

### Equity and Bond Market Update

(as of November 12, 2025)

<u>Index</u>	<u>YTD</u>	<u>1-Year</u>
Dow Jones Industrial Average TR	+15.0%	+11.8%
S&P 500 Total Return Index	+17.8%	+16.0%
Russell 2000 Total Return Index	+11.1%	+3.9%
MSCI EAFE Index (net)	+29.2%	+27.6%
MSCI Emerging Markets Index (net)	+33.5%	+30.4%
Bloomberg US Aggregate Bond TR	+7.0%	+6.8%

### Recent Economic Indicators

	<u>Statistic</u>	<u>Data as of</u>
Unemployment Rate	4.3%	Sep 2025
Gross Domestic Product (GDP)	+3.8%	Q2 2025
Consumer Price Index (CPI) – Y/Y	+3.0%	Sep 2025
Consumer Confidence (1985=100)	94.6	Oct 2025
30-year fixed mortgage rate	6.26%	Wk of Nov 9
Housing Starts (single family)	890,000	Aug 2025
10-Year Treasury Yield	4.10%	11/13/2025

Financial markets remain volatile as investors weigh moderating inflation against renewed trade tensions and shifting interest rate expectations. The fourth quarter has brought a tug-of-war between optimism over a potential Federal Reserve rate cut late this year or in early 2026 and concerns that geopolitical and fiscal developments could reheat price pressures.

### Inflation and the Fed

Due to the government shutdown, the most recent official BLS monthly Consumer Price Index (CPI) release is from September and showed a 0.3% month-over-month increase, bringing the year-over-year rate to 3.0%, down from 3.1% in the summer but still above the Fed's 2% target. Core inflation, excluding food and energy, came in at 3.0%. Goods inflation continues to cool as supply chains normalize, but services remain sticky—particularly shelter and healthcare costs. The Fed's preferred measure, the core PCE index, is running near 2.9%, suggesting progress but not final victory over inflation.

Fed officials have maintained a cautious stance. While most policymakers acknowledge that the next move is likely a rate cut, they have stressed the need for "greater confidence" that inflation is sustainably trending lower. Futures markets are now pricing in the next 25-basis-point cut by March 2026, with a total of 75 basis points of easing through next year.

### Employment and Growth

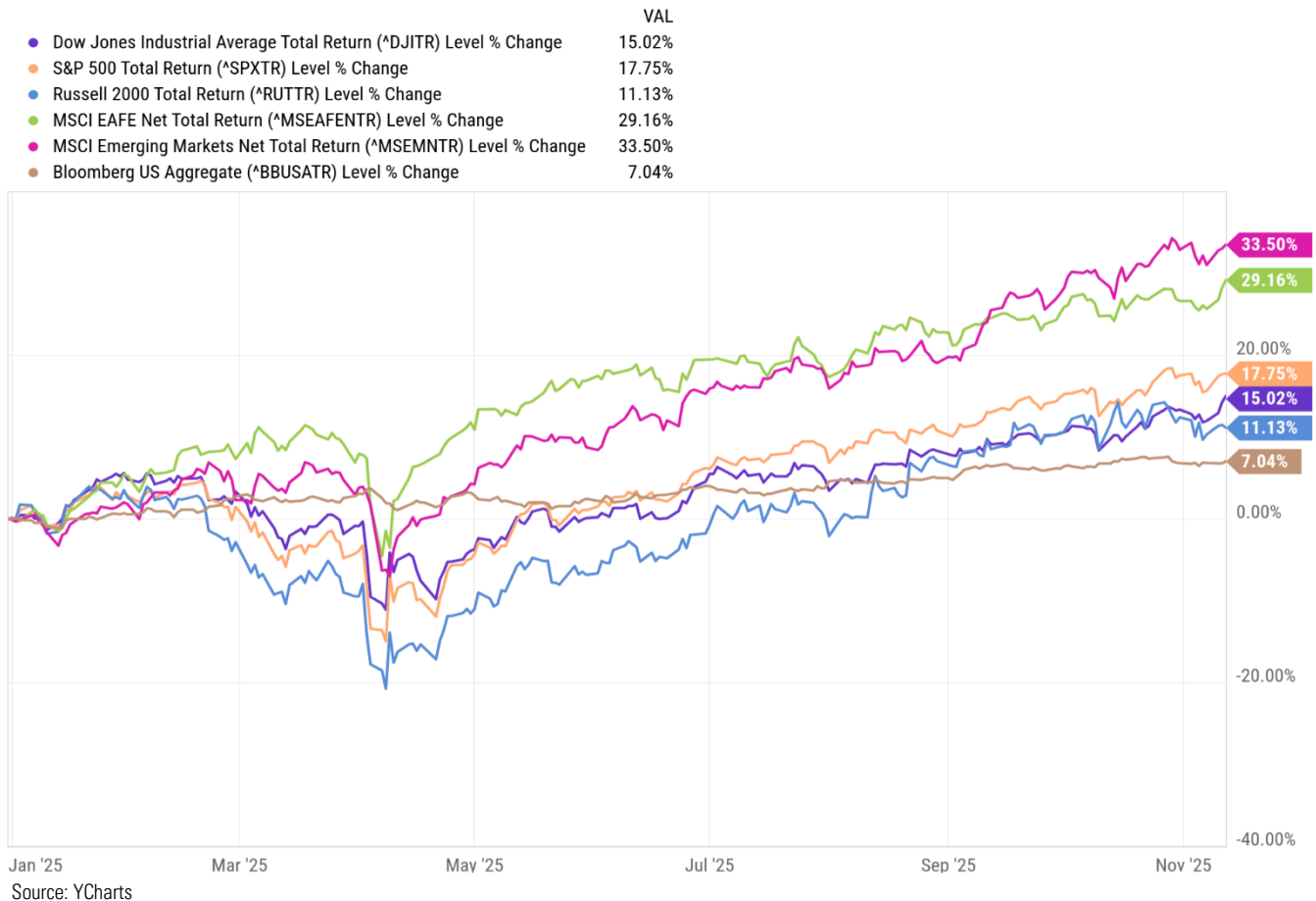
The labor market has cooled but remains resilient. Again, due to delayed data as a result of the government shutdown, unofficial October jobs data showed payrolls rising by 135,000—below the 12-month average of 180,000—but the unemployment rate held steady at 4.0%. Wage growth has eased to 3.8% year-over-year from a peak near 6% in 2022. Labor participation, particularly among prime-age workers, continues to recover, which has helped moderate wage pressures.

Unofficial GDP grew at an annualized 1.9% in the third quarter, a slowdown from the robust 3.8% pace earlier in the year. Consumer spending, the economy's backbone, remains positive but is shifting toward services and essentials as households adjust to tighter credit and fading pandemic-era savings. Business investment has softened, particularly in manufacturing and commercial construction, reflecting both higher financing costs and lingering uncertainty over trade policy.

### Trade and Tariffs

Trade tensions have reemerged as a headline risk. The administration announced new tariffs on select Chinese technology imports and a review of existing steel and aluminum duties. Retaliatory measures from China have already targeted U.S. agricultural products and electric vehicles. While the direct economic impact of these tariffs is modest so far, they risk rekindling cost pressures in certain supply chains—particularly semiconductors and industrial machinery—and could complicate the Fed's disinflation efforts if the situation escalates.

## Major Market Indices Total Return (YTD through November 12, 2025)



The dollar has strengthened modestly on global risk aversion, pressuring export competitiveness but helping contain imported inflation. Meanwhile, global demand remains mixed: Europe continues to struggle with stagnation, while Asia shows early signs of recovery as Chinese stimulus filters through its domestic economy.

### Equity Markets

The stock market has been range-bound recently, with the S&P 500 up roughly 18% year-to-date after a volatile third quarter. Investors have shifted toward large-cap, cash-generative companies as the earnings outlook flattens. Corporate profits for the third quarter came in ahead of expectations, growing about 13% year-over-year, though margins are showing signs of compression.

Cyclicals such as industrials and materials have recently lagged due to weaker capital spending and tariff uncertainty. This year, technology remains the dominant driver of index performance, led by strong AI-related demand and robust balance sheets. However, valuations in that sector remain elevated, leaving limited room for multiple expansion if rates stay higher for longer. Dividend-paying sectors such as utilities and consumer staples have regained some favor as investors look for stability in a slower-growth environment.

### Fixed Income

The bond market has steadied after a turbulent summer. The 10-year Treasury yield, which briefly touched 4.8% earlier this year, has settled near 4.0% as inflation data improved and the Fed's tightening cycle nears an end. The yield curve remains modestly normalized, with the 2-year at roughly 3.6%, signaling expectations for rate cuts within the next year.

Investment-grade corporate bonds have performed well, supported by solid credit fundamentals and narrowing spreads. High-yield bonds remain more volatile, reflecting the growing differentiation between stronger and weaker issuers as refinancing risks increase. Municipal bonds have attracted steady demand amid attractive after-tax yields and relatively low new issuance.

## Outlook

Looking ahead, the key questions are whether inflation can continue to decelerate without a more pronounced slowdown in employment, and how trade and fiscal policy will influence the Fed's timing. A gradual easing cycle in 2026 remains the base case, though any reacceleration in prices tied to tariffs or energy could delay that timeline.

For equities, moderate growth and stable rates should support earnings, but stretched valuations in certain sectors suggest returns will be more selective. In fixed income, yields remain compelling relative to the past decade, and duration exposure now offers meaningful diversification benefits again.

In short, the economy is transitioning from a late-cycle environment toward what may be a "soft landing." Inflation is bending lower, but not yet broken; growth is slowing, but not collapsing. The next several months will determine whether policymakers can guide the economy to equilibrium—or whether lingering structural pressures, including trade friction and labor tightness, reignite volatility.

## Bottom Line:

- Inflation trending lower but still above target
- Labor market cooling without major weakness
- Fed likely to continue cutting rates by spring 2026
- Tariff risks returning as a wildcard for inflation and growth
- Stocks range-bound; bonds regaining appeal as yields stabilize

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at [pjackson@lsaminc.com](mailto:pjackson@lsaminc.com) should you have any questions or comments.

Sources:	S&P Dow Jones Indices website ( <a href="http://us.spindices.com">us.spindices.com</a> )	FTSE Russell ( <a href="http://www.ftserussell.com">www.ftserussell.com</a> )
	MSCI Barra website ( <a href="http://www.msibarra.com">http://www.msibarra.com</a> )	Bankrate.com ( <a href="http://www.bankrate.com">www.bankrate.com</a> )
	The Conference Board ( <a href="http://www.conference-board.org">www.conference-board.org</a> )	Bureau of Labor Statistics ( <a href="http://www.bls.gov">www.bls.gov</a> )
	Bureau of Economic Analysis ( <a href="http://www.bea.gov">www.bea.gov</a> )	United States Census Bureau website ( <a href="http://www.census.gov">www.census.gov</a> )
	JP Morgan Guide to the Markets	Federal Reserve Bank of Atlanta ( <a href="https://www.atlantafed.org/cqer/research/gdpnow">https://www.atlantafed.org/cqer/research/gdpnow</a> )
	CME FedWatch Tool ( <a href="http://www.cmegroup.com">www.cmegroup.com</a> )	OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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