The Kelliher Corbett Group at Morgan Stanley

Markets and Economic Update

MARKETS AND ECONOMIC REVIEW: Q3-2025

The Federal Reserve maintained interest rates at their July and August meetings, then opted to lower the federal funds target range by 25 basis points (0.25%) in September.[1] The September 2025 Consumer Price Index (CPI) report, which measures the average monthly change in prices paid by consumers for a standardized basket of goods and services, revealed an increase in inflation to an annual rate of 3.1%, up from 2.7% in June.[1] This rise was primarily driven by higher consumer prices, particularly in the food and housing sectors. Meanwhile, signs of a slowdown in the labor market have emerged, with weak job growth and a slight uptick in unemployment indicating potential challenges ahead for economic stability.

The S&P 500 Index, representing the larger-capitalization U.S. stock market, gained 8.1% in the third quarter, with 10 out of 11 S&P 500 sectors posting positive returns.[2] Notably, the S&P 500 has reached its most concentrated level on record, with the top 10 companies making up almost 40% of the index. During the same period, gold prices increased by 16.8% and the U.S. dollar by 0.9%.

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This publication is intended to provide you with timely and insightful information relevant to your unique investment goals.

Please contact The Kelliher Corbett Group if you have any questions or to discuss the unique investment goals of you, your family, or your organization.

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4X Barron's Top 100 Institutional Consulting Teams in The Nation

Source: Barrons.com (Awarded May 2022-2025). Data compiled by Barron's based on 12-month period concluding in Dec of the year prior to the issuance of the award.

Awards Disclosures

International equities underperformed domestic U.S. equities during the quarter, with the MSCI ACWI Ex USA Index, which represents large- and mid-capitalization stocks across Developed Market countries (excluding the U.S.) and Emerging Market countries, returning 6.9%.[2] The Bloomberg U.S. Aggregate Bond Index, a broad measure of the U.S. bond market, also saw positive performance, rising 2.0%. The yield on the 10-year U.S.

Treasury note—a key indicator for interest rates on mortgages, student loans, and other forms of borrowing—closed the quarter at 4.15%, down from 4.23% at the end of the second quarter.[2]

A balanced (market cap-weighted) investor's portfolio consisting of 50% stocks and 50% bonds returned +4.75% for the third quarter and +9.92% for the trailing 12-month period.[3] The same balanced investor's portfolio with equally weighted U.S. equities returned +3.60% for the third quarter and +6.51% for the trailing 12-month period.[2]

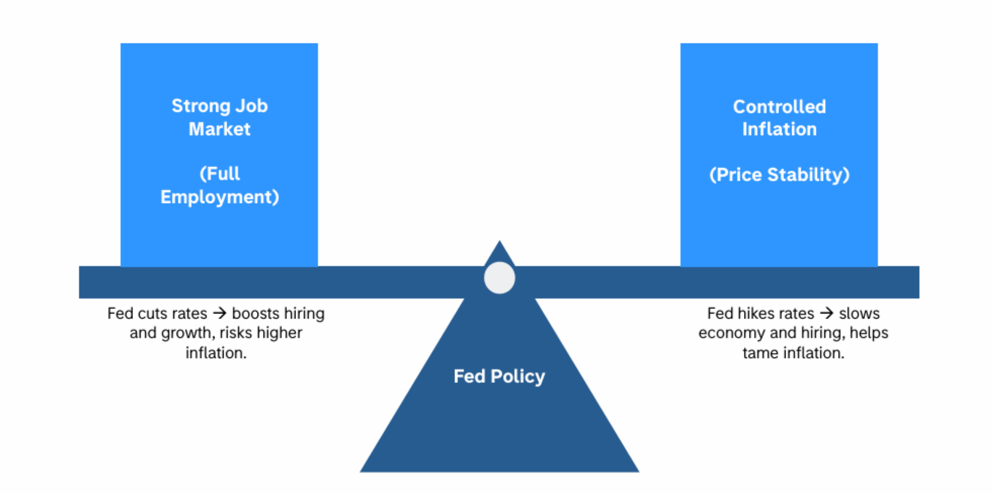
Market/Index	Q3-25	T12
Balanced Investor (Market Cap Weighted)* *50% Stocks (70% S&P 500, 24% MSCI EAFE NR, 6% MSCI EM NR) *50% Bonds (100% BBg US Agg Bond)	4.75%	9.92%
Balanced Investor (Equal Weighted)* *50% Stocks (70% S&P 500 EW, 24% MSCI EAFE NR, 6% MSCI EM NR) *50% Bonds (100% BBg US Agg Bond)	3.60%	6.51%
US Equities		
S&P 500 TR USD	8.12%	17.60%
S&P 500 Equal Weighted TR USD	4.84%	7.85%
International Equities MSCI EAFE NR USD	4.77%	14.99%
Emerging Market Equities MSCI EM NR USD	10.64%	17.32%
US Fixed Income Bloomberg US Agg Bond TR USD	2.03%	2.88%
Municipal Fixed Income Bloomberg Municipal TR USD	3.00%	1.39%

Source: Morningstar as of 9/30/2025

MARKETS AND ECONOMIC OUTLOOK

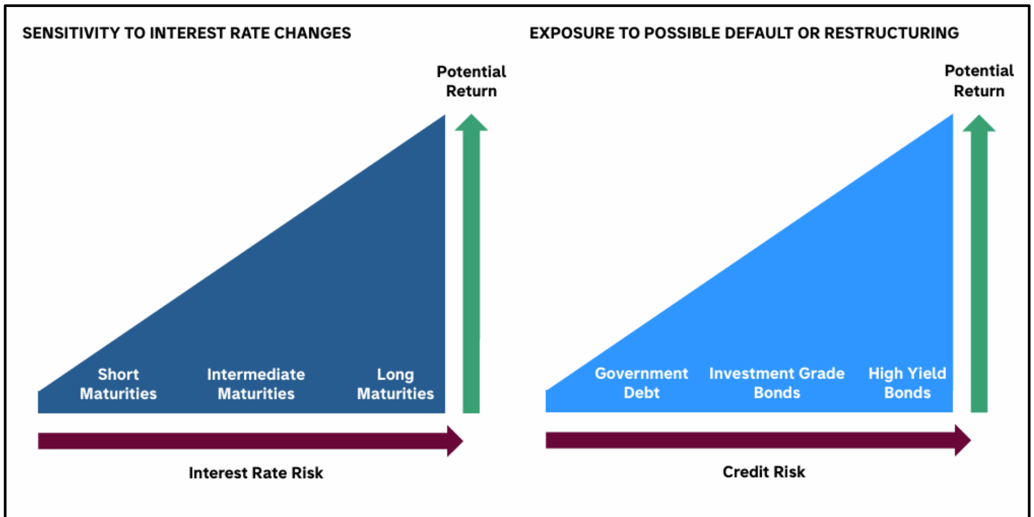
As the Kelliher Corbett Group continues to position managed client portfolios, we're focused on the following key themes for the remainder of 2025 and into 2026.

Navigating Economic Crosswinds: The Fed's Balancing Act[1]: The Federal Reserve is striving to balance the labor market with inflation control. Recent rate cuts of 0.25% each in September and October adjusted the federal funds rate to 3.75%-4.00%, primarily due to employment risks, despite persistent inflation. The Fed is transitioning towards a neutral policy stance, aiming to achieve its 2% inflation target by 2028—a longer timeline than previously set. This strategy indicates a willingness to tolerate above-target inflation to stabilize the labor market. Projections now suggest slight increases in growth and inflation for 2026.



Source: Morgan Stanley Wealth Management GIO. Note: For illustrative use only.
Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

Fixed Income in Flux[3]: Bonds face interest rate and credit risks, with long-term bonds being more volatile and high-yield bonds having higher default risks - as illustrated below. The interest rate environment is expected to stabilize following adjustments aimed at controlling inflation, though we remain prepared for potential rate changes based on economic indicators and Fed policies. Corporate cash flows remain robust, bolstered by increasing confidence in a soft landing for the economy. Credit spreads have adjusted to these conditions, and default risk is modest. Although interest rates have risen to reflect expectations of a "higher-for-longer" scenario, there is attractive value and yield in mid-duration bonds. Given high geopolitical uncertainty and generally high equity valuations, we favor bonds with index matching and slightly longer durations for their reliable yields. Municipal securities also present good value but require active management to address credit concerns amid shifting federal funding priorities.



Source: Morgan Stanley Wealth Management GIO.
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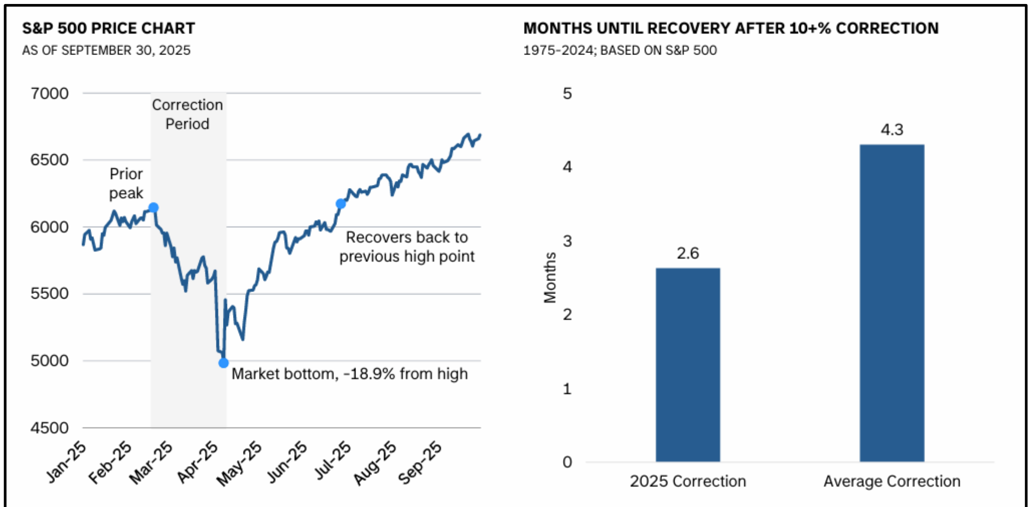
Equity Markets Resilient Amid Global Uncertainties*[4]*: The U.S. equity market has shown a strong recovery, as the S&P 500 Index achieved significant gains since April's correction. This rally is driven by key factors such as deregulation, tax cuts, Federal Reserve rate cuts, and increased capital expenditure in generative AI. Advancements in AI are fueling substantial capital expenditure and productivity growth. Major U.S. tech firms are projected to invest over $330 billion in AI infrastructure this year, while AI-driven consumer spending is expected to reach $683 billion by 2028, underscoring AI's transformative impact on economic growth. We anticipate that large-cap stocks, particularly in the technology sector, will continue outperforming into 2026. International equity markets are likely to benefit from declining policy rates and bond yields, with a focus on secular growth themes like AI and multinationals gaining from a weaker U.S. dollar.



Source: Morgan Stanley Wealth Management GIO, Bloomberg. Note: Average time to recovery after correction includes all S&P 500 declines greater than 10% but less than 20%, which is considered a bear market.
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The trust you place in us each day is paramount in our minds as we manage your portfolio.

The Kelliher Corbett Group at Morgan Stanley serves as a dedicated and seasoned advocate, providing thoughtful investment advice and solutions tailored to their clients' unique goals. Founded in 1992, the team of 14 investment professionals manages over $5.7 billion* in assets, offering a full suite of investment management and advisory services to individuals, families, corporations, and institutions. Clients of The Kelliher Corbett Group benefit from the scope, scale, and oversight of a global financial services firm coupled with the independence, objectivity, and individualized service capabilities of a boutique advisory and consulting group. (*As of September 30, 2025)

Sources:

1. My GIO - October FOMC Reaction: Back to Date Dependence
2. Morningstar as of 9/30/2025
3. GIC Special Report: A new inflationary regime
4. US Economics Weekly: AI spending and GDP growth: Appearances can be deceiving

Disclosures: 2022-2025 Barron's Top 100 Institutional Consulting Teams (formerly referred to as Barron's Top 50 Institutional Consulting Teams, Barron's Top 50 Institutional Consultants, Barron's Top 30 Institutional Consultants)) Source: Barrons.com (April 2022, 2023, 2024, 2025). Barron's Top 100 Institutional Consulting Teams ranking awarded in 2022, 2023, 2024, 2025. Each ranking was determined based on an evaluation process conducted by Barron's which concluded in December of the previous year the award was issued having commenced in December of the year before that. Neither Morgan Stanley Smith Barney LLC nor its Financial Advisors or Private Wealth Advisors paid a fee to Barron's to obtain or use the ranking. This ranking is based on in-person and telephone due diligence meetings to evaluate each advisor qualitatively, a major component of a ranking algorithm that includes client retention, industry experience, review of compliance records, firm nominations, and quantitative criteria, including assets under management and revenue generated for their firms. Investment performance is not a criterion. Rankings are based on the opinions of Barron's and this ranking may not be representative of any one client's experience. This ranking is not indicative of the Financial Advisor's future performance. Morgan Stanley Smith Barney LLC is not affiliated with Barron's.

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Indices are unmanaged. An investor cannot invest directly in an index.

For index, indicator and survey definitions referenced in this report please visit the following:

https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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