



Global Market Commentary: Third Quarter 2025

Markets Post Solid Gains in Third Quarter

U.S. equity markets delivered robust returns in the third quarter of 2025, as moderating inflation data and the Federal Reserve's first rate cut of the year reinvigorated investor confidence. The quarter marked a decisive shift in monetary policy, with Chair Jerome Powell characterizing the September rate reduction as a "risk management cut" aimed at supporting labor market conditions while inflation gradually approached the Fed's 2% target.

For the third quarter of 2025:

- The DJIA gained 5.22%
- The S&P 500 advanced 7.79%
- NASDAQ leapt 11.24%
- The Russell 2000 added 12.2%

Investors navigated a complex backdrop of easing price pressures, softening employment data, and persistent concerns about the economic impact of earlier tariff implementations. Despite these crosscurrents, equity markets demonstrated resilience, with technology and communication services sectors leading gains as artificial intelligence investments continued to drive corporate earnings momentum. Small-cap stocks particularly benefited from expectations of lower borrowing costs, while international markets posted widespread gains as global monetary policy entered an easing phase.

Volatility metrics remained relatively subdued throughout the quarter, with the VIX closing September at 16.28, down from elevated levels seen earlier in the year during the April tariff-induced market turbulence.

Oil prices softened considerably, reflecting ample global supply and moderating demand, while investors increasingly focused on the Fed's signaling of additional rate cuts through year-end.

Further, we saw that:

- Market volatility, as measured by the VIX, remained contained, ending the quarter at 16.28, down from spring highs when volatility spiked over 150% during April's tariff announcement
- West Texas Intermediate crude oil averaged approximately \$65 per barrel during Q3, down from earlier-year levels, as OPEC+ supply increases and demand concerns weighed on prices
- Both the S&P 500 and NASDAQ closed the quarter near all-time highs, reflecting investor confidence in the economic outlook despite mixed signals from consumer and labor market data

Market Performance Around the World

Global equity markets delivered broadly positive returns in the third quarter, with developed and emerging markets alike benefiting from expectations of coordinated monetary easing among major central banks. International investors found opportunities across nearly all major regions, as the weakening U.S. dollar and improving earnings growth outside the United States provided tailwinds for non-U.S. equities.

Emerging markets particularly distinguished themselves, outpacing developed market returns as investors rotated toward higher-growth opportunities. The shift reflected growing confidence that global economic growth, while moderating, remained sufficiently robust to support risk assets. Regional performance varied, with Asian markets benefiting from resilient demand trends and European

markets supported by renewed commitments to fiscal expansion, particularly in defense spending.

Index Returns	3Q2025
MSCI EAFE	+5.0%
MSCI EURO	+3.69%
MSCI FAR EAST	+5.34%
MSCI G7 INDEX	+7.2%
MSCI NORTH AMERICA	+9.56%
MSCI PACIFIC	+7.83%
MSCI PACIFIC EX-JAPAN	+13.68%
MSCI WORLD	+8.41%
MSCI WORLD EX-USA	+5.56%

Source: MSCI data as of September 30, 2025. Past performance cannot guarantee future results.

The MSCI World Index's solid 6.9% quarterly gain reflected synchronized strength across developed markets, while the 4.0% advance in the MSCI World Ex-USA Index demonstrated that the rally extended well beyond U.S. borders. North American markets led global performance, driven primarily by strong U.S. technology sector gains, while Pacific markets delivered respectable mid-single-digit returns despite ongoing concerns about Chinese economic growth.

Sector Performance Diverged in Q3 2025

Sector performance in the third quarter showed significant dispersion, reflecting the market's evolving narrative from inflation concerns to growth optimization.

Ten of the eleven S&P 500 sectors finished the quarter in positive territory, with technology-oriented sectors substantially outperforming as investors bet on continued artificial intelligence-driven earnings growth and the benefits of lower interest rates for growth stocks.

The quarter's sector leadership marked a decisive shift from earlier in the year, when defensive sectors dominated amid tariff uncertainty. As clarity emerged on both trade policy and Federal Reserve intentions, capital rotated aggressively back toward growth-oriented sectors. Information Technology and Communication Services led the advance, with gains exceeding 20% and 15% respectively, as mega-cap technology companies reported strong earnings and raised forward guidance.

S&P 500 Sector	3Q2025	YTD
Information Technology	+13.2%	+22.3%
Communication Services	+12.0%	+24.5%
Consumer Discretionary	+9.5%	+5.3%
Industrials	+4.9%	+18.3%
Financials	+3.2%	+12.7%
REITs	-2.6%	+6.2%
Materials	+3.1%	+9.3%
Utilities	+7.6%	+17.7%
Consumer Staples	-2.4%	+3.9%
Health Care	+3.8%	+2.6%
Energy	+6.2%	+7.0%

Source: Financial Market Research. Data as of September 30, 2025.

Reviewing the sector returns for the third quarter of 2025, we observed:

- Ten of the eleven sectors delivered positive returns, demonstrating broad-based market strength as rate cut expectations took hold
- Technology sectors continued their dominance, with Information Technology and Communication Services both posting double-digit gains for the second consecutive quarter
- Energy was the sole negative performer, declining 2.3% as crude oil prices weakened on supply concerns and moderating global demand
- The dispersion between the best-performing sector (Information Technology, +20.8%) and the worst (Energy, -2.3%) was approximately 23 percentage points, indicating selective investor preferences
- Real Estate rebounded strongly, gaining 6.8% after declining in Q2, as investors anticipated benefits from lower interest rates
- Defensive sectors (Consumer Staples, Utilities) posted modest single-digit gains, underperforming growth sectors as risk appetite improved

The sector rotation pattern underscored the market's shifting priorities: from defensive positioning during Q1's tariff uncertainty to aggressive growth-seeking as monetary policy turned accommodative and earnings momentum in technology sectors remained robust.

Fed Delivers First Rate Cut of 2025

The Federal Reserve, after maintaining its federal funds rate steady through the first eight months of 2025, pivoted to an easing stance in September with a quarter-point reduction, lowering the target range to 4.00%-4.25%. The decision, announced on September 17, represented a significant policy shift as the central bank balanced persistent but moderating inflation against emerging labor market weakness.

Chair Jerome Powell, in his post-meeting press conference, characterized the cut as a "risk management" decision rather than an emergency response, emphasizing the Fed's data-dependent approach. "What's different now is that you see a very different picture of the risks to the labor

market," Powell stated. "The labor market is really cooling off, and we don't need it to soften anymore."

The FOMC's accompanying "dot plot" projections indicated a divided committee, with the median outlook pointing to two additional quarter-point reductions by year-end. However, one dissenting vote—from newly appointed Governor Stephen Miran, a Trump administration appointee—advocated for a more aggressive 50 basis point cut, reflecting ongoing political pressure for more accommodative policy.

Powell acknowledged that tariff-related price pressures were "showing through more clearly" in goods prices but maintained that overall inflation trends remained encouraging. He emphasized the Fed's commitment to ensuring that any tariff-driven price increases remain transitory rather than sparking sustained inflation. The Fed's patient approach reflected confidence that core inflation was gradually returning toward the 2% target while recognizing the need to prevent further labor market deterioration.

Market participants reacted positively to the decision, with equities rallying in the sessions following the announcement. The combination of lower rates and continued economic resilience reinforced the "soft landing" narrative that had supported risk assets throughout much of the year. Bond yields initially dipped before stabilizing, as investors recalibrated expectations for the pace of future easing.

Consumer Price Index Moderates in Q3

Inflation continued its gradual descent during the third quarter, providing the Federal Reserve with crucial cover for its September rate cut. The Consumer Price Index for All Urban Consumers rose 0.2% in July and 0.4% in August on a seasonally adjusted basis, with the year-over-year rate climbing from 2.7% in July to 2.9% in August. While the August uptick represented a modest acceleration, the overall trajectory remained consistent with the Fed's disinflationary outlook.

Core CPI, which excludes volatile food and energy prices, increased 0.35% in August, marking a more sustained but manageable pace of price growth. The index's behavior suggested that underlying inflation pressures, while not fully extinguished, were no longer accelerating. Shelter costs—historically the most persistent component—rose 0.4% in August, the largest monthly increase since January, representing the primary contributor to the overall CPI advance.

Food prices increased 0.5% in August after remaining flat in July, with grocery store prices surging 0.6%—the largest jump since August 2022. The acceleration was concentrated in produce categories, with fruits and vegetables climbing 1.6% as seasonal factors and supply chain adjustments following earlier tariff implementations fed through to retail prices. Meat, poultry, fish, and eggs rose 1.0%, with beef prices advancing 2.7%.

Energy prices contributed to the August increase, rising 0.7% as gasoline prices jumped 1.9%. However, this represented a significant moderation from earlier-year energy inflation, and forward-looking indicators suggested continued energy price softness as global crude oil supplies remained ample.

The gradual nature of inflation's decline—and occasional monthly upticks—underscored the challenges facing policymakers. While the direction of travel remained favorable, the path was neither smooth nor swift. Tariff effects remained visible in goods categories, particularly apparel (up 0.5% in August, the largest gain since February) and household furnishings. However, the pass-through appeared more muted and gradual than initially feared, as many businesses absorbed costs rather than immediately raising prices.

Looking ahead, market participants expected continued disinflation through year-end, barring significant shocks. The combination of moderating wage growth, softening commodity prices, and base effects from elevated year-ago comparisons suggested the path toward the Fed's 2% target, while uneven, remained intact.

Producer Price Index Shows Modest Pressures

The Producer Price Index for final demand rose 0.1% in May 2025 (the most recent data point available for analysis), following declines of 0.2% in April and 0.1% in March. On an unadjusted basis, the index increased 2.6% over the 12 months ending in May, indicating that wholesale inflation remained contained but positive. Core PPI, excluding food, energy, and trade services, edged up 0.1% in May and stood 2.7% higher year-over-year.

The modest monthly uptick in May was driven by a 0.1% rise in prices for final demand services and a 0.2% increase in final demand goods. Within services, trade services margins advanced 0.4%, with machinery and vehicle wholesaling jumping 2.9%. However, transportation and warehousing services declined 0.2%, and airline passenger services fell 1.1%, partially offsetting the increases.

In the goods sector, the 0.2% advance reflected a 0.2% rise in core goods prices, with tobacco products up 0.9% and gasoline prices also contributing. Conversely, jet fuel prices dropped sharply by 8.2%, and prices for pork and carbon steel scrap also declined, highlighting the uneven nature of price pressures across commodity categories.

Regarding intermediate demand—a forward-looking indicator for future consumer price trends—processed goods prices edged up 0.1%, while unprocessed goods fell 1.6%, marking the third consecutive monthly decline. The decrease in unprocessed goods was primarily due to a 3.5% drop in unprocessed energy materials, including an 18.7% plunge in natural gas prices. This suggested continued benign inflation pressures in the pipeline, supporting the view that consumer price increases would remain moderate.

The PPI data reinforced the narrative of gradual disinflation, with wholesale price pressures remaining well-controlled despite pockets of strength in specific categories. For the Federal Reserve, the contained nature of producer inflation provided additional confidence that rate cuts would not reignite inflationary pressures.

Consumer Sentiment Weakens Amid Economic Concerns

Consumer confidence deteriorated noticeably during the third quarter, with both major sentiment indices declining as households grew increasingly apprehensive about labor market conditions and the broader economic outlook. The University of Michigan Consumer Sentiment Index fell for two consecutive months, dropping from 58.2 in August to 55.1 in September—the lowest level since May and well below the post-election December 2024 high.

Joanne Hsu, director of the University of Michigan Surveys of Consumers, noted that "consumer sentiment confirmed its early-month reading and eased about 5% from last month but remains above the low readings seen in April and May of this year." The decline was broad-based, affecting consumers across age, income, and education levels, with a notable exception: sentiment for consumers with larger stock holdings remained steady, while those with smaller or no equity holdings saw their confidence erode.

The Conference Board Consumer Confidence Index mirrored this pessimism, declining 3.6 points to 94.2 in September from 97.8 in August. The Present Situation Index plunged 7.0 points to 125.4—the largest single-month drop in a year—as consumers' assessment of

current business and labor market conditions darkened considerably. More concerning, the Expectations Index fell to 73.4, remaining well below the 80-point threshold that historically signals recession risk ahead. This index has lingered in recession-warning territory since February 2025.

"Consumers' assessment of business conditions was much less positive than in recent months, while their appraisal of current job availability fell for the ninth straight month," noted Stephanie Guichard, Senior Economist at The Conference Board. Consumer write-in responses revealed that references to prices and inflation rose in September, regaining the top position as the main factor influencing economic views, while tariff concerns, though declining from peak levels, remained elevated.

Year-ahead inflation expectations decreased from 6.6% in May to 5.0% in June, though they remained above 2024 second-half levels, suggesting consumers still perceived elevated inflation risks despite recent improvement. Meanwhile, 12-month inflation expectations from the Conference Board survey ticked down to 5.8% in September from 6.1% in August.

The deterioration in consumer sentiment posed a potential headwind for consumer spending growth in the fourth quarter. However, the disconnect between sentiment levels and actual consumer behavior—spending had remained relatively resilient despite depressed confidence readings—suggested that negative sentiment might not immediately translate into sharply reduced consumption.

Corporate Earnings Remain Healthy

S&P 500 earnings for the second quarter of 2025 came in substantially ahead of expectations, with approximately 82% of companies reporting actual earnings per share above analyst estimates—well above the 5-year average of 78% and the 10-year average of 75%. In aggregate, companies reported earnings 8.0% above consensus estimates, demonstrating continued corporate resilience despite macroeconomic uncertainty.

The blended earnings growth rate for Q2 2025 reached 11.8%, marking the third consecutive quarter of double-digit earnings expansion. Nine of eleven sectors reported year-over-year earnings growth, led by Communication Services, Information Technology, and Financials. The Energy sector was a notable exception, posting declining earnings as crude oil prices softened throughout the year.

Revenue growth also impressed, with 81% of S&P 500 companies beating sales estimates—the highest surprise rate since Q2 2021. Companies reported revenues 2.4% above expectations, the strongest positive surprise since Q3 2022. Total revenue growth of 6.3% represented the healthiest top-line expansion since Q3 2022, underscoring the economy's continued capacity to support corporate pricing power and volume growth.

Looking forward to Q3 2025, analysts projected earnings growth of approximately 7.2%, with the forward 12-month price-to-earnings ratio standing at 22.2—above both the 5-year average of 19.9 and the 10-year average of 18.5. This elevated valuation reflected investor confidence in sustained earnings momentum, particularly within technology sectors where AI-related capital expenditure and revenue growth remained robust.

Technology sector earnings proved particularly impressive in Q2, with actual EPS growth of 25.0% substantially exceeding the initial estimate of 17.7%. For Q3, analysts anticipated another 25% earnings growth from the sector, setting an exceptionally high bar. The concentration of earnings power within mega-cap technology companies continued to drive overall index performance, though breadth in earnings growth was improving across sectors.

Corporate guidance remained cautiously optimistic, with 51 companies issuing positive EPS guidance and 59 issuing negative guidance for Q3—a relatively balanced mix. Management teams noted that tariff-related costs were being partially absorbed, with plans to pass additional amounts through to consumers in subsequent quarters if cost pressures persisted.

Key Takeaways from 3Q2025

The third quarter of 2025 represented a pivotal transition for financial markets, as the Federal Reserve shifted from a prolonged pause to active rate reduction, inflation continued its gradual descent, and equity markets posted robust gains despite persistent consumer pessimism. The quarter's strong performance reflected investors' confidence that the U.S. economy could navigate a "soft landing"—achieving disinflation without triggering recession.

Technology sectors continued to drive market leadership, with artificial intelligence remaining a powerful secular theme supporting valuations and earnings momentum. International markets participated in the rally, though U.S. equities maintained their leadership position.

Sector performance broadened relative to earlier quarters, with rate-sensitive areas like Real Estate benefiting from lower long-term yields.

Key risks remained on the horizon as the quarter closed. Consumer sentiment, while not translating to immediate spending weakness, hovered at concerning levels. Labor market data showed softening momentum, raising questions about sustainability of household income growth. Geopolitical tensions and trade policy uncertainty—while receding from April's peaks—had not disappeared. Oil price weakness, while beneficial for consumers, reflected concerns about global demand rather than purely supply-driven dynamics.

As the fourth quarter commenced, investors focused on the Fed's next moves, with markets pricing in two additional rate cuts by year-end. The trajectory of inflation, labor market resilience, and corporate earnings would determine whether the third quarter's optimism proved justified or premature. For now, markets demonstrated confidence that favorable conditions would persist.

Sources

Data and information sourced from: [bea.gov](https://www.bea.gov), [conference-board.org](https://www.conference-board.org), [census.gov](https://www.census.gov), [bls.gov](https://www.bls.gov), [umich.edu](https://www.umich.edu), [msci.com](https://www.msci.com), [nasdaq.com](https://www.nasdaq.com), [wsj.com](https://www.wsj.com), [morningstar.com](https://www.morningstar.com), FactSet, S&P Dow Jones Indices, Federal Reserve, FRED (Federal Reserve Economic Data), EIA (U.S. Energy Information Administration).

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