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As we enter the final months of 2025, the U.S. financial markets have continued to demonstrate remarkable resilience, and investor sentiment remained delicately balanced, tempered by caution yet supported by optimism, highlighting the ongoing complexity of the broader economic environment. Despite these contrasting forces, a bullish environment prevailed during the recent quarter and the broad-based stock market rally expanded. The stimulus in equities was fueled by a sustained enthusiasm for artificial intelligence (AI), strong corporate earnings, and the Federal Reserve's shift toward a more accommodative interest rate stance. Meanwhile, the bond market faced persistent headwinds from fiscal deficits, inflationary pressures, and mounting government debt levels.

For investors, asset appreciation continued to be impressive, with year-to-date returns reaching double digits across several major domestic and international equity indices. International equities (developed and emerging markets) led performance, while U.S. large-cap, small-cap, and technology stocks delivered solid results. Against a shifting interest rate landscape, fixed income investments also posted positive gains. The table below provides a snapshot of stock and bond performance through the third quarter of 2025.

Bond and Stock Index Total Return January 2025 - September 2025		
Sector	**Index**	**Return**
Short-Term U.S. Bond	Bloomberg 1-3 Year Treasury	3.99%
Intermediate-Term U.S. Bond	Bloomberg Interm Treasury	5.29%
Long-Term U.S. Bond	Bloomberg Long-Term Treasury	5.64%
Inflation Protected Bond	Bloomberg Treasury TIPS	6.87%
Domestic Large Company	Dow Jones Industrial	10.47%
Domestic Large Company	S&P 500	14.83%
Domestic Small Company	Russell 2000	10.39%
Domestic Large/ Information Tech.	NASDAQ	17.93%
Developed International	MSCI EAFE	25.14%
Emerging Markets	MSCI EM	27.53%
Real Estate/REITs	DJ U.S. Select Real Estate	4.50%
Oil and Gas	DJ U.S. Oil and Gas	7.05%
Commodities	Bloomberg Commodity	9.38%
Source: Dimensional Fund Advisors, YCharts		

The success story in equities was marked by a series of new all-time recorded highs across the following indices: the S&P 500 (20), the Dow Jones Industrial Average (6), the tech heavy NASDAQ (27), and the MSCI EAFE (developed international) indices (19). Notably, many of these records were set in September, a month traditionally associated with stock market underperformance.

While these market highs have certainly rewarded investors, the strong correlation between peaks in the NASDAQ and the S&P 500 underscores concentrated leadership concerns within the indices, as a small group of high-growth names continue to drive a disproportionate share of overall performance. This concentration introduces potential risks, particularly if investor sentiment toward these leading companies changes or their earnings fall short of high expectations. In this context, the case for maintaining diversification across a broad range of asset classes becomes even more compelling.

At the writing of this letter, the government shutdown has caused delays in key economic reports. The significant gap in core information complicates the economic picture, but readings before the shutdown showed that economic data continued to be mixed. Growth rebounded in the second quarter and was revised upward to 3.8%. Consumer spending and business fixed investment increased while government spending was flat. Tariff impacts were being felt as the August inflation reading rose to 2.9% and the last jobs report revealed a significant slowdown in hiring momentum with unemployment at 4.3%. A completed earning season showed that profits were up 10.7% due to significant contributions from the Mag 7 companies. Residential fixed investment declined 5.1%, and the housing market remained challenged. Overall, the U.S. economy remained stable, but policy uncertainties (fiscal, monetary, labor policies, tariffs) are becoming a heavier weight on economic momentum. The table below illustrates the observed economic trends for 2025.

GDP	Inflation	Interest Rates	Jobs	Unemployment Rate	Manufacturing
↑	↔	↓	↑	↔	↓
Housing	**Consumer Spending**	**Business Spending**	**Corporate Profits**	**Energy Prices**	**Stock Market**
↓	↑	↑	↑	↔	↑

In a highly anticipated move, the Federal Reserve decided to reduce the federal funds rate for the first time in 2025 by 0.25% to a range of 4.00% to 4.25%. The FOMC judged that the labor market was showing signs of stress that warranted policy support, but they also flagged upside risks to inflation from tariffs, supply chain pressures, and expectations. Fed Chairman Jerome Powell described the rate move as a risk management decision, and the Committee signaled the path forward would be contingent on incoming data and the evolving outlook. The Fed's action could be interpreted as caving to recent political pressures, but we see the implementation of rate easing as a preemptive support of a moderating economy. Looking ahead, views on future rate cuts remain divided among the FOMC. While many Fed officials support two or more additional cuts this year, others favor a more limited approach or no further cuts at all. This split clearly illustrates a non-commitment for the Federal Reserve's policy path. Although the central bank has begun easing, they will continue to move cautiously, mindful of the risks associated with reducing rates too quickly or too aggressively.

The U.S. federal government shutdown is a concerning development from a policy and governance perspective given that it affects a wide range of federal agencies including those responsible for economic data reporting, regulatory oversight, and non-essential services. Historically, government shutdowns have limited impacts on financial markets, as investors tend to focus more on long-term economic fundamentals than short-term political disruptions. Analyzing the last 10 shutdowns between 1981 and 2019, most proved to be relatively insignificant events for the stock market. In fact, in eight out of those ten instances, the S&P 500 Index posted modest gains 100 days after the shutdown ended, highlighting the market's forward-looking nature and its tendency to look past short-term political disruption.

Unfortunately, the longer the shutdown persists, the more its negative effects are likely to compound, raising uncertainties around public services, credit markets, investor confidence, market volatility, and overall economic growth. Economists estimate that each week of a government shutdown reduces annualized GDP growth by approximately 0.1% due to decreased government activity. Ideally, the funding deadlock will be resolved sooner rather than later to minimize further economic disruption.

Our outlook for the rest of the year continues to be cautiously optimistic. We expect GDP growth to slow and remain moderate through the remainder of 2025. We anticipate some variation in inflation due to increasing tariff pressures. We see a softer labor market that is seeking a gradual balance of supply and demand for skilled workers. AI-related investment should continue to provide economic support, and household spending will remain a critical part of the growth story. Fortunately, we believe consumers will continue to be resilient despite government shutdown concerns. We also maintain that the Federal Reserve's more accommodative shift in monetary policy should help ease inflationary pressures and gradually revive activity in the housing market. Our outlook includes at least one rate cut by the Fed this year, with a strong likelihood of the federal funds rate range being reduced to between 3.5% and 3.0% in the latter part of 2026. We view narrow market leadership, stretched valuations, and unresolved macroeconomic imbalances as structural headwinds that will continue to plague the domestic momentum for investors. We think the U.S. dollar will probably drift lower due to the combined impact of high trade deficits and lower interest rates. Despite the wide variation in global activity, we believe the international landscape will continue to be supportive for investors in the current environment.

We continue to approach conditions of dynamic risk with vigilance and a steadfast focus on long-term objectives. Among our primary concerns are decelerating economic growth, a weakening labor market, stubborn inflation, shifting trade and tariff dynamics, gaps in key economic data, potential missteps in monetary policy, an overheated AI investment cycle, elevated valuation levels, underwhelming earnings growth, fiscal uncertainties, and heightened geopolitical tensions. While these challenges are significant, we are optimistic that long-term outcomes will continue to present promising opportunities for investors.

Our investment philosophy is built on strong fundamentals that emphasize patience, discipline, and stability through market fluctuations. At the core of our process is a well-diversified asset allocation strategy, thoughtfully aligned with each investor's unique risk tolerance and financial objectives. Remember, ***it is time in the market, not timing the market***, that drives long-term success.

October is National Financial Planning Month, and it is an ideal opportunity to reassess your financial strategy to make sure it still supports your current goals and objectives. Here are a few key areas to focus on:

- **Reviewing investment diversification.** Alignment of objectives and portfolio allocation. If applicable, explore additional asset classes that can offer added diversification and risk management.

- **Identifying tax optimization opportunities**. Based on current tax objectives, we can review strategies like tax-loss harvesting, maximizing contributions to tax-advantaged accounts, or charitable giving structures (such as QCDs - qualified charitable distribution, donor-advised funds) as ways to benefit your overall tax situation.
- **Supporting estate and legacy planning**. While we don’t draft legal documents, we can work with your estate attorney to evaluate financial tools that support your long-term wishes, such as gifting strategies, trust funding, or planning for tax-efficient wealth transfer.
- **Evaluating asset protection strategies.** Do you have any recent life or business changes? If so, we can talk through additional strategies that might make sense in protecting your assets.
- **Finalizing charitable giving plans**. With the December 31st deadline approaching, now is an ideal time to confirm your giving strategy for the year. We can help you assess your options and coordinate with your other advisors to ensure your approach is both impactful and efficient.

If you'd like to discuss any updates to your financial situation, explore the potential impacts of these strategies, or have any general questions, please don't hesitate to contact us. We are here to support you every step of the way

In closing, I want to thank you for the opportunity of working with you and for your continued confidence and trust.

Wishing you good health, and a prosperous remainder of 2025.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

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Enclosures: Index Performance and U.S. Economic Data

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2025 Total Return Index Performance			
Asset Class	**Index**	**3rd Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	1.08%	3.17%
U.S. Bonds	Bloomberg Intermediate-Term Treasury	1.26%	5.29%
U.S. Large Co. Stocks	S&P 500	8.12%	14.83%
U.S. Small Co. Stocks	Russell 2000	12.39%	10.39%
International Stocks	MSCI EAFE (net div.)	4.77%	25.14%
Real Estate	DJ Select Real Estate Securities Total Return	5.09%	4.50%
Source: Morningstar			

Updated U.S. Economic Data Delayed by Government Shutdown	
GDP	3.8% decrease (annual rate) – 2nd Quarter 2025 (August)
Inflation	3.1% CPI (less food and energy) and 2.9% CPI (all items) over the last 12-months ending August (Energy index fell 0.2%; Food index up 3.2%).
Interest rates	Federal Funds Rate range at 4.00% - 4.25%. September reduction of 0.25%.
Jobs	August 2025 data - Unemployment at 4.3%; non-farm payroll employment rose by 22,000 jobs; Labor force participation rate 62.3%; Job gains occurred in health care but partially offset by losses in federal government and mining.
Manufacturing	Economic activity in the manufacturing sector contracted; September ISM Report Manufacturing PMI registered at 49.1%. Manufacturing contracted for the seventh consecutive month. Demand, output, and inputs remained mixed.
Business Spending	Private non-residential investment continued to trend higher (40.12% increase since Jan 2021); New orders for manufactured goods decreased three out of the last four months. YTD through July - Durable orders decreased 2.8% and Nondurable orders down 0.3%.
Corporate Profits	2nd Quarter 2025 - U.S. corporate profits increased 0.2%. S&P 500 Earnings per share = $64.01 (one-year increase of 9.68%).
Housing	August 2025 year-over year data - New home sales up 15.4%; Existing home sales increased 1.8%; Median sales price of existing homes increased 2.0% from the prior year to $422,600; Housing starts declined 6.0%; Building permits fell 11.1%; Housing inventory was up 11.7% from last year; Unsold inventory = 4.6 month supply; MBA fixed 30-yr mortgage rates = 6.46% ending 10/1/2025.
Consumer Spending	Disposable income remained flat; Consumer Confidence Index weakened in September; Retail and food services sales increased; Total vehicle sales declined slightly; Personal durable and nondurable spending remained high; Personal savings rate was 4.6%.
Energy	Oil price (West Texas Intermediate) = $64.27/bbl – 9/29/2025 (2025 decrease of 11.28%); Gas price (U.S. average regular unleaded) = $3.118/gal – 9/29/2025 (2025 increase of 3.73%)