



POST OAK PRIVATE WEALTH ADVISORS

ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

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Quarterly Market Commentary

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Stocks rose in September and finished the third quarter in strong fashion with the S&P 500 returning over 8% for the three-month period. Once again, technology stocks led the way and helped both the S&P 500 and Nasdaq Composite indices rise to all-time highs, before backing off a little at the end of the quarter. Late summer can be a difficult time for the stock market (October can, too) but volatility has been subdued lately, certainly nothing like the tariff-induced whipsaws we saw in Q2. With one quarter left in the year—typically some of the best months for the market—the benchmark stock index is up nearly 15% for the year to date while the Nasdaq is 17% higher.

Investors and business leaders seemed to have put the drama around tariffs behind them, encouraged by trade agreements that have set import duties at less punitive levels, although the effective tariff rate is much higher than it was before President Trump took office. The threat of trade policy surprises remains active—see the recent tariffs enacted by Trump on household furnishings, large trucks and pharmaceuticals—but the market has taken all of these announcements in stride. A strong earnings season for Q2—the third-straight quarter of double-digit growth—showed that companies appear to be weathering the tariff storm well.

Attention instead landed on the Federal Reserve in anticipation of the September 17 FOMC meeting, during which committee members lowered interest rates by a quarter-point. Fed Chair Jerome Powell set the central bank on a track toward resuming rate easing in his remarks at the August Jackson Hole summit, so the quarter-point cut was hardly a surprise. The Fed did open the door for more easing to come in the final quarter of the year, but with U.S. economic data currently in flux the central bank finds itself in a bind between its two mandates, with employment markets sputtering and inflation pressures building.

The Fed's double-bind

Back in 1977, Congress defined in law what the Federal Reserve's role should be as it directs monetary policy for the country. The "dual mandate", as we now know it, includes achieving maximum employment and maintaining price stability. "Maximum employment" doesn't mean zero unemployment, but allows for a healthy level of job creation and layoffs that's suitable for the current economic cycle. As for price stability, the Fed has established a 2% target for the annual inflation rate and tries to get to this level when prices rise by tightening monetary policy.

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While the parameters of this mandate seem straightforward, achieving to these twin goals has required more art than science. Fed officials will often speak of striking the right balance between employment growth and inflation control, and use the various monetary policy tools at their disposal—including interest rates, or more specifically, the federal funds rate that's the focus of the monthly FOMC meetings—either to spur economic activity or to keep the lid on consumer price growth.

When the Fed lowers the federal funds rate, as it did in September, it reduces borrowing costs for businesses and consumers. That helps companies boost investment and encourages consumers to spend, both of which can help create jobs. All that spending leads to more demand and more money in the economy, which ultimately can increase prices. So, the Fed has to manage its dual mandate with this balance in mind, seeking to spark to economic growth and job creation without adding too much demand that would raise inflation.

Raising the federal funds rate is the Fed's primary approach for fighting inflation. We experienced this in 2022 when the Fed hiked the fed funds rate from near-zero to over 5% in response to a spike in consumer prices. In this case, inflation had started to climb around one year before the Fed started raising rates, which opened the Fed to criticism that it waited too long to start monetary tightening. While that argument is valid, it's also important to remember the Fed makes these decisions in the present moment with only the data at hand. Hindsight makes it easy to be critical.

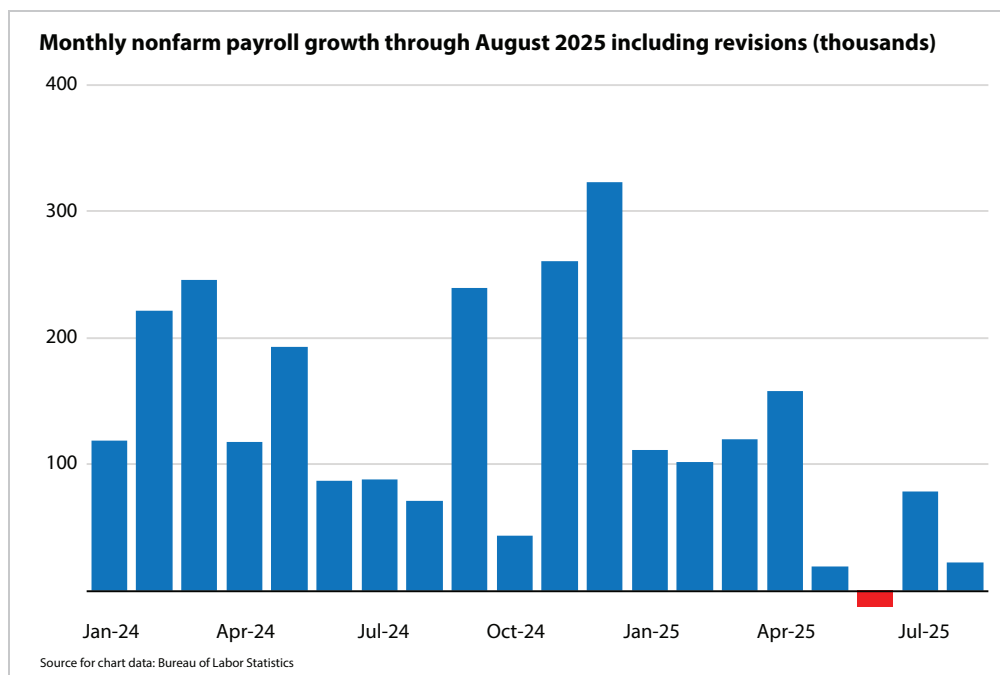
Back in 2021 when inflation was surging, the economy was also emerging from COVID and the unemployment rate was near 5%. Raising rates at that time may have worsened the job market and jeopardized the burgeoning recovery. For the Fed, striking a balance between the two mandates may mean sacrificing one for the other. In 2022, inflation was the target and Fed rate hikes helped bring consumer price growth (i.e., inflation) under control. The job market at that time hummed along nicely with decent payroll growth. In 2025, the switch has flipped; the balance of risks, according to Fed officials, has shifted to employment weakness. The recent job market data has borne this out.

From strength to fragility

Cracks in the employment picture emerged with the July jobs report (released in early August) showing nonfarm payroll growth of only 73,000. Things didn't improve in August, when job growth came in at just 22,000. Downward revisions to prior employment reports and a big reduction in the 12-month job growth number (through March 2025) underscored the shift from resilience to weakness in the job market narrative. Employment has been a pillar of economic strength in recent years, holding up well through the inflation spike, Federal Reserve tightening, tariff turmoil and market volatility, so this softness may catch some investors by surprise. Keep in mind we're looking at just a few months of data here. Other measures of employment market health, such as continuing jobless claims, have painted a less-bad picture in recent weeks. Monthly hiring and layoff rates have held steady, too.

If not for the weak nonfarm payroll numbers, it's unlikely that the Fed would have lowered rates in September. That's mostly due to resurgent inflation. The annual growth rate for the Consumer Price Index hit 2.9% in August, undoing the progress made on whipping inflation in the spring. The Fed's preferred inflation gauge, the Personal Consumption Expenditures Index, saw its

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year-over-year growth rate reach its highest level in over a year. Economists believe the impact of higher tariffs on consumers has been marginal so far, as companies appear to be cushioning the blow either by absorbing the increased costs or drawing on accumulated inventories. That can't last forever. Eventually, consumers will pay more for goods and services as the true impact of the tariffs work slowly through the economy.

If that scenario plays out, it would validate the Fed's wait-and-see approach and could dash hopes for a faster pace of rate cuts. As of this writing, market probabilities favor quarter-point cuts at each of next two Fed meetings. Fed Chair Powell stated recently that current rate policy is still "modestly restrictive", creating space for rates to come down further. But that's not a foregone conclusion, especially if inflation pressures continue to build. The last few months have shown that inflation is not entirely in check. Higher tariffs will make it very difficult to get close to the Fed's 2% inflation target.

AI still leads the way

With stocks sitting at record levels and valuations at multiyear highs, the market is vulnerable to a surprise in the economic data (e.g., a big jump in inflation) that could potentially derail Fed rate easing. Any ensuing volatility may induce anxiety in the markets but is likely to be temporary. Investors should be focused on the long-term and ready to weather short-term fluctuations with a diversified portfolio of stocks from quality companies. A market dip could also be an opportunity to buy these stocks at a discount.

There's no question that certain parts of the stock market look frothy in terms of both price levels and valuations, specifically big tech and AI-related firms. Not only have the technology and communications sectors led the market again in September and the third quarter, they're

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both outpacing all other sectors for the year to date—by a lot! (See the performance table below.) While some questions are surfacing about excessive capital spending related to the AI buildout, enthusiasm for these companies hasn't abated. This past month, Oracle saw its stock soar after announcements of multi-billion-dollar contracts for data-center support with AI heavyweights Microsoft and Amazon. NVIDIA shares climbed as well on news of investments in OpenAI (the developer of ChatGPT) and legacy chipmaker Intel.

September return	Q3 return	2025 YTD return
Technology: 7.3%	Technology: 13.2%	Communications: 24.5%
Communications: 5.6%	Communications: 12.0%	Technology: 22.3%
Utilities: 4.2%	Consumer Discretionary: 9.5%	Industrials: 18.4%
S&P 500: 3.7%	S&P 500: 8.1%	Utilities: 17.7%
Consumer Discretionary: 3.2%	Utilities: 7.6%	S&P 500: 14.8%
Industrials: 2.0%	Energy: 6.2%	Financials: 12.8%
Health Care: 1.8%	Industrials: 5.0%	Materials: 9.3%
Real Estate: 0.5%	Health Care: 3.8%	Energy: 7.0%
Financials: 0.1%	Financials: 3.2%	Real Estate: 6.2%
Energy: -0.4%	Materials: 3.1%	Consumer Discretionary: 5.3%
Consumer Staples: -1.6%	Real Estate: 2.6%	Consumer Staples: 3.9%
Materials: -2.1%	Consumer Staples: -2.4%	Health Care: 2.6%

Source for return data: S&P Dow Jones Indices, as of Sept. 30, 2025

Should investors be worried about valuations? We definitely pay attention to them, but it's also important to remember that a company's stock price is just one component of the valuation calculation. Earnings are another (at least when we use price/earnings ratios, a commonly cited valuation figure.) In the case of NVIDIA, the rise in its stock price is backed by strong earnings (which have been powered mainly by AI demand). So, a current P/E of 31-times forward earnings may seem reasonable even if it's higher than the market overall. Investors believe NVIDIA is in a good position to continue earnings growth, so they're willing to pay more today for those future earnings.

Compare NVIDIA's current valuation with two decidedly old-school, non-AI companies: Costco, with a P/E of around 47-times forward earnings; and Walmart, with a P/E of around 35-times forward earnings. In relation to these big-box retailers, NVIDIA may seem to be a bargain but it does depend on the company's ability to deliver earnings down the road. They are in prime position to do so given the tremendous possibilities for AI to transform the global economy.

AI is also a tremendous opportunity for investors to build wealth. We have prepared a white paper that discusses the investment potential of the coming AI transformation. Look for it to arrive in your e-mail inbox later this month.



Shutdown ahead?

As I finalize this month's report, we are just hours away from a federal government shutdown. Seems like we have been here before, right? This one may be resolved by the time you receive and read this letter. But if not, you may wonder what might this shutdown mean for stocks?

Historically, shutdowns have caused short-term uncertainty, leading to small pullbacks or chopiness in the stock market. But shutdowns rarely leave a significant mark once resolved. Markets tend to recover quickly because they are more sensitive to fundamentals like interest rates, corporate earnings, and global events.

1995-96 shutdown	21 days	Stocks were relatively flat, and the economy eventually shrugged it off.
2013 shutdown	16 days	S&P 500 rose around 3%.
2018-19 shutdown	35 days	S&P 500 fell early on but rallied strongly, ending higher when the shutdown ended.

The key takeaway is that shutdowns often make headlines and stir short-term volatility, but they have little long-term impact on the stock market. Investors usually view them as political theater rather than fundamental economic crises. This time is likely to be more of the same. Attention would be better spent on monitoring expectations for moves in Fed monetary policy, given the uncertainties around the jobs market and inflation.

We anticipate this shutdown to be a non-event and remain optimistic about prospects for stock market returns as we head toward the end of the year. Please contact us if you would like to talk about market opportunities in general or your investment strategy in particular. Thank you as always for your trust and confidence in our services.

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