

Third Quarter 2025 Letter



Figure 1 – S&P 500



Figure 2 – U.S. 10-Year Treasury Yield

Bernard Wealth Management encourages professional development for everyone. This helps us serve our clients better while keeping us energized and engaged. We're proud to share that our colleague, Kevin Leahy, recently passed the Certified Compliance and Ethics Professional examination, and is now a Certified Compliance and Ethics Professional (CCEP)[®]. Kevin helps power our ongoing compliance efforts while also serving and advising clients directly. In addition, our Director of Financial Planning, Deanna Harless, CFP[™], recently completed the course "Maximizing Social Security Benefits for Couples" to deepen her knowledge on helping each client determine the optimal time to file for Social Security. This is a crucial component of many of our clients' financial plans, and our team is committed to helping clients optimize this decision. Be sure to congratulate Kevin and Deanna on their accomplishments!

We are also pleased to announce the launch of our newly redesigned website, developed to provide a more streamlined and informative experience for our clients. In the coming weeks, we will also introduce an upgraded client portal that will offer enhanced access to account information, important documents, and firm updates in a secure environment. These improvements reflect our ongoing commitment to delivering exceptional service and communication. Additional details regarding the portal launch and access instructions will be provided shortly.

Market Recap

Stocks continued their steady rise in the third quarter, boosted by solid corporate earnings reports in July and August. In a remarkably low volatility quarter, stocks rose gradually, setting record highs repeatedly. Investors ignored potentially negative headlines and added to equity and fixed income holdings. While economic news remained mixed, the prospect of multiple Federal Reserve rate cuts raised growth expectations, while also making cash holdings less attractive.

Most major stock indices rose in the third quarter. The S&P 500 index of large cap U.S. stocks surged 8.2%, ending the quarter +14.4% year-to-date. U.S. stock gains were widespread as the Russell 2000 Small Cap jumped 12.5% and S&P 400 Mid Cap added 5.6%. Growth stocks (+9.9%) again outperformed value (+6.3%) as investors added to positions in A.I. related companies. International indices also participated, with emerging markets +9.9% and MSCI's Europe, Australia and Far East Index +4.1%. Bonds returns were strong again, with the Bloomberg U.S. Aggregate Bond Index gaining 2.4%, bolstered by the expectation of additional Federal Reserve rate cuts.

2nd quarter S&P 500 earnings grew 12.4% on 6% revenue growth, slightly higher than the first quarter's 11.9% and far better than the 5.2% growth feared at the beginning of the quarter. 79% of companies topped forecasts, a little better than the 5-year average of 77%. Analysts may have overestimated the impact of recently announced tariffs on earnings. Technology, aerospace and financials were again among the strongest growers, and these sectors are expected to lead again in the 3rd quarter. According to Zacks Investment Research, 3rd quarter earnings are expected to rise 5% with 6% higher revenues. Earnings revisions during the quarter have been positive, a welcome change from recent quarters.

Economic Perspective

The U.S. economy bounced back in the 2nd quarter, growing at an annual rate of 3.8%, after shrinking 0.5% in the 1st quarter. Consumer spending, which accounts for about 2/3 of our economy, led the improvement, after a very weak 1st

quarter. Imports fell as consumers and companies adjusted to higher costs from tariffs. The Atlanta Fed's GDPNow model currently predicts another robust quarter with 3.8% growth. Surveys of purchasing managers, which provide some insight into current conditions as well as near term trends, were more tepid. The manufacturing sector remains in contraction, although readings did improve in September on a boost in production. Services activity declined during the quarter with a sharp drop in new orders. Housing activity remained sluggish with tariffs increasing costs, and immigration policies tightening the labor supply. However, existing home sales jumped in August, and the Federal Reserve's rate cuts may move mortgage rates lower, improving housing affordability.

Employment weakened in August, with the economy adding only 22,000 jobs. In addition, June's report was revised lower, showing a loss of 13,000 jobs. The August unemployment rate crept higher to 4.3% from 4.1% in June. As of this writing, September's report has been delayed due to the government shutdown, but ADP's influential survey of private businesses showed a loss of 32,000 jobs for the month. Wage growth remained steady but failed to keep pace with increases in the Consumer Price Index (CPI). If real wages continue to decline, many will be challenged to maintain their current level of spending.

We wrote last quarter that inflation has stayed stubbornly above the Federal Reserve's target of 2.0% and it rose further the last 3 months, reaching 2.9% in August, the highest since January. This presents a puzzle and dilemma for the Fed. Are tariff-induced price hikes a one-time event, or will they lead to an inflationary cycle? If the Fed cuts rates with inflation at these levels, do they risk contributing to the problem with looser monetary policy? At the end of September, the Fed cut its benchmark interest rate by ¼%, to a target range of 4.00% to 4.25%, electing to focus on the weakening employment picture. Markets cheered the news; both stocks and bonds have posted gains since.

Looking Ahead

The current bull market in stocks has lasted for about 3 years now. By some measures, valuations are lofty and stretched, which is sometimes a precursor to the next bear market. How long can stocks keep rising? Over the long term, stocks tend to be driven by corporate earnings. The following chart (**Figure 3 – S&P 500 and EPS Estimate**) puts the current bull market in perspective. Indeed, stocks have moved higher as earnings estimates have improved. This environment has favored growth stocks, and we continue to overweight the technology sector, which boasts many of the fastest growing companies.

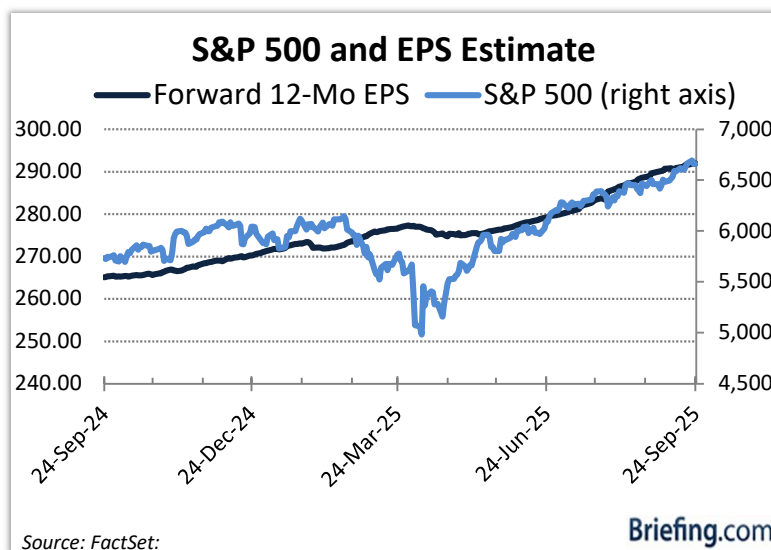


Figure 3 – S&P 500 and EPS Estimate



Figure 4 – Russell 2000 Small Cap iShares

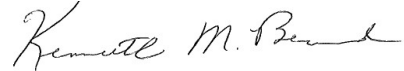
Small cap stocks (**Figure 4 – Russell 2000 Small Cap iShares**) leapt higher in the 3rd quarter after underperforming for most of the recovery since 2022. The prospect of additional rate cuts should help these companies, which tend to be more

debt-dependent than U.S. large caps. This may lead to a broadening of market performance that extends beyond the mega caps.

The month of September is often challenging for stock investors. Since 1950, the S&P 500 has averaged approximately -0.6%, the weakest month of the year. This year's +3.5% gain underscores the difficulty in using the calendar to time the market. Investors who stick to their long-term plan will participate in the market's gains, regardless of the month.

Autumn in Michigan has been beautiful – and the Tigers are still in the playoffs! We hope you're enjoying the weather too, and we look forward to speaking with you soon.

Best regards,

A handwritten signature in cursive script that reads "Kenneth M. Bernard".

Kenneth M. Bernard, CFA