LSAM LIFESTYLE ASSET MANAGEMENT

Market Commentary

October 2025

Equity and Bond Market Update

(as of September 30, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+10.5%	+11.5%
S&P 500 Total Return Index	+14.8%	+17.6%
Russell 2000 Total Return Index	+10.4%	+10.8%
MSCI EAFE Index (net)	+25.1%	+15.0%
MSCI Emerging Markets Index (net)	+27.5%	+17.3%
Bloomberg US Aggregate Bond TR	+6.1%	+2.9%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.3%	Aug 2025
Gross Domestic Product (GDP)	+3.8%	Q2 2025
Consumer Price Index (CPI) – Y/Y	+2.9%	Aug 2025
Consumer Confidence (1985=100)	94.2	Sep 2025
30-year fixed mortgage rate	6.33%	Wk of Sep 28
Housing Starts (single family)	890,000	Aug 2025
10-Year Treasury Yield	4.15%	9/30/2025

All major broad-based equity indices were positive during September, with diversified emerging markets leading the way, returning +7% for the month. U.S.-based large-cap and small-cap stocks advanced between +3.0% and +3.5%, while developed foreign markets returned nearly +2.0%. The bond market rose just over +1.0%, with most of the gain occurring in the first week of the month.

There has been considerable chatter lately about high valuation levels for U.S. stocks, so I thought we'd dig a little deeper. Of all the major equity indices we track on a macro level, the S&P 500 Index (U.S. large-cap), Russell 2000 Index (U.S. small-cap), and MSCI EAFE Index (foreign developed market large-cap) have all recently hit new all-time highs. The only index that has not surpassed a previous high is the MSCI Emerging Markets Index, which remains 5% below its early 2021 peak—but it is the best-performing equity asset class so far this year, up over +27%.

As discussed in previous commentaries, corporate earnings drive market valuations: when earnings decline, markets often decline even before the drop materializes. Conversely, when earnings increase, markets typically follow. For S&P 500 constituents, actual earnings growth since early 2023 has been noticeably accelerating quarter by quarter compared with prior-year levels. Through second-quarter 2025 results, earnings have grown +10.4% over the twelve-month period ended June 30, 2024. Analysts currently forecast earnings growth of over +16% for the coming twelve months, reflecting significant optimism.

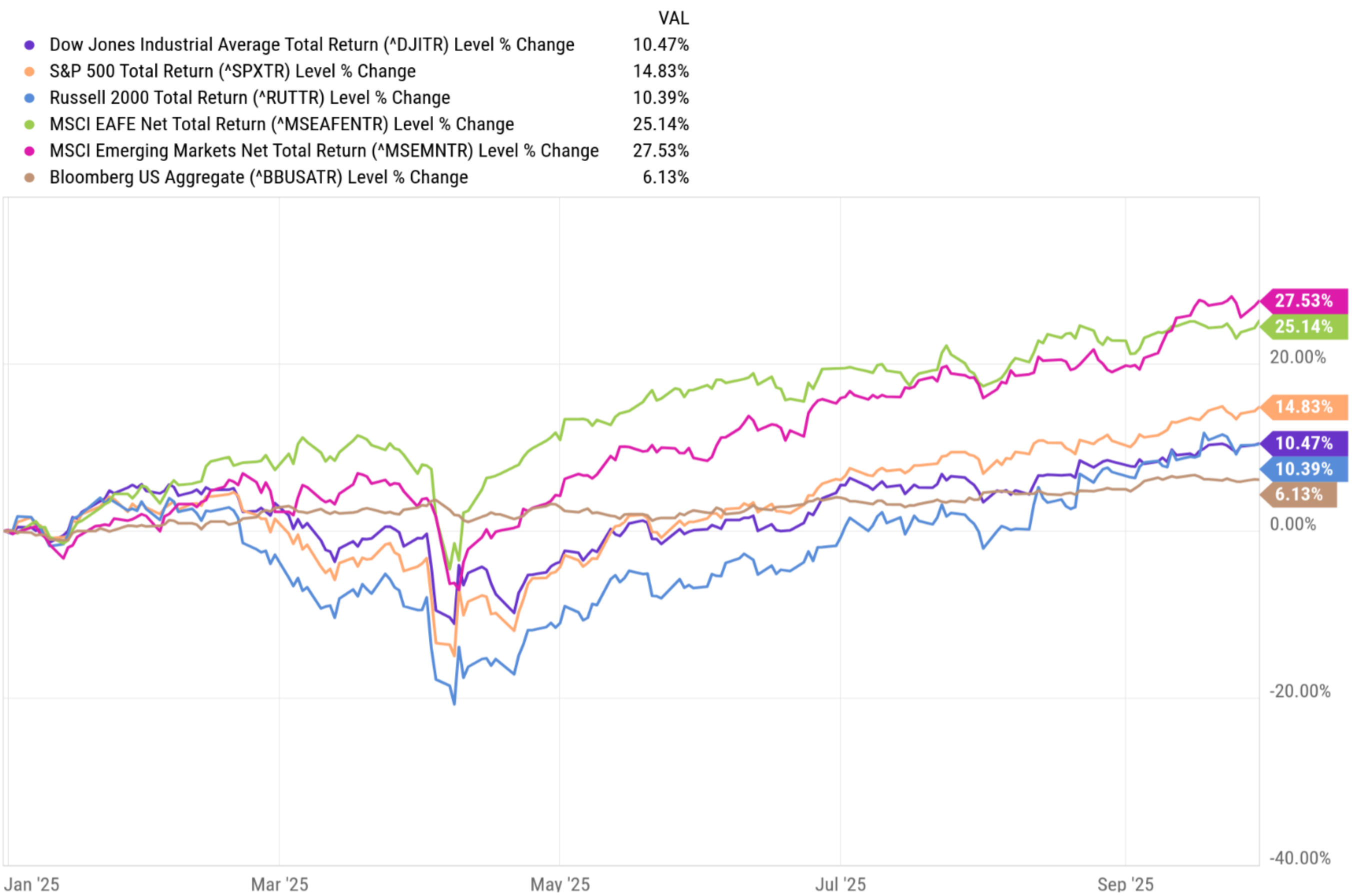
The weighted average trailing Price-to-Earnings (P/E) ratio for the S&P 500 Index is currently 28.2—over 40% higher than the 25-year average. Does this look frothy? Definitely. However, if actual earnings grow more than +16% over the next twelve months, this level could be somewhat justified. If earnings grow faster than the stock market, the current P/E could fall closer to historical levels, though still above average. Should double-digit earnings growth continue beyond the next year, and the stock market return approximate its historical average, the P/E ratio would likely adjust downward alongside rising market levels.

For historical context, trailing P/E ratios were in the 32–33 range in late 1999 to early 2000, just before the dot-com bubble, when the S&P 500 ultimately fell nearly -50%. The key difference today is that many companies with high valuations now have actual earnings and are growing rapidly, unlike many of the companies that drove the late-1990s bubble (remember Pets.com?).

We've seen this trend recently among mega-cap technology stocks tied to the AI buildout. A few years ago, some of these companies had P/E ratios in the hundreds—far above the broader large-cap universe. Since then, earnings have exploded, and P/E ratios have declined substantially. In other words, earnings grew faster than stock prices, realizing the expected corporate "growth."

The other way P/E ratios can fall is if the numerator (stock prices) declines faster than the denominator (corporate earnings). Barring a significant economic downturn or a "Black Swan" event, we do not expect this to persist over an extended period. Short-term market declines can happen, but they should be viewed as opportunities to buy fundamentally strong stocks at temporarily depressed prices.

Major Market Indices Total Return (YTD through September 30, 2025)



Source: YCharts

We saw exactly this scenario in March and April of this year, when the broad market fell nearly -20%, only to recover by late June and continue advancing. During that six-week decline, many stocks that had performed well over recent years fell -30% to -50%, despite unchanged company outlooks. From the bottom in early April (the "tariff" tantrum), some of these stocks have since gained +100% to +150%. This created an extraordinary—but not unique—opportunity to acquire select stocks at attractive prices. Over the last 45 years, the S&P 500 has averaged intra-year declines of over -14%, sometimes exceeding -49%. For long-term investors, such periods are opportunities to act, not avoid.

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** should you have any questions or comments.

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

The information contained herein has been obtained from sources believed to be reliable, but the accuracy of the information cannot be guaranteed. Past performance may not be indicative of future results. It should not be assumed that any management style, any security listed, or any recommendation made in the future will be profitable, without loss, or will equal past performance. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals, and economic conditions, may materially alter the performance of a portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's portfolio. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.

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.

Please contact us if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review upon request.

Investment advisory services offered through Lifestyle Asset Management, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission. The firm only transacts business in states where it is properly registered or is excluded or exempted from registration requirements. Registration does not constitute an endorsement of the firm by securities regulators and does not mean that the advisor has attained a particular level of skill or ability.