0.5% and is debating whether a hike is warranted within the final quarter.

As we enter the final stretch for the year, we will closely monitor tariff and trade dynamics, currency flows, policy divergence, and the potential for economic surprises as **the next leg of our journey may look very different from the last.**

Additional and expanded information to this newsletter discussion may be obtained by contacting your relationship manager. We will be happy to expand our discussion with you to meet your individual requirements as a client of Wealth Management & Advisory Services.

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