

# MORSE ASSET MANAGEMENT, INC.

23 Old Kings Highway South, Suite 200, Darien, CT 06820

October 20, 2025

## 2025 Q3 Market Commentary

In the third quarter of 2025, the S&P 500 continued on a steady trend higher, gaining +8.1%. From the April lows to September 30<sup>th</sup>, the S&P 500 rallied +39.9%, resulting in a year-to-date return of +14.47%. Positive performance was fueled by strong economic data, corporate earnings, and positive tariff and regulatory developments. In addition, the passage of the tax bill, a resurgence in M&A activity, and the Fed restarting an easing cycle also provided lift to the market. Inflation and job market concerns have created sufficient doubt to keep exuberance in check, resulting in consumer sentiment remaining low. The bull market marches on, climbing a wall of worry.

The U.S. economy continues to be resilient, growing at or above trend. For the second quarter, U.S. GDP rose 3.8%, 2.1% year-over-year (Chart 1). ISM and S&P Global's Manufacturing and Services PMI and Retail Sales continue to be supportive. NFIB Small Business Optimism Index is persistently optimistic. The Atlanta Fed's GDPNow model is now estimating real GDP of +3.9% in Q3 (Chart 2).

The Federal Reserve moved to begin easing by cutting rates 25bps in September. While inflation has not yet reached their target, the slow weakening of the labor market pushed their hand to act. Fed policymakers emphasized this is a cautious approach, rather than urgent, which boosted investor confidence. Policy remains restrictive, and we anticipate additional cuts in subsequent meetings to reduce unnecessary pressure. A good reflection of this relationship is viewed by comparing the Fed Funds Rate with the 2-year Treasury Note. As the chart indicates, too great a spread has resulted in negative consequences (Chart 3).

The US job market has continued to soften throughout the year, but the pace has been slow and not yet near levels of concern. Jobless claims have been steady, but weaknesses have developed in new employment figures. A significant factor has been the considerable shift in Federal Immigration policy. Primarily driven through self-deportation, and reduced new immigration, there is a structural shift occurring in the US labor force, returning it toward pre-covid job trends. As a result, foreign born employment has decelerated, while native born employment has accelerated (Chart 4). This is an unwind of the post-covid dynamics where foreign born job growth accelerated above its long-term trend and well above native growth rates. The full picture still warrants caution, but structural shifts like these can create headline noise. Productivity continues to improve and is otherwise taking up the slack in output and retail sales have held up.

Inflation remains in a downtrend, but pressures have risen over the last few months. The impacts of supply chain issues, the rollout of tariffs and elevated service demand has contributed to increased prices in the short term and lack of improvements in stubborn sectors such as housing. However, tariffs are a one-time increase, not an ongoing pressure, and supply chain disruptions correct quickly. With a soft job market and weak consumer sentiment, further risk to the upside should be limited.

Global mergers and acquisitions (M&A) activity has reached its highest levels in a decade, helped by a more favorable regulatory environment, ample liquidity, and easing financing costs. According to Willis

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Towers Watson, completed deals totaled over \$371 billion, with 8 deals over \$10 billion. \$246 billion of deals have occurred in North America alone, more than the first two quarters combined. Abundant private equity and corporate “dry powder” remains, so this trend should continue.

For Q3 2025, according to FactSet’s October 17th *Earnings Insight*, the estimated year-over-year earnings growth rate for the S&P 500 is now +8.5%, the ninth straight quarter of growth. Revenue is expected to grow +6.6%, the second highest rate since 2022 and the 20<sup>th</sup> consecutive quarter of growth. Estimates were revised higher through the quarter, as analysts realized the impact of tariffs and trade policy would not derail growth. Expectations continue to support acceleration through the rest of the year and into 2026 (Chart 5), with breadth improving.

Valuations continue to be full but have roughly remained at the same level since the end of the second quarter. Rising earnings have kept up with rising prices and prevented further elevation. The forward 12-month P/E ratio for the S&P 500 is 22.24. In the short term, a subsequent move higher for the market will depend on continuation of the earnings tailwind to earn the multiple. The 12-month, bottom-up target for the S&P 500 is now 7493, 13.0% above Friday’s closing level of 6629.

A check-in with empirical studies confirms a context that is supportive of markets continuing higher. As the saying goes, history doesn't repeat, but it often rhymes, so these data sets are a helpful barometer and often set investors’ psychological expectations. From a seasonal cycle perspective, the fourth quarter is typically strong (Chart 6). Year-end tax selling usually leads to strong buying through December and into a new year, boosted by policies enacted in the first year of a new presidency. In addition, since the 1950s, the average age of a bull market is 5.5 years with an average return of +191.6%. Those that make it into a fourth year have persisted. Time will tell, but thus far we are only in the third year with an 88.8% gain. Considering the current cycle of innovation and monetary easing, it is not unreasonable for the market to continue along the lines of prior bulls (Chart 7).

Performance in the quarter continued to be driven by the AI theme, led by Technology and Communications and supported across Industrials, Utilities, and Energy. Consumer Discretionary continued to benefit from strong Services spending trends. Healthcare is beginning to show signs of life and will likely be a beneficiary of rotations as valuations remain compressed. Only Staples were lower, due to tariffs impacting input costs on already tight margins. Large Caps continue to outperform Small, but breadth continues to improve.

Important themes we are following are AI infrastructure, energy build out, emerging AI beneficiaries, reshoring of industry, deregulation, and M&A. In addition, we are following emerging blockchain trend opportunities and government involvement in critical industries and materials.

Our playbook continues to focus on significant secular, cyclical, and structural trends. We favor high-quality growth at reasonable prices and businesses with stable free cash flow and healthy balance sheets. We will continue to balance growth and value and are prepared to shift defensively if needed.

We remain in a secular bull market, supported by the weight of evidence. Economic growth, strong balance sheets and earnings, ample liquidity. Sentiment is far below ranges typical of market tops. The tailwind of

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pro-growth policy and monetary easing continues to support a broadening of equity market returns and positive performance.

Robert B. Morse

Chief Investment Officer

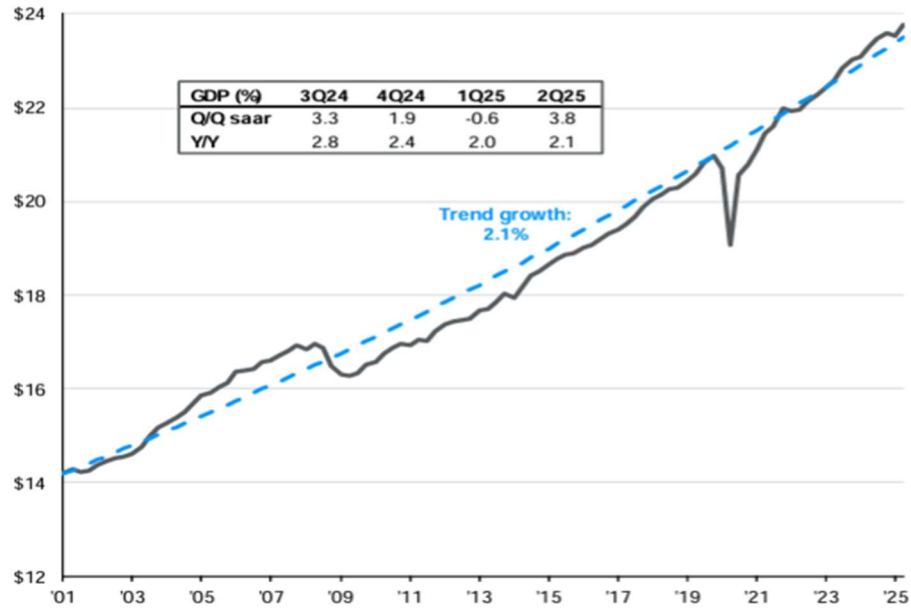
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1.

## Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates

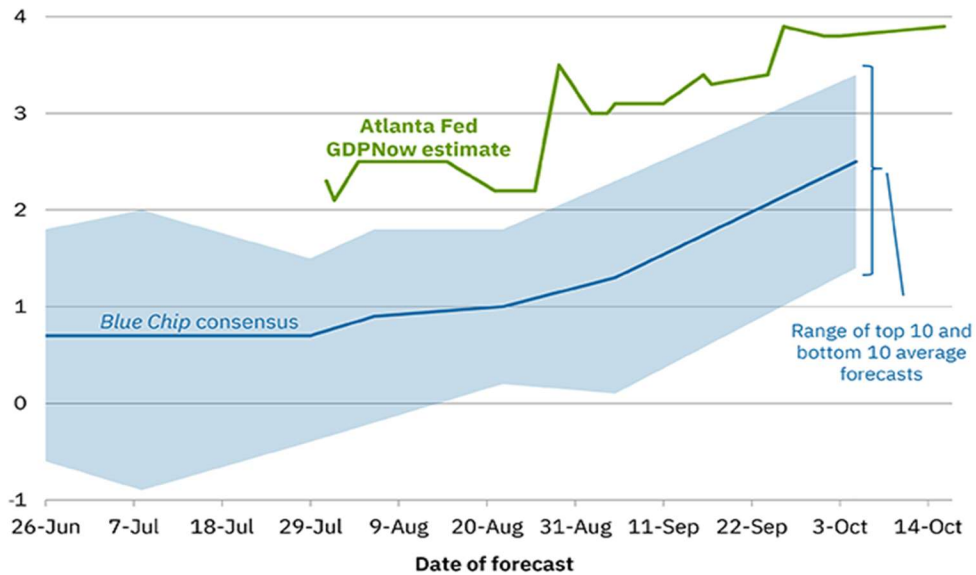


Source: BEA, FactSet, J.P. Morgan Asset Management.

2.

## Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3

Quarterly percent change (SAAR)



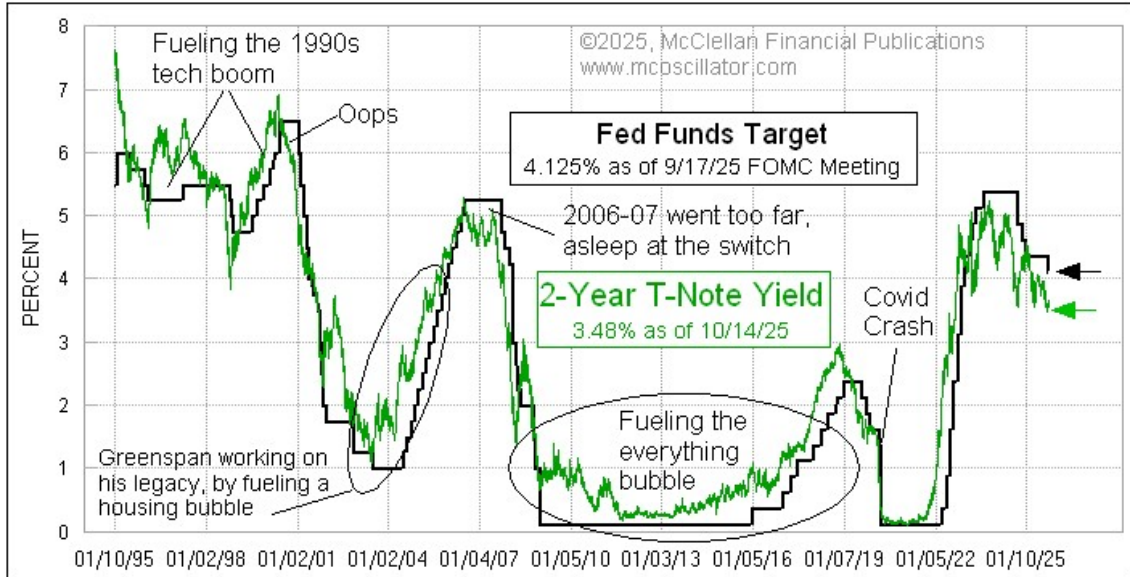
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

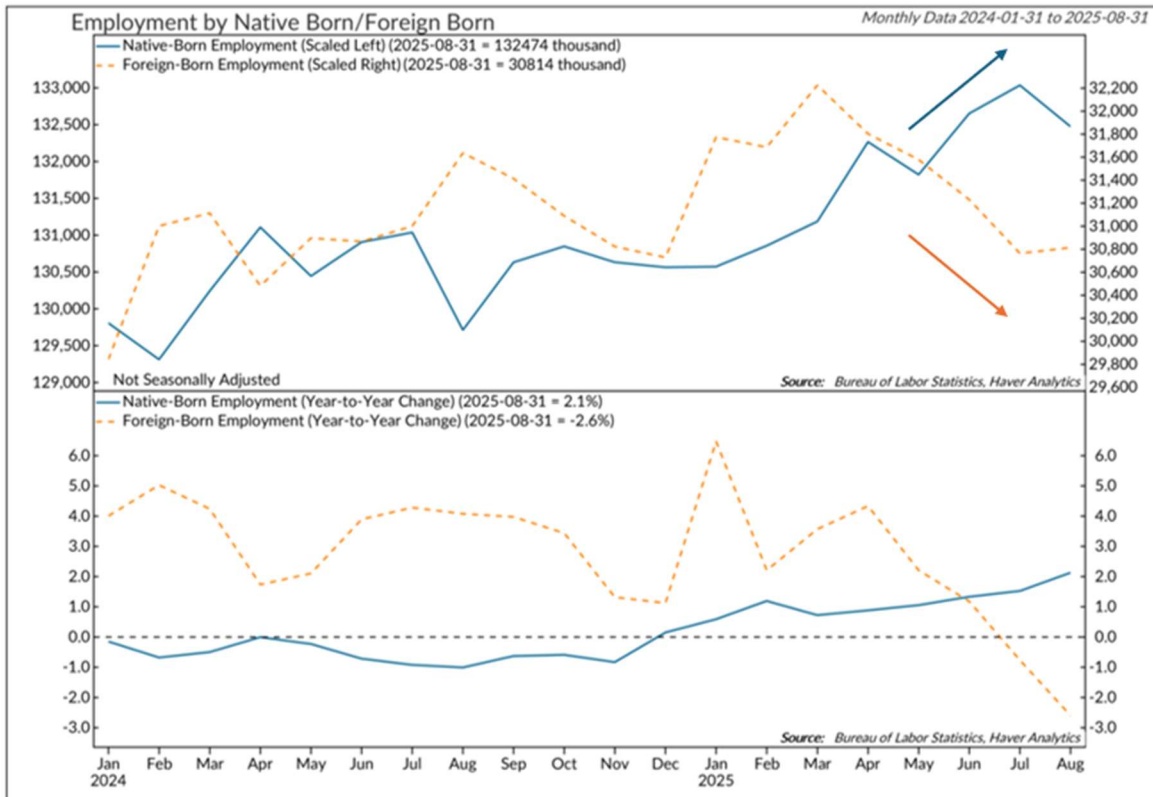
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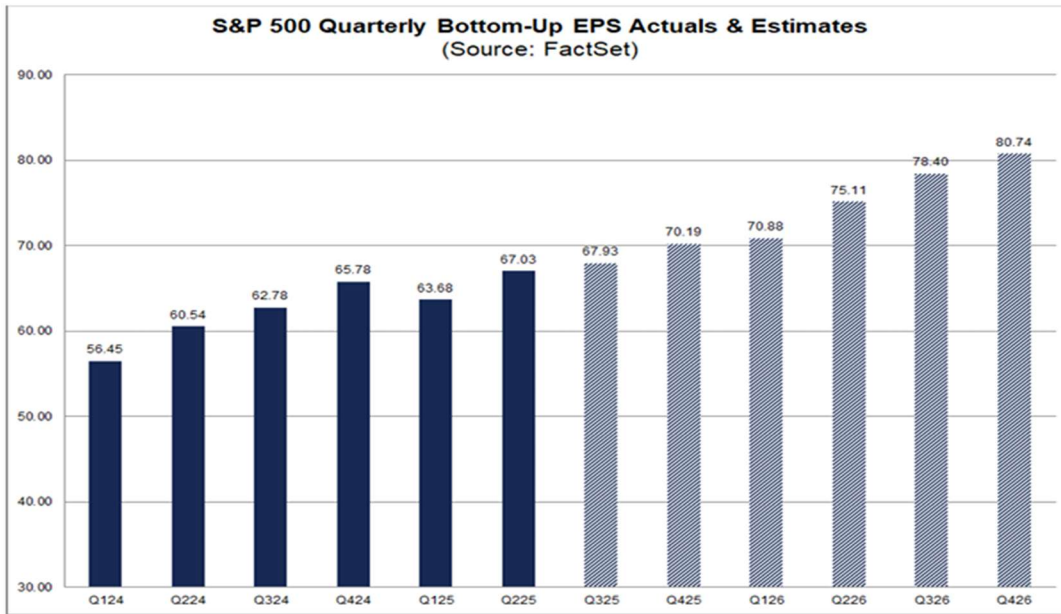
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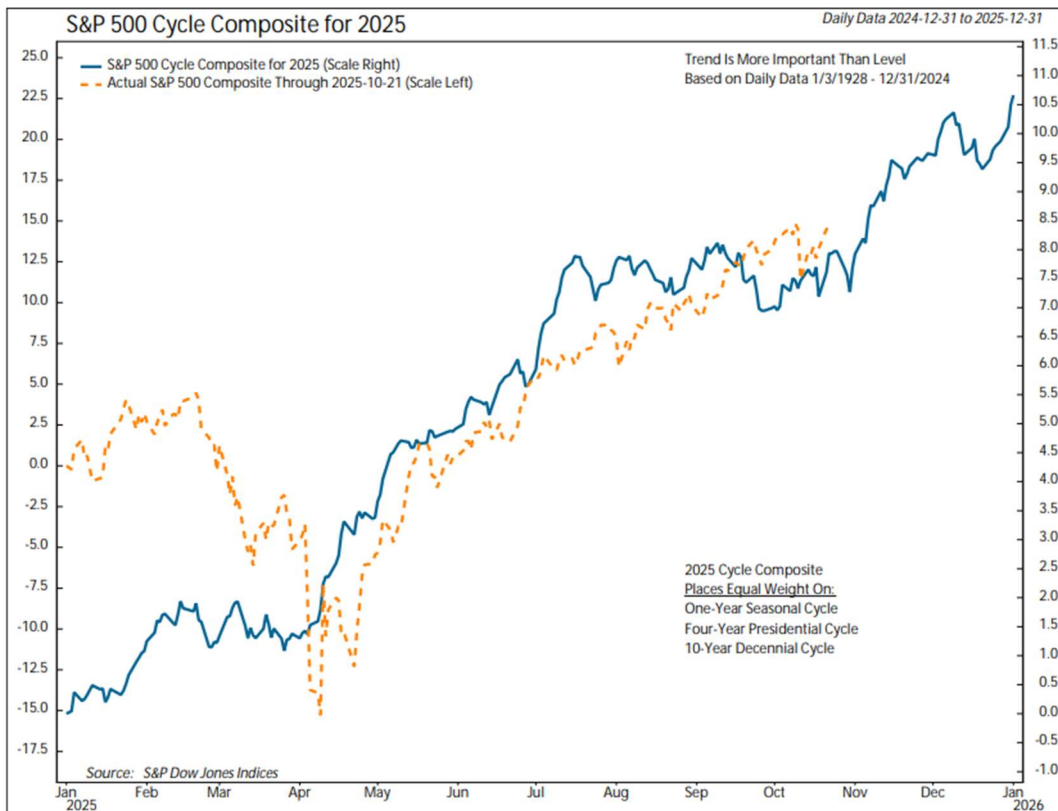
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6.



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7.

## This Bull Market Might Be Three, But It Is Still Young

S&P 500 Bull Markets (1950 - Current)

Bear Market Bottom	Bull Market Peak	S&P 500 Change	Years	Bull Start In October?
6/13/1949	8/2/1956	267.1%	7.1	No
10/22/1957	12/12/1961	86.4%	4.1	Yes
6/26/1962	2/9/1966	79.8%	3.6	No
10/7/1966	11/29/1968	48.0%	2.1	Yes
5/26/1970	1/11/1973	73.5%	2.6	No
10/3/1974	11/28/1980	125.6%	6.2	Yes
8/12/1982	8/25/1987	228.8%	5.0	No
12/4/1987	3/24/2000	582.1%	12.3	No
10/9/2002	10/9/2007	101.5%	5.0	Yes
3/9/2009	2/19/2020	400.5%	11.0	No
3/23/2020	1/3/2022	114.4%	1.8	No
10/12/2022	10/8/2025	88.8%*	3.0	Yes
Average		191.6%	5.5	5 of 12 Started October
Median		114.4%	5.0	

Source: Carson Investment Research, YCharts 10/10/2025

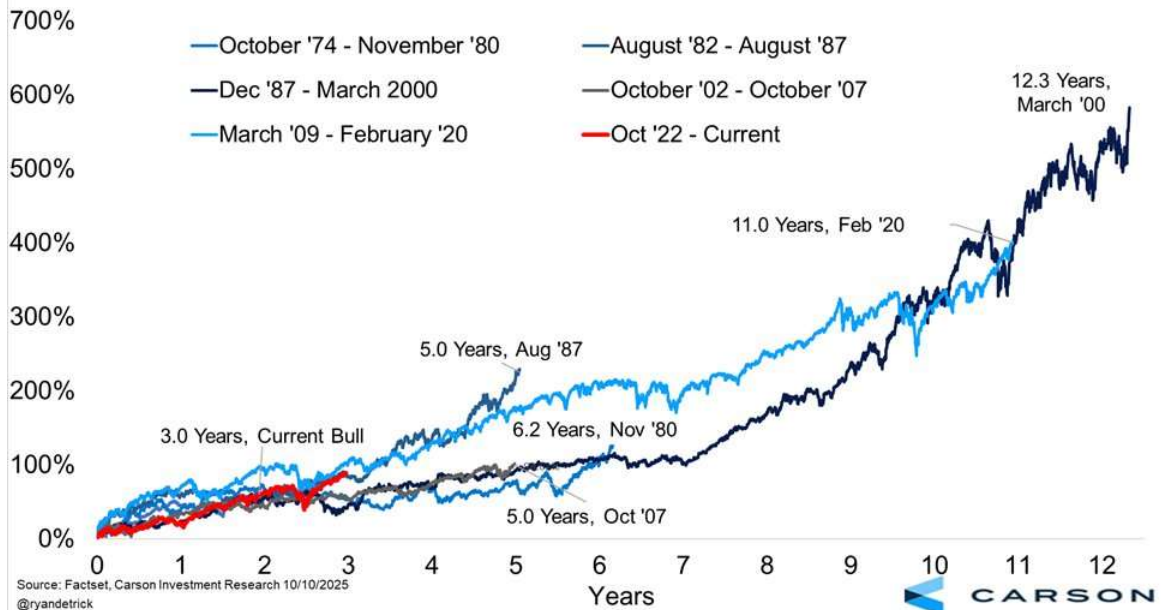
\* Current Bull Market Is Still Active

@ryandetrick



## The Bull Market Is Three Years Old

Bull Markets The Past Fifty Years That Made It Past Their Third Birthday



Source: Factset, Carson Investment Research 10/10/2025  
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