

Summary: In the third quarter of 2025, global equity markets posted strong returns in the face of increasing unemployment and persistent inflation. Reports of positive developments within AI are driving technology stocks even higher, while attractive prices abroad are giving international markets a boost as well. The beginning of the Fed rate cut cycle in September may provide a small tailwind to the equity markets.

Five Key Things to Know About Q3 2025

1. Tech Stocks Take Center Stage

Among many positive reports, these figures stood out to us during Q3:

- Oracle's stock jumped 36% in one day after revealing a 359% increase in cloud infrastructure contracts.¹
- Microsoft reported cloud revenue growth of 27% year over year.²
- Nvidia's quarterly data center revenue was \$41.1B, up 56% from a year ago.³

“Cloud and AI is the driving force of business transformation across every industry and sector”. – Satya Nadella, CEO Microsoft, July 2025

All this to say, some tech stocks seem to be meeting investors' expectations. The three companies mentioned above represent nearly 18% of the S&P500 as of 9/30, so we can expect their outlooks to materially affect the overall market.⁴

2. Jobs Market Shows Unusual Pattern

August's employment report reveals an interesting dynamic within the job market, one the Fed is following closely. Just 22,000 jobs were added, the weakest showing since the pandemic recovery, yet unemployment held steady at 4.3%.⁵ What's really happening? Simply, fewer people are getting hired, fewer people are getting fired, and more people are stepping out of the job hunt altogether. Fed Chair Powell called it a "curious kind of balance," and he's not wrong. The labor force participation rate has quietly declined, meaning the job market isn't collapsing, it's just....pausing.

3. Fed Cut Interest Rates 0.25%

The Fed cut rates in September by 0.25%. This affects investors in a few ways:

- 1) **Bonds prices increase:** When rates go down, bond prices go up. Investors benefit from price appreciation in bonds they already own, but will have to settle for lower yields on bonds they are looking to buy after the cut. However, there remains a distinction with long-term bonds, as they do not always respond to rate cuts in the same way or with the same consistency.
- 2) **Interest on Cash will fade:** High-yield savings, CD's, and money market yields will drop in-step with the fed.
- 3) **Borrowing costs ease:** Credit cards and variable loans ease first, followed more slowly by fixed-rate loans. Overall, household debt pressure should lighten.

“With Policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance”.
– Jerome Powell, August 2025

4. One Big Beautiful Bill – Gifting Opportunity

In July 2025, Congress passed the "One Big Beautiful Bill," which will impact charitable gift deductions starting January 1, 2026.⁶ Below are the key takeaways:

1. **0.5% AGI Floor:** Charitable deductions will be subject to a floor equal to 0.5% of AGI. For example, a couple earning \$600,000 AGI would **not** be able to deduct the first \$3,000 of donations ($\$600,000 \times 0.5\%$).
2. **Ordering Rules Apply:** The floor is applied before existing AGI percentage limits, with certain types of contributions (like capital gains property to private foundations) reduced first before cash gifts to public charities.

Therefore, higher income households should consider consulting with their CPA to review the benefits of accelerating year-end giving into 2025. This strategy captures full deductibility under current rules and avoids the new floor that takes effect in 2026.⁵

5. International Stocks & the Dollar

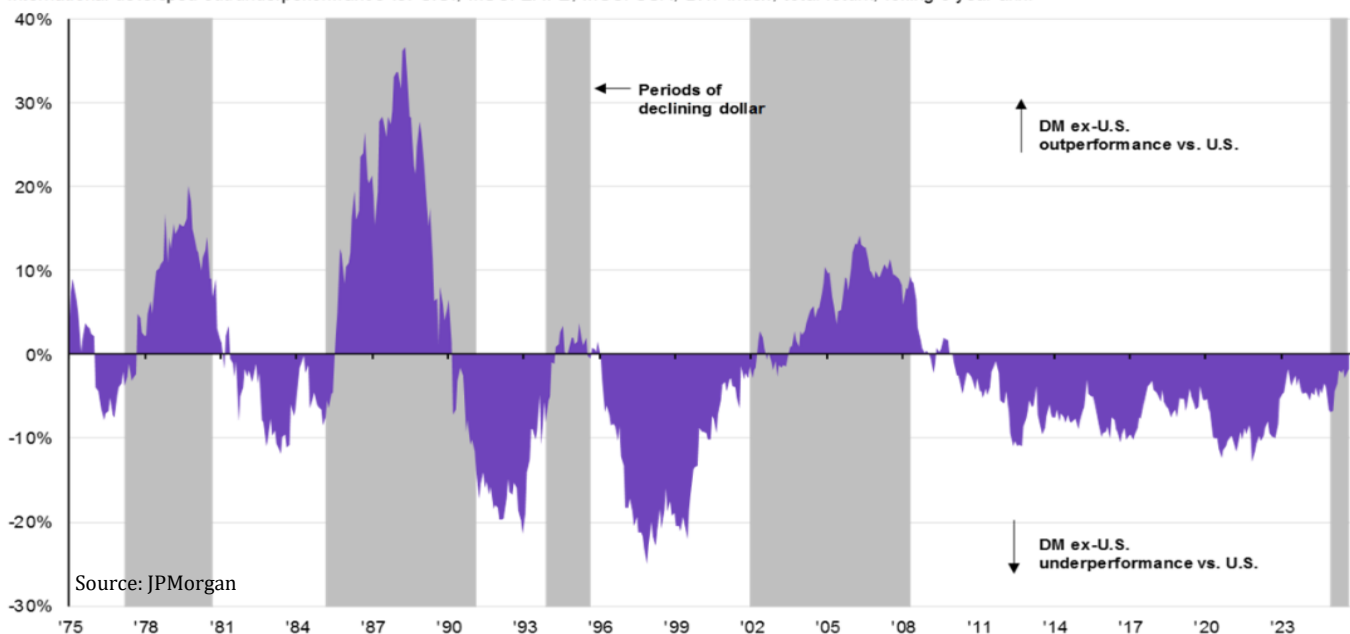
The US Dollar has fallen roughly 10% against other major currencies, and some estimate that it may fall a lot further by the end of 2026⁷. This has resulted in a boost to the performance of dollar-denominated international stocks. According to JPMorgan Research, periods of dollar decline correlate with international stock outperformance. If the dollar declines further, we should expect to see international stocks (and assets like gold) climb higher. See our chart of the quarter for a visual representation of this dynamic.

Chart of the Quarter:

This quarter, we are highlighting the dynamic between the dollar and international stocks. As seen in the below visual, when the dollar is declining (gray), International stocks (DM ex-US.) tend to outperform. This began most recently around 2023 where international stocks regain ground from -10% to 0% through 2025.

Cycles of DM ex-U.S. outperformance and USD

International developed out/underperformance vs. U.S., MSCI EAFE, MSCI USA, DXY Index, total return, rolling 3-year ann.



Quarterly Recap

Q3 2025



Looking Forward:

The S&P500's valuation metrics are well above the 5 year and 10 year averages, suggesting that current stock prices are already pricing in significant future growth. However, many companies seem to be meeting these growth expectations. There are two ways the valuation metrics can fall back to "normal": either prices come down, or earnings go up. Investors will be paying extra attention to how each company conveys its economic outlook during their next earnings calls.

Sources

¹Oracle, ²Microsoft, ³Nvidia, ⁴YCharts, ⁵U.S. Bureau of Labor Statistics, ⁶Kitces ⁷Morgan Stanley

Definitions

DM ex. US – Stands for: Developed Markets, excluding the United States. It is a common way to represent the international stocks market.

AGI – Adjusted Gross Income

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