

September 2025 Capital Markets Commentary

By: Robert J. Majdecki, Senior Vice President & Chief Investment Officer

“If you put the Federal Government in charge of the Sahara Desert, in 5 years there’d be a shortage of sand.”

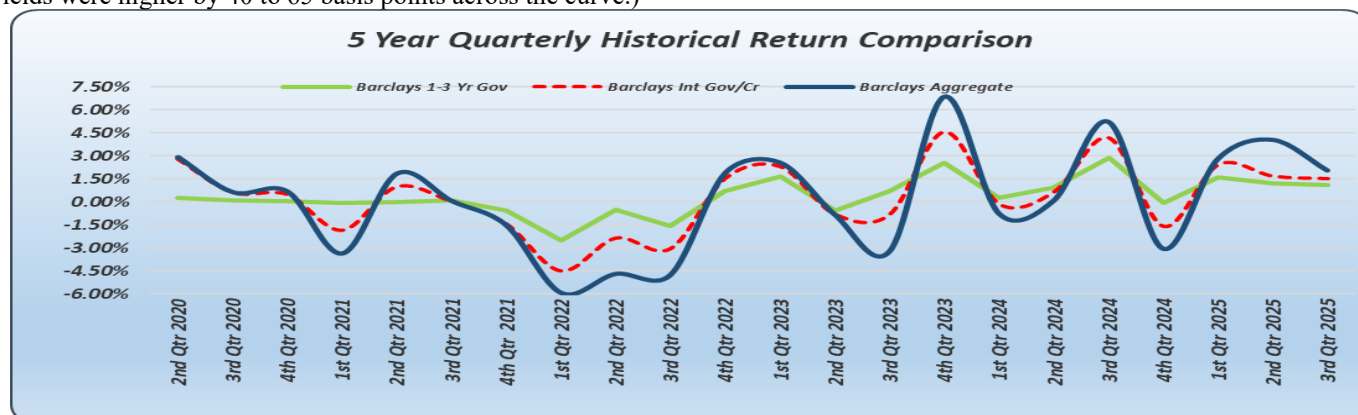
Milton Friedman

Fixed Income

The 3rd quarter of 2025 brought increased volatility within the fixed income markets. This quarter was again characterized by geopolitical tensions – due to US tariffs, emigration tensions in the US, ongoing problems in the Middle East, and the ongoing turmoil between Russia and Ukraine. That said, the bond market was fairly strong during the quarter. The Treasury curve yields fell across the maturity spectrum during the 3rd quarter with the 10-year Treasury closing at 4.15%. As the US Treasury curve rallied, spreads tightened on US Agency and Corporate securities to their tightest level since the late 1980’s. During the quarter, the Federal Open Market Committee (FOMC) did lower their overnight rate by 0.25% at their September meeting with the market pricing in an additional 50 basis point easing by year end.

As the quarter ended, in a year full of uncertainty over tariffs, trade, and global tensions, financial markets were thrown another curveball as the U.S. government was poised to shut down (again), amid an ongoing dispute between Republicans and Democrats over spending priorities, and just about everything.

As yields stayed relatively low, returns were positive across all parts of the curve during the quarter. The Barclays U.S. Aggregate posted a +2.03% return for the quarter, and the Barclays Intermediate Index was at +1.50%. The short end of the yield curve also saw positive returns, with the 1-3 Year Government Index at +1.11%. On the truly short end of the yield curve, you also saw positive returns. The 1-Year T-Bill returned +1.14% for the quarter. As for yields, the 10-year Treasury yield ended the quarter at 4.15%, the 5-year Treasury yield ended at 3.74%, and the 2-year Treasury yield ended at 3.60%. (As of the end of December, yields were higher by 40 to 65 basis points across the curve.)



Fixed Income Markets - Looking Ahead

At the most recent FOMC meeting in September, the FOMC lowered the Fed Funds rate by 25 basis points. This was due in large part to the employment numbers, although, to be sure, political pressure had some weight. As mentioned above the market is pricing in additional cuts of 50 basis points before year end.

As we move through the 4th quarter, tariffs may cause price increases, but inflation’s persistence will influence monetary policy. However, tariffs will further undermine consumer and business confidence, raise prices while weighing on sentiment and activity. If that happens, inflation may fail to continue moderating as expected, weighing on asset prices moving forward.

On the bright side, the bond market is on track for a solid year, not unlike 2023 and 2024. And, if the FOMC does what the market predicts and lowers rates to 3% by next year, maybe the normalization of rates allows the economy to avoid a recession.

The Fed’s top priority of inflation reduction and full employment remains. Many forecasters expect inflation to accelerate in the 4th quarter and into 2026 as the current Administration’s tariffs work their way through the supply chain and into stores. However, although tariff-related pressures are emerging in goods, housing and services are helping to keep inflation contained and that is helping the US economy to expand at a slow pace. Stay tuned, it should be a rocky ride for a while!

Equity

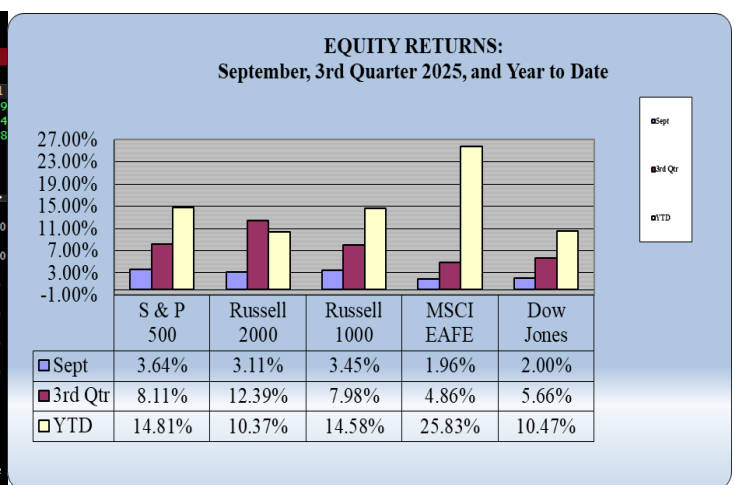
Another strong quarter. The equity market, as measured by the S&P 500 Index, rose +8.11% in the 3rd quarter.

The S&P 500 had a record high for the fourth straight month as the Federal Reserve (Fed) telegraphed and made its first rate cut since 2024. The move rallied U.S. stocks, emerging markets, and bonds. While job growth slowed, consumer spending remained resilient, setting the stage for a strong month.

Stocks were up across all major US market segments, non-US stocks continued to deliver positive results, and bonds added value. For the month, the S&P 500 gained +3.6%, slightly ahead of the +3.1% return from small caps (Russell 2000). Tech stocks held up well despite a modest end-of-month pullback. Even emerging markets surged. Although the MSCI EAFE index under-performed the S & P 500 for the quarter, on a year-to-date basis the return on the MSCI EAFE is almost 10.0% higher than the S & P Index. This seems to be due the U.S. dollar weakness in Europe.

Domestic equities extended their winning streak to five months after the April Tariff related correction. In the month, small cap stocks returned +12.4% and outpaced large cap stocks (+8.1%) due to their strong tie-in to economic growth and lower interest rates. Since the April low, the market has surged more than 35%, bolstered by progress in trade negotiations that eased fears of worst-case scenarios, by optimism around tax policy, Fed rate cuts, and corporate earnings growth, along with a turnaround in September of the Tech sector gains.

All indexes were positive for the quarter, including the international side. On the US side, the Russell 2000 Index ended with positive +12.39% return for the quarter, and the S & P 500 Index returned +8.11%. The other indices also had positive returns. The Russell 1000 index returned +7.98%, and the Dow returned +5.66%. As mentioned, the international markets posted a positive return at +4.86% on the EAFE for the quarter.



Equity Markets - Looking Ahead

4th quarter 2025. The big question? Do we continue the bull market ride?

As we move into the 4th quarter and into 2026, conditions still remain positive for US equities. The US equity markets have shown remarkable resilience in 2025 despite the ongoing unrest around it.

As we move through the remainder of the year, expectations are that volatility will continue, but in all likelihood equity-market strength will prevail. With the Federal Reserve's accommodative policy stance (whether politically motivated or not) and targeted liquidity, it seems likely that capital will continue to move into risk assets, and in turn, equities. A caveat here; there should be a warning that inflationary pressures are hiding on the sidelines.

Despite a positive outlook, there are economic risks such as the aforementioned higher inflation, as well as a weakening labor market. More than likely the Fed will continue in their easing monetary policy, but the economy and the market have not yet seen the full impact of existing tariffs on consumers.

Although there may be a contradiction within this commentary on economic driven information, the stock market looks to maintain its positive momentum. If there are no big hiccups, the 4th quarter is expected to be marked by a continuation of the bull market trends we saw in 2024 and 9 months into 2025.

The Economy

The Economy. Where is it going?

In the 3rd quarter of 2025, the US economy continued to demonstrate continued resilience amid aggressive trade policies and geopolitical tensions.

The first half of the year was marked by a series of challenges that seemed to slow economic momentum. For example, early in the year, there was a wave of tariff announcements, which created a great deal of confusion and resulted in a financial market meltdown for a few weeks from the end of February thru April 8th. Consumers and investors didn't know what prices to expect, and Companies were scrambling to figure out where to source goods and locate production. That kind of uncertainty caused hesitation—and this hesitation slowed growth.

However, amid the growing signs of weakness in the labor market, the Fed opted to cut rates 25bps to a range of 4.00% to 4.25% at the latest September FOMC meeting. While Fed Chairman Jerome Powell described the policy decision as a “*risk management cut*,” the Committee may be poised to provide additional policy relief by year end with the majority of officials forecasting two further rate reductions. At the same time, however, there are several Fed officials forecasting no additional reductions this year, underscoring a growing divide between those fearful of further weakness in employment and those holding a lingering concern on inflationary data.

Nevertheless, even with weakness in the labor market, the environment has become slightly more constructive to economic growth. The current tariffs are in place, so business leaders have a clearer picture of where they're going to source goods and locate production.

The Economy - Looking Ahead

Inflation? Economic Growth? Tariffs? Recession? Stagflation? Global problems? – We changed the order from last quarter. Inflation is more important.

As we begin the 4th quarter of 2025, we are almost in the same position we were at the beginning of the 3rd quarter. There is a constructive but less optimistic economic outlook for the US. But indicators do point forward for the US economy with continued growth (albeit slower),

The labor market remains tight, and the supply of workers is still constrained, and that's not going to change quickly. It's a underlying issue, and it's going to keep pressure on growth. With the demand for labor weaker, businesses are hesitant to add employees in case the economy slows further. Due to this hesitancy, job growth has slowed, and that's keeping consumer spending on the cautious side. With that said, there may be a cap on how strong GDP will be in the upcoming months.

While the Fed continues to project an acceleration in headline inflation to 3.0% by year end before cooling to 2.6% by the end of next year, it does not anticipate returning to the target of 2% until 2028. Furthermore, market expectations for future inflation remain elevated near 5% with near-term inflation expectations still 140bps higher than at the start of the year.

Still, inflation isn't going away just yet and probably won't fall significantly during the quarter. Tariffs continue filter through to goods prices, and that's going to keep costs elevated. Going forward, this lingering inflation could complicate the Federal Reserve's rate-cutting strategy and keep long-term interest rates elevated longer than anticipated.

With current market pricing, the markets expect the Fed to lower interest rates again in the 4th quarter. This almost certainly reflects the inflationary risk from tariffs but also the impact on the economy this year. It's important to always point out that the market's forecast will likely change as more data becomes available. The timing and size of rate cuts will depend on many factors, such as inflation numbers, tariffs, Government shut down ramifications, and economic data over the rest of the year and into 2026.

Putting it all together, analysts believe GDP growth will probably be below 2% for the fourth quarter, when adjusted for inflation. That's better than the growth in the first half of the year, but still below trends. The good news, however, is we're not in recession, we have just slowed down. But (THERE'S ALWAYS A BUT) if the economy slows, unemployment numbers move higher, and inflation keeps rising, that is still a recipe for Stagflation.

This report contains information and statements which have been obtained from and are based upon secondary sources Amalgamated Bank of Chicago (ABOC) believes to be reliable. However, ABOC does not guarantee its accuracy, completeness, or suitability for any particular purpose. The information contained in this commentary may be incomplete or condensed. All opinions, estimates and statements, contained in this report, constitute ABOC's judgment as of the date of the report and are subject to change without notice. A number of factors, including but not limited to economic and market conditions, which are beyond the ability of ABOC to control or predict, could cause actual results or events to differ materially from those contained in this report. ABOC undertakes no obligation to update this report or any statement considering new information or future events.

This report is for informational purposes only, it is not intended to be investment advice and should not be construed or relied upon as a recommendation to buy or sell certain types of securities.