

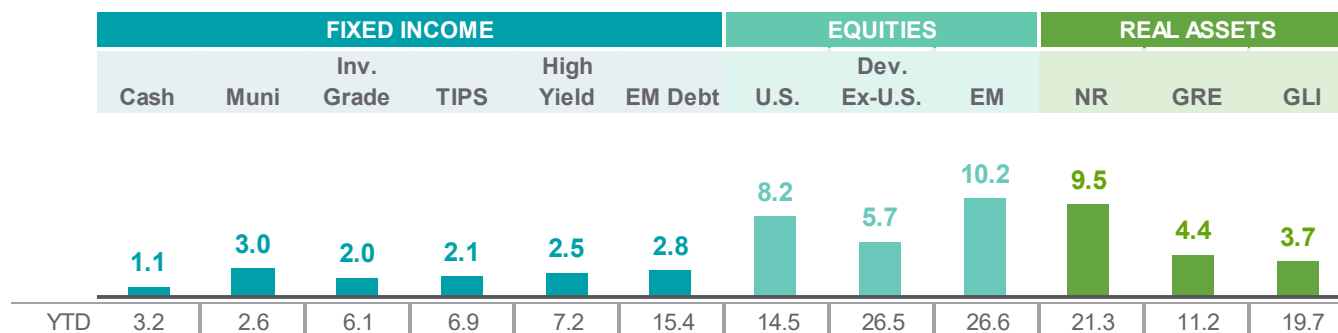
# LABOR SLOWS, MARKETS RISE

**No jobs, no problem?** It was an atypical macro backdrop, as economic activity defied expectations for a slowdown despite clear signs of labor market deceleration. Following several upward revisions, U.S. second-quarter real GDP growth—initially reported in July—was finalized at 3.8% annualized, well above the original consensus estimate of 2.6% annualized. Third-quarter growth projections were revised higher, with some forecasts now anticipating another period of above-trend expansion. This underlying strength was fueled by robust capital investment and resilient consumer spending. However, U.S. job growth slowed to levels rarely observed outside of recessionary periods. A constrained labor supply helped prevent a sharp rise in the unemployment rate, but the moderation in employment was sufficient to prompt the Federal Reserve's first rate cut of 2025—marking the beginning of what markets expect to be an easing cycle through most of 2026. On the inflation front, tariff-related passthrough effects have remained manageable so far. This has allowed the Fed to shift its focus more squarely toward supporting growth, even as goods inflation continues to exert upward pressure on core inflation. Economic activity outside the U.S. also showed resilience. Key European business surveys improved, and Germany advanced plans for fiscal support. Most non-U.S. central banks continued easing policy, contributing to a more accommodative global stance. While risks remain, global recession fears stemming from weak trade dynamics eased as the initial tariff shock faded and major trade deals were announced.

**Equities gain ground in the third quarter.** Major asset class returns were largely positive, with outperformance in equities relative to fixed income. Fixed income returns were around 2% across both investment grade and high yield—helped by some tailwinds from both rates and credit. Treasury yields declined modestly while credit spreads tightened and remain near 2025 lows. Global equities posted an 8% gain with solid returns across each major region. U.S. equities added 8% with help from megacap tech strength and a supportive macroeconomic backdrop. Investor sentiment around the artificial intelligence (AI) narrative gained steam, with strong returns across the tech space and outsized (20%-plus) gains for some of the largest tech-related companies including Alphabet and Oracle. Outside of the tech space, U.S. equity returns were largely positive with gains across all sectors except consumer staples. U.S. small caps gained 12%. Other tenets of support for U.S. equities included a strong 2Q corporate earnings season, better-than-expected tariff resilience, and Fed policy easing. Emerging market equities gained 10% with help from tech exposure—particularly across China and broader Asia—plus some support from the materials sector. Non-U.S. developed markets added just under 6% in U.S. dollar terms. The U.S. dollar was mostly unchanged in 3Q but remains down close to 10% since the start of 2025. In the real assets space, natural resources outperformed global equities, helped by metals & mining as gold was up about 16%. Global listed infrastructure and global real estate each gained roughly 4% but lagged global equities overall.

## THIRD QUARTER 2025 TOTAL RETURNS (%)

It was an attractive backdrop for financial markets as most major areas of the market gained during the quarter.



Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## KEY DEVELOPMENTS

### U.S. Policy Measures in Focus

While broader policy uncertainty has dipped, U.S. policy measures across a number of facets remained top of mind for investors. The reconciliation bill was passed in early July, bringing tax relief and a raise in the debt ceiling limit. Trade tensions were dialed down with a few trade deals announced in July (European Union, Japan, etc.), though uncertainty remains around implementation. In addition, legal challenges to tariffs remain underway. Beyond that, the U.S. entered a government shutdown right at the end of the quarter.

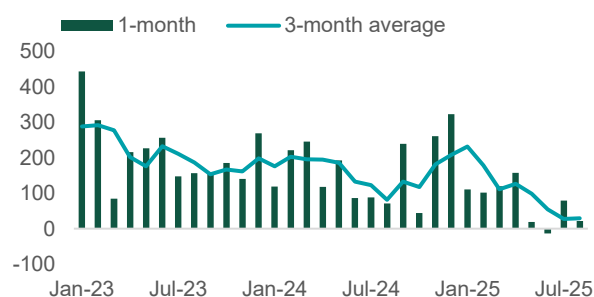
### TRADE POLICY UNCERTAINTY & RECESSION RISK



### U.S. Labor Market Slowdown

Cooling labor market demand became more evident in 3Q. With particularly large negative revisions in July jobs data, the three-month moving average of jobs added declined meaningfully. However, the slowing in payrolls growth comes at a time of constrained labor supply. Despite low hiring, layoffs have been limited and the unemployment rate remains below historical averages at 4.3%. Broader U.S. economic data held up well, with continued resilience across both consumer-related activity and survey-related measures.

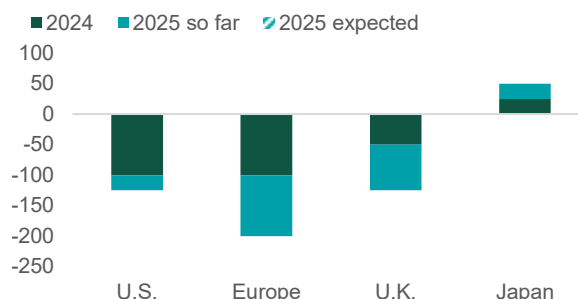
### CHANGE IN NONFARM PAYROLLS (THOUSANDS)



### The Fed Returns to Rate Cuts

With more emphasis on downside labor market risk versus upside risk to inflation, Fed Chair Powell opened the door to rate cuts in his August Jackson Hole speech. The Fed then cut rates by 25 basis points in September, and signaled the possibility of two more 2025 rate cuts in the economic projections. In addition, Fed independence has remained a steady background issue for investors with increasing pressures on the Fed from the Trump Administration, such as calling for rate cuts and for individual Fed governors to resign.

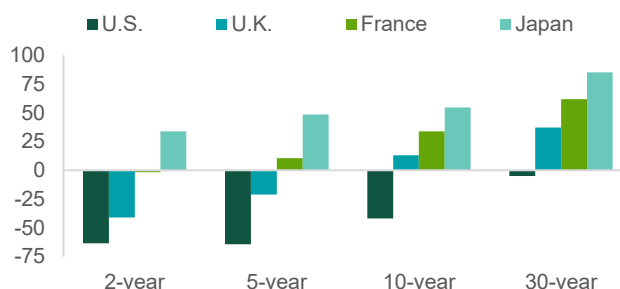
### CENTRAL BANK POLICY RATE CHANGES (BPS)



### Political Challenges Across the Globe

Japan and France saw their Prime Ministers step aside in September, while the U.K. faced a cabinet re-shuffle and budget challenges. While each country has unique circumstances to some extent, common themes across all three include elevated debt levels, rising long-term yields, and challenges in approaching some degree of fiscal consolidation with slim governing mandates. Long-end yields have continued to rise with 30-year government bond yields near multi-year highs across a few key developed market countries.

### YTD CHANGE IN GOVERNMENT BOND YIELDS (BPS)



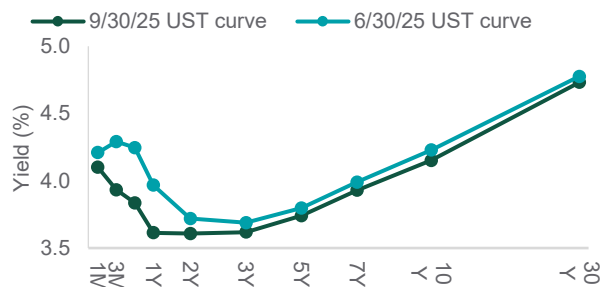
Source: Northern Trust Asset Management, Bloomberg, Matteo Iacoviello, Polymarket, U.S. Bureau of Labor Statistics. Data as of 9/30/2025.  
Note: bps = basis points. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## MARKET REVIEW

### Interest Rates

Treasury yields drifted lower, with the 2-year down 11 bps to 3.61% and the 10-year falling 8 bps to 4.15%—both near the bottom of their year-to-date trading range. After roughly a year-long pause, the Fed cut its policy rate in what Chair Powell called a “risk management” move, prompted by a shift in the outlook amid soft labor data. The resulting bull steepening in the curve directionally aligns with average historical patterns preceding Fed cuts. With 30-year yields slightly lower, the 5- to 30-year spread is near its widest since 2021.

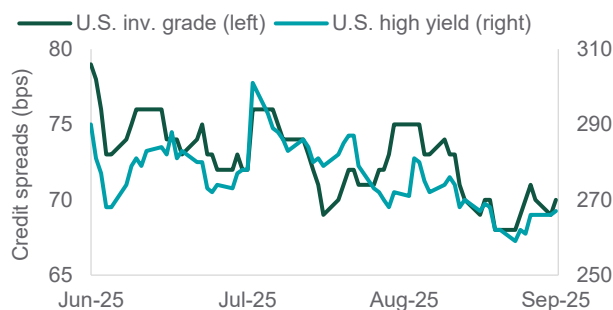
### U.S. TREASURY YIELD CURVE



### Credit Markets

Investment grade (IG) spreads tightened 9 bps to 0.70%, while high yield (HY) spreads narrowed 23 bps to 2.67%. From a return perspective, IG fixed income gained 2.0%, supported by lower rates, while high yield outperformed with a 2.5% return. All-in yields continued to fall, now around 4.5% for IG and 6.7% for HY. Lower-rated credits generally saw the most spread tightening, including over 70 bps in CCC-rated corporates. Credit spreads briefly widened following weak July jobs data but later reversed amid rising expectations for rate cuts.

### CREDIT SPREADS



### Equities

Global equities rose 7.7% to new all-time highs, led by emerging and U.S. markets. Softer U.S. labor data was offset by more confidence in monetary policy support amid an otherwise surprisingly positive growth backdrop. This boosted U.S. small-cap stocks and broader U.S. returns, with fairly balanced contributions from valuations and earnings. Tech-related sectors remained the most bid. Dollar versus local currency returns for major non-U.S. indices were more aligned than in prior quarters as the U.S. dollar stabilized.

### REGIONAL EQUITY INDICES



### Real Assets

Real assets delivered positive returns, although Natural Resources was the only segment to outperform broader global equities. Despite a strong year-to-date gain of 20%, Global Listed Infrastructure (GLI) lagged in the latest quarter, ending with a 3.7% return. Global Real Estate posted a 4.4% gain, placing it between GLI and global equities. Natural Resources delivered a standout performance with a 9.5% gain, defying a backdrop of declining energy prices. The strength was driven primarily by precious metals, with Gold surging 16%.

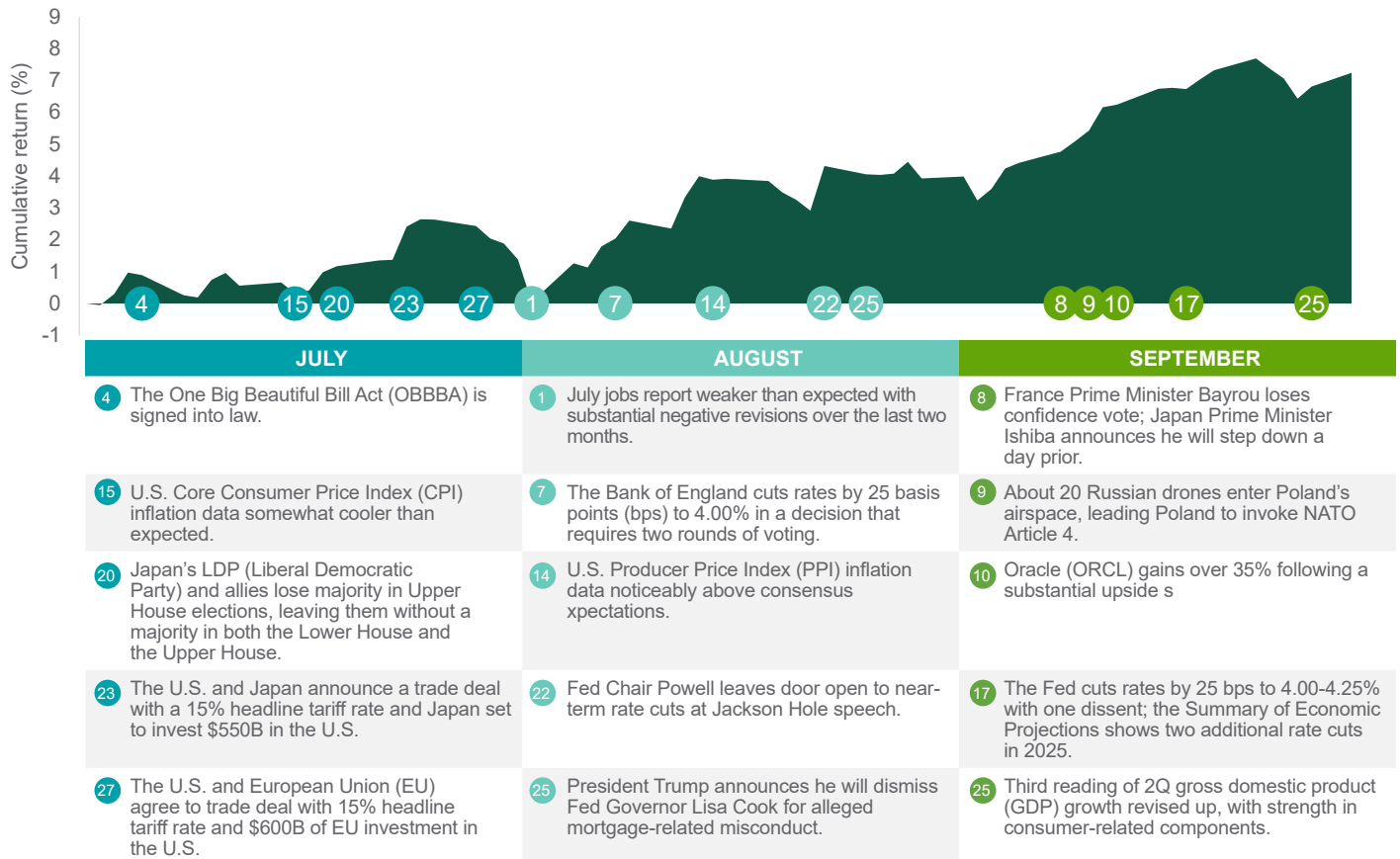
### REAL ASSET INDICES



Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## MARKET EVENTS

■ 3Q 2025 global equity total return: 7.7%



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Indexes used: Bloomberg (BBG) 1-3 Month UST (Cash); BBG Municipal (Muni); BBG Aggregate (Inv. Grade); BBG TIPS (TIPS); BBG High Yield 2% Capped (High Yield); JP Morgan GBI-EM Global Diversified (Em. Markets Fixed Income); MSCI U.S. Equities IMI (U.S. Equities); MSCI World ex-U.S. IMI (Dev. ex-U.S. Equities); MSCI Emerging Market Equities IMI (Em. Markets Equities); S&P Global Natural Resources (Natural Resources); MSCI ACWI IMI Core Real Estate (Global Real Estate); S&P Global Infrastructure (Global Listed Infrastructure).

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