Cygnus
ASSET MANAGEMENT, LLC

A View From the Bevy – 3Q25

Market Review

Perhaps the best word to describe stock markets during the third quarter, as well as year-to-date, is resilient. Markets have had everything but the kitchen sink thrown at them. President Trump's tariff policy whiplash, seemingly never-ending wars in The Middle East and Ukraine, a U.S. Federal Reserve (Fed) reluctant to reduce short-term interest rates, inflation concerns, and a slowing U.S. economy.

Yet through it all, other than a very rocky April (as detailed in the article below), stocks have been on a consistent upward trajectory. As shown below, this rally has been global in nature, with emerging markets leading the way so far this year. In the United States, it was a great quarter for small cap and technology stocks, as Artificial Intelligence (AI) stocks led the rally once again.

Stock Market Indices	3rd Quarter 2025	Year-to-Date
S&P 500	8.1%	14.8%
S&P 500 (Equal-Weight)	4.8%	9.9%
Dow Jones Industrial Average (DJIA)	5.7%	10.5 %
NASDAQ Composite	11.2%	17.3%
Bloomberg US Agg Bond	2.0%	6.1%
Russell 2000	12.4%	10.4%
MSCI World	7.3%	17.4%
MSCI World ex U.S.	5.3%	25.3%
MSCI Emerging Markets	10.6%	27.5%

Source: AJO. Data supplied by FactSet Research Systems.

Investors have so far chosen to focus on strong corporate earnings, the projecting interest rate cuts and continued delays in President Trump's tariffs. Since April markets have largely looked past trade tensions, hopeful for new and reasonable trade deals with our leading trade partners.

The best performing sectors during the quarter were Information Technology, Utilities and Industrials. Underperforming sectors included Energy, Financials, Consumer Discretionary and Consumer Staples.

Gold continued to move higher and has had more than three dozen record closing highs this year. Crypto currencies rallied most of the quarter and continues to sit near all-time highs. Bonds also rallied following the Fed's mid-September decision to lower short-term interest rates for the first time since December 2024.

Market Outlook

The resiliency of the market will surely be tested from day one this quarter, as a U.S. Government shutdown began on October 1st. Every day that the shutdown lasts breeds uncertainty: for the economy and outlook for further interest rate cuts, as key economic data influencing the Fed will not be released, for the tens of thousands of government workers who are not being paid amid threats of permanent layoffs by the President and of course for investor sentiment. We don't expect the government shutdown to last too long, however, as neither side wants to be blamed for derailing economic or market momentum.

In addition, the markets face some other significant headwinds even without the noise from a shutdown. Uncertainty around tariff policy remains as many trade deals have yet to be signed and extraordinarily high tariffs remain in place with some of our largest trading partners, including China and Brazil. We still don't really know the full longer-term of effect that the tariffs will have on the domestic and global economies. While businesses have absorbed some of the cost increases, at least in the short-term, consumers have already seen higher prices.

The economy is already seeing the slowest job since the period after the 2008 recession. Late quarter data releases were mixed with some showing the economy and job markets doing better than expected, while others, like consumer spending, showing new-found weakness.

Geo-political uncertainty is also growing, as Russia has adopted a more aggressive stance toward the West as its war with Ukraine rages on. Russian drones have already violated the air space of several NATO countries, and the war of words is getting stronger. The war in Gaza is also accelerating with Israel's recent ground invasion into Gaza City, but there is new hope with a newly released peace proposal that Israel has already accepted but is far from a done deal.

Finally, valuations are high overall, especially given the current economic uncertainty. While the market corrected briefly in the Spring, which is a normal part of all bull markets, we would not be surprised to see another pullback in the coming months. While we can't say if it will happen this year or next year, when it does occur, we would view it as a good buying opportunity.

On a positive note, the fourth quarter is typically a strong one for stocks with high hopes for a so-called Santa Claus rally to end the quarter. Corporate earnings should continue to be strong and if there is a quick end to the government shutdown, there is hope that the Fed will reduce short-term interest rates at least one more time in 2025. Fasten your seat belts for at least some volatility in the short-term, but our long-term optimism remains intact. Have a great end to the year!

Of Interest: Choppy or Not, Stocks Keep Rewarding Investors

Early 2025 was a roller coaster ride for stocks, especially since President Trump announced his new tariffs on April 2nd. Nevertheless, many indices are at or near all-time highs, with the markets having survived the typically volatile summer months without a major downturn.

That markets have been this resilient in 2025, despite wars and tariffs and growing economic uncertainty, particularly in the U.S. labor market, is validation again of one of our favorite market axioms relating to investment success: It's time in the market that matters, not market timing.

Let's look at a concrete example of this point from earlier this year. If you only looked at the value of your portfolio at the beginning of April and then at the end of April, you would have assumed that the markets had been relatively quiet, as the S&P 500 was down only 0.7% for the month.

But if you watched the markets on a more regular basis, you would have known that April was one of the most volatile months in recent history, as market participants struggled to understand what effect the threatened tariffs would have on individuals, businesses and the global economy.

Source: Dimensional Fund Advisors (Dimensional)

The S&P 500 moved at least 2 full percentage points on eight separate trading sessions in April, with the steepest single-day drop being about 6%, while the largest single-day gain approached 10%. But as the Chart above, which plots the percentage change in the S&P 5000 during April, reinforces - the overall monthly change was negligible.

Investors that panicked at the beginning of the month because of the uncertainty created by the tariffs, or who overreacted during any of those eight volatile down days and either exited the market or reduced their exposure to stocks, would have learned the tough lesson that panicking and selling, and having no clear strategy of when to get back in the market, is likely detrimental to your investment success and not a sound strategy.

Admittedly, the ups and downs of April were hard to stomach. But so are most moments of volatility. However, if you are comfortable with the amount of risk in your portfolio, and you have not had any significant life events that might affect your income needs, staying the course is the best course of action.

At Cygnus we pride ourselves on communicating with clients so that we are on aware of anything that might cause them to want or need to review their portfolio allocations and consider adjusting their exposure to risk. We can't make market volatility go away or make it any less scary when it inevitably occurs, but if you are prepared for the noise, patient, and willing to weather the storms, you will be in the best position to remain on track to meet your long-term goals and objectives.