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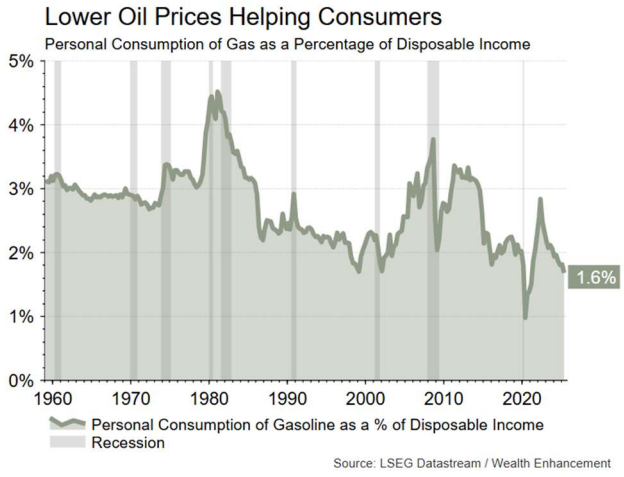
4th Quarter 2025 – Strategy Newsletter

- Lower oil prices is a bright spot while a focus remains on the jobs market.
- Earnings growth continues to climb, along with multiples.
- Global interest rates and currency moves may surprise investors.

Economy

The price of oil falling has been a bright spot for the economy. In the industries outside of oil and for consumers, high prices act as a tax on the production process and spending. Crude oil started the year at $71, increased to $78, and fell throughout the year to $58 currently.

For consumers, it takes up much less of their spending today. Compared to overall disposable income, gas consumption makes up 1.6%, one of the lowest levels in the last 67 years.



The job market continues to be weak. Some attribute this to lower population growth, but it goes beyond this. Wages are slowing according to Indeed.com, which tends to be a leading indicator of official government data. The Atlanta Fed Wage Growth Tracking index shows wages growing 4% over the past year, but it will likely trend down if the pattern from the last five years holds.



The passing of the tax bill in July brought more certainty to fiscal policy. Many provisions will provide a boost to household income. Lower interest rates with more cuts today and expected into 2026 will be a positive impulse.

The policies should counter some of the price increase due to tariffs. In surveys of service businesses, 70% expect higher prices ahead. This is odd, since the main impact of tariffs is on goods industries. This may indicate that high government deficits simply lead to a higher annual growth rate of price levels.

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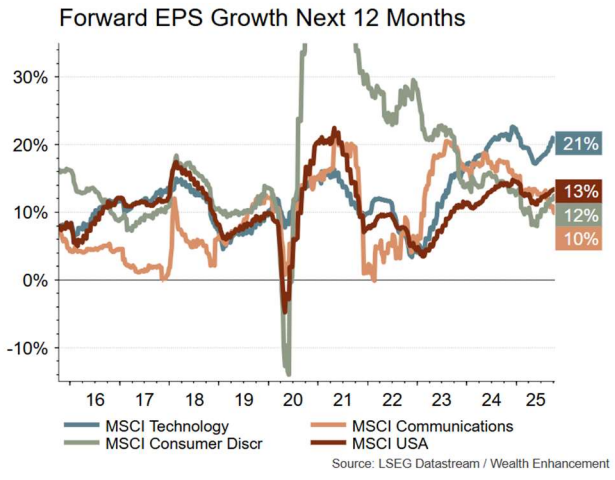
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Equity

Equity markets did not take a breather during the third quarter. The S&P 500's largest drawdown was only 2.4% in late July. Small caps were the winners, as falling interest rates provided a catalyst.

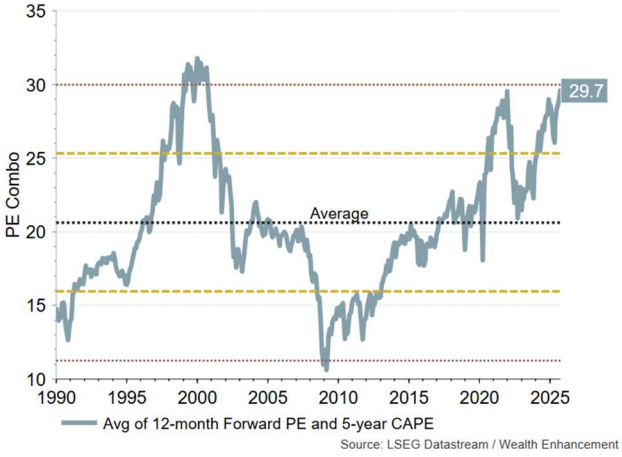
U.S. Equity	3Q 2025
Large Cap Stock	
S&P 500	8.1%
Small & Mid Cap	
S&P 400 Mid Cap	5.6%
S&P 600 Small Cap	8.9%
All Cap Style Indices	
S&P 1500 Value	6.3%
S&P 1500 Growth	9.5%
International Equity	**3Q 2025**
MSCI EAFE	4.8%
MSCI EAFE Value	7.5%
MSCI EAFE Growth	2.3%
MSCI Emerging	10.9%
MSCI EM Value	9.3%
MSCI EM Growth	12.3%

The sectors making up the largest portion of growth indices performed well. Technology, communications, and consumer discretionary had earnings estimates increase during the quarter.

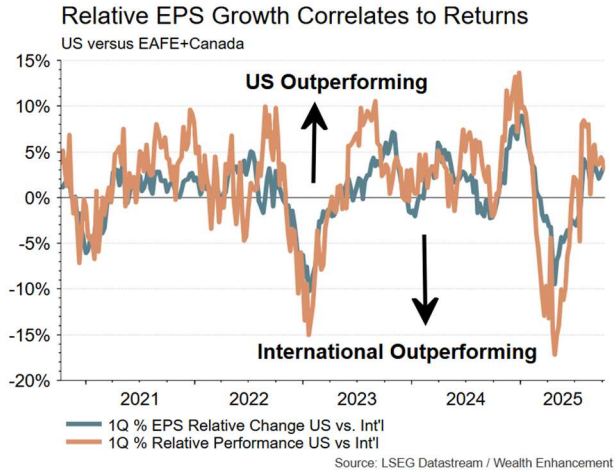


Analysts expect earnings of technology companies to grow over 20% in the next year. The buildout of data centers and demand for semiconductors continues to boost share prices and the outlook.

With such high growth expectations and profit margins for the overall market near 14%, investors are willing to pay up for earnings. We have not seen profit margins mean revert as most textbooks teach. This has led to investors paying near the highest multiples for companies since 1990.



Earnings growth estimates of international markets at just 5% has not kept up, leading the US to outperform this past quarter.



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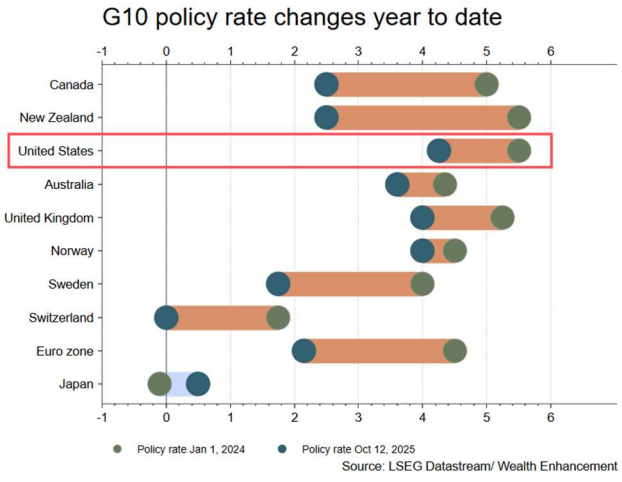
Fixed Income

The 10-year Treasury yield began the quarter at 4.22%, increased to 4.48% in July. It then fell to 4.00% in September as the Fed's interest rate cutting cycle commenced, ending the quarter at 4.12%.

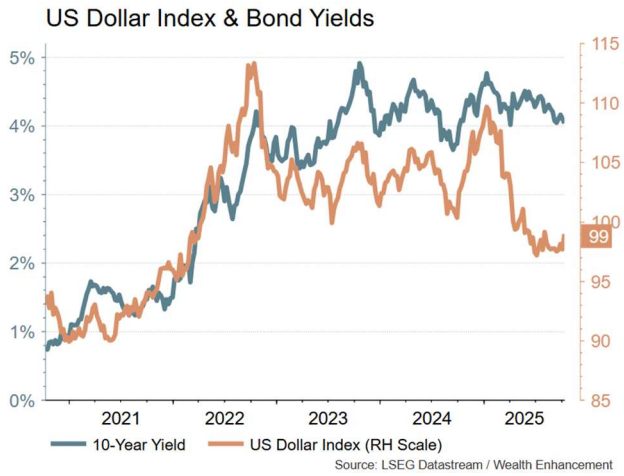
Fixed Income	3Q 2025
Bloomberg U.S. Aggregate Bond	2.0%
Bloomberg Corporate Inv. Grade	3.1%
Bloomberg High Yield Bond	2.5%
Bloomberg Global ex. U.S. Treas.	0.7%
Bloomberg Municipal Bond	3.0%
Bloomberg TIPS	2.1%

Falling rates, along with tighter spreads, rewarded bond investors. Municipals being one of the top-performing sectors is a rarity, considering their tax-exempt status. The attractiveness of municipal bonds—with tax-equivalent yields well over 6%—could not be denied.

Many developed countries have lowered interest rates over the past two years, most at a faster pace than the U.S. Today's "Global 10" all have lower interest rates than the U.S. Japan stands out as the only central bank to have increased rates.

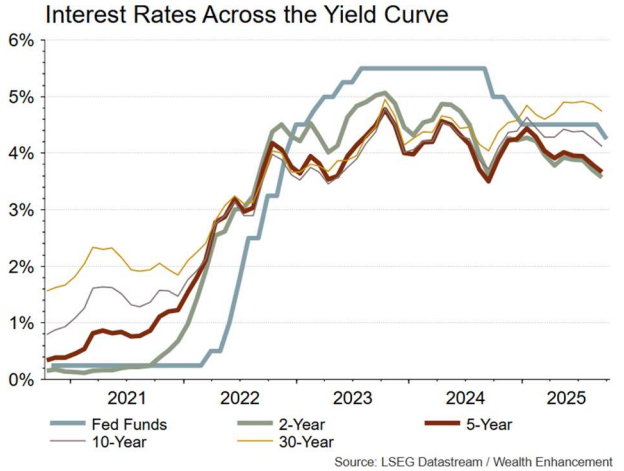


The 10-year Treasury yield and the U.S. Dollar Index nearly moved in lockstep over the past five years, up until 2025.



Despite the higher rates and differing monetary policy, the U.S. dollar fell sharply this year. This can sometimes be a feature rather than a bug—a lower dollar is stimulative to exporters and boosts earnings.

For bond investors, diversifying exposure to foreign currencies could help maintain purchasing power. This is especially true in an era of high fiscal deficits. With more interest rate cuts expected over the coming years, global bond allocations could grow.



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Closing Thoughts

Previously, the investment committee moved assets from REITs (Real Estate Investment Trusts) to U.S. mid-caps in portfolios. The fundamentals in the real estate remain challenged due to a lack of earnings growth. On the other hand, mid-caps continued to grow earnings and offer attractive valuations.

This year, during our annual formal review of long-term capital market forecasts, we reconstituted our strategic asset allocation frameworks. The allocation to REITs has been moved to US Equity.

Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**23%**	**38%**	**53%**	**68%**	**83%**
U.S. Equity	15%	24%	33%	42%	51%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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