

2025 Third Quarter Financial & Investment Management General Commentary

The third quarter of 2025 reflected renewed market confidence, building on the rebound that began earlier in the year. Economic data remained resilient overall, supported by solid corporate earnings and growing expectations for continued monetary easing. However, the environment was far from settled. Persistent questions surrounding inflation, the pace of Federal Reserve rate cuts, ongoing trade tensions, and the broader impact of global conflicts continued to shape market sentiment. These crosscurrents contributed to periods of volatility even as equity markets advanced and investor optimism improved.

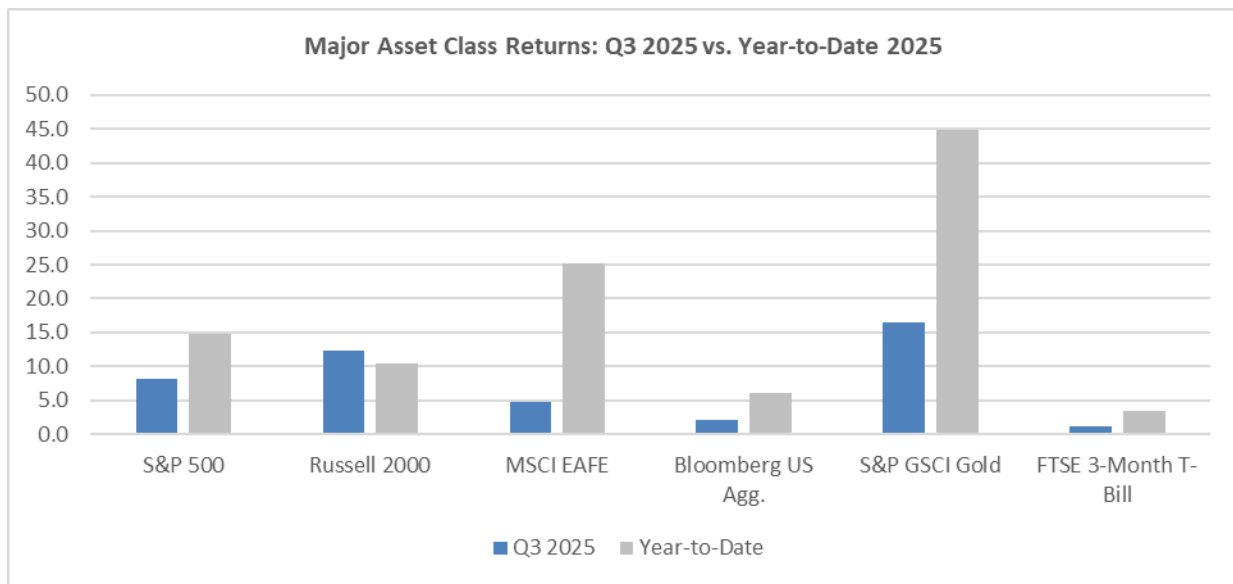
From a planning perspective, this dynamic backdrop underscores the importance of flexibility. Policy shifts, particularly in tax law, continue to influence investment, retirement, and estate strategies. As these changes evolve, we remain focused on financial planning while managing risk in a landscape that remains both promising and uncertain.

The following overview highlights the key economic and market developments that shaped the quarter.

Market Overview:

Market Recap

The U.S. economy demonstrated resilience in the third quarter with financial markets responding positively to an improved growth outlook and a more accommodative policy stance. Investor optimism was supported by easing trade tensions, tariffs proving less disruptive than feared, enthusiasm surrounding artificial intelligence, and solid corporate earnings. Additionally, the U.S. dollar stabilized during the quarter following a weak first half of the year.



Source: Morningstar



Although inflation remained slightly above the Federal Reserve's 2% target, signs of a gradually softening labor market led policymakers to reassess the balance of risks. The Fed judged that the threat of weakening employment outweighed the risks of lingering price pressures and therefore shifted its focus toward supporting job growth. In September, it cut the federal funds rate by 0.25% and signaled the possibility of two additional rate cuts by year-end.

Concerns about macroeconomic risks persisted, reinforcing demand for precious metals as a safe-haven asset class. As a result, gold climbed to a record high above \$3,800 per ounce by quarter-end. Meanwhile, elevated equity market valuations have raised concerns about potential overextension and drawn comparisons to past market bubbles.

Although near-term risks have prompted greater investor caution, the overall economic framework remains resilient. Underlying fundamentals continue to point to sustained, though probably slower, growth through 2026.

Equities: Domestic equities continued their strong rebound through the third quarter, with the S&P 500 Index returning 8.1% for the period. On April 2, 2025, when President Trump announced sweeping new tariffs on a wide range of imported goods the administration framed the move as an effort to "liberate" American industry from unfair foreign trade practices, hence being dubbed Liberation Day, however, this triggered a sharp market sell-off. Following the "Liberation Day" lows in April, the S&P 500 has now climbed more than 30%, marking five consecutive months of positive performance. The market gains were supported by easing trade tensions, solid corporate earnings, and growing expectations for monetary accommodation from the Federal Reserve. Additionally, investor sentiment was lifted by enthusiasm surrounding artificial intelligence, with the "Magnificent Seven" stocks remaining major contributors to overall index performance.

Large-cap growth stocks extended their leadership over the quarter, returning 10.5% and outpacing the 5.3% return of their value counterparts. Small- and mid-cap equities also posted strong results, with the Russell 2000 (Small Cap) and Russell MidCap indexes up 12.4% and 5.3%, respectively. Encouragingly, the strength in small-caps points to a broadening of market leadership beyond the mega-cap technology names that have dominated much of the current cycle.

As noted in our prior letter, U.S. equity valuations remain elevated (about 23.0x [forward price-to-earnings ratio](#) versus a long-term average of 14.8x) and are approaching the tech-bubble peak of 24.4x. Whether such levels are sustainable is an open question given the significant market concentration, policy uncertainty, and ongoing geopolitical risks, which together could challenge the durability of recent gains.

International equities continued their strong run in 2025, supported by a weaker U.S. dollar, more attractive valuations and relative insulation from tariff-related disruptions. The MSCI EAFE Index, representing developed international markets, gained 4.8% in the third quarter, while emerging markets, as measured by the MSCI EM Index, advanced 10.6% over the same

period. Year-to-date, MSCI EAFE and MSCI EM are up 25.1% and 27.5%, respectively, significantly outpacing the 14.8% gain of U.S. equities.

Fixed Income: U.S. fixed income, as measured by the Bloomberg U.S. Aggregate Bond Index, returned 2.0% in the third quarter, bringing the year-to-date gain to 6.1%. Returns were supported by a decline in yields across the curve as the Federal Reserve's easing stance and dovish commentary helped temper concerns of a renewed inflation spike.

A risk-on tone persisted through much of the quarter, fueled by lower rates and solid corporate earnings. Credit spreads narrowed by roughly 10 basis points, reaching their tightest levels since May 1998. Consequently, investment-grade and high-yield corporate bonds outperformed Treasuries, returning 2.6% and 2.5%, respectively.

With yields above 4%, core fixed income, represented by the Bloomberg U.S. Aggregate Bond Index, continues to offer attractive income potential relative to recent years. Importantly, bonds have exhibited lower correlation to equities in 2025, particularly during episodes of heightened market volatility, reinforcing their role as a stabilizing component within diversified portfolios.

Looking ahead, fixed income performance will depend largely on the pace of Fed rate cuts, the trajectory of inflation, and investor appetite for risk assets as the economy transitions into 2026.

Real Assets: The Bloomberg Commodity Index gained 3.7% in the third quarter, with most of the upside driven by a rally in precious metals, which showed no signs of slowing. For the quarter, gold and silver returned 16.4% and 28.6%, respectively. Year-to-date, their performance has been remarkable - gold is up 44.8%, marking its best year since 1979, while silver has surged 58.1%. Heightened macroeconomic risks, ranging from trade tariffs to geopolitical tensions, reinforced demand for precious metals as safe-haven assets. In addition, record-setting ETF inflows and the devaluation of the U.S. dollar further propelled precious metal prices this year. Whether this elevated price regime can persist remains an open question; however, as long as macroeconomic risks and trade policy uncertainty persist, a significant price reversal appears unlikely.

The energy sector was the main detractor over the period, down 3.3%. Oil prices came under pressure as OPEC+ relaxed voluntary production cuts, increasing supply. At the same time, demand growth stayed muted due to persistent macroeconomic challenges, sluggish global activity, and trade-related uncertainty.

Bitcoin: Bitcoin advanced more than 6% in the third quarter, closing September at \$114,065 after briefly hitting a new all-time high of \$124,128 in August. The rally was fueled by a dovish Federal Reserve stance, steady ETF inflows and growing institutional participation.

Bitcoin's volatility continues to decline as it matures into a mainstream asset class, increasingly viewed as a legitimate portfolio diversifier. Institutional demand strengthened notably in 2025



amid improved regulatory clarity and expanding market infrastructure, positioning Bitcoin as a more integrated component of the global financial system.

We have added a small position in Bitcoin by way of an exchange traded fund (ETF) in some of our clients' portfolios. If you have questions specifically about Bitcoin or other digital assets in general, our investment team is available to discuss them with you.

Economic Outlook

Inflation

Inflation accelerated in August, with the Consumer Price Index (CPI) rising 0.4% for the month and 2.9% over the last year (the highest rate since January 2025), driven mainly by higher food, energy, and shelter costs. Core CPI, which excludes food and energy, increased 0.3% for the month and held steady at 3.1% annually, remaining above the Federal Reserve's 2% target. Core goods inflation remains elevated partly due to tariffs, while service inflation tied to housing and wages has eased somewhat from its earlier peaks.

This uptick in inflation poses new challenges for the Federal Reserve's policy. In September, Fed Chair Jerome Powell noted that inflation risks are rising while employment faces downside pressure, emphasizing the challenge of maintaining both growth and price stability. Should inflation persist above target, the Fed may slow or pause planned rate cuts to prevent renewed price instability. Conversely, if inflation trends lower, policymakers could resume easing to support the labor market. In the months ahead, the Fed's policy direction will be guided by how inflation, labor market trends, and economic growth evolve.

Interest Rates

The Federal Reserve cut the federal funds rate by 25 basis points in September, setting a new target range of 4.00%–4.25%. The move came amid signs of a cooling labor market and easing inflation pressures. The decision, largely anticipated, marked the first rate cut of the year and reflected a cautious shift toward supporting economic growth while keeping a close eye on inflation. Following the decision, the Fed signaled expectations for two additional 25 basis-point cuts in 2025 and likely one more in 2026, indicating that policymakers remain data-dependent and mindful of potential risks to both employment and price stability.

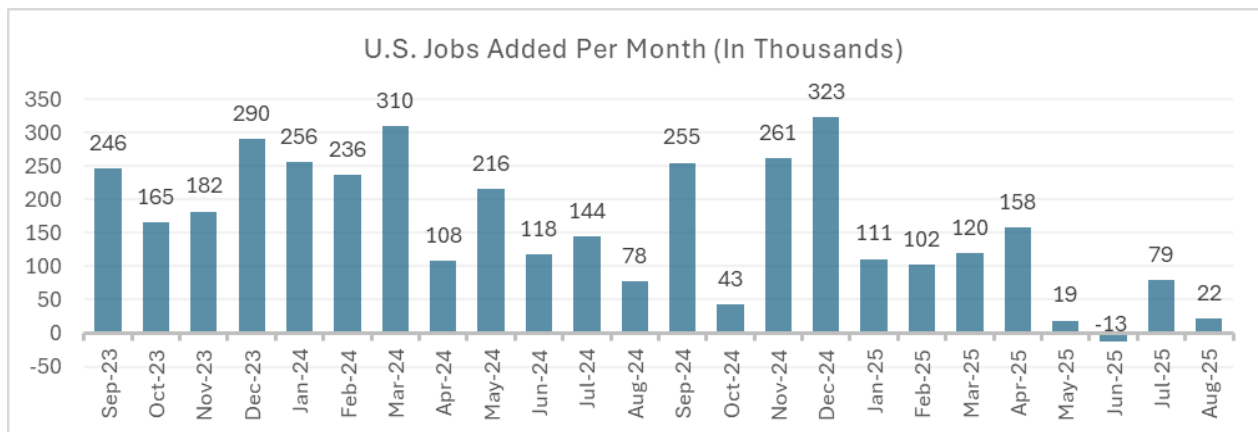
The September cut represents a cautious policy adjustment rather than a turn toward aggressive easing. The Fed's forward guidance underscores a delicate balance: sustaining the recovery in a softening labor market while preventing a resurgence in inflation.

Jobs

Over the third quarter of 2025, the U.S. labor market showed signs of cooling. July's jobs report included a substantial downward revision of both May and June nonfarm payroll figures, while a broader annual benchmark update in September cut the 12-month job gain through March 2025

by over 900,000 positions. In August, the unemployment rate moved up to 4.3%, the highest in several years, but still below the long-term historical average.

Per the Challenger Report, planned layoffs by U.S. employers in the third quarter totaled 202,118, the highest third quarter total since 2020. It is up 16% from the same period in 2024, but down 18% compared to Q2 2025. Year-to-date, companies have announced 946,426 job cuts, the highest number since the pandemic, and up 55% compared to the same period last year.



Source: U.S. Bureau of Labor Statistics

From a sector perspective, the Government has announced almost 300,000 job cuts this year, the majority of them being Federal positions impacted by DOGE. In the Technology sector, over 100,000 cuts have been announced through September, reflecting the significant disruption caused by artificial intelligence, which has displaced workers and made hiring more challenging, particularly for entry-level engineers. Retailers have announced approximately 86,000 job cuts, an increase of over 200% from the same period last year. Per the Challenger Report, seasonal hiring has been slow to materialize, as lower consumer confidence and looming tariff pressures have prompted a more cautious approach heading into the holidays.

Overall, the evidence points to a softening U.S. labor market. Job growth remains positive but is slowing, and the repeated downward revisions reveal vulnerabilities beneath the surface.

Public Warning

We have recently discovered several fraudulent scams that some have been caught up in and lost money because of it. Unfortunately, financial scams are on the rise, and fraudsters are becoming more creative in how they target people. AI is now helping scammers send out alerts, emails and messages that look exactly like real companies. Do not be fooled.

Be cautious of anyone pressuring you to act quickly, whether through phone calls, emails, or texts claiming you've won a prize, owe money, or need to "verify" personal information.



Scammers often impersonate trusted organizations, using official-looking logos or caller ID spoofing to gain your confidence. Remember: never share banking details, passwords, or Social Security numbers with someone you don't know, and be suspicious of requests for payment through gift cards, wire transfers, or cryptocurrency. Never allow anyone that contacts you to have access to your computer or phone. If something feels "off," take a step back, verify the source independently, and trust your instincts—legitimate businesses and agencies will always give you time to confirm before making financial decisions.

Do not ever contact anyone sending one of these messages using the contact information in their message. Always look up main numbers independently. Just because the caller ID says the company name or their email address looks like its coming from that company.com, it still may not be real.

Financial Planning and Services:

Understanding the OBBBA: What It Means for Your Tax and Retirement Planning

The **One Big Beautiful Bill Act (OBBBA)** has reshaped the tax environment in meaningful ways. Go to [One Big Beautiful Bill](#) for changes – how and when they impact you.

Here are the most relevant updates:

Permanent Extension of Tax Brackets

- The OBBBA made the **Tax Cuts and Jobs Act (TCJA)** brackets permanent, providing long-term clarity for income tax planning.
- This stability supports **multi-year Roth conversion strategies** and long-range retirement income modeling.

Expanded Standard Deduction

- For 2025, the **standard deduction increases to \$31,500 for joint filers**.
- An additional **\$6,000 "senior deduction"** per person applies through 2028 for those age 65 and older (subject to phase out limits – see page 7).

Higher SALT Deduction Cap

- The **State and Local Tax (SALT)** deduction cap was expanded to **\$40,000**, up from the prior \$10,000 limit.
- However, this phases out for incomes above \$500,000 (Modified Adjusted Gross Income).



New Income-Based Deductions

- OBBBA introduced **new deductions based on age and income**, with some phasing out at higher income levels (the “senior deduction”)
- These phaseouts can reduce the value of deductions if not carefully managed, particularly when doing Roth conversions or taking large distributions.

Why This Matters Now

- The combination of **stable brackets** and **temporary deductions** (some expire by 2028–2029) creates a planning window.
- Smart timing of conversions and income can help reduce lifetime tax liability and increase after-tax retirement wealth.

Want to Dive Deeper?

Visit these trusted resources:

- Tax Foundation Policy Briefs: taxfoundation.org
- Urban-Brookings Tax Policy Center: taxpolicycenter.org

Roth Conversions After the OBBBA: A New Tax Landscape

The One Big Beautiful Bill Act (OBBBA) did not change Roth or IRA rules, but it reshaped the tax environment around them. This opens potentially new planning opportunities for Roth conversions.

Key Takeaways:

- **Tax Structure Changes, Not Roth Rules:**
 - The Roth framework remains unchanged, but new permanent tax brackets, higher deductions, and temporary boosts (e.g., SALT cap, senior deductions) affect how conversions should be timed and modeled.
- **New Standard Deduction Levels with Limits:**
 - Higher standard deductions (e.g., \$31,500 for joint filers in 2025)
 - New senior deductions (\$6,000 per person through 2028) begin to phase out for individuals with a Modified Adjusted Gross Income (MAGI) of \$75,000 and for married couples filing jointly at \$150,000. It phases out completely at \$175,000 for singles and \$250,000 for joint filers See page 9 for how to figure your MAGI.
 - Expanded State and Local Tax (SALT) deduction cap (\$40,000, with phaseouts starting at \$500,000 MAGI)

Optimize Conversion Timing:

- With tax bracket certainty but temporary deduction windows, a **multi-year strategy** is often better than large, one-time conversions.
- **Model Carefully to Avoid Phaseouts:**
 - Conversions can trigger income-based phaseouts that reduce deduction benefits. Modeling your tax profile helps avoid “tax cliffs.”

Roth Conversions and Tax Tradeoffs

Converting to a Roth IRA means paying taxes now. The amount you convert is treated as income for the year, which could bump you into a higher tax bracket or affect things like Medicare premiums or [ACA subsidies](#). The best-case scenario is having cash on hand to pay the tax bill. If you end up using retirement funds to cover the tax, it can reduce the long-term benefit of the move and may even trigger penalties if you are under 59½.

Additionally, Roth conversions work best when given time. If you are close to retirement or will need the funds soon, the tax cost may not be recouped in time to make the strategy worthwhile.

Roth vs Traditional IRA: What If Tax Rates Are the Same?

When your current and future tax rates are equal, and you pay the conversion taxes from outside funds, the Roth and Traditional IRAs deliver the same after-tax value over time.

For example, converting \$100,000 to a Roth IRA at a 20% tax rate produces the same result as keeping it in a Traditional IRA and paying 20% tax upon withdrawal as long as the investment performance is identical. Both account types grow side by side with no long-term advantage to either.

If tax rates are the same and you are paying taxes externally, the result is mathematically the same. But often people do not face that clean, predictable scenario, so Roth conversions are at times more about strategic tax timing, RMDs, or estate planning preferences.

Bottom Line:

OBBBA did not change the Roth rules, it changed the math. Smart, staged conversions and updated rules and limits can help you take advantage of today’s deductions while planning for long-term tax efficiency.

For our full service clients, if you wish to discuss Roth conversion strategies with your specific situation in mind, reach out to Bryan (btotri@stjohnfinancial.com) and he will discuss it further with you.



Families with College Students or Recent Graduates

The college planning landscape continues to evolve, and this fall brings several key updates and opportunities:

- **FAFSA Update:** The simplified FAFSA form for the 2025–2026 academic year opens on October 1, 2025. Families should prepare early to take advantage of any available aid and understand updates to the Student Aid Index (SAI) formula.
- **529 Strategy Reminder:** Under new rules, certain unused 529 plan funds can now be rolled into Roth IRAs, subject to contribution limits and eligibility. This option can help maximize the long-term value of leftover education savings. Click [HERE](#) for more information.
- **Merit Aid Timing:** Many colleges begin scholarship application windows in October and November. Mark these dates early to avoid missing opportunities for institutional aid.

The risk of an “AI divide” is Real

The risk of an “AI Divide” seems to be growing by the day, separating those who harness AI’s power from those left watching from the sidelines. This divide is not just about tech elites versus everyone else. It cuts across economic lines, educational backgrounds, and communities everywhere.

It’s a huge topic, not easily addressed in a single newsletter. Our recommendation to get started is to read a good book on the topic. We like [*Your AI Life, by Scott A. Snyder*](#). *Your AI Life* helps make AI practical and real for people at every stage of life.

What is the IRMAA, and Should I Worry About It?

Income-Related Monthly Adjustment Amount (IRMAA) is an extra premium added to Medicare Part B (medical insurance) and Part D (prescription drug coverage) for higher-income beneficiaries. It’s based on Modified Adjusted Gross Income ([MAGI](#)) from your tax return two years prior. For example, your 2023 income determines your 2025 IRMAA.

Why It Matters

If your income exceeds certain thresholds, you will pay **higher monthly Medicare premiums**, sometimes hundreds more per month. Even a **one-time income event** (like a Roth conversion or asset sale) can trigger IRMAA.

When Not to Worry

If your income stays below the thresholds or you have had a **life-changing event** (retirement, divorce, death of a spouse), you can often **appeal** through SSA Form SSA-44. A temporary income spike usually affects only one year.



How to Avoid or Reduce IRMAA

- **Plan income carefully:** Time Roth conversions, capital gains, and withdrawals to stay below thresholds.
- **Use QCDs:** Direct IRA donations to charity after age 70½ to lower taxable income.
- **File an appeal:** If your income has recently dropped, request a lower IRMAA tier using [SSA-44](#).

Here are the 2025 IRMAA income thresholds (based on MAGI in 2023) for Medicare **Part B** and **Part D** (the surcharge stops being zero above these levels:

Filing Status	MAGI Thresholds	IRMAA Begins Above This
Single / Head of Household / Qualifying Surviving Spouse	> \$106,000	First surcharge tier begins just above \$106,000
Married Filing Jointly	> \$212,000	First surcharge tier begins just above \$212,000
Married Filing Separately	> \$106,000	Special (higher) surcharge structure applies for many in this

Above those thresholds, there are multiple graduated tiers. For example, in 2025:

- Single MAGI from **\$106,001 to \$133,000** triggers the first surcharge tier for Part B & D
- For joint filers, the first tier is from **\$212,001 to \$266,000**.
- The highest tier's threshold is **\$500,000+ for singles** or **\$750,000+ for married filing jointly**.

Here again is a good primer and worksheet on how to calculate you [MAGI](#).

Last-Chance Financial Planning Checklist

Each year we make this checklist available to our clients - all our clients, not just our full-service planning clients. It's a simple checklist that covers only those areas that need attention at year end – taxes, retirement savings, investments, insurance, and medical. It might take you five minutes, tops.

This year we have an online version for you. Click [HERE](#).

For our valued financial planning clients, after reviewing the Checklist, do not hesitate to contact us if there are any questions or action items you want to address before year-end.

If you are not a planning client, let us know if you are interested and we would be happy to discuss the details about how to become one.



MARKET INDEX RETURNS

Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

Asset Class	Benchmark	Q3 2025	YTD	1 Year	3 Years	5 Years	10 Years
US Equity	Dow Jones Industrial Average	5.67	10.47	11.50	19.63	12.98	13.50
	S&P 500	8.12	14.83	17.60	24.94	16.47	15.30
	S&P 500 Equal-Weighted	4.84	9.90	7.85	16.44	13.97	12.10
	Russell 1000	7.99	14.60	17.75	24.64	15.99	15.04
	Russell 1000 Growth	10.51	17.24	25.53	31.61	17.58	18.83
	Russell 1000 Value	5.33	11.65	9.44	16.96	13.87	10.72
	Russell MidCap	5.33	10.42	11.11	17.69	12.66	11.39
	Russell MidCap Growth	2.78	12.84	22.02	22.85	11.26	13.37
	Russell MidCap Value	6.18	9.50	7.58	15.51	13.66	9.96
	Russell 2000	12.39	10.39	10.76	15.21	11.56	9.77
	Russell 2000 Growth	12.19	11.65	13.56	16.68	8.41	9.90
	Russell 2000 Value	12.60	9.04	7.88	13.56	14.59	9.23
	Russell 3000	8.18	14.40	17.41	24.12	15.74	14.71
Non-US Equity	MSCI World	7.27	17.43	17.25	23.72	14.41	12.43
	MSCI All Countries World ex-US	6.89	26.02	16.45	20.67	10.26	8.23
	MSCI EAFE	4.77	25.14	14.99	21.70	11.15	8.17
	MSCI EAFE Growth	2.23	18.55	7.76	17.84	6.64	7.92
	MSCI EAFE Value	7.39	31.92	22.53	25.66	15.66	8.16
	MSCI Emerging Markets	10.64	27.53	17.32	18.21	7.02	7.99
Fixed Income	Bloomberg US Agg.	2.03	6.13	2.88	4.93	-0.45	1.84
	Bloomberg US Agg. 1-3 Year	1.20	4.16	4.14	4.71	1.78	1.92
	Bloomberg US Government	1.51	5.35	2.08	3.58	-1.27	1.20
	Bloomberg US Credit	2.57	6.90	3.65	6.87	0.33	3.00
	Bloomberg US Corp. High Yield	2.54	7.22	7.41	11.09	5.55	6.17
Real Assets	Bloomberg Commodity	3.65	9.38	8.88	2.76	11.53	3.96
	S&P GSCI Gold	16.40	44.79	44.10	31.31	14.89	13.03
	Dow Jones US Real Estate	5.10	4.48	-1.73	10.46	9.42	5.64
Cash	Fidelity Money Market	1.01	3.05	4.19	4.60	2.86	1.96

Source: Morningstar

St. John & Associates, Inc.