

Investment Insights

A Quarterly Publication | Forward-Looking Perspectives | October 2025

Our Philosophy: We believe a broadly diversified portfolio offers clients the best opportunity to achieve their long-term goals while taking the least amount of necessary risk. At the same time, we remain mindful of economic realities that may influence how portfolios are constructed and adjusted over time.

Assumptions & Outlook

- **Inflation:** The 12-month CPI through September 2025 has crept higher to roughly 2.8%, up from 2.6% mid-year, as housing and service costs continue to exert upward pressure. While still below last year's levels, inflation progress has slowed, and risks have tilted slightly to the upside.
- **Core CPI (ex-food and energy)** remains near 2.9%, reflecting persistent shelter and medical-service inflation.
- **Federal Reserve Policy:** The Fed cut rates in September 2025 by .25%, the first cuts since December 2024. They have signaled two possible **rate hikes** in the months ahead. Policymakers continue to emphasize "data dependence," balancing the risk of renewed inflation against a gradually cooling labor market.
- **Equities:** The S&P 500 delivered a **8.1% total return in Q3 2025** and is up **14.8% YTD (total return, including dividends)**. Earnings growth has moderated but remains positive amid resilient consumer activity and improving margins.
- **Circuit Breaker:** Our 12-month moving-average indicator for the S&P 500 shows a "**Normal**" signal, which is 11.3% above the "**Underweight**" level.
- **Fixed Income:** Intermediate Treasury yields have risen modestly as markets price in the possibility of renewed tightening later in 2025, though expectations for easing in 2026 remain.
- **Money Markets:** Seven-day yields remain around 3.75 % annualized, keeping cash holdings attractive for near-term liquidity.
- **Macro Backdrop:** Unemployment has edged up to roughly 4.3%, and monthly job gains have slowed to a modest pace. Many firms are in a "low-hire, low-fire" mode, cautious about expansion. Inflation has been **creeping higher**, with several reports suggesting headline and core CPI may hover near 3 % through year-end. The Fed has acknowledged that inflation's decline has stalled and may act again to ensure it remains contained. Overall growth remains positive but uneven, leaving policy and markets finely balanced heading into 2026.

Portfolio Implications

- **Distribution-Phase Clients:** As markets adjust to shifting Fed policy and moderating growth, a balanced stance remains appropriate. High-quality fixed income can lock in real yields, while cash reserves help fund withdrawals without forcing equity sales during volatility.
- **Accumulation-Phase Clients:** Continue systematic contributions and rebalance as needed to maintain target allocations. Fixed income yields are attractive, but may decline if rate cuts begin later in 2025.
- **Fixed Income:** As the interest-rate cycle shifts, consider adding to high-quality bonds to capture attractive yields. Emphasize quality and stability to help preserve capital and support dependable income.
- **Equities:** With the U.S. stock market at, or near, record highs, and valuations high, maintaining the discipline of a Target Investment Policy by rebalancing is advisable. U.S. large-cap remains a core holding, while international and small-cap exposure add diversification potential.
- **Overall Discipline:** Stay invested, stay diversified, and avoid reactive moves to short-term headlines. The discipline provided by a Target Investment Policy, with periodic rebalancing, is an excellent long-term management strategy.

As always, thank you for your trust and confidence.



INDEPENDENT WEALTH MANAGEMENT

Jay Berger, CFP®
jay.berger@iwmusa.com

Steve Fisher, CFP®
steve.fisher@iwmusa.com

Scott Hackney, CFP®
scott.hackney@iwmusa.com

236 1/2 East Front Street
Traverse City, Michigan 49684
231 929 1086 tel
888 929 1086 toll free
231 346 5959 fax
www.iwmusa.com

Disclosure: 1. This presentation may include forward-looking statements. Although we believe these expectations are reasonable, we can provide no assurance they will prove to be correct.2. Past performance is not indicative of future results.3. Investments are subject to risk, including loss of principal.4. This material is not individualized investment advice. Please consult your advisor for guidance tailored to your specific circumstances.5. Content may include copyrighted material used with permission. Reproduction is prohibited. Independent Wealth Management, LLC is a SEC Registered Investment Advisor.6. This newsletter was primarily written by IWM, but reviewed and enhanced by ChatGPT.