

QUARTERLY UPDATE

LETTER FROM OUR CIO

OCTOBER 8, 2025

Overview

The third quarter of 2025 unfolded in the shadow of both optimism and uncertainty. While US equity indices notched new highs, driven by yet another quarter of double-digit earnings growth for US companies and a move by the Federal Reserve Bank to resume their rate cutting path. However, a protracted US government shutdown left investors without some critical economic data for much of September and early October. Meanwhile, global markets were affected by divergent central bank policies, high profile deals in the financial and tech sectors, and ongoing excitement over artificial intelligence (AI)-driven growth.

Key Economic Developments

The Federal Reserve cut its benchmark rate by 25 basis points in September, setting the range at 4%–4.25%. Chair Jerome Powell signaled a "challenging situation" ahead, noting upside risks to inflation but downside concerns about employment. Minutes from this meeting and further Fed commentary became closely watched for clues about future policy shifts as the shutdown limited economic visibility. Despite the data blackout, the US economy's prior momentum appeared sustainable. Q3 economic data included a continued downward trend for inflation with continued weakness in the labor market with unemployment claims exhibiting a gradual upward trend. Inflation, as demonstrated by the US Core CPI, hovered around 3.1% as of August 2025, just slightly higher than the readings in Q2. While price pressures have slowly retreated for core goods, tariffs and supply-side disruptions continued to be a factor.

Market Performance

US stocks set fresh records during Q3, powered by strong earnings outlooks, persistent AI enthusiasm, and expectations for further monetary easing. The S&P 500 and Dow Jones Industrial Average reached new all-time highs in late September and early October, while the Nasdaq Composite fluctuated but ultimately benefited from continued tech sector momentum. Trading was periodically muted as the ongoing government shutdown delayed several major data releases, including the key September jobs report. However, investors remained largely confident, buoyed by a series of upbeat corporate forecasts and the continued surge in AI-related investments.

Looking Forward

Heading into Q4, analysts expect a recovery in economic data flow once the shutdown ends and look for clarity on Fed policy at the end-October FOMC meeting. AI and tech continue to lead market optimism, but investors remain vigilant as policy and fiscal uncertainty linger. The next few weeks will be pivotal for setting the trajectory for the rest of 2025. We remain agile, attuned to geopolitical developments, and responsive to emerging economic signals. Maintaining a diversified portfolio and focusing on market dynamics is paramount to us at Legacy Edge Advisors. We remain constructive on sectors such as semiconductors and software to take advantage of AI trends, cybersecurity, industrials and infrastructure. We are tactically neutral equities but underweight beta (a measure of a stock portfolio's volatility relative to the overall market). While we continue to maintain that markets will focus on economic activity, valuations are higher than normal as evidenced by elevated P/E ratios. We continue to monitor the economic, political and market environment and believe that portfolios at Legacy Edge are well positioned for the financial goals according to the risk temperament of our clients.



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