AUTUMN 2025 MARKET OUTLOOK

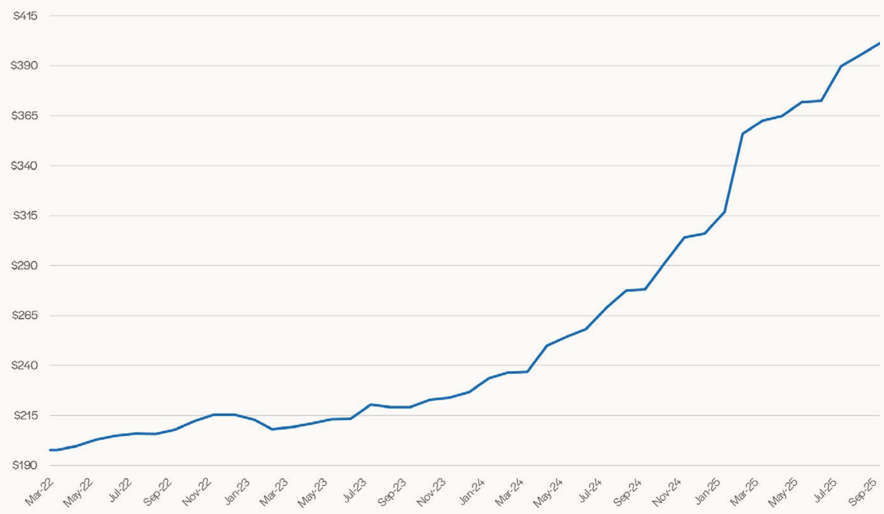
HELLO@HOWEANDRUSLING.COM • (585) 325-4140 • 165 CULVER ROAD, ROCHESTER, NEW YORK 14620

Autumn 2025 Investment Update

Fiscal policy uncertainty, which drove the decline in stocks this spring (S&P Global), receded during Q3 and helped lift stock valuation multiples. Job growth slowed materially, but outright job losses remained subdued, and consumer spending was stronger than expected. Inflation picked up somewhat, but the Federal Reserve placed greater emphasis on the weakening labor market data than the increase in inflation, which it believes is being driven by transitory upward pressure from tariffs. As a result, monetary policy easing resumed in September, and bond yields declined materially across the curve as investors priced in additional rate cuts ahead. Meanwhile, investment in artificial intelligence continued to exceed expectations, fueling excitement about a prolonged period of rapid growth. Against this backdrop, stocks continued their steep ascent from the April low, and while AI-related stocks continued to do well, the best performers were highly volatile, low quality, small capitalization, and cyclical stocks.

Among the biggest stock-moving news during Q3 was a report that private company OpenAI had signed a $300 billion, five-year agreement with Oracle for AI cloud computing services. The news boosted Oracle's market value by almost $250 billion in a single day and underscored the extraordinary and growing demand for AI technology infrastructure.

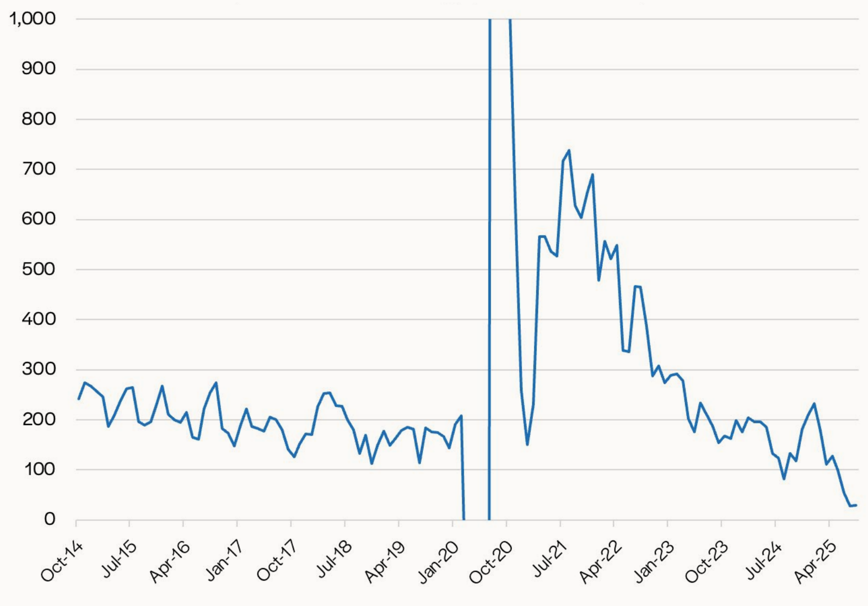
CONSENSUS FORECAST REVISIONS FOR BIG TECH 2025 CAPEX SPENDING (BILLIONS)



Source: Bloomberg, consensus forecast for Microsoft, Meta, Alphabet, Amazon, Oracle, Apple, Tesla, Tencent, Alibaba

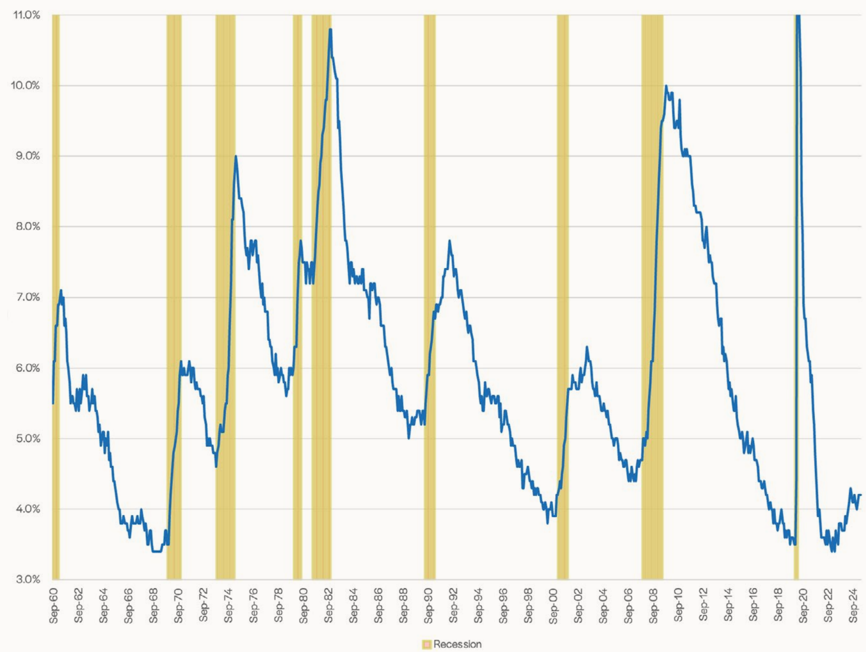
Labor market data showed signs of softening in the first half of 2025, and several key metrics deteriorated further in Q3, raising concerns among economists and the Federal Reserve about the health of the economy. The primary issue is a sharp slowdown in new job creation, offset so far by a low rate of job losses. This imbalance is atypical and leaves the labor market in a fragile equilibrium that could be quickly destabilized if layoffs were to accelerate.

NONFARM PAYROLL ADDITIONS
(3 MONTH AVERAGE, THOUSANDS)



Source: Bloomberg, Bureau of Labor Statistics

U.S. UNEMPLOYMENT RATE



Source: Bloomberg, Bureau of Labor Statistics

INFLATION

Tariff concerns pushed consumers' and business executives' inflation expectations higher earlier in 2025. While inflation has risen since April, the increase has been less than many economists feared, and the Federal Reserve recently stated that it believes the increase is tariff-driven and likely transitory (CNBC, CPI Inflation Report). However, because tariffs were phased in gradually through Q3, their full impact on inflation and corporate profit margins remains uncertain heading into third-quarter earnings reports and fourth-quarter inflation readings.

CONSUMER PRICE INDEX Y/Y CHANGE

Source: Bloomberg, Bureau of Labor Statistics

FISCAL POLICY

Tariff uncertainty eased in Q3 as new agreements were reached with key trading partners, although the ultimate impact on inflation and corporate profits remains unclear. On July 4, the One Big Beautiful Bill Act was signed into law, extending many tax breaks previously set to expire at the end of 2025. The legislation boosted confidence among small business owners and CEOs and introduced significant new tax incentives for capital investment in the United States (NFIB, The Conference Board). Its primary cost saving measures are cuts to clean energy tax incentives, health insurance subsidies, and Medicaid coverage. Nonetheless, the independent Congressional Budget Office project that the bill will substantially increase future budget deficits, which could have future implications for bond yields and equity prices as debt financing requirements grow. In the near-term, however, the Trump administration's fiscal policy stance remains stimulative to economic activity.

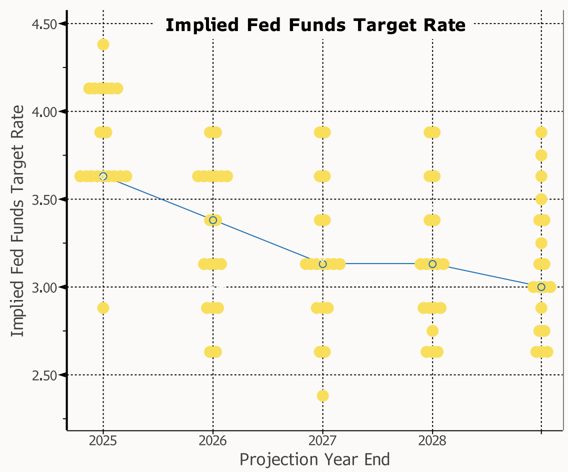
MONETARY POLICY

Tariff uncertainty earlier in 2025 prompted the Federal Reserve to pause the monetary policy easing campaign it began in September 2024. Towards the end of Q3, large negative surprises on jobs growth drove the Fed to reassess its policy stance as it seeks to achieve its dual mandate of stable prices and maximum unemployment. Although inflation has accelerated since the spring, in Q3 the Fed grew more confident that the upward price pressure is tariff-related and likely transitory. As a result, the FOMC reduced the federal funds rate by 0.25% in September 2025, and the bond market is pricing in substantial further easing of monetary policy through the remainder of 2025 and into 2026.

Federal Reserve Policy and Outlook

After pausing its policy easing earlier in 2025 amid tariff-related uncertainty, the Federal Reserve reassessed its stance in response to softer labor market data late in the third quarter. At its September 17th meeting, the Fed lowered the federal funds rate by 0.25%, resuming the normalization process that began in late 2024. Policymakers noted that while inflation has firmed since the spring, much of the recent upward pressure appears tied to tariff effects rather than underlying demand conditions.

FED DOT PLOTS



Note: Each dot represents one FOMC member's forecast. Source: Bloomberg

The Fed's updated forecasts and post-meeting commentary indicated that officials anticipate additional policy adjustments but at a pace somewhat different from current market expectations. Divergence between market pricing and Federal Reserve projections is not unusual, investors often recalibrate ahead of official guidance, but it remains important to understand how these perspectives may eventually align. In the near term, market pricing often adjusts toward the Fed's stated outlook following an FOMC meeting; over time, the Fed's stance can also evolve as new economic data emerge.

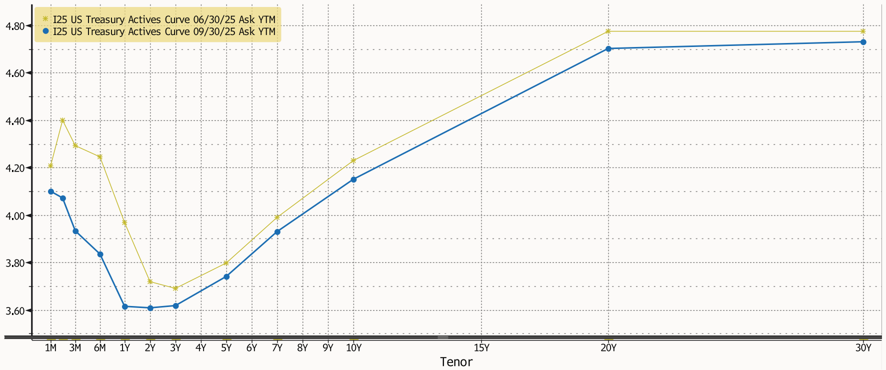
Policy decisions continue to be guided by realized data rather than forecasts, and this data-driven approach remains central to the Fed's decision-making framework.

The September dot plot reflected a wide range of views regarding the path of future rate decisions but generally pointed toward additional easing this year, with the median projection indicating approximately 50 basis points of further reductions by year-end. For 2025, estimates varied widely, from limited change to as much as 125 basis points of additional cuts, illustrating the ongoing uncertainty surrounding the economic and policy outlook.

INTEREST RATES

Fixed income markets delivered steady performance in the third quarter of 2025, with the Bloomberg U.S. Aggregate Bond Index gaining 2.03% amid moderating interest rates and mixed economic data reflecting continued but uneven growth. A combination of shifting Federal Reserve policy, record municipal issuance, and stable corporate fundamentals shaped market dynamics across sectors.

TREASURY YIELD CURVE

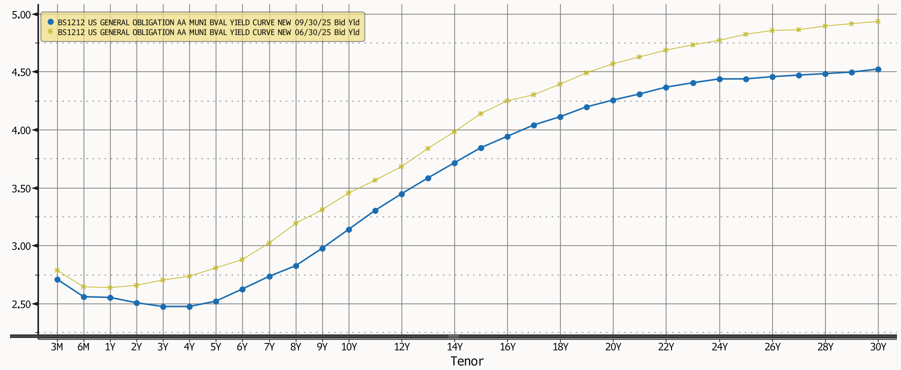


Note: Yellow line – Treasury yield curve 06/30/25 & Blue line – Treasury yield curve 09/30/25. Source: Bloomberg

Even with economic activity holding steady and growth remaining moderate, several dynamics contributed to the recent rally at the long end of the Treasury curve. Earlier in the quarter, 30-year yields had climbed sharply through August, partly reflecting wider yield movements across global sovereign markets, leaving long bonds technically oversold and setting the stage for a recovery. In addition, stronger-than-expected tariff revenues modestly improved the federal fiscal outlook, tempering worries about heavy future issuance. A further tailwind came from the New York Fed's September update showing a decline in its estimated 10-year term premium, hinting at a gradual rise in investor comfort with duration exposure.

While these factors may continue to shape trading sentiment in the near term, they are unlikely to create persistent downward pressure on long-maturity yields. The 10-year Treasury briefly dipped below 4% in September before ending the month at 4.15%. The 4% threshold remains a key technical marker, with support seen around 3.88% should the rally extend further. Meanwhile, the 5-year yield finished September at 3.74%, toward the bottom of its recent range and still highly sensitive to shifts in Federal Reserve policy expectations.

MUNI YIELD CURVE



Note: Yellow line – Muni yield curve 06/30/25 & Blue line – Muni yield curve 09/30/25. Source: Bloomberg

Municipal bond yields moved lower across the curve in the third quarter of 2025. Early maturities experienced more volatility but finished the period lower as the market continued to anticipate gradual adjustments in Fed policy. Longer maturities performed relatively better, with yields declining further as valuations compared to other fixed income sectors remained elevated amid heavy new issuance.

The third quarter produced over $150 billion in new municipal supply, representing the highest quarterly total in at least a decade. Large underwriters currently estimate that total 2025 issuance could surpass last year's levels, potentially approaching $600 billion.

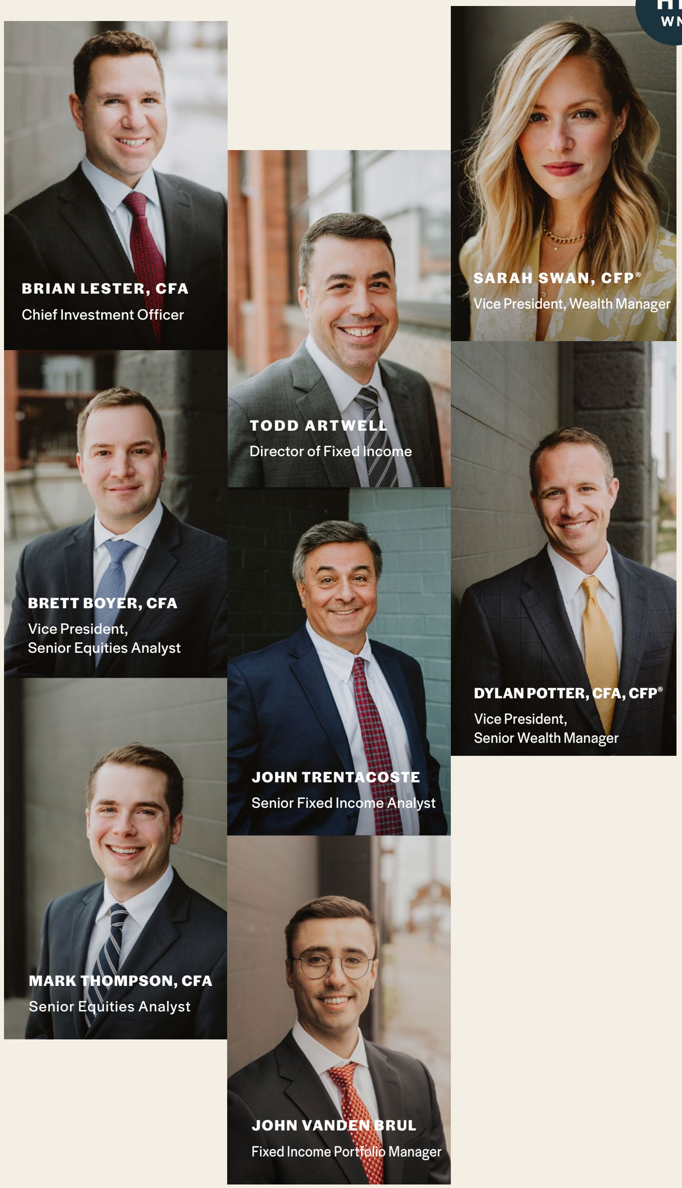
Year-to-date total returns improved in the third quarter, with the intermediate municipal benchmark we monitor, the Bloomberg Municipal Bond: Quality Intermediate Index, up 4.23% through September 30, 2025. Overall, nominal and taxable-equivalent yields remain at levels that continue to compare favorably to many other high-quality fixed income alternatives.

Our Outlook

As Q4 begins, we believe the U.S. equity market is pricing in continued strong growth of AI infrastructure investments, accelerating economic growth, subsiding inflation pressures through 2026, and substantial additional easing of monetary policy based on U.S. treasurey yeilds from one month to one year. While each of these outcomes is plausible, we are less confident than consensus thinking on the magnitude of economic growth acceleration, inflation decline, and rate cuts implied by the market. Consequently, we are not inclined to chase the rally in highly volatile, lower-quality, or small-cap stocks. Instead, we favor high quality, profitable companies trading at reasonable valuations, and your portfolios are positioned accordingly.

Following the rebound in municipal performance and a steadier interest-rate backdrop, fixed income markets continue to provide income levels that are elevated relative to recent history. Within credit markets, portfolio positioning continues to emphasize high-quality investment-grade corporate bonds. Although spreads remain narrow compared to long-term averages, current yields offer income stability and a degree of protection against short-term volatility. Corporate fundamentals remain stable, with debt levels and the ability to meet interest obligations generally in line with historical norms. Recent fluctuations in spreads underscore the importance of selectivity and a focus on issuers with consistent cash flow generation, prudent balance-sheet management, and sound credit metrics.

Across strategies, portfolios remain positioned with duration close to benchmark levels, balancing potential rate adjustments with evolving growth and inflation data. Exposure to Treasuries, agencies, and higher-quality corporate holdings continues to play a key role in managing risk and maintaining diversification. The current environment supports a disciplined and risk-aware approach to fixed income investing, with yields that continue to offer steady income potential without extending significantly in credit or maturity.



MACRO TEAM

QUESTIONS? LET'S CHAT
585.325.4140 | hello@howeandrusling.com

DISCLOSURES

This commentary is for informational purposes only and should not be construed as investment, legal, or tax advice. The views and opinions expressed herein reflect those of Howe & Rusling, Inc. ("H&R") as of the date of publication and are subject to change without notice. Any forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Actual results may differ materially from those expressed or implied. The economic and market forecasts presented represent the judgment of H&R's investment team at the time of writing and are subject to change based on evolving market and economic conditions. References to specific securities, sectors, or market indices are for illustrative purposes only and do not constitute a recommendation to buy, sell, or hold any security, nor do they indicate that any investment discussed was or will be profitable. Past performance is not indicative of future results, and all investments involve risk, including the possible loss of principal. Information contained herein has been obtained from sources believed to be reliable, including Bloomberg, Bureau of Labor Statistics, S&P Global, CNBC, NFIB, The Conference Board, and other third-party data providers, but its accuracy and completeness cannot be guaranteed. Third-party data are the property of their respective owners and are used for informational purposes only. Fixed income securities are subject to interest-rate risk, credit risk, and inflation risk. Equity investments are subject to market risk and volatility. Diversification and asset allocation do not ensure a profit or protect against loss in declining markets. Indices such as the S&P 500, Bloomberg U.S. Aggregate Bond Index, and Bloomberg Municipal Bond Quality Intermediate Index are unmanaged and not available for direct investment. Index performance does not reflect the deduction of advisory fees or transaction costs. Howe & Rusling is an SEC-registered investment adviser. Registration does not imply a certain level of skill or training.

FOR OUR QUARTERLY MARKET UPDATE PLEASE VISIT HOWEANDRUSLING.COM/LEARN

HELLO@HOWEANDRUSLING.COM • (585) 325-4140 • 165 CULVER RD, ROCHESTER, NEW YORK 14620