

AMPWP Quarterly Market Update: Q3 2025

Scaling the Wall of Worry or Facing the Cliff of Concerns?



The third quarter of 2025 reminded investors of an old adage: “bull markets climb a wall of worry.” Each week seemed to deliver a headline that could have derailed confidence. Tariffs escalated, the Federal Reserve faced increased political scrutiny, consumer confidence eroded, and the labor market began to show its first cracks in years. Yet, through it all, markets continued to grind higher. The S&P 500, Nasdaq, and Russell 2000 delivered strong quarterly gains, gold surged to record highs, and global equities participated broadly in the rally.

The persistence of these gains highlights both resilience and risk. Investors have continued to lean on strong corporate earnings, optimism around artificial intelligence, and the start of a new Fed easing cycle. At the same time, valuations have stretched further, and the cushion for disappointment is thinner.

The question heading into year-end is whether markets continue to scale the wall of worry, or are we approaching the cliff of concerns, where gravity asserts itself?

Market Developments and Performance

Markets once again shrugged off volatility and closed the third quarter on a high note. The S&P 500 advanced 8.1% in Q3 and 14.8% year-to-date. The Nasdaq 100 gained 9% for the quarter and 18.1% year-to-date, while the Dow Jones Industrial Average rose 5.7% in Q3 and 10.5% YTD. Small caps surged back into leadership for the quarter, with the Russell 2000 increasing 12.4% in Q3 and 10.4% YTD.

The rally was not confined to the United States. The MSCI EAFE index added 4.9% in Q3 and 25.8% YTD, while the MSCI Emerging Markets index climbed 10.9% in Q3 and 28.2% YTD. Japan's Nikkei rose 9.1% for the quarter and 24% YTD. Much of the year-to-date outperformance of international equity markets can be attributed to strong currency gains relative to the dollar. For instance, the Euro, Pound, and Swiss Franc have appreciated 13%, 7.5%, and 12% relative to the US dollar on the year.

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Quarterly and YTD Performance

	Q1	Q2	Q3	YTD
S&P 500 INDEX	-4.28%	10.94%	8.1%	14.8%
DOW JONES INDUS. AVG	-0.87%	5.46%	5.7%	10.5%
NASDAQ 100 STOCK INDEX	-8.07%	17.86%	9.0%	18.1%
RUSSELL 2000 INDEX	-9.48%	8.50%	12.4%	10.4%
MSCI EAFE	7.06%	12.07%	4.9%	25.8%
MSCI EM	3.00%	12.20%	10.9%	28.2%
NIKKEI 225	-3.88%	18.28%	9.1%	24.0%
XBT-USD CROSS RATE	-12.05%	30.56%	6.5%	22.3%
GOLD SPOT \$/OZ	19.02%	5.75%	16.8%	47.0%

*Source: Bloomberg Finance, L.P. as of Sept 30, 2025

Fiat currencies in general have taken a backseat to the original monetary metal. In U.S. Dollar terms, gold gained nearly 17% in Q3 and over 47% year-to-date, surging past \$3,700 per ounce. Bitcoin rose more modestly, up 6.5% in Q3 and 22% YTD. This divergence highlighted investors' preference for gold as a hedge against policy and political uncertainty, while crypto assets played a more minor role in portfolio hedging compared to past cycles.

Gold Price



Gold surged to a record \$3,728/oz in September, reflecting both safe-haven demand and expectations of lower real yields.

*Source: tradingeconomics.com

Key Investment Themes from Q3

- AI momentum broadened, moving beyond a handful of mega-cap leaders and supporting semiconductors, cloud infrastructure, and utilities.*
- The Fed began an easing cycle, cutting rates for the first time since 2024 and signaling further reductions.*
- Tariffs shifted from shock to background noise, with companies adapting and earnings calls downplaying the impact.*
- Labor cracks emerged as the most important variable to watch, with slowing payrolls and higher unemployment shaping Fed policy.*
- Growth held steady despite weakening sentiment, with spending resilient and GDP tracking near 4%.*
- Gold and other safe havens surged, reflecting both hedging demand and expectations for lower real yields.*

Sector leadership was decisive. Technology and communication services once again led, both up double digits in Q3, as AI infrastructure and digital platforms dominated investment flows. Energy rebounded, rising 8%, supported by the stabilization of oil prices. Consumer defensives lagged, losing about 3%, while healthcare delivered only marginal gains. Rate-sensitive sectors such as utilities and real estate benefited from falling yields.

Select Sector Performance		
SECTOR	Q3 RETURN	KEY DRIVERS
Communication Services	+13%	AI and media consolidation (Alphabet)
Technology	+11.1%	AI infrastructure (Nvidia, Broadcom)
Energy	+8%	Oil stabilization, supply headlines
Small-Caps (Russell 2000)	+10.9%	Rate cuts, rotation into domestic
Consumer Defensive	-3%	Commodity cost pressures
Healthcare	+1%	Biotech volatility, pipeline strength

**Source: Bloomberg Finance, L.P. as of Sept 30, 2025*

Within the Magnificent Seven, leadership rotated but remained strong. Nvidia, Microsoft, and Meta were consistent winners, riding the demand for AI. Apple rallied late in the quarter on product optimism and analyst upgrades. Amazon continued to show steady growth across retail and cloud services. Alphabet delivered robust advertising momentum, while Tesla remained volatile on mixed demand signals and ongoing regulatory pressures. This broader participation helped ease concerns about narrow market leadership.

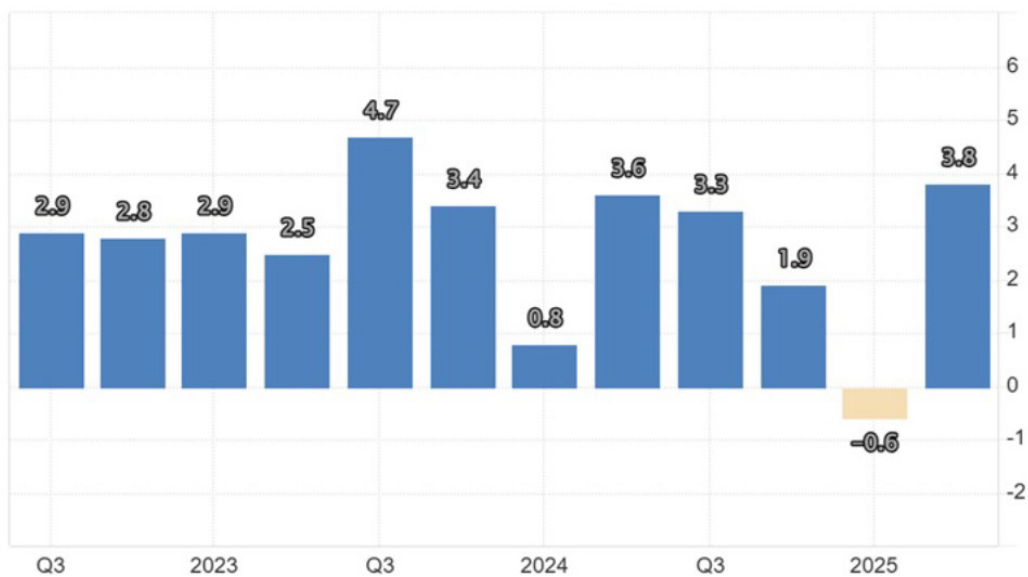
Growth: Resilient in the Rearview

At the core of investor optimism was steady growth. GDP for Q2 was revised up to 3.8%, the fastest pace since 2023, and Q3 tracking estimates from the Atlanta Fed pointed to 3.9% annualized growth. Consumer spending, particularly in services, held firm. Durable goods orders rebounded in August, and retail sales remained solid.

The paradox was confidence. Surveys showed households were feeling increasingly uneasy, with consumer confidence indices falling to multi-year lows yet spending patterns did not collapse. This gap between sentiment and behavior became a defining feature of 2025. Investors found comfort in resilient spending but recognized the risk that persistent pessimism could eventually drag on activity.

Internationally, the picture was mixed. The Eurozone experienced its first expansion in manufacturing in over three years, driven by new orders and improving services activity. Japan reported strong wage growth and household spending. China continued to struggle with deflationary pressures, as CPI and PPI readings remained negative; however, vehicle sales and export data offered some stability.

U.S. GDP Growth Rate - Percent



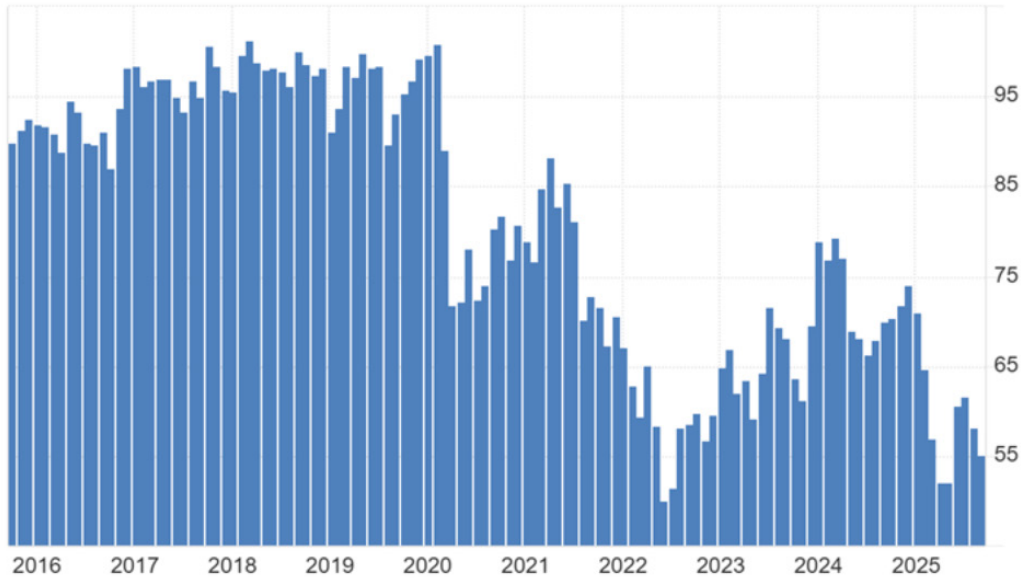
Growth reaccelerated in Q2, revised to 3.8%, highlighting past resilience even as forward indicators soften.

*Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

U.S. Retail Sales (YoY)



U.S. Consumer Confidence



Sentiment slipped further in September, reflecting household caution despite resilient spending.

*Source: tradingeconomics.com | University of Michigan

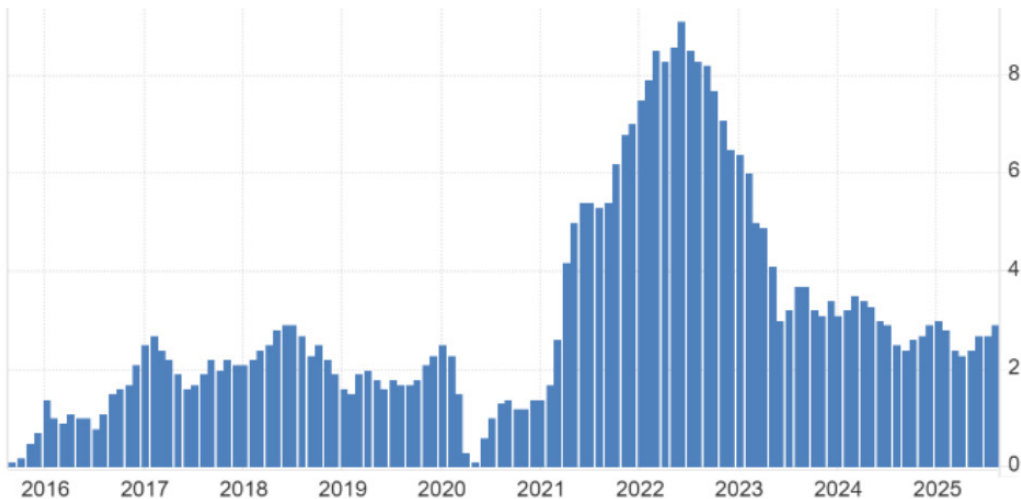
Inflation and the Federal Reserve

Inflation remained sticky but manageable. Core PCE held at 2.9% year-over-year, while CPI rose 0.4% in August, lifting the annual rate to 2.9%. Inflation expectations, as measured by the University of Michigan survey, stayed elevated, with one-year expectations at 4.7%.

Against this backdrop, the Fed pivoted. After maintaining a “higher for longer” stance through much of 2024 and early 2025, the Fed delivered its first rate cut of the cycle in September, lowering the target to 4.00–4.25%. Policymakers signaled two more cuts by year-end. The move was less about inflation than about cushioning the economy against labor weakness and rising policy risks.

Markets embraced the shift. Treasury yields declined toward 4.0% on the 10-year, the yield curve steepened modestly, and equities rallied. Gold surged as investors priced in lower real yields. The MOVE index of bond volatility spiked, reflecting uncertainty around the speed and scale of easing, even as equity volatility remained subdued.

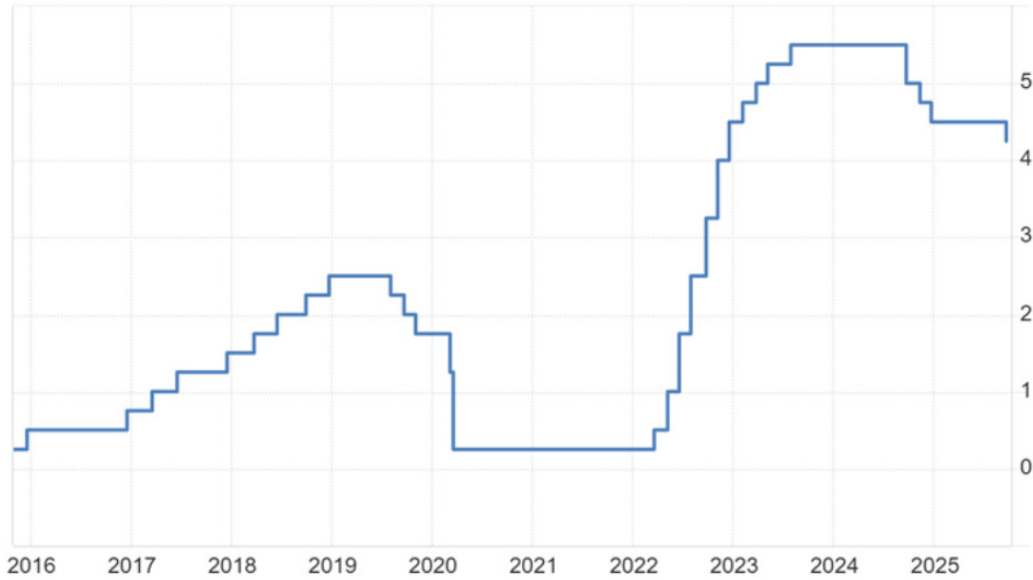
U.S. Inflation Rate



Inflation is sticky at 2.9% year-over-year. Tariff headlines are loud, but consumer prices remain contained so far.

*Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

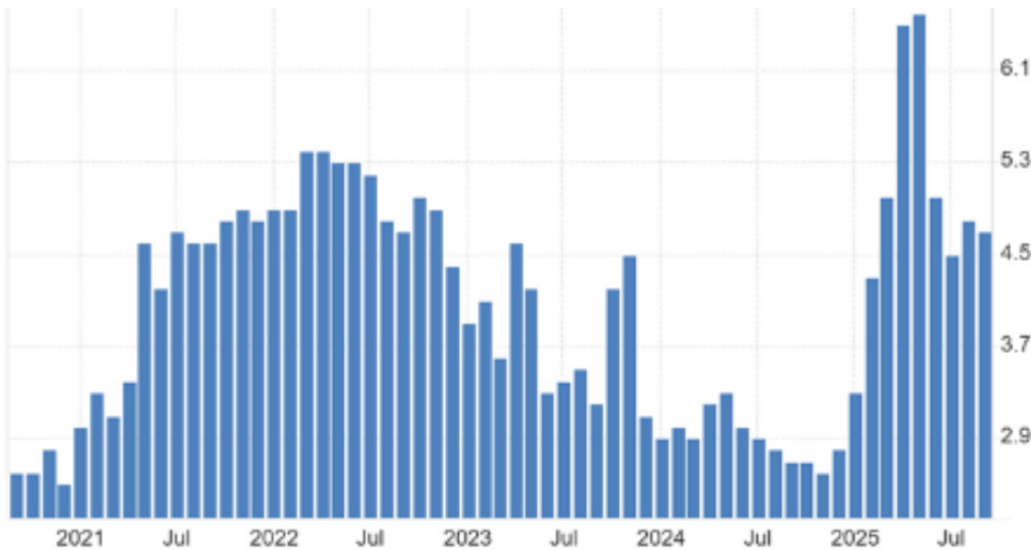
U.S. Interest Rate (Fed Funds)



The Fed cut rates in September, the first since 2024, shifting policy toward easing.

*Source: tradingeconomics.com | Federal Reserve

Michigan Inflation Expectations



Consumers see inflation risks easing but expectations remain above pre-pandemic averages.

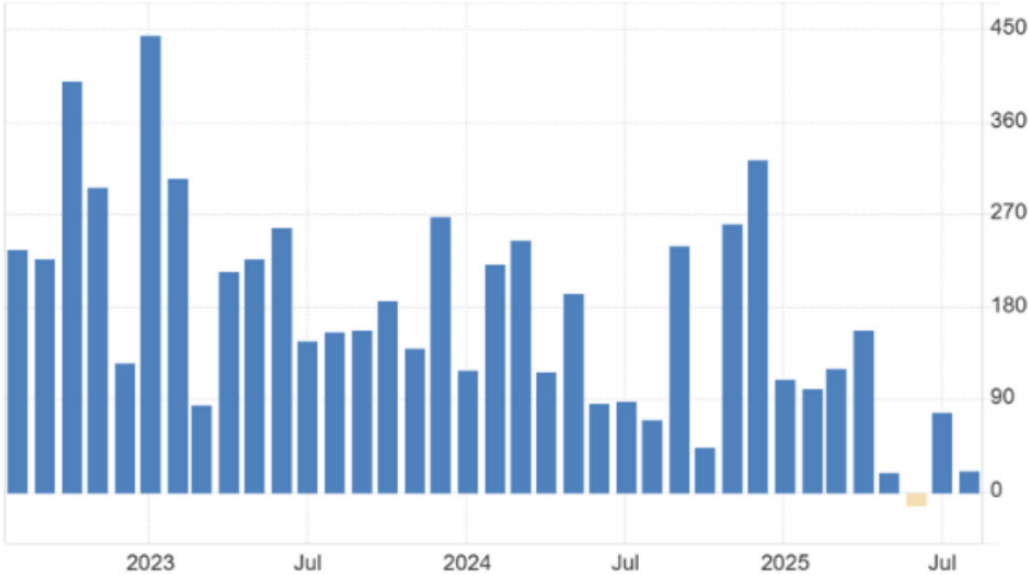
*Source: tradingeconomics.com | University of Michigan

Labor Market: Cracks in the Foundation

The labor market showed its first sustained weakness since the pandemic recovery. July payrolls grew by only 73,000, with downward revisions of 258,000 to prior months. August payrolls slowed further to just 22,000, the weakest in four years. The unemployment rate rose to 4.3%, its highest since 2021.

Jobless claims climbed to 263,000 in early September, the highest in two years, before easing back later in the month. Continuing claims remained steady at around 1.9 million. Wages grew at a steady but slower pace. These developments were modest cracks, not a collapse, but they signaled a clear cooling trend. Labor, once the bedrock of the post-pandemic expansion, became the primary source of uncertainty.

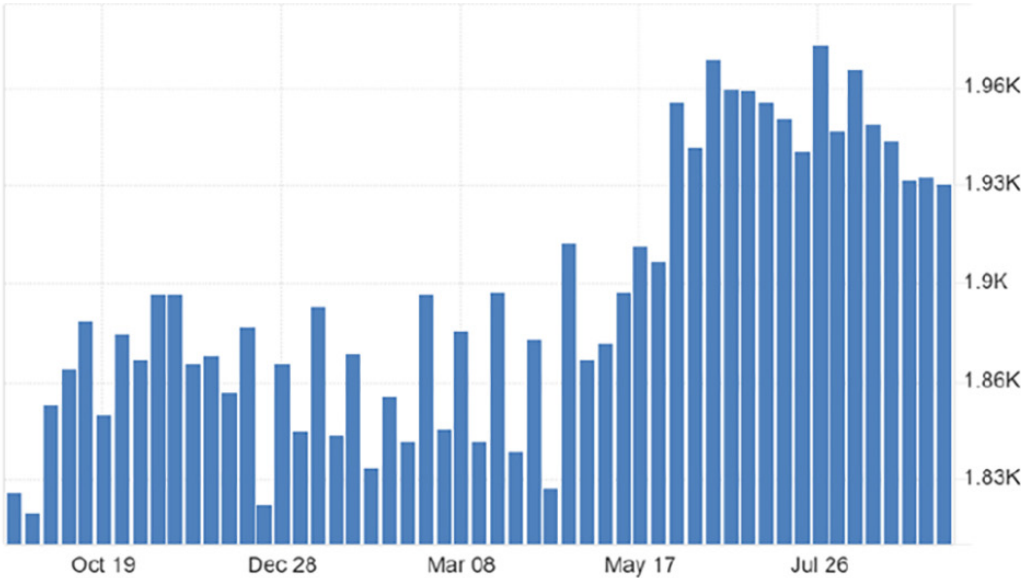
Non-Farm Payrolls



Job creation slowed sharply in July and August, the clearest sign of cooling momentum in the labor market.

*Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

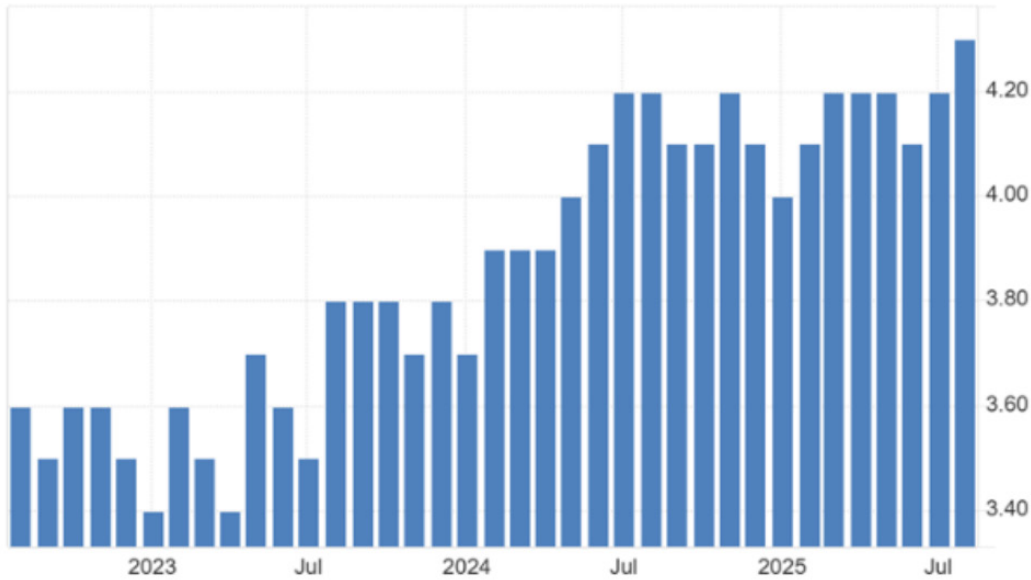
Unemployment Rate



Unemployment edged up to 4.3% in August, its highest since 2021, underscoring the Fed's pivot toward easing.

*Source: tradingeconomics.com | U.S. Department of Labor

Continuing Jobless Claims



Claims remain elevated, reinforcing concerns about weakening labor demand.

*Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

Policy and Political Developments

Policy headlines continued to dominate sentiment. The Trump administration expanded tariffs dramatically in July and August, covering over 60 countries and imposing a 100% duty on imported semiconductors. In late September, new tariffs targeted pharmaceuticals, trucks, and furniture. The measures drew legal challenges, with a federal appellate court ruling that some of the tariffs imposed under emergency powers were unlawful, though enforcement was stayed pending appeal.

Globally, the European Central Bank held its benchmark rate steady, signaling caution after a year of cuts. The Bank of England eased modestly, while the Bank of Japan maintained its supportive stance. Tariff disputes and geopolitical tensions continued to be a constant undercurrent for markets.

Looking Ahead: Wall of Worry or Cliff of Concerns?

As Q4 begins, markets face a delicate balance. Growth has held up, inflation has eased enough for rate cuts, and earnings remain strong. Yet consumer confidence is weak, labor is showing cracks, and valuations are stretched. Markets have absorbed all of this and continued higher, but the margin for error is shrinking.

The climb up the wall of worry has been impressive, supported by policy pivots and structural themes such as AI. But the higher we go, the sharper the question becomes: are we still climbing, or are we nearing the cliff of concerns? Much will depend on whether the labor market stabilizes, whether corporate profits remain resilient, and whether policymakers can manage risks without spooking investors.

Closing Client Note

At AMPWP, we remain focused on building portfolios to help withstand uncertainty and capitalize on growth opportunities. We continue to emphasize quality equities with strong balance sheets and pricing power, high-quality fixed income, particularly municipals, and diversifiers that we believe can perform in different environments. The events of Q3 reinforced the importance of patience and discipline.

Markets may continue to climb the wall of worry, but we are prepared if conditions shift. The months ahead will test whether resilience persists or whether cracks widen. Either way, our philosophy remains the same: stay invested, stay diversified, and stay disciplined.



APPENDIX / Additional Charts

S&P 500 PE Ratio

30.85 +0.09 (+0.29%)

4:00 PM EDT, Mon Sep 29



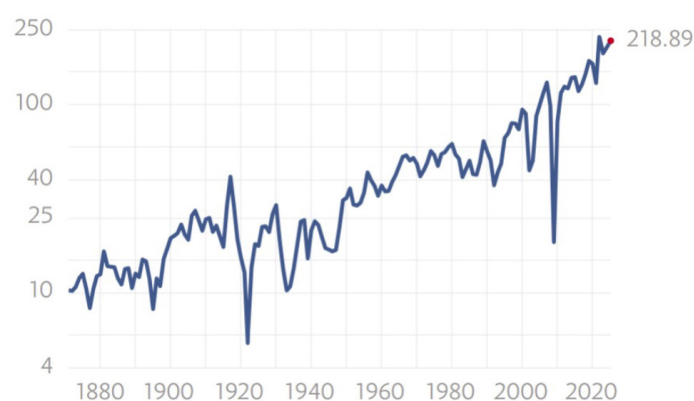
At 30.9, the S&P 500 price-to-earnings ratio remains elevated compared with historical norms.

**Source: multpl.com, September 30, 2025*

S&P 500 Earnings

218.89

Mar 2025



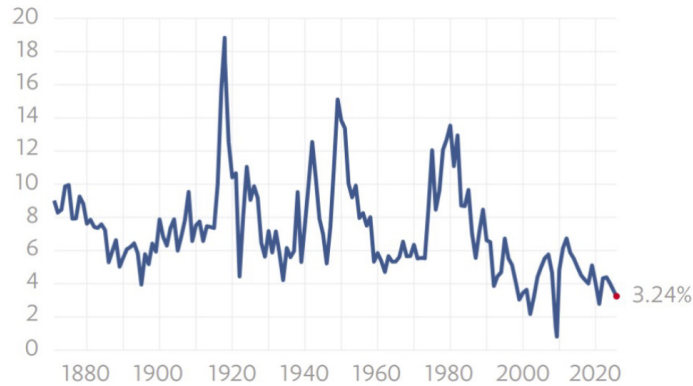
Earnings have climbed to record levels, supporting valuations even as economic momentum slows.

**Source: multpl.com, September 30, 2025*

S&P 500 Earnings Yield

3.24% -0.94 bps

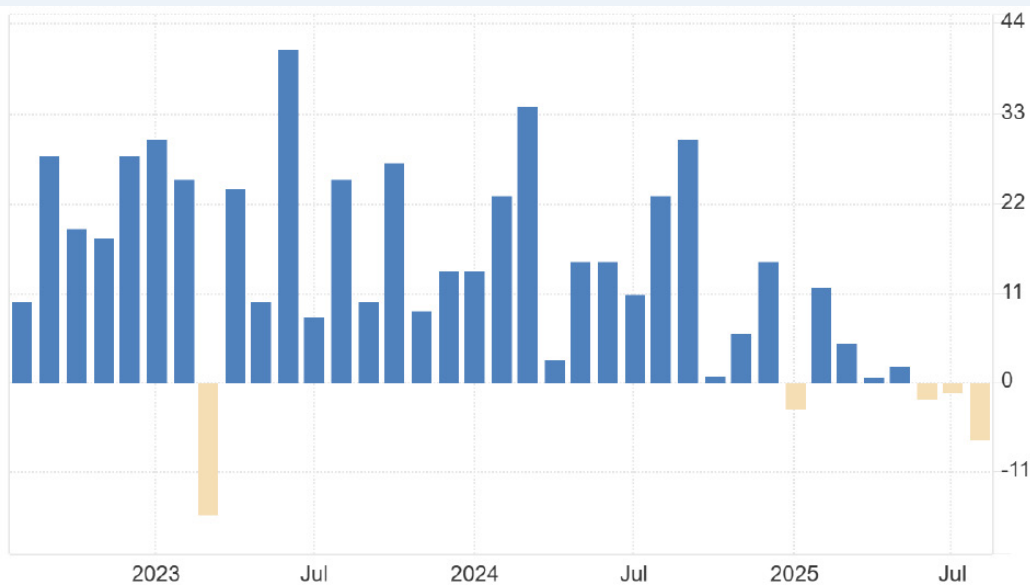
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At just 3.2%, the earnings yield is near historic lows compared with bond yields.

*Source: multpl.com, September 30, 2025

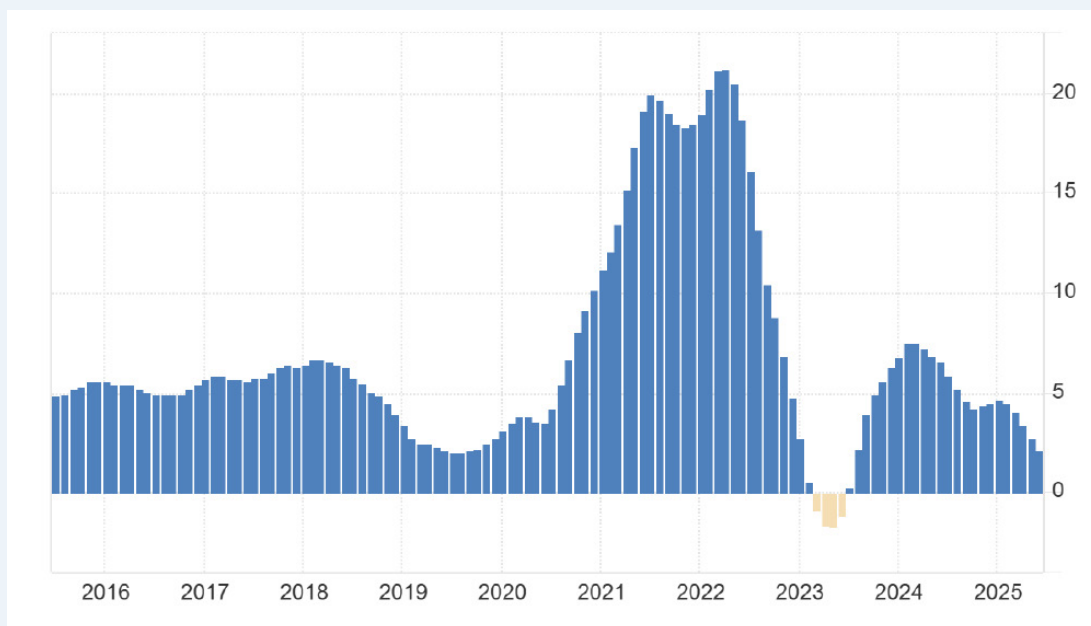
U.S. Construction Payrolls



Employment in construction weakened over the summer, suggesting that the housing sector recovery remains tentative despite stronger sales volumes.

*Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

U.S. Case-Shiller Home Price Index



Home price growth has cooled to the low single digits, stabilizing after the sharp swings of the past three years.

*Source: tradingeconomics.com | Standard & Poor's

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