

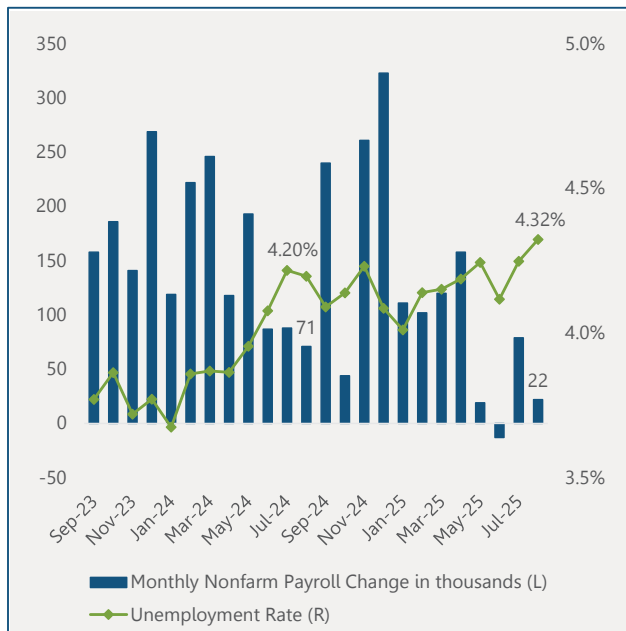
September 2025

Market Review



Hiring Slows Substantially

Monthly Nonfarm Payrolls and Unemployment Rate



Source: Bloomberg. Past Performance does not guarantee future results.

The U.S. economy added just 22,000 jobs in August, down sharply from July's 79,000 gain. June was revised lower by 32,000 to a net loss of 13,000. With three of the past four months showing either muted gains or outright declines, hiring momentum has clearly stalled. The unemployment rate edged up to 4.32%, its highest since October 2021. While trending higher, today's jobless rate remains broadly consistent with pre-pandemic, non-recessionary norms.

Health care led job creation in August with 31,000 new positions, while more cyclical sectors such as manufacturing posted notable losses. The manufacturing sector shed jobs for a fourth straight month, highlighting persistent industrial weakness.

Broader trends show a split between technology-exposed roles and in-person services. In areas disproportionately affected by AI, such as marketing and software development, hiring has ground to a halt. Indeed data show net job declines in both segments since February 2020. By contrast, essential service industries—including nursing and dental care—continue to expand, reflecting resilient demand for face-to-face work even as digital labor markets soften.

Labor Supply Edges Above Demand

Ratio of Job Openings to Unemployed Job Seekers



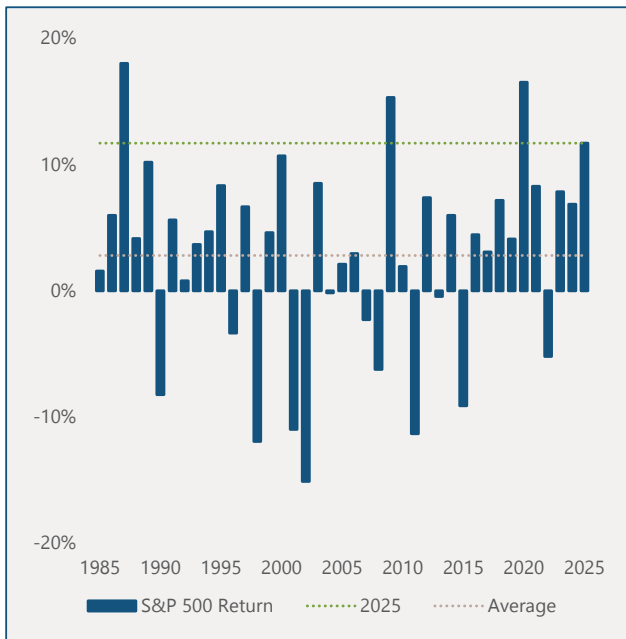
Source: Bloomberg. Past Performance does not guarantee future results.

The job openings-to-unemployed persons ratio, a key indicator of the labor market's overall balance, declined below 1 in August for the first time since April of 2021. The ratio peaked at 2.02 in the spring of 2022, when workers were in high demand across most sectors of the economy. In the months following the peak, the decline in the ratio was viewed as a healthy normalization from unsustainable levels.

In recent months, there has been a noticeable decline in job openings, while unemployment has started to drift higher forcing the ratio below 1. Further deterioration in the ratio could signal an economic contraction is on the horizon as employers become more likely to cut staff than expand.

If the ratio were to stabilize near 1, that would signal a well-balanced labor market and suggest muted wage inflation could offset any price pressures from tariffs. In turn, this could help the Federal Reserve feel more comfortable about lowering rates despite inflation uncertainty surrounding tariffs.

Fourth Best Summer Over Last 40 Years S&P 500 Return Memorial Day to Labor Day



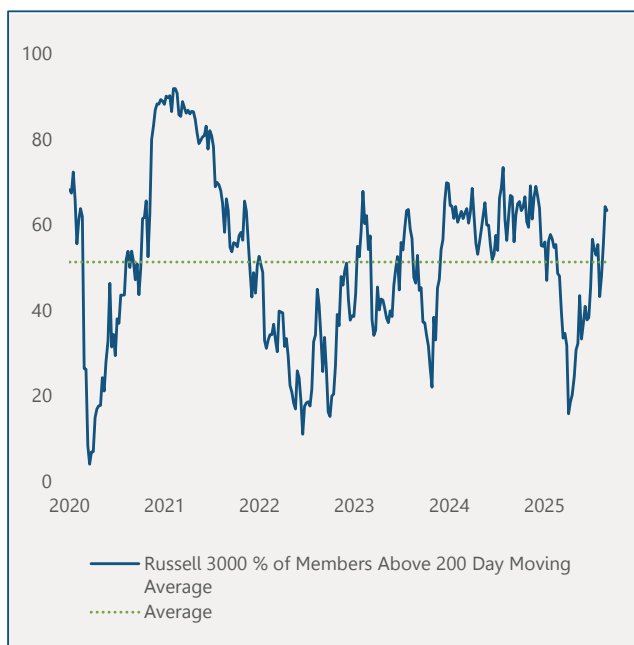
Source: Bloomberg. Past Performance does not guarantee future results.

U.S. stocks advanced again in August with the S&P 500 rising 2.03% and notching fresh all-time highs. Last month's gain marked the index's fourth positive month in the last five. The stock market stumbled early in the month following a weaker-than-expected July employment report. However, stocks regained momentum later in the month as less hawkish commentary from Federal Reserve officials fueled optimism for interest rate cuts. Strong second quarter corporate earnings growth also supported investor sentiment, with S&P 500 earnings rising 10.8% year over year, nearly four times the 2.8% analyst forecast.

Ten of the eleven S&P 500 sectors gained during the month, led by previous laggards such as materials (+5.76%) and health care (+5.38%), while utilities (-1.6%) was the only sector to post a decline.

The S&P 500 gained 11.70% during the summer, from Memorial Day to Labor Day, well above the 2.80% 40-year average. This was the fourth best summer performance over the last 40 years behind 1987, 2009, and 2020. The index continues to defy the old stock market adage "sell in May and go away" with summer gains in nine of the last 10 years and a strong 10-year average summer return of 6.48%.

Expanding Market Breadth % of Russell 3000 Stocks Above 200-DMA



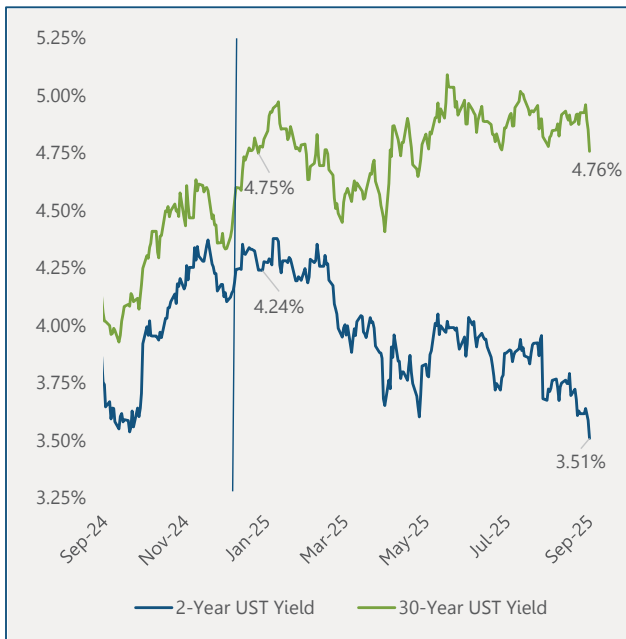
Source: Bloomberg. Past Performance does not guarantee future results.

Market breadth improved in August as participation in the equity rally widened beyond the mega-cap leaders of recent months. More than 60% of Russell 3000 members traded above their 200-day moving average, the highest percentage since last December. Small cap stocks in particular stood out, with the Russell 2000 surging 7.14%, its strongest month since November and the fourth consecutive monthly gain. Small cap's strength was partly fueled by growing expectations for Fed rate cuts, which tend to be more supportive for smaller companies given their larger debt load and greater share of floating rate debt. The Russell 2000's interest expense as a percent of total debt is 7.1% compared to 4.4% for the S&P 500.

The improvement in breadth was not limited to small caps. The equal-weighted S&P 500 outperformed the market-cap weighted index for the first time since March. S&P 500 sector performance was more diverse in August, while technology lagged after leading the previous four months.

Looking ahead, analysts expect earnings breadth within the S&P 500 to improve as the growth gap between the Magnificent Seven and the rest of the index narrows. Forecasts suggest that more sectors could return to earnings growth over the coming quarters, which may support the rally.

Treasury Yield Curve Steepening 2-Year and 30-Year Maturity Yields



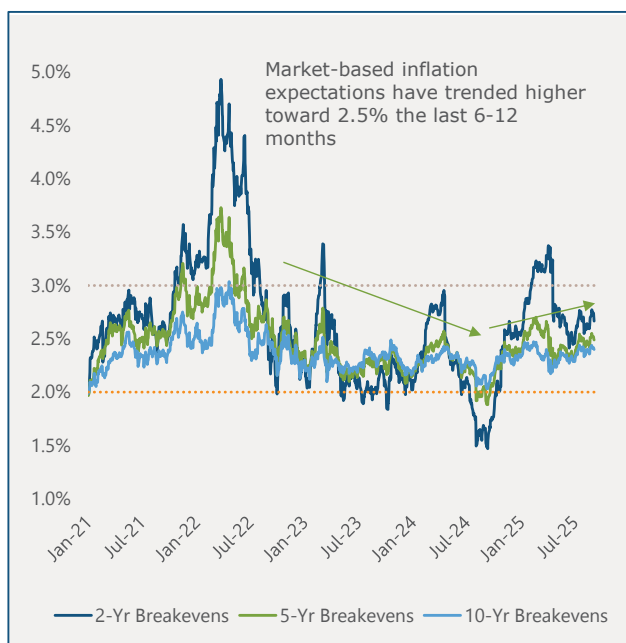
Source: Bloomberg. Past Performance does not guarantee future results.

Over the past year, the 2-to-30-year portion of the U.S. Treasury yield curve has widened meaningfully, driven by divergent movements at the short and long ends. The 2-year Treasury yield has declined roughly 75 basis points since the beginning of the year, reflecting growing market conviction that the Federal Reserve will begin cutting interest rates.

In contrast, the 30-year Treasury yield has approached 5% several times in recent months, due to concerns about sticky inflation and the budget deficit. Heightened attention to Federal Reserve independence amid political pressure from the Trump administration has also likely put upward pressure on long-term yields. A yield curve with a positive slope (or steepness) is generally considered normal, as lenders and investors demand greater compensation—known as the term premium—for committing capital over longer horizons, where economic conditions are harder to predict.

Investors typically benefit from focusing on the intermediate segment of the curve and favoring a near-neutral duration stance during bull steepening environments, when short-term rates fall more quickly than long-term yields.

Bond Market is Pricing about 2.5% Inflation U.S. TIPS Breakeven Rates



Source: Bloomberg. Past Performance does not guarantee future results.

Market-based measures of U.S. inflation expectations, as reflected in Treasury Inflation-Protected Securities (TIPS) breakeven rates, have trended back toward 2.5% over the past 6–12 months after briefly falling during heightened trade policy concerns in April and May. Breakevens, which capture the yield spread between nominal Treasuries and comparable-maturity TIPS, suggest investors see inflation settling moderately above the Federal Reserve’s 2% average long-term target.

Since 2021, 2-year, 5-year, and 10-year breakevens have rarely fallen below 2%, aside from a brief dip in mid-2024. This indicates bond market participants increasingly expect U.S. consumer inflation to remain in a 2–3% range over the next decade. This stands in sharp contrast with the 2009–2021 period, when inflation metrics consistently undershot 2%.

Current pricing in both TIPS and nominal Treasuries implies skepticism about the Fed’s ability (or willingness) to target an average annual consumer inflation rate of 2%. A combination of expansive fiscal policy, persistent deficits, and structural economic shifts may support moderately higher inflation through the rest of the 2020s compared to the prior decade.

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