

Five in Five

September 2025

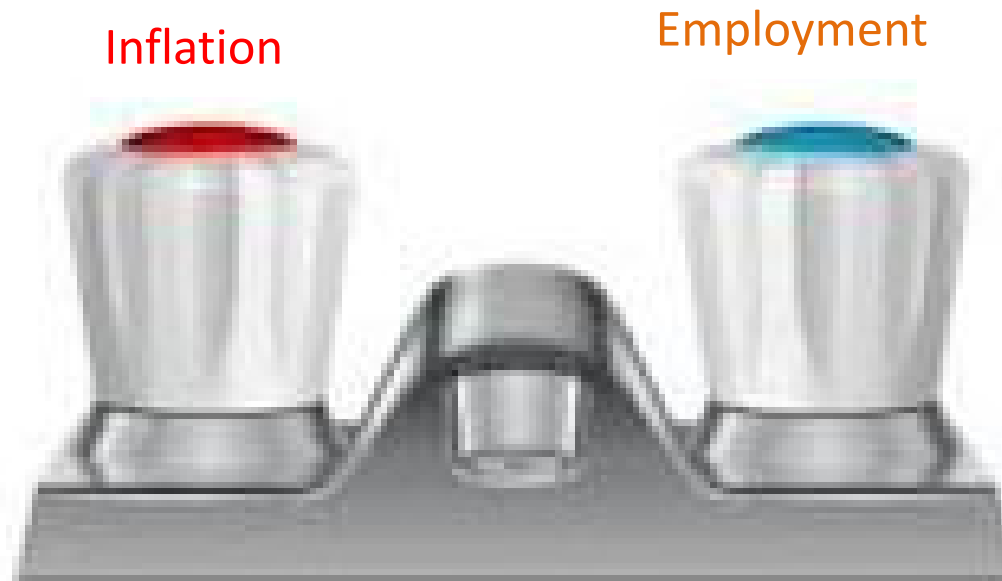


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Federal Reserve – Finding the Right Temperature for the Economy



- Currently markets are reflecting a high probability of 0.25% rate cut by the Federal Reserve's overnight interest rate in September, followed by another 0.25% in December.
- This overnight rate is important as it helps guide the rate at which banks and bank clients borrow.
- The Federal Reserve must find the right balance – cut rates too much and risk sparking higher inflation, do not cut enough and risk slowing the economy and increasing unemployment.
- Employment growth has slowed. To prevent unemployment from rising the Fed will take on the risk of higher inflation by cutting rates now.
- No matter what mix of inflation or employment the Fed targets, the second half of 2025 should see increased volatility in equity and bond markets.

Job Openings Continue Downward Trend



Sources: BTC Capital Management, FactSet

- U.S. job openings, as measured by the Job Openings and Labor Turnover Survey (JOLTS), fell to its lowest level in 10 months with the latest monthly release continuing its decline from the peak reached in March 2022.
- The Health Care industry saw a significant pullback in job openings as uncertainty regarding government programs and funding resulted in fewer job openings.
- The Federal Reserve monitors employment market conditions with regards to rate policy and noted, “downside risks to employment are rising.”

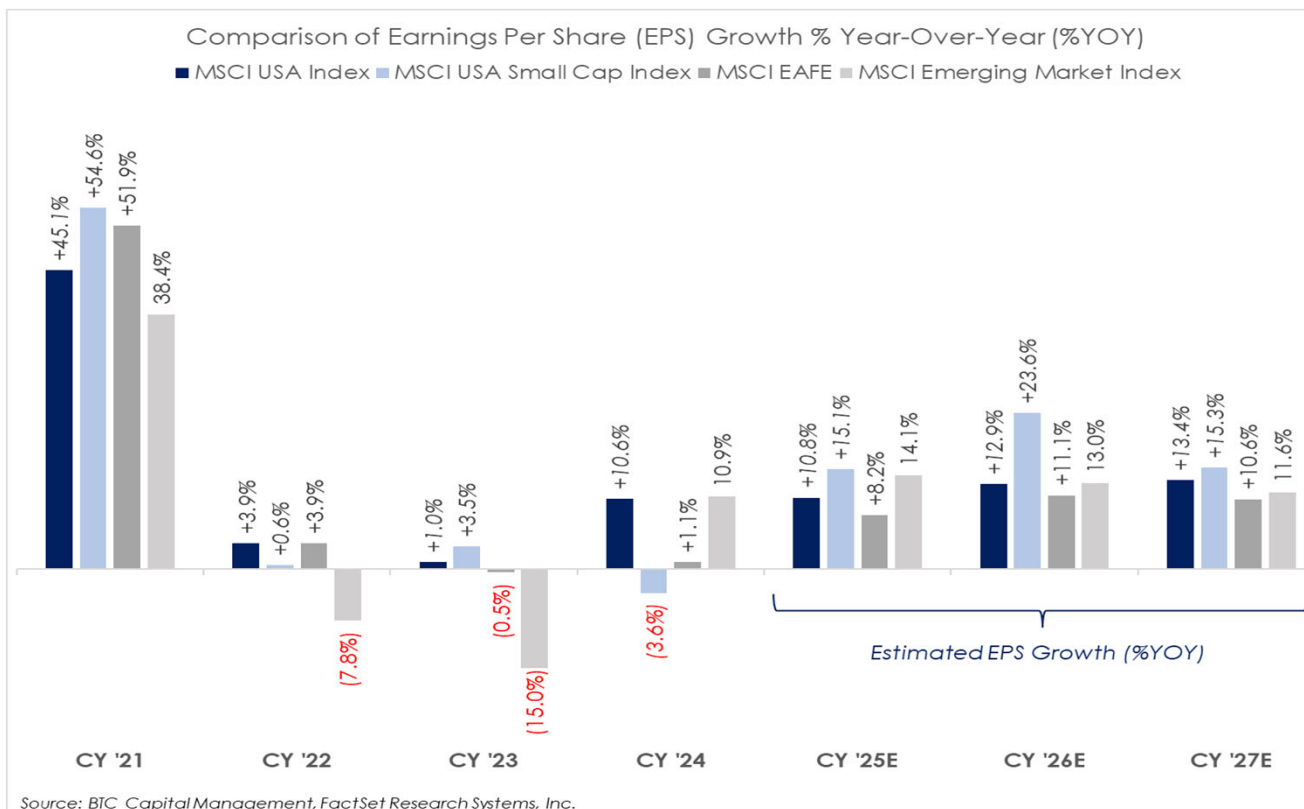
Growth Outpacing Value Year-to-Date, but just Recently...



Sources: BTC Capital Management, FactSet

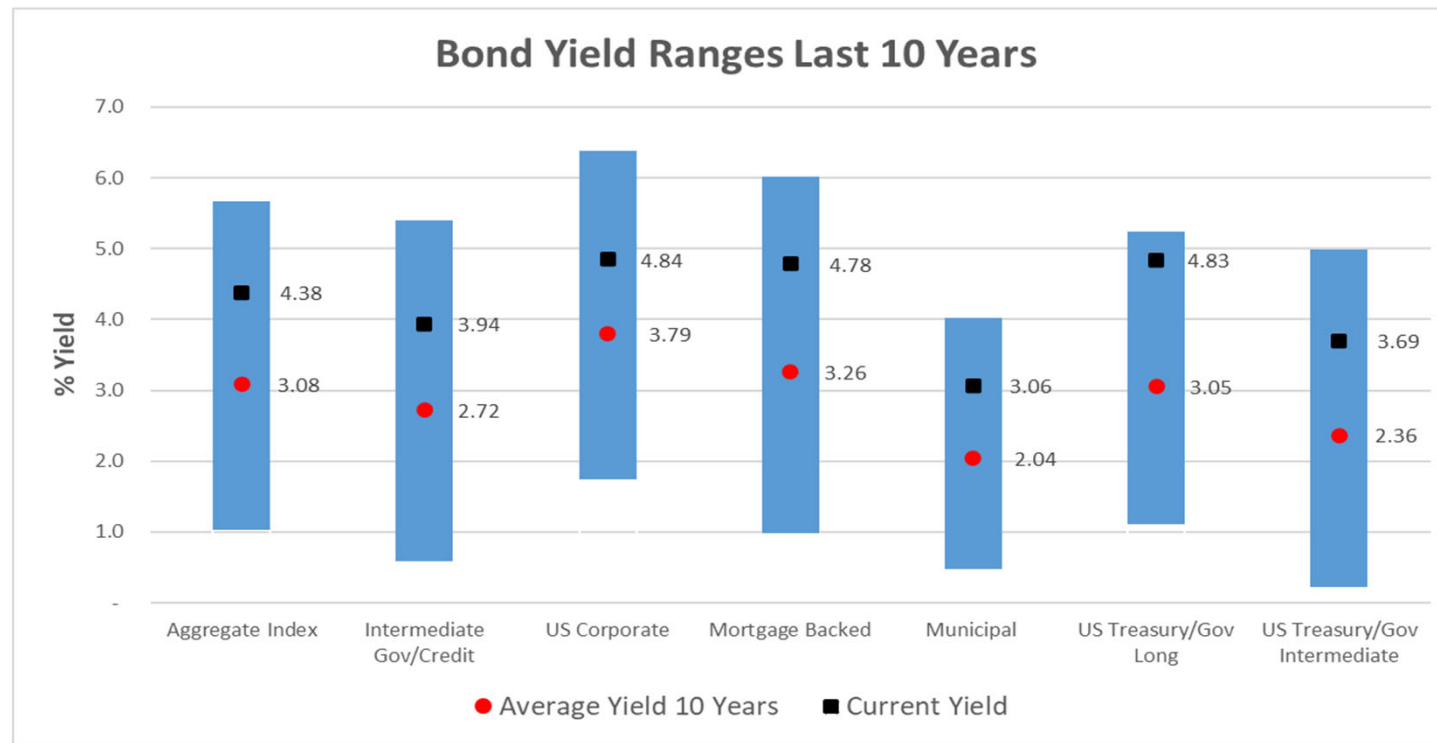
- Value stocks were outperforming Growth stocks for the first part of the year as investors rotated into more defensive sectors.
- Since the market bottom in early April, Growth stocks are up just over 40%, outpacing Value stocks which are up approximately 19%.
- Investors have since rotated into a “risk-on” mentality as second quarter earnings results came in strong, and the market has rewarded the mega cap stocks who are exhibiting significant forecasted earnings growth.

U.S. Earnings Forecast Appears Solid



Sources: BTC Capital Management, FactSet

- The chart above presents the historical and estimated growth year-over-year (%YOY) in earnings for the referenced indices. Currently analysts project double-digit earnings growth for calendar years 2025, 2026 and 2027.
- Note that for calendar year 2025, 2026 and 2027, estimated earnings per share (EPS) growth for U.S. small cap companies is projected to accelerate at a rate exceeding that of U.S. large cap, foreign developed and foreign emerging market companies.
- The analyst revisions ratio for U.S. companies has been positive while that for foreign peers has been mixed. U.S. large cap companies appear poised for sustainable, achievable growth.



Sources: BTC Capital Management, Bloomberg

- The bond market remains attractive relative to historical yield levels offered despite coming off highs reached in late 2023.
- The yield curve will continue to normalize (short rates lower) but that process will take until mid to late 2026.
- This changing yield curve will offer positive returns, especially for those invested in short to intermediate maturity holdings.
- Longer maturity bond yields are likely to decline less than shorter maturity yield over the next year. What could derail the move toward lower yields would be if Consumer Price Index (CPI) readings of inflation prove to be sticky and not decline further.
- Credit spreads indicate corporate bonds seem expensive, but as long as the backdrop is favorable for lower inflation and solid economic growth, they offer a way to pick up additional income in portfolios.

DISCLOSURES

- *Sources: BTC Capital Management, Bloomberg, FactSet, LSEG Datastream*
- *The information provided has been obtained from sources deemed reliable, but BTC Capital Management and its affiliates cannot guarantee accuracy. Past performance is not a guarantee of future returns. Performance over periods exceeding 12 months has been annualized.*
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