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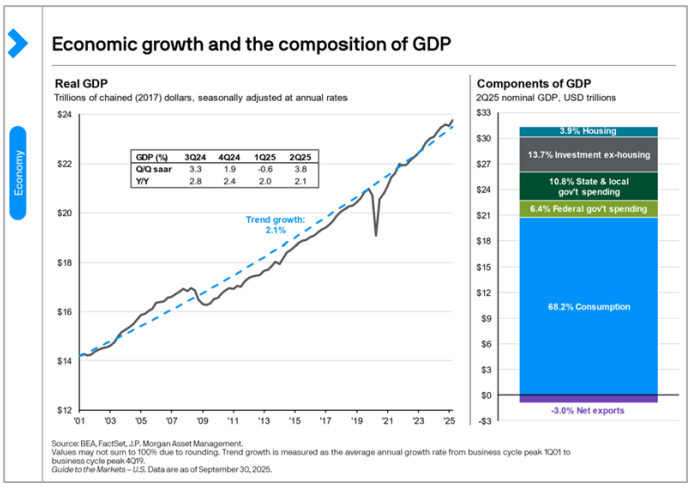
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ECONOMIC AND MARKET COMMENTARY

3rd Quarter 2025

I. THIRD-QUARTER 2025 ECONOMIC RECAP

By Frank Smith, III, CFA

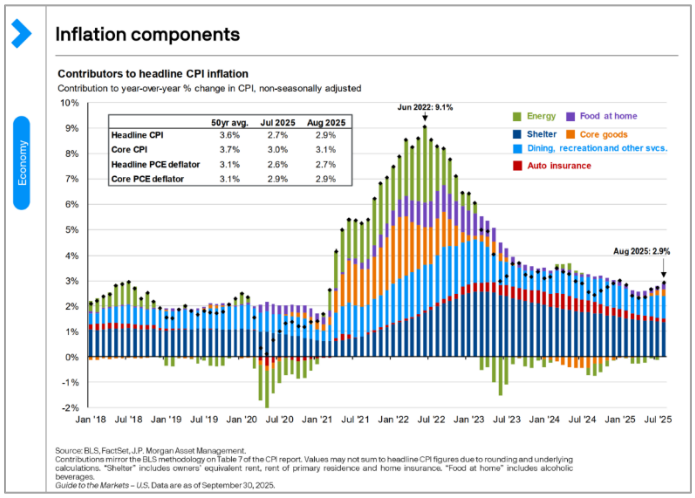


Economic Growth

The U.S. economy is expected to continue to grind further over the near term. A combination of factors—including the drag from tariffs, uncertainty surrounding trade policy, reductions in federal spending, and a decline in immigration—is contributing to a cooling economic environment. While these headwinds are already forming, their most significant impact is likely to be felt in the final quarter of the year.

Stripping out the volatility from imports and inventory changes, underlying demand is projected to improve in the third quarter. However, this momentum is expected to fade in the fourth quarter.

Looking ahead to early 2026, the enactment of the "One Big Beautiful Bill Act" (OBBBA) is anticipated to provide a temporary boost to the economy. The legislation is expected to result in substantial income tax refunds, which should spur consumer spending and lift growth during the first half of the year. That said, this stimulus is likely to be short-lived. As the effect of the refund wanes and the lingering consequences of elevated tariffs and reduced immigration persist, economic growth is expected to slow again in the latter half of 2026.



Inflation

Inflation is expected to climb in the near term, driven by rising tariffs and fiscal stimulus, before easing later in 2026. The effects of trade policy are beginning to show, with consumer price inflation reaching 2.9% year-over-year in August. As retailers adjust prices to reflect higher costs on newly imported goods, inflationary pressures are likely to intensify in the coming months.

However, this upward momentum is expected to be temporary. As economic growth slows in the latter half of 2026, inflation should begin to moderate, gradually moving closer to the Fed's 2% target.

The Fed

In September, the Federal Reserve resumed its rate-cutting cycle, lowering the federal funds rate by 25 basis points to a target range of 4.00% to 4.25%. We anticipate two additional rate reductions before year-end, followed by two more in the first half of 2026.

Throughout this process, the Fed is likely to emphasize signs of softening labor market conditions and maintain that policy remains modestly restrictive, given their estimate of a neutral interest rate near 3.0%. Still, this gradual approach to easing could be interpreted as a response to political pressure, especially considering the Fed's own projections.

By the end of 2025, their forecast suggests inflation will remain above the 2% target, and unemployment will be below their long-run goal of 4.2%.

Equity Market

As we head into the 4th quarter of 2025, the largest U.S. companies continue to trade at elevated valuations compared to the broader market. Their outsized performance—both in earnings and stock price appreciation—has been primarily driven by the dominance of major tech firms and a wave of enthusiasm around artificial intelligence. However, in many cases, the gains in stock prices have outpaced the growth in underlying earnings, leaving these mega-cap stocks looking relatively expensive.

Even after a period of market turbulence earlier in the year, this imbalance remains. The top 10 firms in the S&P 500 now account for roughly 40% of the index's total market capitalization. For long-term investors, this concentration risk may warrant a shift toward more diversified exposures, especially if economic, geopolitical, or company-specific challenges begin to weigh on these high-flying names.

Meanwhile, international equities continue to offer more attractive valuations compared to their U.S. counterparts. In 2025, non-U.S. markets have delivered strong returns, helped by local currency gains and a weakening dollar. Despite this rally, global stocks still trade at a discount relative to U.S. shares.

Final Thoughts

Although short-term stimulus measures may provide a temporary boost to growth and inflation, structural challenges—ranging from trade disruptions and high equity valuations—indicate a more gradual trajectory going forward. The Federal Reserve seems prepared to lower overnight rates; however, ongoing inflationary pressures will constrain the extent of its accommodative policies.

II. THIRD-QUARTER 2025 EQUITY MARKET RECAP

By Cameron Greer

During the third quarter, equity markets continued to grow in a positive manner with small cap stocks leading the charge compared to prior quarters. The SML and RTY indices are up by 4.2% and 3.9% respectively from the previous quarter's returns. While the OEX, MID, SPX and RAY indices are down compared to the prior quarters, returns by -3.1%, -1.2%, -2.8%, and -2.8% respectively. Looking at a longer-term view, however, the markets have improved from the volatile conditions experienced during the earlier part of this year. One of the most noteworthy events that impacted markets in a positive light this quarter was the long-awaited Federal Reserve rate cut. The Federal Reserve cut rates by 0.25% in September of 2025, bringing the Fed Funds rate to 4.00% to 4.25%. This action increased investor optimism and rallied the markets. Furthermore, the continued advancements in Artificial Intelligence and integration by companies as well as the announcements of partnerships such as the NVIDIA and OpenAI partnership have continued to bolster the market and have allowed investors to reap the benefits of AI.

Index	Ticker	Description	Quarterly Return
S&P 100	OEX	The largest 100 companies	9.68%
S&P 400	MID	The 101st to 500th largest companies	5.55%
S&P 500	SPX	The largest 500 companies combined	8.11%
S&P 600	SML	Small capitalization companies — smaller than S&P 500	9.11%
Russell 1000	RIY	The largest 1000 companies — comprises 93% of the investable market	7.98%
Russell 2000	RTY	Another index of small capitalization companies (the next 2000 after the Russell 1000) — comprises only 8% of the larger Russell 3000	12.39%
Russell 3000	RAY	The broadest representation of the U.S. stock market representing 98% of the investable market	8.17%

Source data above is Bloomberg

Tariffs raised earlier in the year by the Trump Administration continue to impact businesses and individuals alike and continue to stoke fears that inflation could flare up again. Further, tariffs were enacted during the third quarter with the administration targeting copper, timber, and wood as well as a 50% tariff on India. Surprisingly, the market did not react as poorly as it did previously under similar circumstances with the S&P 500 returning 8.1% for the quarter. This suggests that either the markets are beginning to grow accustomed to the circumstances surrounding the Trump Administration or the AI surge in the market can outperform the negative effects brought on by the tariffs. If the latter proves correct, it is unknown how sustainable this is in the long term.

On a more global scale during the third quarter, the MSCI Emerging Markets ETF (EEM) returned 10.7%, Japan's Nikkei Index was up 11.9% and the FTSE 100 Index in the United Kingdom returned 7.2%. With uncertainty surrounding the US market and economy now, investors have an opportunity to take advantage of diversified investments abroad.

III. THIRD-QUARTER 2025 BOND MARKET RECAP

By Chad McKeithen

The third quarter of 2025 was marked by a pivotal shift in monetary policy, as the Federal Reserve implemented a long-anticipated rate cut in September. This move came amid signs of softening labor market conditions and persistent

inflationary pressures. The benchmark overnight rate was lowered by 25 basis points, and futures markets priced in a high probability of two more cuts before year-end. Treasury yields declined modestly across the curve, with the 10-year yield ending the quarter near 4.15%, down from 4.35% at the end of Q2.

Investment-grade corporate bond spreads tightened by 11 basis points during the quarter, ending at an option-adjusted spread (OAS) of 83 basis points. This retraced much of the widening seen earlier in the year, driven by improved equity market sentiment and a temporary easing of tariff threats. Credit fundamentals remained stable, with corporate leverage and margins holding firm. Demand for corporate bonds was robust, supported by foreign inflows and strong taxable bond fund activity. However, spreads remain tight by historical standards, prompting a more selective approach to credit exposure.

Municipal bond spreads remained relatively stable throughout Q3, supported by strong demand from retail and institutional investors. The tax-exempt market benefited from favorable technicals, including limited new issuance and steady reinvestment flows. Credit quality across state and local governments remained solid, bolstered by resilient tax revenues and conservative budgeting. There was modest spread tightening in longer-dated municipals, which improved the 2025 total return for municipals.
Agency MBS experienced modest spread widening during the quarter, reflecting increased rate volatility and uncertainty around future Fed policy. The Fed's rate cut helped stabilize demand, but concerns about prepayment risk and duration extension weighed on investors. Spreads on current coupon MBS widened by approximately 5–10 basis points. Despite the volatility headwinds, agency MBS remained a core holding for many portfolios due to its cash flow and credit quality.

Looking ahead to Q4, the bond market faces a complex mix of macroeconomic forces: potential further rate cuts, growing geopolitical uncertainty, and lingering inflation. While bonds have offered attractive 2025 total returns, tight spreads and uncertainty suggest lower upside without a broader re-pricing. Investors are monitoring diversification, credit quality, and duration management as the Fed navigates a delicate economic landscape.

Chart 1 – 3rd Quarter Rate & Bond Sector Changes

Rates/Indicators	9/30/25	6/30/25	Q / Q Change
Prime	7.25	7.50	-0.25
Effective Fed Funds	4.11	4.33	-0.22
3m Tbill	3.93	4.31	-0.38
2yr UST	3.61	3.72	-0.11
10yr UST	4.16	4.35	-0.19
2-10yr UST Spread	0.55	0.52	0.03
2y AAA Muni/10y UST	69%	69%	0%
10y AAA Muni/10y UST	70%	76%	-6%
Bond Sector Yields	**9/30/25**	**6/30/25**	**Qtr Change**
U.S. Aggregate	4.37	4.51	-0.14
IG Corps	4.81	4.99	-0.18
U.S. High Yield	6.70	7.06	-0.36
Municipals	3.66	3.96	-0.30
MBS	4.74	4.93	-0.19
Asset Backed	4.75	4.97	-0.22

Source: JP Morgan/Bloomberg

Chart 2 – 2025 Bond Sector Total Returns

Bond Sector Total Returns	2025 Total Return	Avg Maturity
U.S. Aggregate	6.13	8.30
IG Corps	6.88	10.40
U.S. High Yield	7.22	4.70
Municipals	2.64	13.30
MBS	6.76	7.80
Asset Backed	4.65	2.20

Source: JP Morgan

The source of the information in this commentary is SSW, S&P Capital IQ, GICS and Bloomberg.

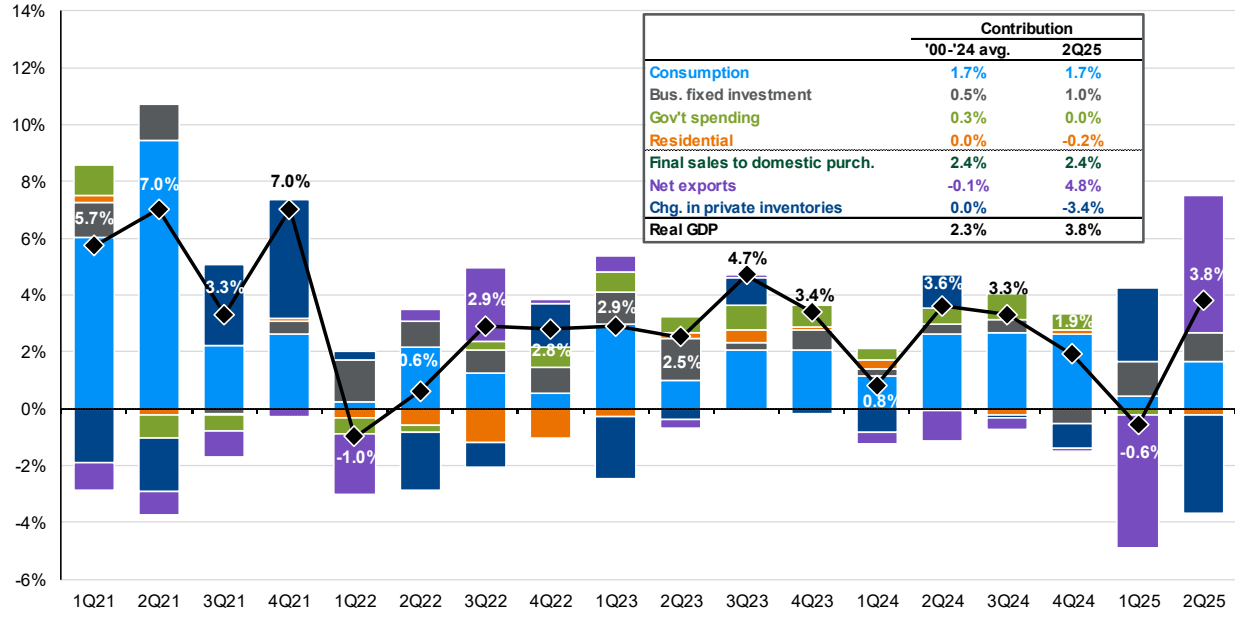
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Components of GDP growth

Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate



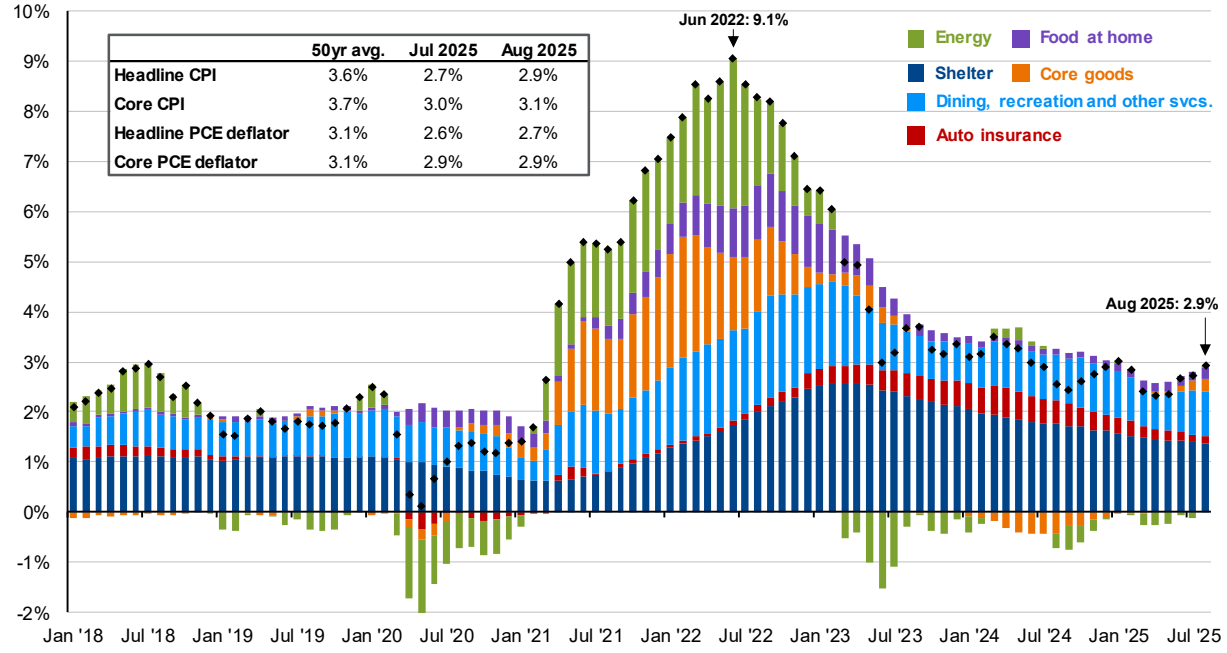
	Contribution '00-'24 avg.	Contribution 2Q25
Consumption	1.7%	1.7%
Bus. fixed investment	0.5%	1.0%
Gov't spending	0.3%	0.0%
Residential	0.0%	-0.2%
Final sales to domestic purch.	2.4%	2.4%
Net exports	-0.1%	4.8%
Chg. in private inventories	0.0%	-3.4%
Real GDP	2.3%	3.8%

Source: BEA, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2025.

Inflation components

Contributors to headline CPI inflation

Contribution to year-over-year % change in CPI, non-seasonally adjusted



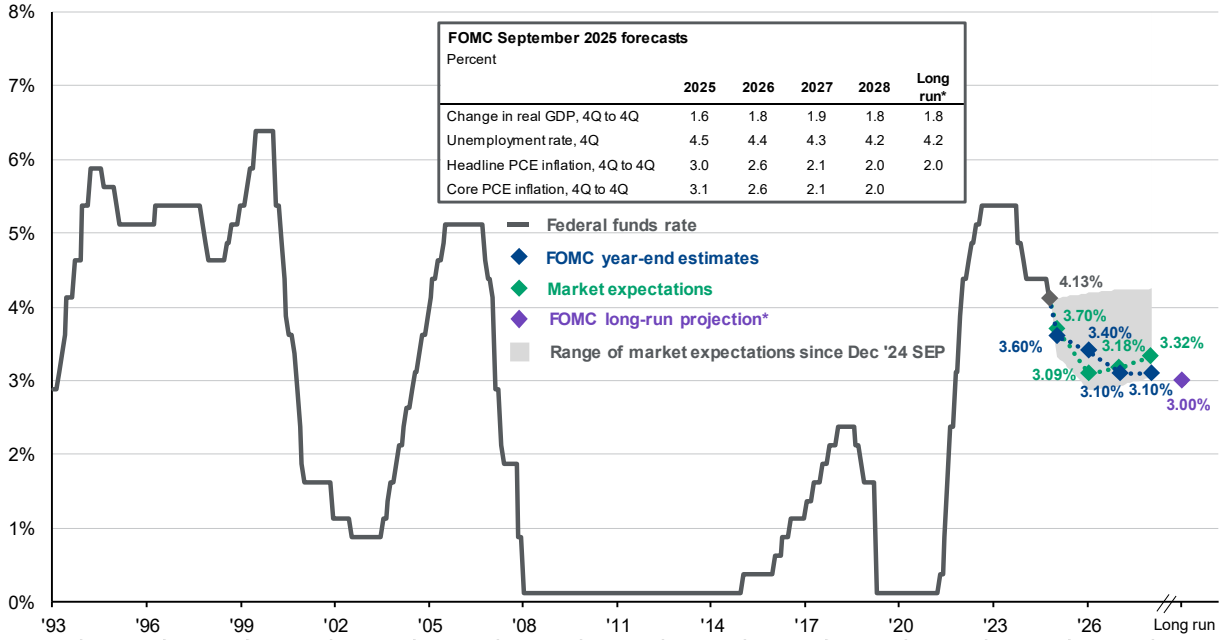
	50yr avg.	Jul 2025	Aug 2025
Headline CPI	3.6%	2.7%	2.9%
Core CPI	3.7%	3.0%	3.1%
Headline PCE deflator	3.1%	2.6%	2.7%
Core PCE deflator	3.1%	2.9%	2.9%

Source: BLS, FactSet, J.P. Morgan Asset Management.
Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. "Food at home" includes alcoholic beverages.
Guide to the Markets – U.S. Data are as of September 30, 2025.

The Fed and interest rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

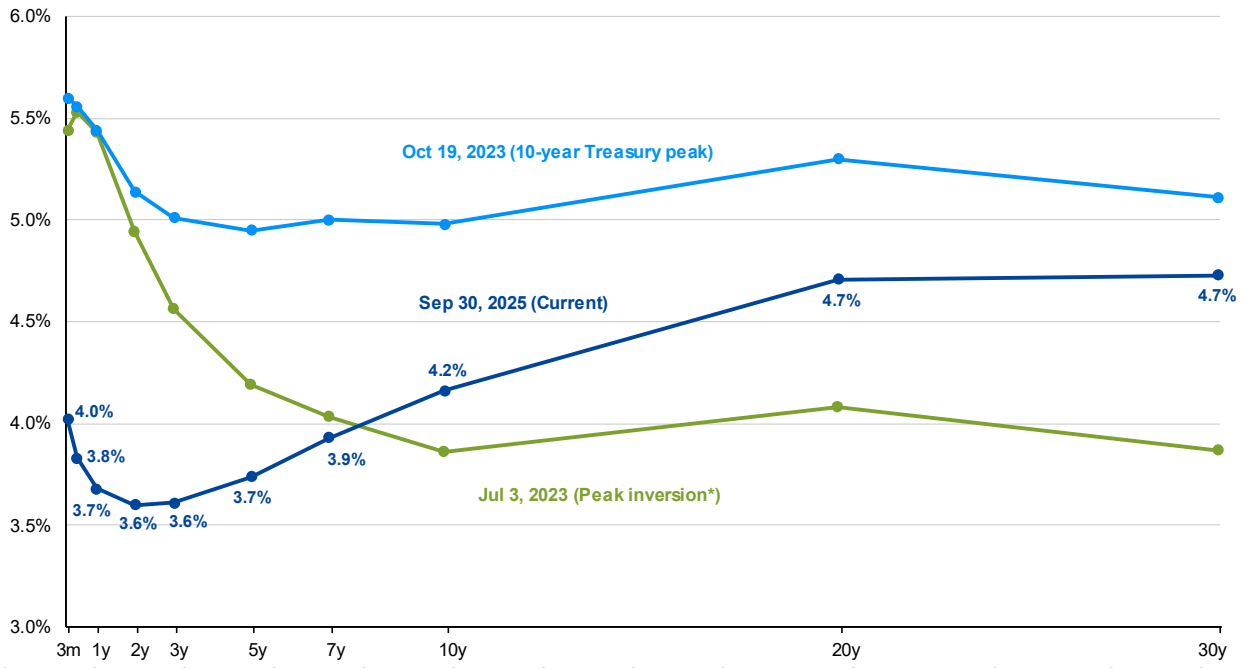


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of September 30, 2025.

Fixed Income

Yield curve

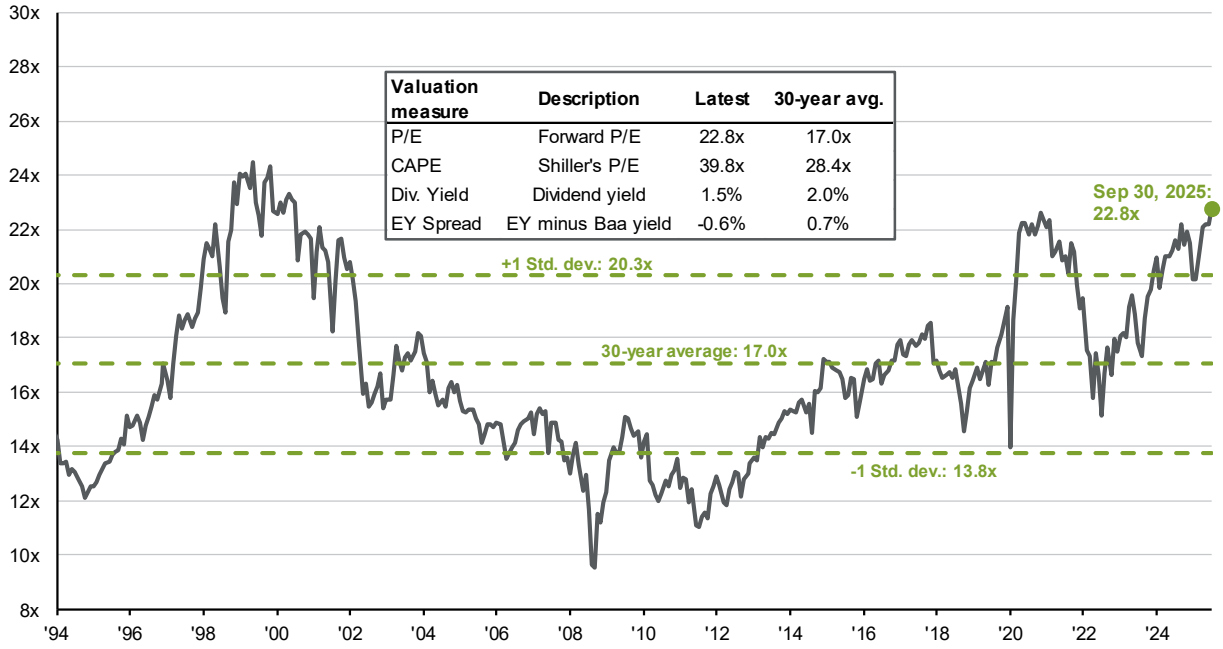
U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Analysis references data back to 2020. *Peak inversion is measured by the spread between the yield on a 10-year Treasury and 2-year Treasury.
Guide to the Markets – U.S. Data are as of September 30, 2025.

S&P 500 valuation measures

S&P 500 index: Forward P/E ratio



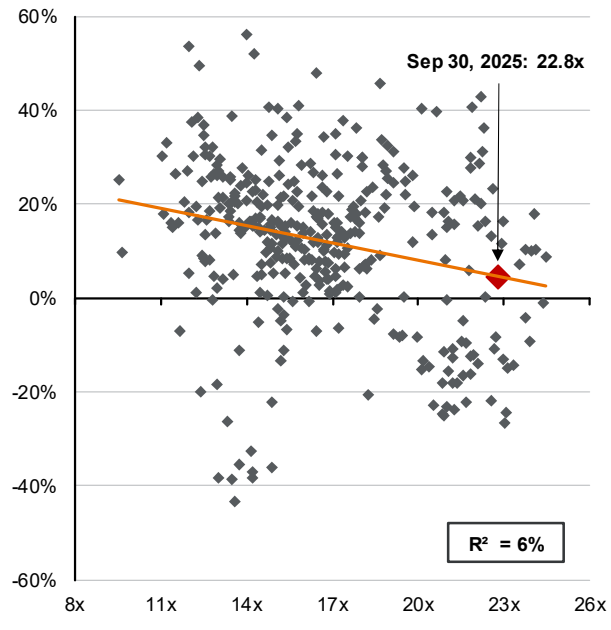
Valuation measure	Description	Latest	30-year avg.
P/E	Forward P/E	22.8x	17.0x
CAPE	Shiller's P/E	39.8x	28.4x
Div. Yield	Dividend yield	1.5%	2.0%
EY Spread	EY minus Baa yield	-0.6%	0.7%

Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as consensus estimates of dividends in the next 12 months, provided by FactSet, divided by the most recent S&P 500 index price. EY minus Baa yield is the forward earnings yield (the inverse of the forward P/E ratio) minus the Bloomberg U.S. corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand.
Guide to the Markets – U.S. Data are as of September 30, 2025.

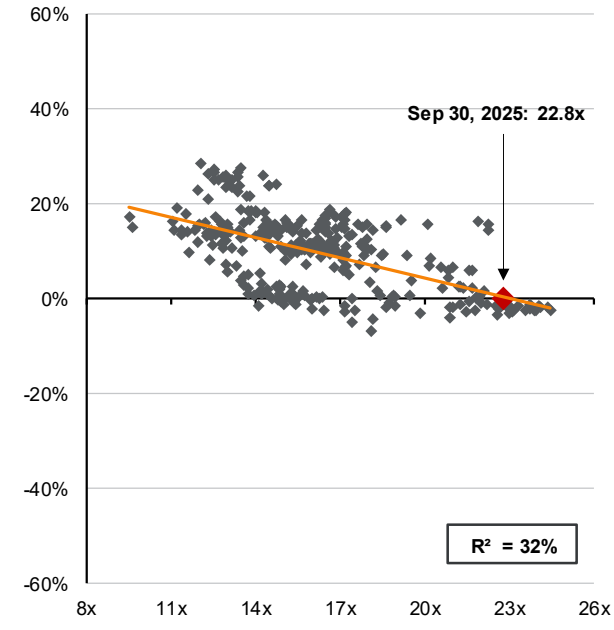
Equities

P/E ratios and equity returns

Forward P/E and subsequent 1-year returns
S&P 500 Total Return Index



Forward P/E and subsequent 5-year annualized returns
S&P 500 Total Return Index

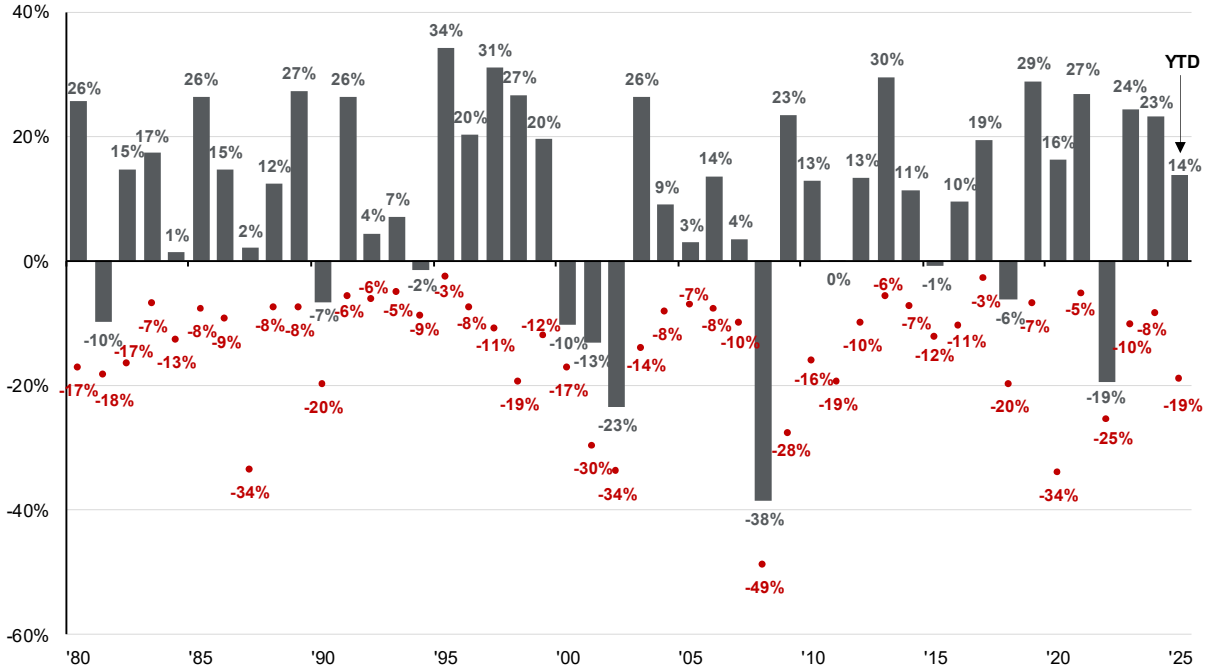


Source: FactSet, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 12/31/1993. R^2 represents the percent of variation in total return that can be explained by forward P/E ratios. The forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since December 1993 and FactSet since January 2022. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of September 30, 2025.

Annual returns and intra-year declines

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



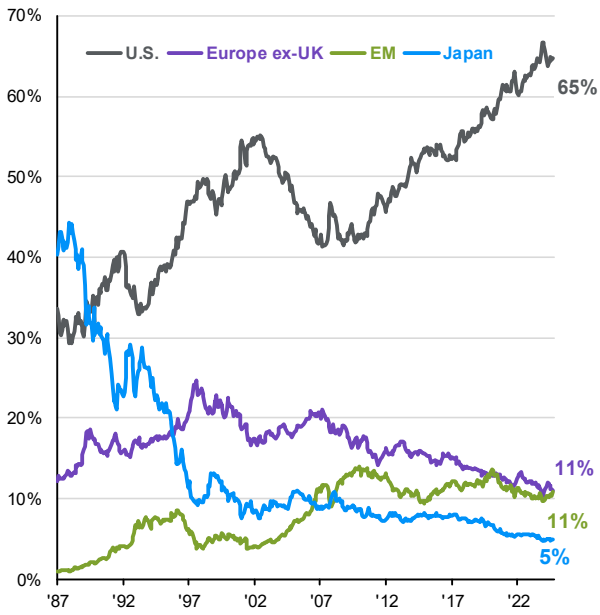
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of September 30, 2025.

Global equity markets

Returns	2025 YTD		2024		15-years
	Local	USD	Local	USD	Ann.
Regions					
U.S. (S&P 500)	-	14.8%	-	25.0%	14.6%
AC World ex-U.S.	18.0%	26.6%	13.2%	6.1%	6.6%
EAFE	14.2%	25.7%	11.8%	4.3%	7.3%
Eurozone	18.5%	34.4%	10.3%	3.4%	7.6%
Emerging markets	25.0%	28.2%	13.7%	8.1%	4.4%
Selected Countries					
Japan	13.8%	21.1%	21.2%	8.7%	7.5%
UK	17.5%	26.3%	9.5%	7.5%	6.3%
France	10.3%	25.2%	1.8%	-4.6%	7.7%
Canada	23.2%	27.4%	23.0%	12.7%	7.1%
Germany	17.8%	33.6%	18.4%	11.0%	7.7%
China	41.4%	41.8%	19.8%	19.7%	4.7%
Taiwan	17.7%	26.6%	44.3%	35.1%	13.4%
India	3.2%	-0.5%	15.7%	12.4%	5.6%
Brazil	23.5%	40.4%	-11.4%	-29.5%	-0.5%

Share of global market capitalization

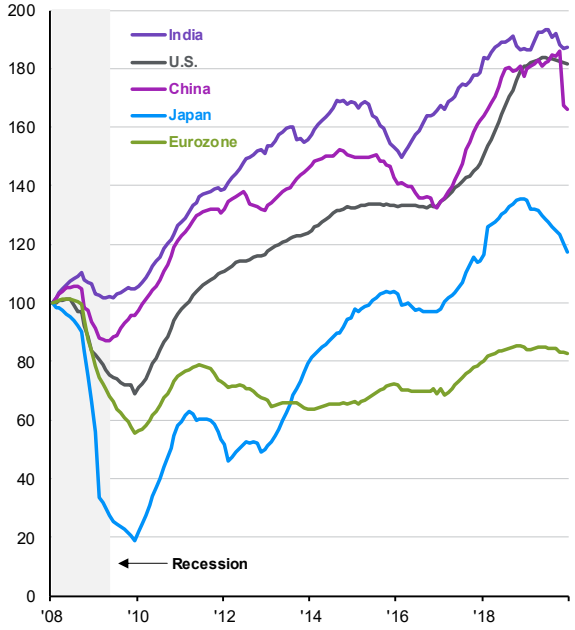
% weight in MSCI All Country World, USD, monthly



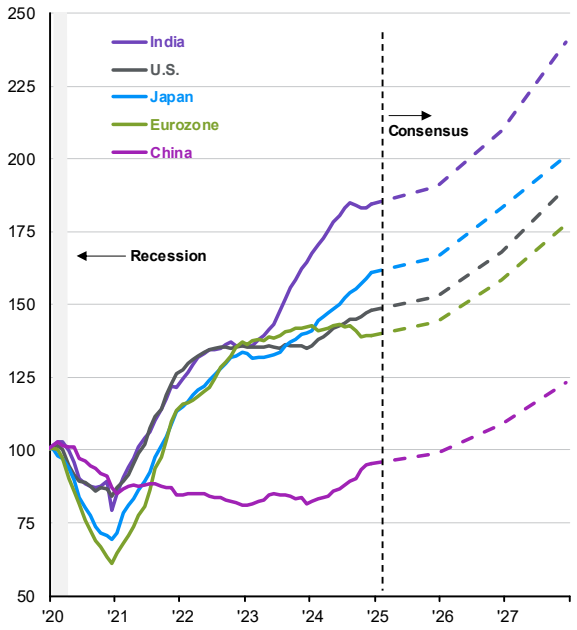
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (Left) All return values are MSCI Total Return Index (Gross) data. 15-year history based on USD returns. 15-year annualized return figures are calculated using a rolling 12-month period ending with the previous month-end. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of September 30, 2025.

Global equity earnings

Earnings growth: GFC to pre-pandemic
Jan 2008 = 100, last 12 months, local currency, monthly



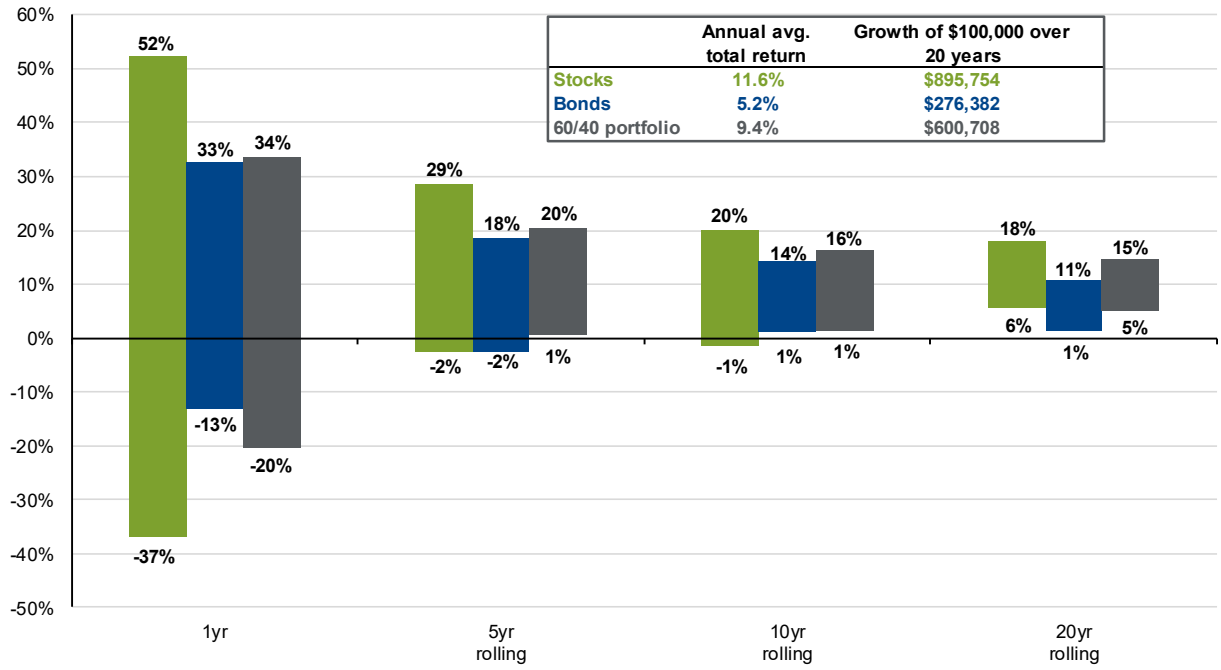
Earnings growth: Pandemic to present/consensus estimates
Jan 2020 = 100, last 12 months, local currency, monthly



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Countries are represented by their respective MSCI country index except for the U.S., which is represented by the S&P 500. GFC = Global Financial Crisis. Past performance is not a reliable indicator of current and future results.
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Time, diversification and the volatility of returns

Range of stock, bond and blended total returns
Annual total returns, 1950 - 2024



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.6%	$895,754
Bonds	5.2%	$276,382
60/40 portfolio	9.4%	$600,708

Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2024. Stocks: S&P 500; Bonds: Strategas/Ibbotson for periods prior to 1976 and the Bloomberg U.S. Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2024.
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