Capital Market Review

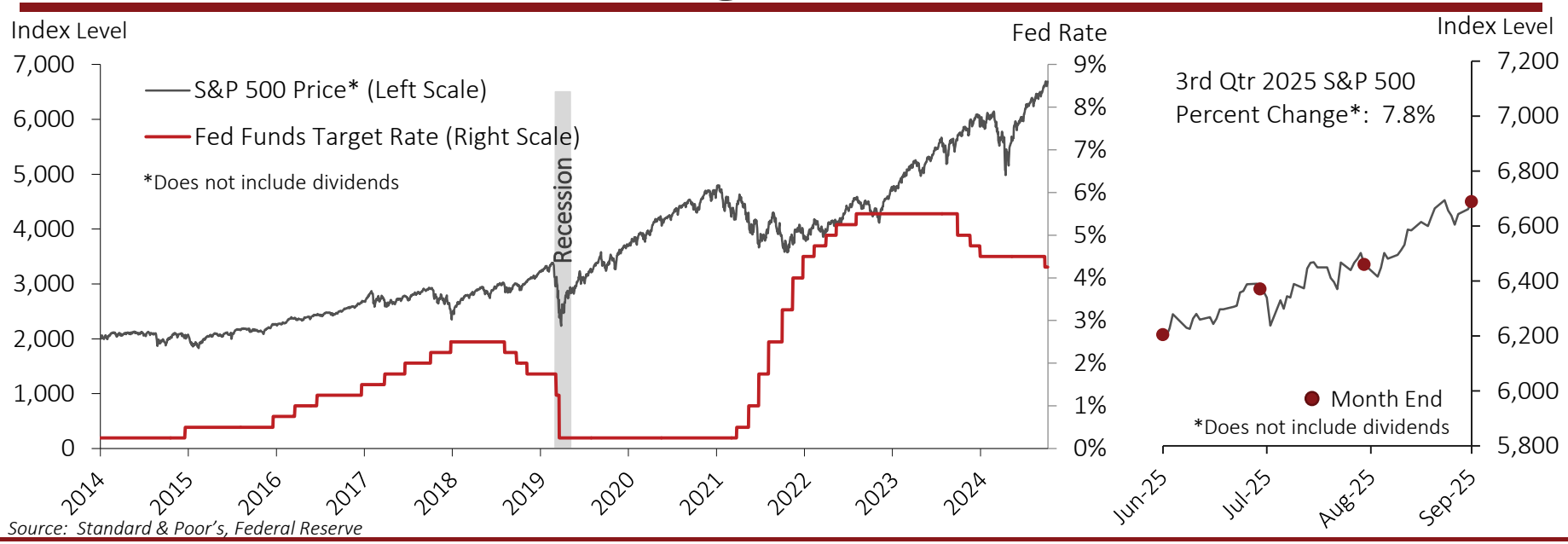
September 30, 2025



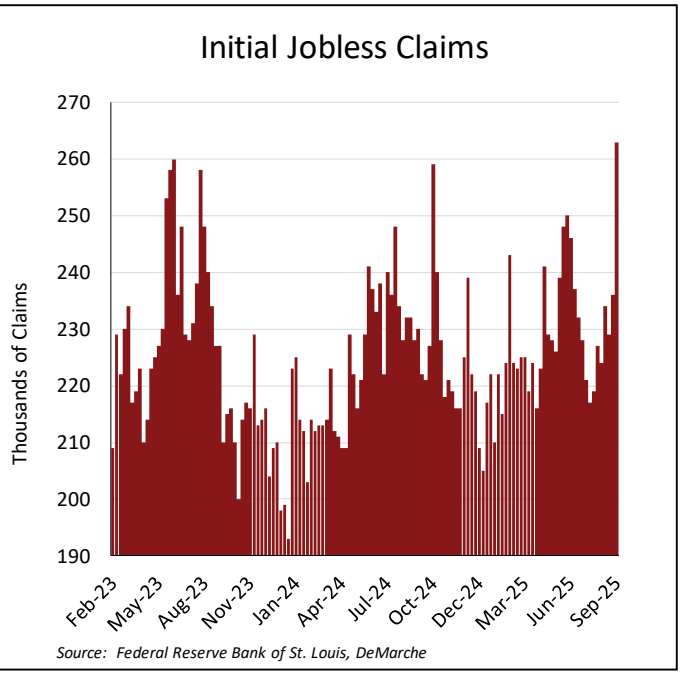

DeMarche

Watch the Capital Markets Review Key Takeaways Video

Waiting For the Fed

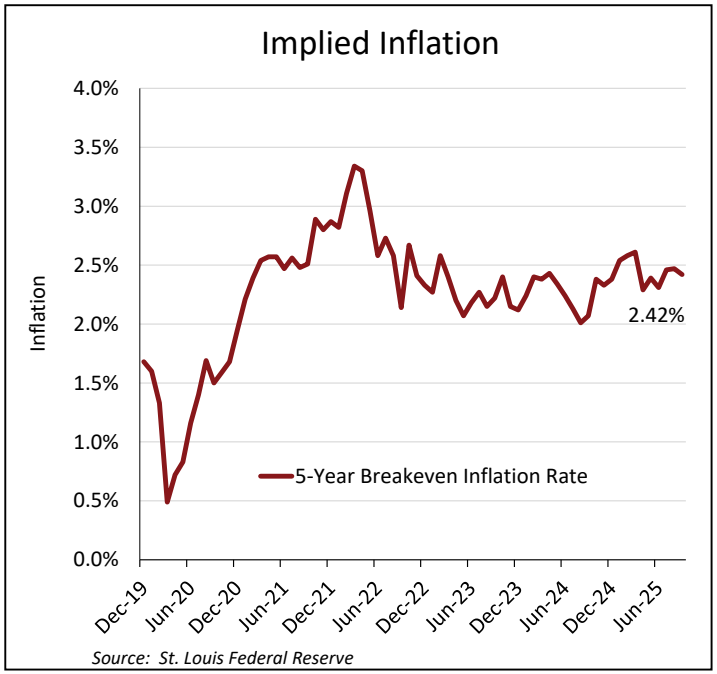


Source: Standard & Poor's, Federal Reserve



Source: Federal Reserve Bank of St. Louis, DeMarche

The Federal Reserve cut interest rates by 25 basis points late in September. Jobless claims (left chart), which are released weekly, spiked up in late September. Inflation expectations (right chart) show slight moderation over the longer term. Cracks in the labor market and a potential slowdown in economic growth outweighed inflation risks, as the Fed considered its rate policy. Despite economic risks, markets across the globe hit all-time highs in the quarter as future interest rate cuts provide a backstop to markets.



Source: St. Louis Federal Reserve

Broad Market Overview

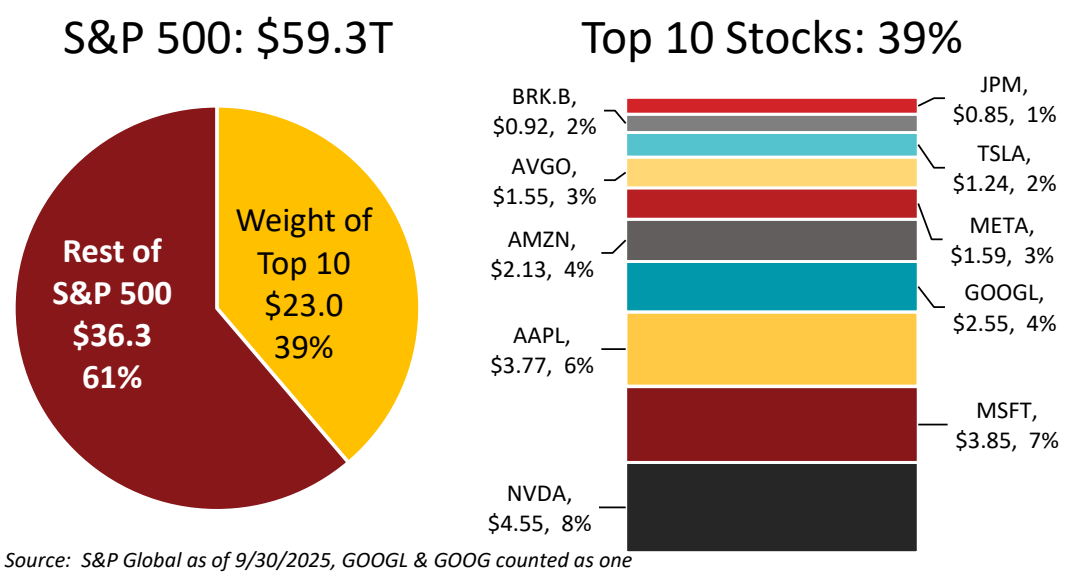
September 30, 2025

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	7.3	17.4	17.2	23.7	14.4	12.4
Russell 3000	8.2	14.4	17.4	24.1	15.7	14.7
S&P 500	8.1	14.8	17.6	24.9	16.5	15.3
MSCI EAFE USD	4.8	25.1	15.0	21.7	11.2	8.2
MSCI Emerging Markets USD	10.6	27.5	17.3	18.2	7.0	8.0
Bloomberg Aggregate	2.0	6.1	2.9	4.9	-0.4	1.8
Bloomberg Global Aggregate	0.6	7.9	2.4	5.4	-1.6	1.1
FTSE Non-US Gov't Bond	-0.8	9.0	1.3	5.2	-4.2	-0.2
NAREIT (Public RE)	2.7	4.5	-4.1	8.3	6.8	6.5
Bloomberg Commodity	3.6	9.4	8.9	2.8	11.5	4.0

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

Indicator Year Ending 9/30	2025	2024	2023	2022	50-YEAR Average
GDP Annual Growth Rate*	3.8	2.8	3.2	2.3	2.8
Unemployment*	4.3	4.1	3.8	3.5	6.1
Inflation (CPI)	3.0	2.4	3.7	8.2	3.7
10-Year Interest Rate	4.2	3.8	4.6	3.8	5.9

**Note: Prior to the GDP quarterly release from BEA, we show the most recent GDP Now growth rate estimate from the Federal Reserve Bank of Atlanta. September values for GDP and Unemployment are not available due to gov't shutdown. August values were used for September.*



Source: S&P Global as of 9/30/2025, GOOGL & GOOG counted as one

- Global markets advanced again during the quarter. The rebound from the 2022 lows has been substantial, with most major market returns showing strong double digit returns. The Federal Reserve's 25 basis point rate cut provided some additional stability to equity markets.
- International stocks, which have lagged U.S. equities over the longer term, are ahead year-to-date and roughly in line over the past twelve months. The dollar's weakening in 2025 relative to other major currencies has provided a tailwind for overseas markets.
- Bonds delivered primarily coupon income during the quarter. The ten-year Treasury yield began the period at 4.24%, trended higher mid-quarter, and ended at 4.16%, offering a modest tailwind to fixed income returns.
- The top ten stocks in the S&P 500 add up to over $23 trillion at the end of September, making it about 39% of the entire S&P 500's $59.3 trillion in market cap. The S&P 500 has never been this top heavy in its history.

DeFact

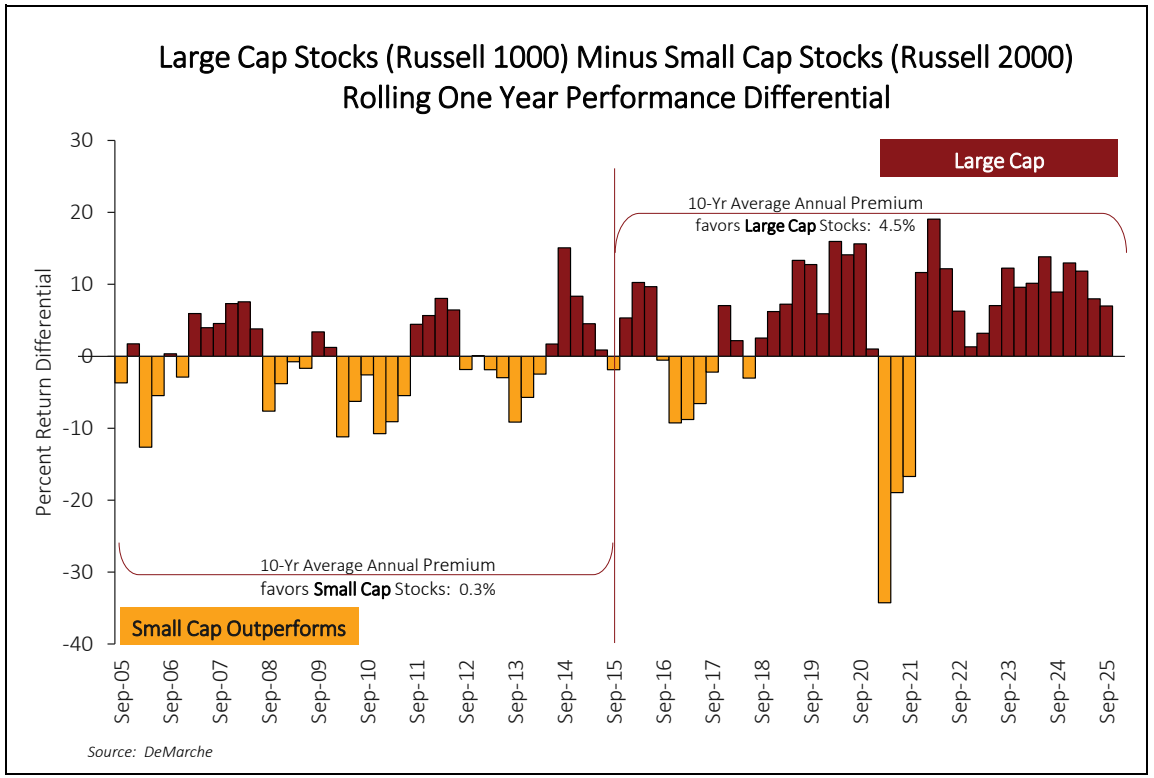
In comparison to the market cap size of the S&P 500, the next three countries after the U.S., in market cap are China at about $12 trillion, Japan at $6.4 trillion and the UK at $3.2 trillion. ~JPM, Stockcharts, Macrotrends.

Domestic Equities

September 30, 2025

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	8.1	14.8	17.6	24.9	16.5	15.3
S&P Mid-Cap 400	5.5	5.8	6.1	15.8	13.6	10.8
S&P Small-Cap 600	9.1	4.2	3.6	12.8	12.9	10.0
Russell 1000	8.0	14.6	17.7	24.6	16.0	15.0
Russell 1000 Growth	10.5	17.2	25.5	31.6	17.6	18.8
Russell 1000 Value	5.3	11.7	9.4	17.0	13.9	10.7
Russell 2000	12.4	10.4	10.8	15.2	11.6	9.8
Russell 2000 Growth	12.2	11.7	13.6	16.7	8.4	9.9
Russell 2000 Value	12.6	9.0	7.9	13.6	14.6	9.2

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



- Large-cap growth stocks again outperformed large-cap value stocks in the quarter, continuing the trend from the second quarter and rebounding from the April 2025 growth-stock low point. As the negative 2022 results roll off the three-year window, growth stocks now show stellar performance.
- Small-cap stocks outperformed large caps during the quarter, as interest rate cuts tend to benefit small caps in the short term. Returns for small-cap growth and value stocks were roughly in line with each other. Interestingly, small-cap financials—the largest weight in the small-cap value index—lagged other sectors, while small-cap healthcare stocks performed well but still show only middling longer-term results.
- The chart to the left illustrates the dominance of large cap stocks over small cap stocks in the past decade. Over the past ten years, we have seen one period of substantial outperformance for small caps, which was their strong rebound post COVID. Over the decade, the mega cap stocks have generated strong earnings leading to their dominance.

DeFact

Nvidia passed $4 trillion in market capitalization for the first time on July 9, 2025. The company became the first in the world to reach this milestone and at the end of the quarter, remains the sole resident of the $4+ trillion club.

~DeMarche

International Equities

September 30, 2025

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	5.4	13.6	12.9	16.9	12.5	8.6
MSCI EAFE USD	4.8	25.1	15.0	21.7	11.2	8.2
Growth	2.2	18.5	7.8	17.8	6.6	7.9
Value	7.4	31.9	22.5	25.7	15.7	8.2
MSCI All Country-ex US	6.9	26.0	16.4	20.7	10.3	8.2
MSCI AC Asia-ex Japan	10.8	26.8	17.2	18.8	6.4	8.5
MSCI Emerging Markets	10.6	27.5	17.3	18.2	7.0	8.0
MSCI EAFE Small Cap	6.2	28.4	17.7	19.6	8.5	7.9
MSCI Japan	8.0	20.7	16.4	21.2	9.0	8.2
MSCI China	20.7	41.6	30.8	19.5	0.4	6.8
MSCI Germany	-1.1	32.9	25.3	30.9	10.4	8.1
MSCI France	3.2	24.3	11.5	20.4	12.2	8.8
MSCI UK	5.9	26.3	17.7	21.9	15.4	7.2

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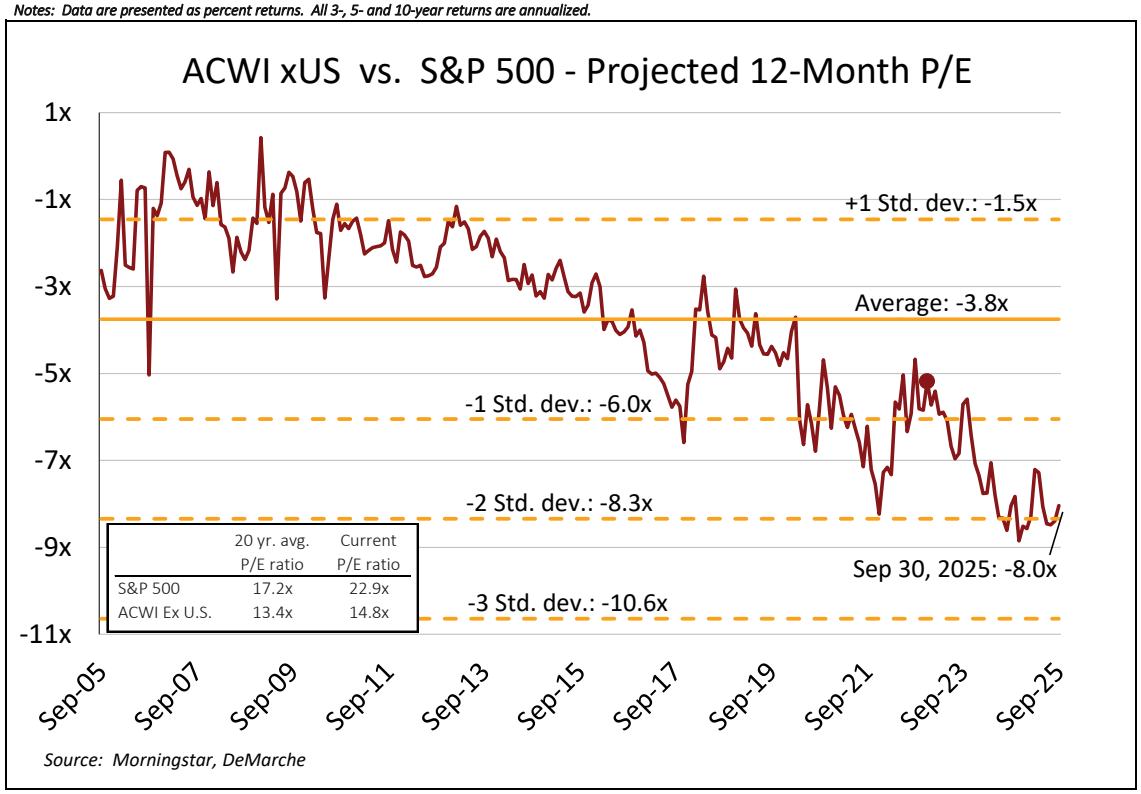

Source: Morningstar, DeMarche

- The U.S. dollar halted its weakening trend in the third quarter and traded within a relatively narrow range. Without the tailwind of a declining dollar, international returns were modest compared with domestic stock performance.
- Emerging market stocks, however, performed roughly in line with domestic equities during the quarter. Chinese stocks delivered strong gains of more than 20%, supported by enthusiasm for artificial intelligence (AI) companies and government-led economic stimulus measures.
- Despite the earlier tailwind to international performance from a weaker dollar this year, valuation comparisons continue to favor international markets. The chart to the left shows that while international price/earnings ratios remain in line with historical norms, U.S. equities appear expensive relative to their history. The valuation gap is as wide as it has been in the past two decades.

DeFact

A race to lead AI technology may be underway. The Chinese government is bolstering efforts to lead technology with an $8.4 billion AI investment fund to support startups. Also, China was second only to the U.S. in the share of data center electricity consumption in 2024 according to the IEA. ~Schwab

INDEX	3rd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	2.0	6.1	2.9	4.9	-0.4	1.8
Bloomberg 1-3 Gov Credit	1.2	4.1	4.1	4.7	1.8	1.9
Bloomberg Gov Credit Long	3.2	6.6	-1.3	4.0	-4.6	1.9
Bloomberg US TIPS	2.1	6.9	3.8	4.9	1.4	3.0
ICE BofA Merrill Lynch High Yield	2.4	7.1	7.2	10.9	5.5	6.1
S&P UBS Levrgd Loan (bank loans)	1.7	4.7	7.1	9.7	6.9	5.4
Bloomberg Global Aggregate	0.6	7.9	2.4	5.4	-1.6	1.1
JPM EmgMkt Bd Glbl Dvrsfd (hard)	4.8	10.7	8.5	12.3	2.3	4.2

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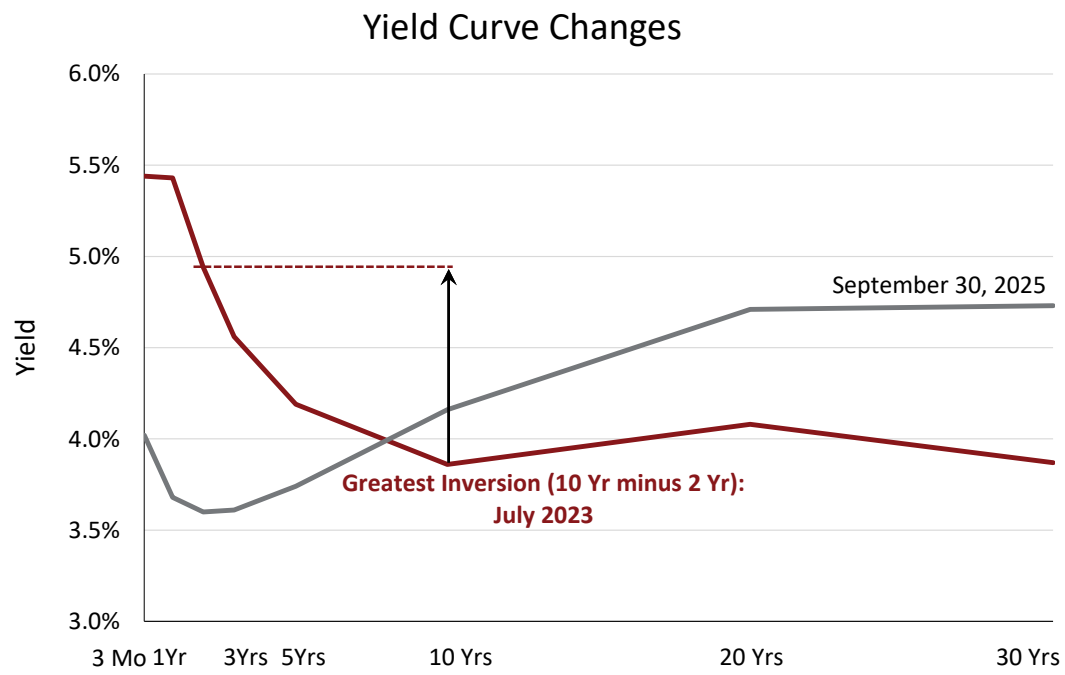

Source: Federal Reserve of St. Louis (FRED)

- Core bonds, represented by the Bloomberg U.S. Aggregate Bond Index, rose 2.0% in the third quarter as yields broadly declined across the Treasury curve amid easing inflation concerns. Although inflation remains above target, recent data indicates it is moving closer to the Fed's 2% goal.
- High-yield bonds returned 2.4% for the quarter, supported by still-tight credit spreads relative to Treasuries. Corporate earnings growth remains positive, providing a buffer for lower-quality issuers, and default rates continue to run below long-term averages.
- The chart to the left highlights the pronounced shift in the Treasury yield curve over the past two years. Yields on longer maturities (five to seven years and beyond) have risen, while shorter-term yields have fallen in response to slowing economic fundamentals and the Federal Reserve's rate cuts. The two-year Treasury yield has declined from nearly 5% in July 2023 to about 3.5% currently.

DeFact

We have discussed in the past that credit spreads are "tight" to Treasuries in the investment grade and high yield sectors. But how tight are they? Investment grade spreads are averaging about 75 basis points to Treasuries compared to a 25 year average of about 150 basis points. As for high yield, spreads are averaging about 270 basis points to Treasuries compared to a 25 year average of about 500 basis points. ~JPM

Less Liquid Strategies – Lagged One Quarter

September 30, 2025

INDEX	Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	1.0	2.1	3.5	-5.4	3.4	5.3
NCREIF Property (Private RE)	1.2	2.5	4.4	-2.7	3.7	5.2
Residential	1.4	2.7	5.0	-1.7	4.8	5.5
Industrial	1.0	2.3	4.6	-0.6	12.3	12.5
Office	0.8	1.6	0.1	-7.6	-2.9	1.6
Retail	1.9	3.7	7.6	2.3	2.6	3.2
NCREIF Timberland	1.4	2.3	5.3	8.7	8.2	5.4
NCREIF Farmland	0.3	0.4	-1.2	3.2	4.8	5.6
HFR FOF Composite	3.3	2.9	7.4	6.6	6.2	3.8
Conservative	1.9	2.9	6.0	5.6	6.2	3.8
Diversified	3.0	3.1	7.7	6.6	6.5	4.0
Preqin Private Equity	2.5	3.7	7.5	5.0	14.8	13.2
Preqin Private Debt	1.7	3.2	7.3	7.9	10.9	8.4
Preqin Infrastructure	2.4	4.5	8.8	8.9	11.4	9.7

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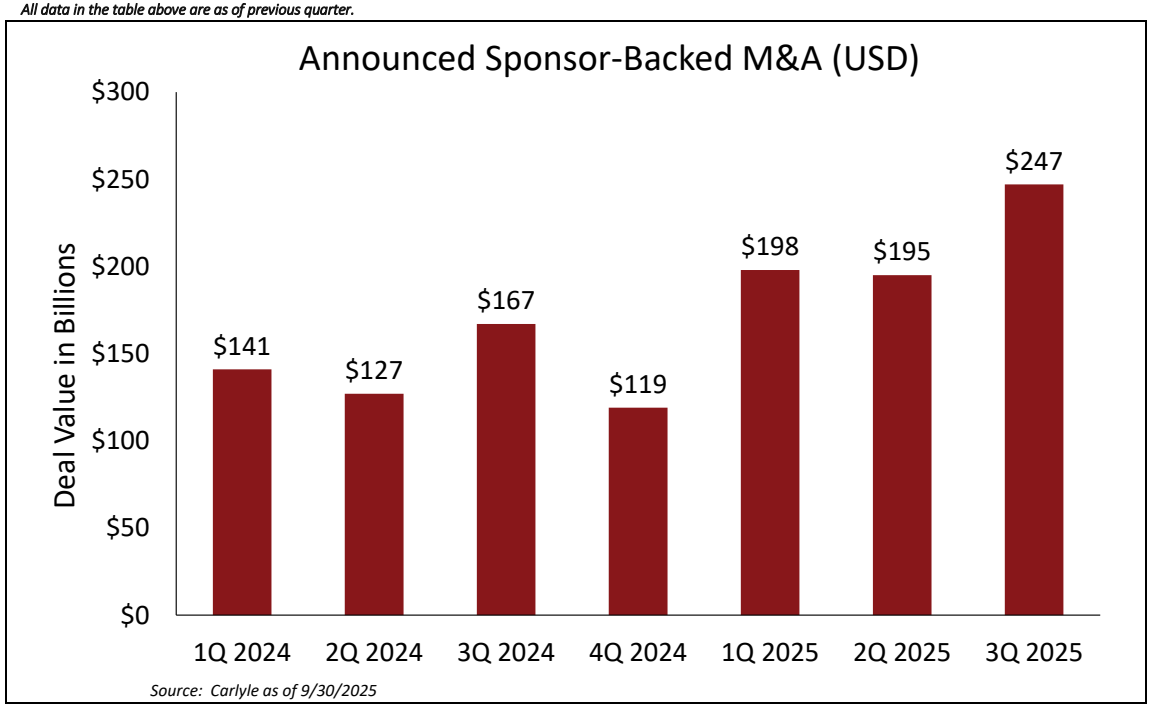
All data in the table above are as of previous quarter.



Source: Carlyle as of 9/30/2025

- The real estate market looks to be firming up in recent quarters. After the longer-term drawdown in prices, real estate has now posted four quarters in a row of positive returns. Office properties are now showing a slight positive return for the past year. Lower interest rates are constructive to real estate returns in the longer term.
- Private equity, which has been lagging public market returns, continues to lag in momentum-driven markets, such as what we are seeing with publicly traded large cap growth stocks.
- Private debt has posted decent returns compared to public market bond returns over the longer term. In the near term, lower credit quality public markets, such as high yield and bank loans, have posted returns in-line relative to private markets.
- The chart shows that U.S. private equity sponsor-backed deals have steadily outpaced 2024 volumes. While activity from financial sponsors is increasing, it has been lower than historical averages. In both the public and private loan market, there seems to be more lenders than borrowers, leading to a wave of repricing and subsequently tighter credit spreads.

DeFact

According to the American Society of Civil Engineers (ASCE), planned infrastructure projects (water, power, transit, airports) total $7.4 trillion over the next ten years of which $4.3 trillion is funded, leaving a $3.1 trillion gap. ~ASCE

DeMarche Winter 2025 Webinar Series

Join us for the DeMarche Winter Webinar Series. Learn about the demographic transition underway in America and its implications for institutional investors; the evolution of emerging markets, and how to best approach the private credit asset class. Each webinar will last 30 minutes, providing you with timely, actionable ideas in a concise format. Register for any or all of these sessions to gain insight into the critical investment issues, market forces, and industry trends that will impact your investment strategies and portfolio returns in the coming year and beyond.

Capital in Transition: Demographics, Public Markets, and the Institutional Allocation Shift

Register

Tim Marchesi, CFA, President & CEO | Emma Xie, CFA, Analyst, Treasury and Investment Services
Tuesday, November 18, 2025
10:30 AM - 11:00 AM Central

More than half of Baby Boomers have now reached retirement age. In fact, there are an average of fewer than four working-age Americans supporting one senior citizen. Studies have shown that countries with older populations normally have slower productivity growth, less innovation, and face pressures on housing, education, and technology. Join us to gain a better understanding of what challenges and opportunities this historic period of demographic transition will bring to capital markets, institutional retirement savings, and hear our view of what steps institutional investors can take to adapt their portfolio strategies.

The Evolution of the Emerging Markets

Register

Jim Dykstal, CFA, Senior Consultant | Luke Crawford, Analyst, Treasury and Investment Services
Thursday, November 20, 2025
10:30 AM - 11:00 AM Central

Emerging markets have experienced two distinct eras: the “Glory Days” of the early 2000s and the “Dark Days” from 2012 through the present. The good times were fueled by China’s WTO entry, booming commodities, and strong currencies that fueled global growth. The downturn arrived as growth matured and the dollar strengthened. Now it seems the tide may be turning again. Supply chain shifts, demographic trends, and advances in technology are reshaping the opportunity set and setting the stage for a more balanced and selective era in emerging markets. Join us to learn what this next stage of transformation may mean for institutional investors and how they can identify when and where structural changes are creating opportunity.

Navigating Private Credit: An Institutional Approach

Register

Mark Andes, Senior Consultant | Chad Gloudeman, Senior Analyst, Investment Manager Research
Wednesday, December 3, 2025
10:30 AM - 11:00 AM Central

Given the rapid growth of private credit the past decade and the nuanced attributes of investing in complex loans, how should institutions approach the asset class? Join us to learn about the key attributes institutional investors should understand and the steps to take when making prudent decisions about investing in this growing and important asset class.