

October 15, 2025

**2025 Third Quarter Review
Lower Rates Are Coming!**

Financial markets largely continued their upward march during the third quarter. Despite concerns ranging from geopolitical tensions to a looming U.S. government shutdown, markets have delivered positive returns across most asset classes.

By the end of the quarter, the major indices had risen by the following amounts: the S&P 500 13.7%, the Nasdaq Composite 17.3%, the Dow Jones Industrials 9.1%, and the Russell 2000 (small company stocks) 10.4%. Large-cap growth stocks continued to lead the rally, with the Nasdaq (technology stocks) posting the strongest gains. Small caps also showed renewed strength, with the Russell 2000 Index reaching new highs for the first time since 2021.

Bond markets saw modest gains as yields declined following the Federal Reserve's first rate cut of the year in September. The 10-Year US Treasury yield ended at 4.16% (down from 4.23% in August). The 30-year Treasury yield declined slightly during the year from 4.79% to 4.7%. Municipal bonds also saw mildly falling yields, while money markets continued to yield approximately 4.15%.

Gold surged to record highs this year, recently (after quarter's end) crossing above \$4,000 an ounce for the first time ever. The price of an ounce of gold stood at \$3,858 on September 30, up a whopping 48% so far this year. Cryptocurrencies have generally had a good year with the price of the most prominent one, Bitcoin, rising 75%, from \$65,000 to \$114,000 over the preceding 9 months. Casual observers may not realize that part of the reason for this coordinated upward movement in asset prices may be due to the fall in US dollar value of over 10% this year, its worst performance in 50 years. The value of the US dollar is determined internationally by global participants, and it may be saying something important.

In recent years, we have discarded an astonishing array of social, political, and economic norms. Careening "policy by tweet" has contributed to a sense of instability in investment markets. One consequence may be that the currency market appears to be saying that there is less trust in the US dollar as a standard of value and a reserve currency. Any given ounce of gold deserves a higher quote if the value of the currency it is quoted in has declined. Similarly, the demand for "inflation hedges" like gold has increased as trust in "fiat" currencies (those that can be created by central banks) has declined. Put the two together, and you can get a roaring rally in precious metals as we have seen.

Part of the erosion of trust, and part of what we must plan for, is the loss of independence of the Federal Reserve Board. By the spring of next year, the current administration will likely have more control over the economic levers of the Federal Reserve and the Treasury than any we have ever seen. This administration

wants lower interest rates, lower oil prices (most everybody does), and a cheaper dollar (so our goods will be more competitive overseas). The one thing that will be under their effective control will be short-term (but not long-term) interest rates. Accordingly, it is a pretty good bet that those rates will be coming down a lot, soon and for the foreseeable future. Another era of “easy money” may be upon us with a potential “pump up” for asset prices and perhaps fuel for higher inflation.

Lower interest rates are great for borrowers, and ostensibly for economic growth, but they are not so great for savers and investors who want to keep cash reserves. After several years of “ZIRP” (zero interest rate policy) where we got almost no return on our cash reserves in money market funds, we have enjoyed safe yields of over 4% (and for a while over 5%) while taking little to no risk to principal. All of that is about to change. And it affects everything.

The effects of currency debasement (the falling dollar) and lower interest rates may combine to push asset prices still higher. A stock yielding 3% will look relatively more attractive compared to money markets yielding only 2%. The 3% yielding stock was certainly less tempting when you could keep money in money market funds paying you a safe 5%. The major difference is, of course, that the stock could go up or down in value while the value of the money market was stable. The lowering of interest rates tends to push investors’ money “out on the risk curve,” meaning that more risk must be taken in order to maintain a given amount of income. This is where we are headed. Accordingly, we have been moving cash reserves into slightly longer maturities to gain higher yields for longer, while keeping risks relatively low.

We have an array of options to take advantage of the changes to come. Our stock investments range from higher quality, stable-dividend yielders, to REITs, to more aggressive growth investments. Those “yielding” investments may go up in price as their yields become more attractive to investors seeing only 2% from their money market funds. Regarding growth stocks, the artificial intelligence juggernaut continues to dominate the investment landscape. We are finding opportunities for those willing to take the risks in companies that help to provide infrastructure and power for the rapidly growing number of data centers. We saw something similar when the internet boom hit, so we know that the sector can rise fast and that the party can end quickly. However, there may be enough demand “in the pipeline” at this stage to provide significant profits from this sector.

Cryptocurrencies, especially bitcoin, are gaining acceptance and may someday provide an alternative to gold as an inflation hedge. That remains to be seen, but if you are interested, we can guide you to related investments that are the most reasonable in the balance of risk and reward.

It may turn out that lower interest rates will not cure our economic ills as expected. In that case, we may see something like what we witnessed after the internet bubble in 2000. But that is a scenario for a later time.

We are always mindful of market risks (remember the 20% decline in April!) and want to neither take more risk than you are comfortable with, nor take less than you are prepared for as these changes will likely take place over the next year. I encourage you to review your enclosed quarterly reports and become familiar with the asset allocations between stocks, bonds, and cash reserves. We can then discuss those allocations and whether you would like to adjust them in anticipation of lower yields. I look forward to speaking to you at your convenience.

Best regards,



Claude Carmichael CFA