

THIRD QUARTER 2025 REVIEW & OUTLOOK

Markets tune out investment noise.

Market action so far this year has provided investors with a classic example of how financial markets can tune out the noise and listen to the things that matter. Amid the non-stop barrage of pronouncements and policy changes from the White House on everything from tariffs and Federal Reserve policy to company logos and Tylenol, it has been hard to keep up and easy to feel uncertain about what is going on. Fortunately, the collective wisdom of the markets tends to be much more focused, paying attention primarily to corporate earnings and interest rates. For now, news on those fronts has been mostly good. Approximately 80% of companies beat earnings and revenue expectations for the second quarter of 2025.¹ And, at last, the Federal Reserve came through with a much-anticipated interest rate cut at their September meeting after being on hold since December of last year.

Through late September, equity markets continue to grind higher. Even as the market advance has broadened to include more than just the mega-cap tech leaders, those issues, too, have come back strong.

MARKET MEASURES	3rd QTR	YTD
S & P 500 (price)	7.8%	13.7%
Dow Jones Industrial Average	5.2%	9.1%
NASDAQ Composite	11.2%	17.3%
Russell 2000	12.0%	9.3%
MSCI EAFE	3.6%	21.6%
Bloomberg Inter. Gov't/ Credit Bond Index	1.7%	5.6%
	9/30/25	9/30/24
10-Year U.S. Treasury Bond Yield	4.15%	3.77%
Three-month U.S. Treasury Bill Yield	3.95%	4.63%

Source: Telemet Orion

More encouraging for the underlying health of the market, small-cap stocks, represented by the Russell 2000, are up over 12% in the third quarter. Although up over 20% for the year to date, international stock returns moderated in the quarter to a mid-single-digit pace. Meanwhile, the 10-year US Treasury yield remains above 4%, though lingering at the lower end of its range for the year.²

For success and less stress, focus on long-term investing.

Around mid-year, during his visit to Roanoke, we had the pleasure of hosting Jack Manley, Global Market Strategist with J.P. Morgan Asset Management. Jack updated us on the state of the markets and the economy. Later, in a subsequent call responding to advisor and client concerns about uncertainty and volatility, Jack walked us through what he sees as the principles for successful long-term investing. We share a few of those principles below.³

Plan to live a long time. For those age 65 today. It is likely that at least one member of a couple will live into their nineties.

Do not get too comfortable hanging out in cash. Investors have feasted on cash yields around 4% since the Fed hiked rates sharply in 2022. Yet, over the past 30 years, a balanced portfolio of 60% equities and 40% bonds has outperformed the return on cash in the substantial majority of cases, 90% for rolling periods of 10 years and 100% for periods of 15 years.⁴

Compounding makes a difference over time. If you are investing for the long term, you can afford to take some risk in exchange for higher returns, which can help you grow your wealth and allow your purchasing power to keep pace with inflation.



Stick to your investment plan and avoid making emotional decisions in the short term. Investing during various market conditions can impact returns. Historically, periods of low sentiment have led to better 12-month returns compared to investing during peaks in sentiment.

Volatility is normal. We have said it before. Over the past 45 years, even in some of the best years, investors have experienced double-digit equity market declines intra-year.

Staying invested matters. The old market saw is true. Evidence suggests that a long-term investment strategy, or 'time in the market,' tends to outperform attempts at 'timing the market.'

Diversification works. Over the past 15 years, we have observed, based on year-by-year benchmark comparisons of various classes of equities, fixed income, real estate and commodities, that an asset allocation portfolio has consistently performed in the middle of the pack, neither the best nor the worst. Often, a high-performing asset class one year can fall by the way in subsequent years, while a diversified allocation strategy may help ensure exposure to something that is working even when everything is not. Please see the related article about asset allocation to the right.

As always, we aim to own high-quality assets across our portfolio — including equities, fixed income, and alternative assets. By following long-term growth themes in our dynamic global economy, there will always be opportunities to identify and invest in established contenders that prove adaptable, as well as new players in emerging industries. ■

¹ Zacks, August 20, 2025.

² Telemet Orion, September 23, 2025.

³ Market Insights, Principles for successful long-term investing, JP Morgan Asset Management, June 30, 2025.

⁴ These calculations are based on past performance and do not guarantee future results.

Need to make changes to your Medicare Coverage?

Medicare Open Enrollment is
October 15 – December 7.

- Join, drop, or switch to another Medicare Advantage Plan with or without drug coverage (or add or drop drug coverage).
- Switch from Original Medicare to a Medicare Advantage Plan or from a Medicare Advantage Plan to Original Medicare.
- Join, drop, or switch to another Medicare drug plan if you're in Original Medicare.

Need Help? Cary Street Partners now has Chapter as a dedicated resource to provide our clients with Medicare guidance. Reach out to your Cary Street Partners financial advisor to schedule a consultation with the Chapter team.



THE IMPORTANCE OF STRATEGIC ASSET ALLOCATION IN A DYNAMIC MARKET

Markets rarely sit still. Interest rates rise and fall; innovations disrupt industries overnight; economies cycle through expansion and contraction; and geopolitical shifts often land without warning. In the face of constant market motion, one thing consistently holds true: how you choose to spread your capital across stocks, bonds, cash, and alternative investments often carries more weight over the long haul than any single investment selection.

Asset allocation focuses on spreading wealth across different asset classes to maximize returns while managing risk. Because we can't tell the future and therefore cannot know with certainty how any asset class (or sub-asset class) will perform over a given period, it is imperative that we spread capital across various asset and sub-asset classes in a manner that considers a range of crucial factors such as the investor's age, financial goals, income, desired retirement age, and tax implications.

Why Asset Allocation Matters

Strategic asset allocation is not simply about diversification—it is about creating a plan that aligns with both your financial goals and your tolerance for risk. A well-designed asset allocation strategy ensures that your portfolio remains resilient in the face of market volatility, allowing you to capitalize on growth opportunities while mitigating the downside risks that come with inevitable market corrections.



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For example, during periods of economic expansion, equities may outperform, but during recessions, fixed-income investments like bonds may be expected to provide stability. By balancing these asset classes, investors can smooth out returns over time, avoiding the pitfalls of concentrating too heavily in one area that underperforms.

Moreover, asset allocation is not static. It requires regular reassessment and adjustment to

account for changes in both the market environment and the client's personal circumstances. For instance, a younger investor with a long-term time horizon might prioritize growth-oriented assets such as stocks and alternative investments. In comparison, an older investor nearing retirement would typically shift toward safer, income-generating assets like bonds, dividend payers, and cash equivalents. Tax considerations also play a significant role, as certain asset classes may be more tax-efficient depending on the investor's situation and in what type of account they are held.

The Role of Alternative Investments

While traditional asset classes like stocks and bonds form the foundation of most portfolios, alternative investments—such as real estate, commodities, private equity, and hedge funds—can add a layer of diversification and potential growth. Alternatives often behave differently from traditional investments, offering unique opportunities to hedge against inflation or market downturns. However, they also generally come with higher risks and lower liquidity, making them a better fit for sophisticated investors or those with a higher risk tolerance. Incorporating alternatives into a portfolio requires careful consideration of the investor's overall strategy, goals, and financial situation.

The Behavioral Component of Asset Allocation

One often-overlooked aspect of asset allocation is its ability to help investors manage emotional decision-making. When markets experience sharp declines, many investors are tempted to panic and “go to cash” by selling off assets - locking in losses. Conversely, during bull markets, there is a tendency to chase returns by over-investing in high-performing sectors. A well-constructed asset allocation strategy acts as a guardrail, keeping investors on track and preventing impulsive decisions that can derail long-term financial goals.

Building Your Asset Allocation Strategy

Creating an effective asset allocation strategy starts with understanding your individual circumstances. Key questions to consider include:

- **What are your financial goals? Are you saving for retirement, funding a child's education, building wealth for future generations, or generating income to live on now?**
- **What is your risk tolerance? How comfortable are you with the ups and downs of the market and the market value in your investment account?**
- **What is your investment horizon? How long do you plan to keep your money invested before needing access to it?**

Once these factors are established, investors can work with financial advisors to create a portfolio tailored to their needs. The strategy should include a mix of asset classes that reflect both current market conditions and the investor's personal objectives.

At Cary Street Partners, we have found that a thorough financial planning process with each client helps clarify the goals for investing — i.e., providing income in retirement years, funding education for children or grandchildren, providing a source of cash to fund travel, saving for a new home, creating a legacy for future generations, or supporting charitable organizations. Those goals, in conjunction with risk tolerance, drive the asset allocation decisions.

Conclusion

In a world of constant market motion, asset allocation remains the cornerstone of successful investing. By spreading capital across a diverse range of asset classes (and sub-asset classes) and adapting strategies to changing circumstances, we believe investors may increase their chances of achieving both growth and stability over the long term. While no one can predict the future, a disciplined approach to asset allocation helps ensure that your portfolio is prepared to weather whatever challenges the market may bring. ■

Welcome Hugh Brown!



We are proud to announce that Hugh Brown has joined our Cary Street Partners' Roanoke office as a Financial Advisor. Hugh grew up in Roanoke and graduated from Virginia Tech and Washington & Lee University School of Law. He has spent his career as an attorney helping clients navigate legal challenges in finance, business, and real estate matters in Charlotte, NC and Roanoke, VA. Hugh previously worked in our Roanoke office as a Research Analyst before attending law school. We are delighted he has returned to the wealth management field and will be helping grow our Roanoke office.

Hugh is well-known in the Roanoke community and looks forward to reengaging the community in his new role to share all that Cary Street Partners has to offer for guiding clients on the path to meeting their financial goals.

Please join us in extending a warm "welcome back" to Hugh!
You can find him at hugh.brown@carystreetpartners.com
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Fixed income investments have several other asset-class specific risks. Inflation risk reduces the real value of such investments, as purchasing power declines on nominal dollars that are received as principal and interest. Interest

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rate risk comes from a rise in interest rates that causes a fixed income security to decline in price in order to make the market price-based yield competitive with the prevailing interest rate climate. Fixed income securities are also at risk of issuer default or the markets' perception that default risk has increased.

International and foreign securities are subject to additional risks such as currency fluctuations, political instability, differing financial standards, and the potential for illiquid markets.

Comparative Index Descriptions: Historical performance results for investment indices have been provided for general comparison purposes only and generally do not reflect the deduction of transaction or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings do or will correspond directly to any comparative indices. An investor cannot invest directly in the indices shown, and accurate mirroring of the indices is not possible.

The Standard & Poor's (S&P) 500 Index is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market.