Quarterly Outlook Report

Fall 2025

UNIVERSITY of WASHINGTON
INVESTMENT GROUP

Prepared by The Portfolio Management Committee

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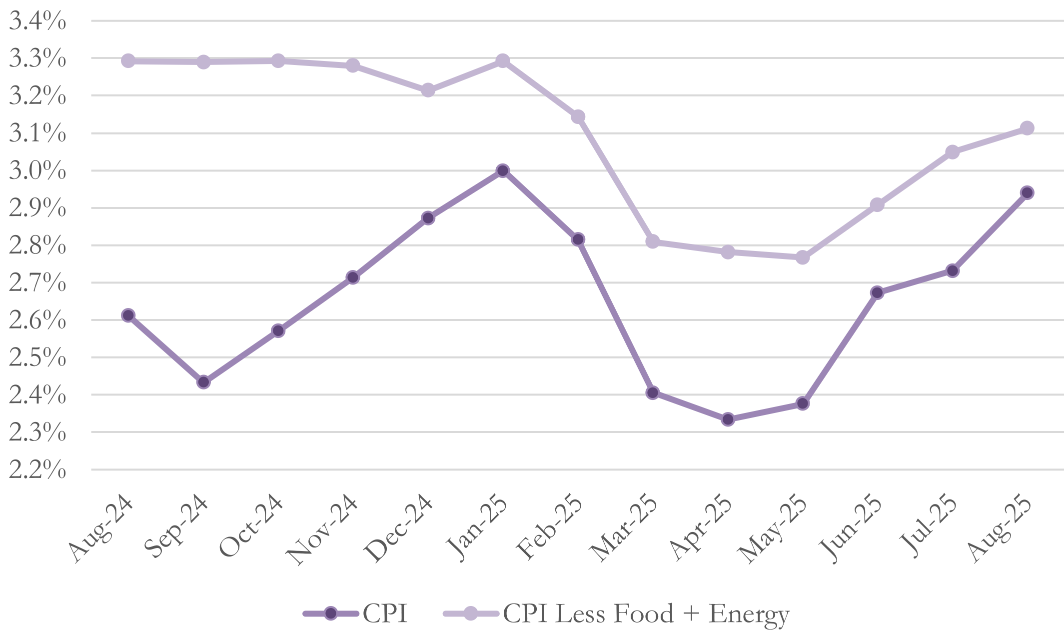
1) Market Overview

Inflation

CPI, which tracks average price change for a basket of goods available to consumers, is a critical element in examining the macroeconomic environment. Over the 12 months ended August 2025, CPI equaled 2.94%, compared to the 2.61% seen over the 12 months ended August 2024, inflation appears to be upswinging. This is primarily attributable to the lingering persistence of high shelter costs and aftermath of the current administration's economic policy changes seen in Q2 of 2025.[1]

Core Inflation for the 12 months ended August 2025 equaled roughly 3.11%. The smaller spread (in historical terms) between CPI and Core Inflation indicates that food and energy costs contributed less to overall inflation than in previous periods, and that overall inflation is currently driven largely by core inflation.[2] The most notable sectors responsible for inflation include services, durable goods, and core goods. This is primarily due to the relative importance of these categories within the CPI basket, and reasons like wage pressures from labor markets affecting input costs for goods and services.

Figure 1: CPI Percentage Change, Aug '24-Aug '25



Inflation remains a major concern, as the upward trajectory contradicts typical expectations during periods of economic weakness and creates the classic "stagflationary" dilemma that constrains policymakers.[3] The persistence of inflation above target while unemployment rises limits the Fed's ability to provide aggressive monetary stimulus, forcing difficult trade-offs between supporting employment and controlling price pressures. Combined with the impact of tariffs and labor market disruptions from immigration policy changes, inflation is likely to remain high, constraining the flexibility of monetary policies

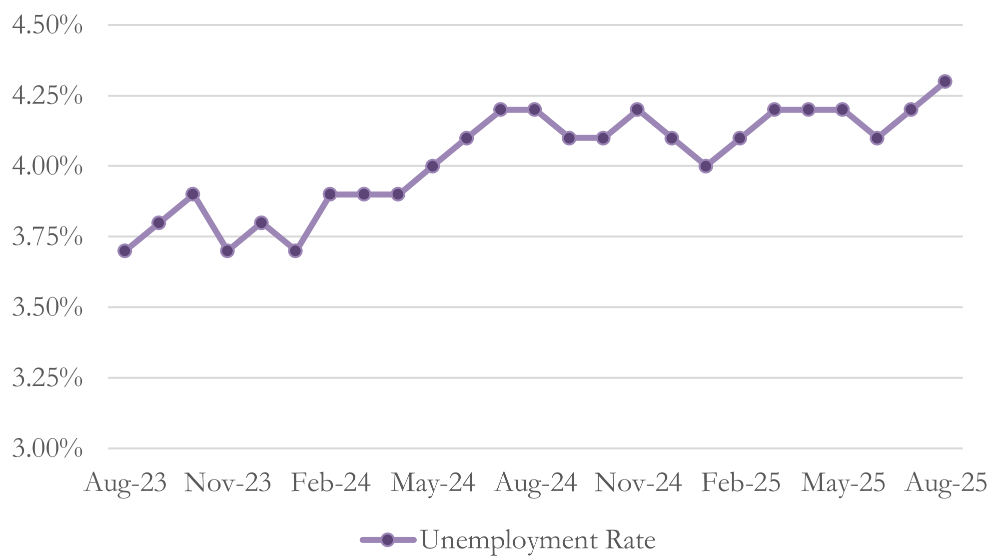
[1] St Louis Fed https://fred.stlouisfed.org/graph/?g=QH22&
[2] Bureau of Labor Statistics https://www.bls.gov/news.release/pdf/cpi.pdf
[3] World Economic Forum https://www.weforum.org/stories/2025/03/stagflation-forced-rethink-manage-economies-make-comeback/

and eroding consumer purchasing power. The Fed's recent rate decisions reflect a clear prioritization of labor market stability over a return to the inflation target, signaling a data-driven approach to policy easing.

Unemployment

Due to the ongoing government shutdown, the September Jobs Report was not released. Therefore, the most current data from August 2025 will be used. The August 2025 report indicates a current U-3 Unemployment rate of 4.30%, up from 4.20% in July 2025.[4] U-3 Unemployment denotes the Official Unemployment Rate, which is calculated by dividing the number of unemployed people actively searching for work by the total civilian labor force. Nonfarm payroll employment increased by 22,000, which is a drastic decrease in pace, compared to July's 79,000 job increase.⍰ Such a slowdown could signal a slowdown in the economy. As nonfarm payroll jobs encompass a wide range of industries within the US, decreases in the rate at which jobs are added could signal movement towards a recessionary period. This is primarily due to job gains in healthcare and social assistance sectors being offset by declines in federal government, mining, and manufacturing jobs. Initial jobless claims decreased in the third week of September from the previous week, to 218,000. Despite the decrease in initial jobless claims, the drastic slowdown in the rate of nonfarm payroll jobs added suggests a cooling labor market.

Figure 2: Unemployment Rate, Seasonally Adjusted



Economic Growth

US GDP has returned to a positive growth rate in Q2 2025. Following a 0.60% decline in real GDP in Q1 2025, GDP has risen 3.80% in Q2 2025.[5] This was primarily driven by a decrease in net imports attributable to the Trump administration's tariff policy implementations. These policies also contributed to an increase in consumer spending, which acts as a twofold driver to GDP. Specifically, healthcare, food services, and accommodations, and financial and insurance services were the main drivers of consumer spending.[6]

Remarks from the Fed

In the most recent FOMC statement, the Fed acknowledged that trends of a softening labor market would pose risks if left unaddressed, stating "[the] Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment have risen" (Federal Reserve.)[7] This is what ultimately motivated the Fed to lower the federal funds rate target range by 25 basis points, in the first rate cut since December 2024.[8] The Fed reiterated its stance of supporting maximum

[4] St Louis Fed https://fred.stlouisfed.org/series/UNRATE
[5] Bureau of Economic Analysis https://www.bea.gov/data/gdp/gross-domestic-product
[6] Bureau of Economic Analysis https://www.bea.gov/sites/default/files/2025-07/gdp2q25-adv.pdf
[7] FOMC Statement https://www.federalreserve.gov/default.htm
[8] Fed Funds Effective Rate https://fred.stlouisfed.org/series/FEDFUNDS

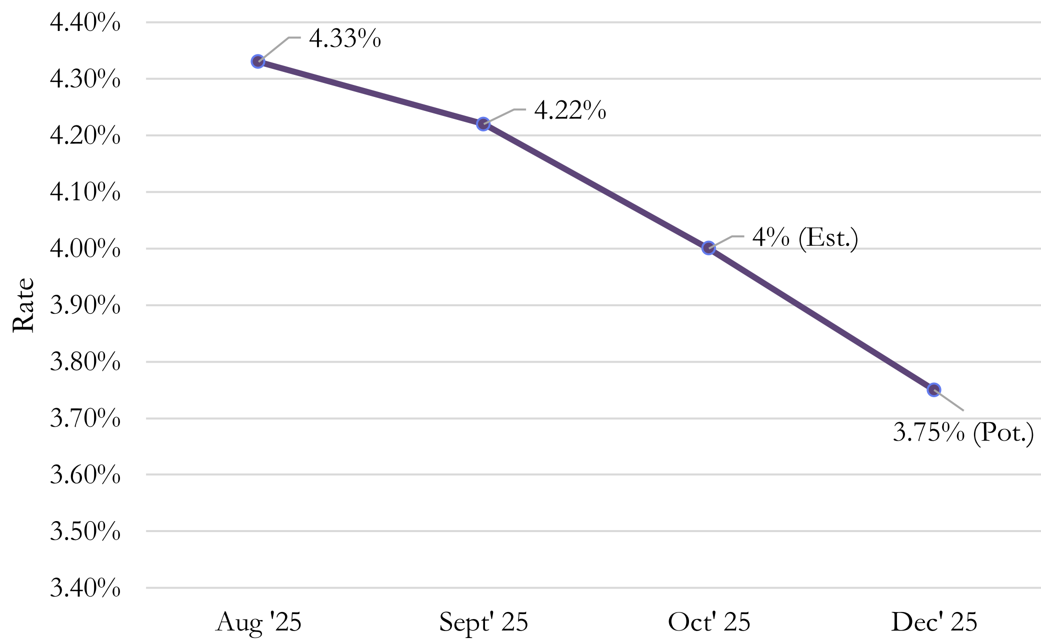
employment and returning to a 2% inflation rate. Ultimately, unemployment is currently a greater concern to the Fed than inflation. In the short term, the Fed aims to correct the softening labor market over attempting to cool inflation.

Federal Reserve Policy

The Fed cut the Federal Funds Rate target from 4.25-4.50% in September 2025 to a new target range of 4.00-4.25%, representing a 25 bps cut. This policy shift follows the central banks' growing concerns about employment conditions as Fed commentary evolved from describing "solid pace" economic activity in May to "moderated" growth by August, with explicit acknowledgment that "job gains have slowed" and "unemployment has edged up". Fed Chair Powell's characterization of stocks as "fairly highly valued" while implementing rate cuts reflects the challenging position of supporting employment while equity valuations appear to be on an upward trajectory on a historical basis, and inflation remains above the Fed's 2% target.

The Fed's rhetoric has shifted recently to show more cautiousness and pragmatism. Chair Powell indicated that the Fed is preparing markets for a slower pace of rate cuts than previously anticipated, with the possibility of pausing entirely if above-target inflation persists, prompting a negative market reaction and additional volatility.[9] Powell's phrase "no risk-free path" captures the current scenario: the Fed cannot aggressively ease without risking an inflation uptick, while simultaneously keeping higher rates risks further labor market deterioration.[10] The dual-mandate places added constraints on the Fed as it aims to keep unemployment low and maintain inflation at the 2% target. With inflation at 2.94% and rising, monetary policy effectiveness is limited by the risk of further fueling price pressures through aggressive easing. Markets expect another 25-bps cut at the October 28-29 meeting, with potential for additional cuts in December if labor market data fails to show a positive turn.[11]

Figure 3: Fed Funds Rate Cuts



[9] Reuters https://www.reuters.com/business/feds-powell-addresses-economy-pulled-between-risks-growth-jobs-prices-2025-10-14/
[10] EY https://www.ey.com/en_us/insights/strategy/macroeconomics/fomc-meeting
[11] Forbes https://www.forbes.com/sites/simonmoore/2025/10/04/fed-expected-to-cut-interest-rates-again-in-october/

2) Economy Overview

Persistently elevated inflation, coupled with a recent uptick in unemployment, suggests that the Fed is currently facing headwinds in realizing its dual mandate. Prior to 10/10, confidence in the market appeared abundant, as the VIX, which is a market volatility tracker, was trading only slightly above its 50-day moving average of 15.88% which indicates relative stability, compared to Q2 of this year. However, recent developments pertaining to additional tariff announcements as well as the ongoing government shutdown have sparked concern amongst market participants. On Friday, 10/10, the DOW dropped 1.90%, and the S&P 500 dropped 2.71%. The VIX ticked upwards to 21.66%, indicating higher expected market volatility. This reaction mirrors past movements during April earlier this year, albeit with less magnitude.

Manufacturing and Labor Market Conditions

The Institute of Supply Management Purchasing Manager's Index (PMI) is a monthly measure of the manufacturing health of the US economy. New Orders PMI shows the demand coming into factories and is forward-looking, and the Employment PMI shows whether employers are hiring or firing, signaling future labor market strength. An index value greater than 50 means expansion, equaling 50 means no change, and less than 50 means contraction. ISM Manufacturing PMI at 49.1 in September 2025 marks seven consecutive months of contraction, with new orders declining to 48.9 from 51.4, undoing August's brief recovery.[12] Only 5 of 18 manufacturing industries reported growth, with approximately 70% of manufacturing GDP contracting. Manufacturing employment has contracted for 8 consecutive months, with the ISM employment index at 45.3.[13] Survey respondents consistently cite tariffs, high input costs, and weak demand as primary challenges, with the prices index at 61.9 indicating continued cost pressures.[14]

This manufacturing recession extends beyond headline numbers, reflecting multiple structural headwinds including elevated input costs, tariff-related disruptions, weak global demand, and corporate hesitance to invest amid policy uncertainty. The sector's weakness has broader implications for industrial employment, business investment, and export competitiveness. Manufacturing weakness typically leads to broader economic downturns, suggesting continued deterioration in overall economic conditions unless demand conditions improve significantly.[15]

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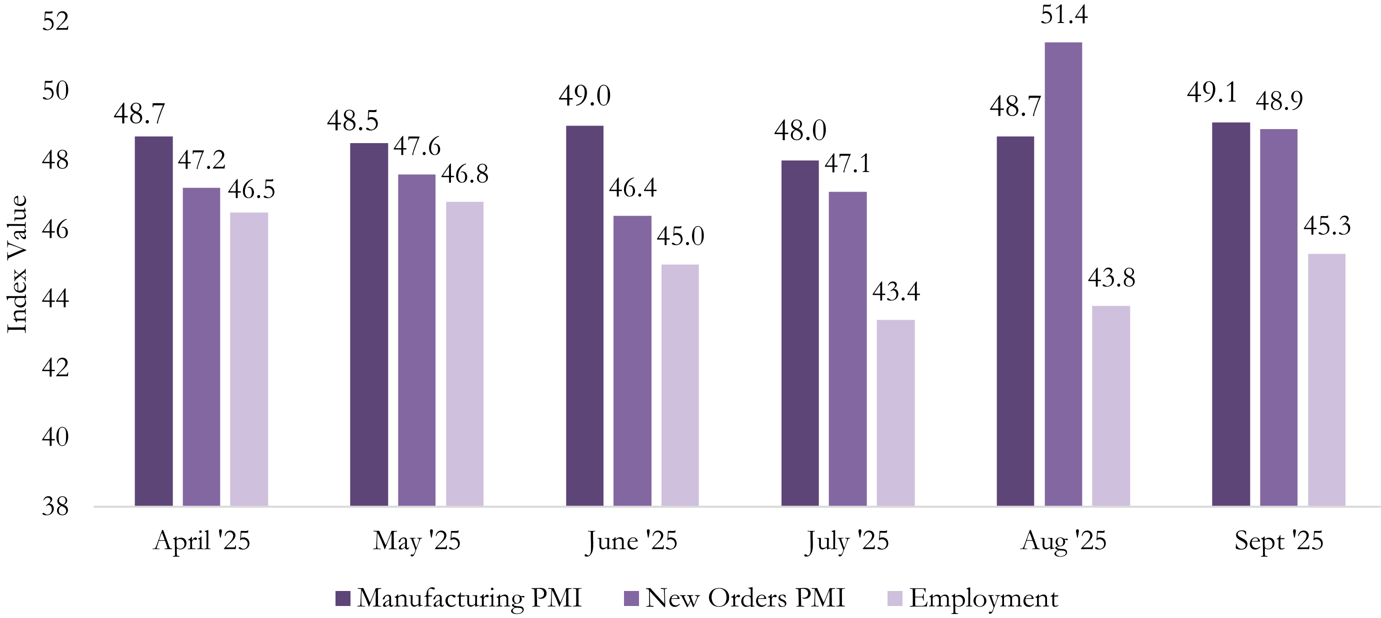
[12] ISM World https://www.ismworld.org/supply-management-news-and-reports/reports/ism-pmi-reports/pmi/september/
[13] TD Economics https://economics.td.com/us-ism-manufacturing-index
[14] PR Newswire https://www.prnewswire.com/news-releases/manufacturing-pmi-at-49-1-september-2025-ism-manufacturing-pmi-report-302571530.html
[15] Reuters https://www.reuters.com/world/us/us-manufacturing-eyes-recovery-september-orders-contract-2025-10-01/

Figure 4: ISM PMI Indices



Tariffs, Recent Policy Developments, and Market Impact

President Trump announced tariffs earlier this year, many of which were subsequently rolled back or suspended through bilateral agreements. The US and China agreed to lower tariffs from 145% to 30% in May 2025, and similarly, trade talks with Canada and Mexico were suspended just days after the announcement.[16]

Despite these rollbacks, tariffs have escalated drastically since April 2025. Universal baseline tariffs of 10% minimum on all US imports were implemented on April 5, followed by sector-specific increases, including 25% on automotive imports and parts. China-specific tariffs currently stand at 30%, but on October 10, Trump announced an additional 100% tariff on all Chinese goods effective from November 1, 2025.[17] The combined effect could bring total tariffs to 130% on Chinese imports, triggered by China's rare earth export restrictions that threaten critical material supplies for electronics, defense systems, and renewable energy manufacturing.[18]

Tariffs in 2025 have brought in upwards of $200bn in revenue so far,[19] but the costs passed to consumers and businesses have reached around $592bn, nearly 3x the benefits they have brought.[20] This was also indicated by the 0.4% increase in CPE in August 2025 and tells us that, so far, the economic costs far outweigh any intended benefits.

The renewed tariff rate announcement on China triggered severe market reactions, with the S&P 500 falling 2.71%[21]. This escalation marks the end of the August 2025 trade truce and represents the most significant trade war escalation since the initial conflict began. The economic implications include substantial increases in import costs, supply chain disruptions, and accelerated inflation pressures that compound existing pricing challenges.[22]

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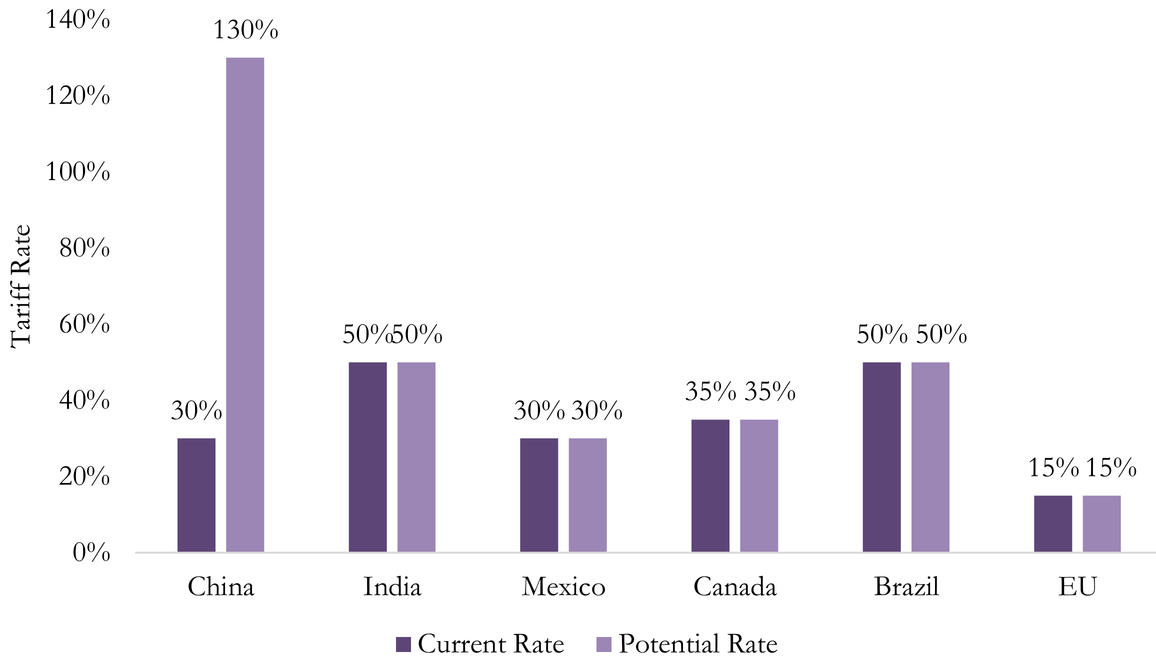
[16] Congress https://www.congress.gov/crs-product/R48549
[17] Reed Smith https://www.tradecomplianceresourcehub.com/2025/10/10/trump-2-0-tariff-tracker/
[18] CNN https://www.cnn.com/2025/10/10/economy/trump-china-tariff-threats-economy
[19] Fox Business https://www.foxbusiness.com/politics/trump-tariffs-haul-over-200b-revenues-supreme-court-weighs-challenge-legality
[20] Investopedia https://www.investopedia.com/tariffs-have-pushed-up-inflation-and-there-are-more-price-hikes-to-come-economists-say-11832086
[21] CNN https://www.cnn.com/2025/10/10/investing/us-stock-market
[22] Reuters https://www.reuters.com/world/china/trump-says-weighing-massive-increase-tariffs-chinese-imports-no-reason-meet-with-2025-10-10/

Figure 5: 2025 Tariff Escalation



Government Shutdown

There have been 22 government shutdowns in the past since 1980 with the longest in 2018-2019 lasting 35 days and causing a $3bn along with 0.1-0.2% GDP loss. However, the recovery was relatively smooth as the economy recovered 73% while the stock market recovered 12% on average, in 12 months.[23] The current shutdown is different in the sense that President Trump has threatened the permanent layoff of federal employees - an unprecedented action taken. With 900,000 furloughed federal workers and an additional 700,000 working without pay, the ongoing government shutdown since October 1 has increased the economic uncertainty and deprived policymakers of labor market and inflation data needed to make informed decisions. This data blackout occurred during a critical economic inflection point, forcing the Fed to rely on private sector data and models while increasing uncertainty for monetary policy decisions. The shutdown adds significant economic drag estimated at 0.1 percentage points per week to GDP growth, primarily through reduced consumer spending and delayed government activities.[24] So far, 25 days into the shutdown, no deal has been reached between the two parties, adding to the uncertainty and delaying the release of economic reports needed by the Fed for critical analysis, applicable to fiscal policy decision-making. Ultimately, permanent job losses could lead to a hit on consumption and hence damage to GDP growth.

3) Immigration Policies

Impact on Labor Markets

The U.S. used to be a leader in attracting foreign students, "drop[-ing] from about 20 percent of the worldwide total of 4.5 million students in 2013-14" to 16% as of now. In comparison, Canada, Australia, and the UK hold 38%, 31%, and 27% of their student population as foreign[25] suggesting that the U.S. is not as popular for international education, which could limit the influx of human capital into our country. Within the U.S., about 56% of foreign students study STEM. Removing the OPT may make it harder for foreign students to immigrate to the U.S. and join the labor supply. With aging populations and falling fertility, immigration would be used to bolster the supply of labor, however, with tightening on immigration, this could lead to tighter labor markets and bottlenecks (in certain occupations)[26]. Figure 6 depicts the Fertility rate vs. Replacement

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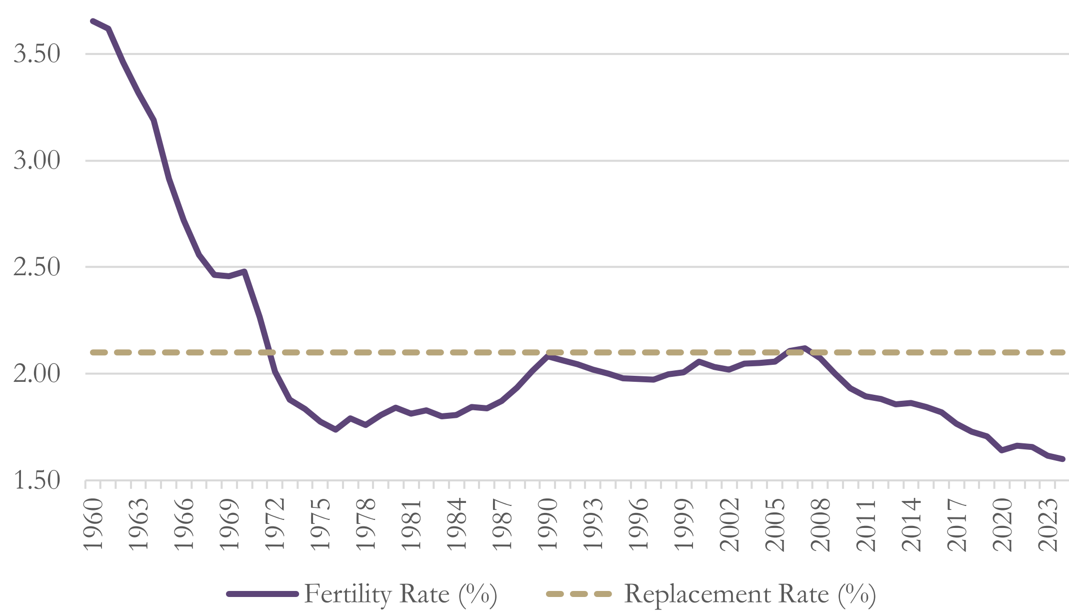
[23] Brookings https://www.brookings.edu/articles/what-is-a-government-shutdown-and-why-are-we-likely-to-have-another-one/
[24] BBC https://www.bbc.com/news/articles/cwydzenj6epo
[25] Migration Policy Institute https://www.migrationpolicy.org/article/international-students-united-states
[26] The Civil Rights Project https://civilrightsproject.ucla.edu/reports/u-s-economic-vitality-depends-on-immigration/

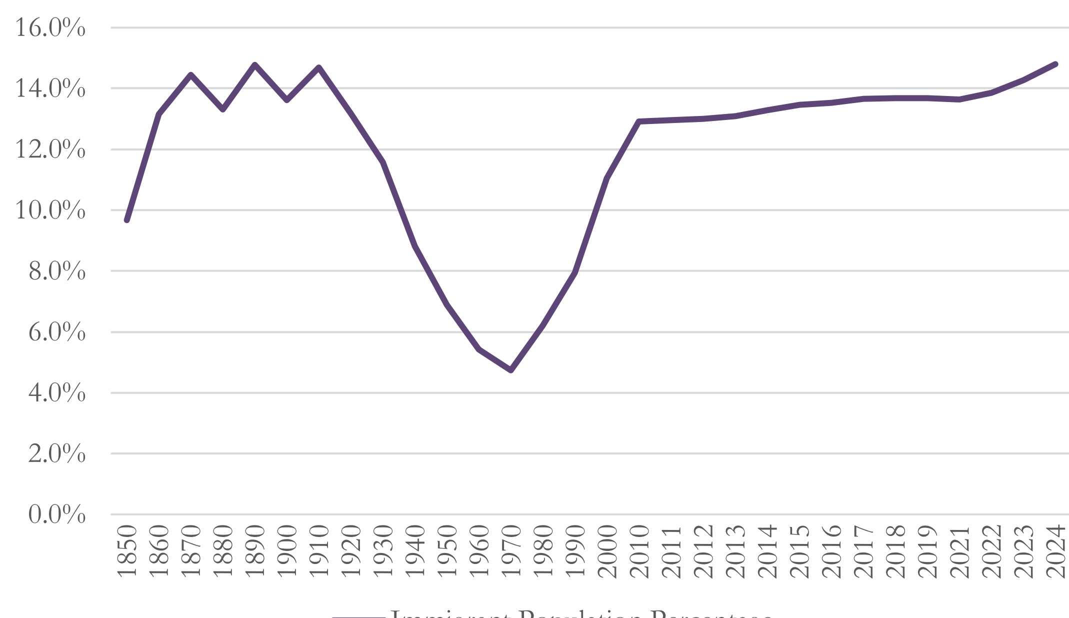
Rate[27], where in the last 12 years (2013-2023) the fertility rate has been below the replacement rate. According to the American Immigration Council, "immigrants comprised 14.3% of the population in 2023, and they accounted for almost two-fifths of the country's five-year growth."[28]. Additionally, through Figure 7, a trend can be seen – immigrant populations are steadily becoming a larger portion of the total immigrant population. This indicates that the American population relies on immigration to sustain its size.

Figure 6: Fertility Rate vs. Replacement Rate, Years (1960-2024)



[29,30]

Figure 7: Percentage of Immigrants Comprising U.S. Population



[31]

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[27] *Effectively, this is the births per women required for a population to sustain itself and not decline.*
[28] American Immigration Council https://www.americanimmigrationcouncil.org/blog/number-of-immigrants-in-us-increases-yearly-and-thats-a-good-thing/
[29] National Institutes of Health https://pubmed.ncbi.nlm.nih.gov/7834459/
[30] St. Louis FED https://fred.stlouisfed.org/series/SPDYNTFRTINUSA
[31] Migration Policy Institute https://www.migrationpolicy.org/programs/data-hub/charts/immigrant-population-over-time

Loss of Economic Gains

Immigrants, both documented and undocumented, have positive impacts on our economy. Specifically, in California, undocumented workers "generate nearly 5% of all California's gross domestic product (GDP) – [rising to ~9% when accounting for indirect effects]"[32]. Additionally, increased Immigration and Customs Enforcement (ICE) raids, potentially disrupted California's $49 billion agriculture industry with a theorized reduction of the workforce by 20-40%, $3–7 billion in crop losses, and a 5–12% increase in prices[33]. Effectively, the agriculture industry, through a reduction in the labor supply, will see prices rise as firms will not be able to produce as much. Looking at this from a bigger picture, this impact on California's agriculture business could be seen in other states' agriculture industries, along with impairments to other immigrant-reliant industries.

ICE Immigration Enforcement

While more near-term empirical evidence is still emerging, there are still implications and findings. In California, risk raids at schools are causing parents to refrain from sending their children to school, leading "daily student absences to be up by ~22% for up to two months"[34]. This disengagement is important to note – if more immigrants decide to disengage with other parts of the economy, there is a likelihood of shifts in the labor supply.

It is believed that there will be a loss of $187.9 billion in U.S. tax revenue over the next ten years, which in turn will increase the U.S. deficit, with the assumption of increased mass deportations[35]. Immigration policy will shape the long-run population structure, labor force size, and growth trajectories[36], suggesting that restrictive policies may have consequences in the long run.

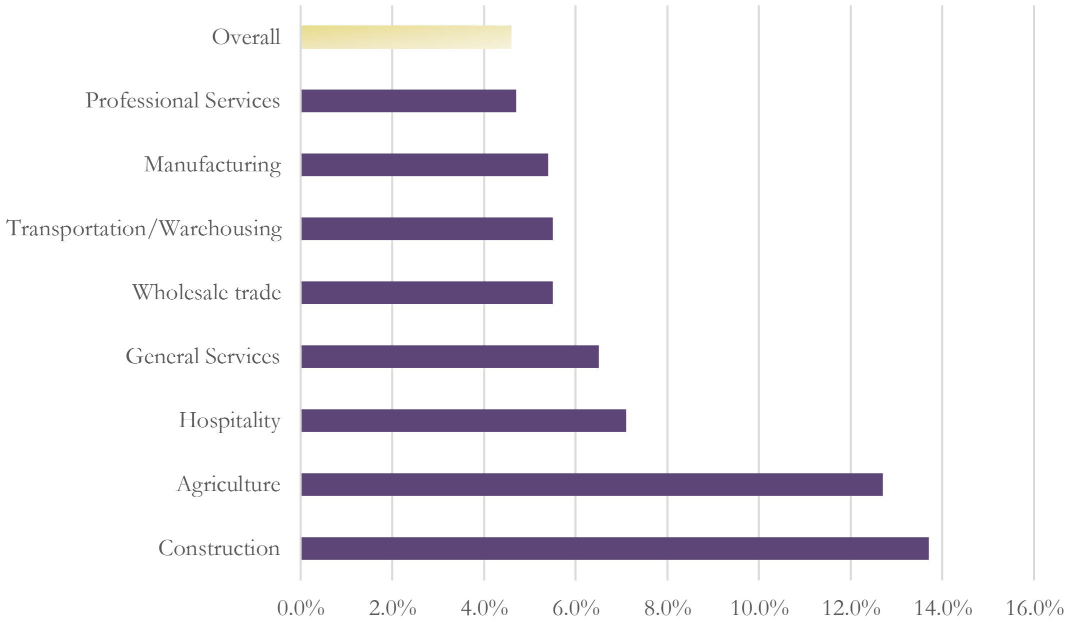
Industries Most at Risk

As seen in Figure 8, Undocumented immigrants comprise a significant portion of the labor supply for their industries, which will be impacted. The impacted industries are labor-intensive, such as agriculture, construction, and hospitality, which will be impacted by labor shortages, project delays, and increased project costs.

64% of the occupational requests through the H-1B visa were for computer-related occupations, suggesting that foreign talent is appreciated in the technology industry[37]. The technology sector, which employs the use of the H-1B visa and OPT programs, will also be impacted through talent shortfalls and international students choosing more welcoming countries.

[32] Bay Area Council Economic Institute https://www.bayareaeconomy.org/report/economic-impact-of-mass-deportation-in-california
[33] arXiv, Xinyu Li https://arxiv.org/abs/2508.03787
[34] Hoover Institution https://www.hoover.org/news/immigration-raids-central-california-increased-student-absences-months-study
[35] The Wharton School of Business https://budgetmodel.wharton.upenn.edu/issues/2025/7/28/mass-deportation-of-unauthorized-immigrants-fiscal-and-economic-effects
[36] Guizhen et al. Ma, G., Hofmann, E.T., Hines, A.L. *et al.* Demographic and Economic Implications of Alternative U.S. Immigration Policies.
[37] Department of Homeland Security
https://www.uscis.gov/sites/default/files/document/reports/ola_signed_h1b_characteristics_congressional_report_FY24.pdf

Figure 8: Undocumented Immigrants % of Respective Industry



[38]

4) Market Context and Dynamics

Historical Comparisons

As of late, the United States economy presents both a tenuous labor market and persistent inflationary after-effects. After a post-pandemic surge, inflation has eased but remains slightly above target (2.9% as of August 2025)[39] despite the decrease in both the supply and demand of labor. This disconnect complicates the Federal Reserve's attempt at a "soft landing." In a similar scenario thirty years ago, Fed Chair Alan Greenspan tamed a mild inflation uptick and began cutting rates in 1995 amid loose financial conditions and record high equities. The only main difference is the rising dollar (whereas currently the dollar is deflating). Usually, lower rates lead to a weakening of the dollar, as lower rates attract foreign investors, who need to convert their currency into dollars[40]. The Trump Administration has been weakening the dollar, primarily using policy-signaling and tariffs, leading to an uncertain future of the world's reserve currency.

Perhaps most striking is how equities have thrived through uncertainty. Major indices have posted double-digit gains in 2025, the S&P 500 jumped about 10% in one quarter despite geopolitical shocks like new broad-based U.S. tariffs and the escalations in the conflict between Israel and Palestine. Adam Singleton, CFA from Man Group, says that markets are "rewarding the resolution of geopolitical and economic tensions more than penalizing disruptions."[41] much as they did during the 1990s bull run. Hedge funds' most crowded stock positions surged over 32% in a single quarter this year, a flow-driven rally reminiscent of the dot-com era momentum. That enthusiasm comes with a cautionary historical parallel: institutional portfolios are overweight equities, underweight fixed-income, and risk-tolerant[42] to a degree not seen since 2007, just before the Global Financial Crisis. In short, today's climate appears similar to past cycles, showcasing the optimism of the 1990s, and the more harrowing signs of the late 2000s, the outcome of which is significantly dependent on whether the Federal Reserve can maintain the dual mandate amidst pressures from the White House and growing consumer pressure and pain. With this in mind, we can draw two key insights from past market cycles: Firstly, the productivity-driven optimism of the mid-to-late 1990s can be growth-sustainable if rate cuts are paired with fiscal restraint, which isn't necessarily the case today. Secondly,

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[38] American Immigration Council https://www.americanimmigrationcouncil.org/wp-content/uploads/2025/01/mass_deportation_report_2024.pdf
[39] Bureau of Labor Statistics https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category.htm
[40] Investopedia https://www.investopedia.com/ask/answers/040315/how-do-changes-national-interest-rates-affect-currencys-value-and-exchange-rate.asp
[41] Man Group https://www.man.com/insights/Q3-2025-Hedge-Fund-Strategy-Outlook
[42] State Street https://www.statestreet.com/inl/en/insights/institutional-investor-indicators-september-2025

excessive leverage and speculation become dangerous when markets remain too liquid and too risk-tolerant for too long. Today's market echoes both sentiments, with an abundance of innovation and opportunity, but growing macroeconomic concerns that, if not properly accounted for, could interrupt these leaps forward.

Institutional Investor Performance and Sentiment

Sentiment for institutional parties shows conflicting signs. The bull run that American equities have exhibited follows from the increased risk appetites that many investors, institutional and retail alike, have shown in recent months, but at the same time, fund managers are increasingly concerned about a market correction or even a reversal of the trend. Paul Tudor Jones of Tudor Investment Corporation makes a worrying comparison to the tech bubble of the late 90s, going as far as to say that today's environment could be "so much more potentially explosive."[43] Similarly, CEO of JPMorgan Chase, Jamie Dimon, in an interview with BBC stated there is a 30% chance of a market correction. "I'm far more worried than others", Dimon said, emphasizing concerns about persisting inflation and geopolitical instability leading to undesirable business conditions.[44] Despite these conditions, some see the landscape as if they still have steam to run. Michael Wilson, Chief Equity Strategist of Morgan Stanley, believes that the rate cut in September could be the push the market needs to keep pace. In a recent episode of Thoughts on the Market, he stated, "We feel like the rolling recession has rolled through effectively the entire economy… The private economy, in fact, is finally coming out of its earnings recession, which it's been in now for three years.", highlighting increases in median EPS and the forthcoming rate cuts that will help counteract the effects that liberation day had on the market.[45] The general consensus is that the equities can be expected to continue to receive strong returns in the short-term, but the longer-term outlook is nebulous at best. Keeping a watchful eye on these inflation and geopolitical contexts will be of utmost importance in the coming months, and being able to quickly adjust to changes in these indicators will help retain value during volatility.

Equity-focused and general macro strategies seem to be top performers in the current market. Equity strategies in particular have benefited tremendously from 2025's stock market strength. Traditional long-only and long-biased equity hedge funds gained roughly 9–11% in the first half of 2025, as growth stocks and small-caps rallied sharply after a sluggish 2024.[46] Discretionary global macro funds, which wager on big-picture economic trends, have also seen strong returns. The "persistently volatile" macro conditions (from inflation swings to geopolitics) continue to create openings for well-timed macro bets, and many global macro funds delivered solid double-digit gains year-to-date,[47]outpacing broad hedge fund averages. In contrast, multi-strategy funds are struggling in comparison to their macro peers, with most only seeking out 5-10% returns for YTD. Most of this outperformance can easily be attributed to the bull run that equities have been experiencing since April of this year, but active management and selection effects still play a significant role in portfolio construction. In summary, the dominance of equity and macro strategies highlights that adaptability in portfolios is the true driver. In an environment subject to capricious change, portfolios that are built around finding opportunities around these changes will find success at a level beyond portfolios built on diversification and fundamentals alone.

5) Portfolio Managers' Perspective

Since April 2025, the Portfolio Management team has witnessed unprecedented volatility and uncertainty not seen in years. This was mostly attributable to constant changes in tariff policies and the aftermath of negotiations happening within the last several months, with geopolitical tensions and unrest in the world adding to instability.

As mentioned in the Spring '25 report, economic indicators, despite delayed releases and inherent time lags, remain critical components required for comprehensive market analysis. CPI, unemployment, and interest rates continue to be critical

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[43] Fortune https://fortune.com/2025/10/07/paul-tudor-jones-hedge-fund-billionaire-markets-more-explosive-than-1999/
[44] Fortune https://fortune.com/2025/10/09/jamie-dimon-jpmorgan-chase-ai-bubble-stock-market-correction/
[45] Morgan Stanley https://www.morganstanley.com/ideas/thoughts-on-the-market-wilson
[46] Aurum https://www.aurum.com/hedge-fund-data/hedge-fund-industry-deep-dive/hedge-fund-industry-performance-deep-dive-h1-2025/
[47] Nishant Kumar, Bloomberg https://www.linkedin.com/posts/nishantkumar07_a-longer-list-of-hedge-fund-returns-this-activity-7379978937214590976-9bsC?

indicators for the past reflective of the economy and its direction, while forward-looking indicators and analysis provide insights needed to anticipate future trends and execute trades when the need arises.

Initial analysis of tariff effects was further complicated by significant policy rollbacks from the current administration. While inflation has increased less than projected, it has trended upward in the more recent months, with long-term impacts yet to materialize. Contrastingly, consumer confidence and purchasing power have declined substantially, mirroring conditions seen during peak inflation periods when consumers showed dissatisfaction, yet maintained their spending levels, which led to economic growth. Whether this pattern is set to repeat, potentially depleting savings and increasing debt balances with a particular impact on the consumer discretionary sector, remains to be seen.

Our analysis of 13F filings has revealed that institutional investors have achieved the strongest performance through equity-focused and general macroeconomic strategies. Of these, small-cap and growth stocks demonstrated superior returns in recent months. However, investor sentiment remains conflicted. Some investors express concern, drawing parallels to the dot-com bubble, while others remain optimistic that further interest rate cuts could reduce debt pressures and stimulate both consumer and corporate spending, which would mitigate recession risks. The Federal Reserve's dual mandate has become more challenging to uphold as unemployment rises while inflation remains an issue, driven primarily by recent tariffs whose full impact has yet to materialize. The upcoming December FOMC meeting leaves questions about whether an additional rate cut is forthcoming, as the Fed prioritizes its dual mandate amid limited data availability due to the government shutdown

Historical analysis consistently supports the argument that value investing strategies outperform growth investing strategies during economic uncertainty and increased market volatility. Usually, value stocks provide a margin of safety during volatile periods with their generally low price-to-earnings ratios and steady cash flow streams. As investors flee from the higher-risk growth of stocks, they tend to flock towards the safer value of stocks, rationalizing the outperformance we tend to see. In a period of high uncertainty, value stocks could play a critical role in generating “Alpha” and maintaining better performance than the benchmark. Following this trend of volatility in the market, there is no practical method to try to time market entry. Instead of trying to time the market, we have performed asset allocation for our Husky Traders, and D.A. Davidson portfolios according to the benchmark’s sector weights into sector ETFs, and individual holdings based on the Spring pitch recommendations and September rebalancing to adjust weights accordingly.

While you can’t predict the unknown, you can position yourself by acting decisively on the information you do know. We may not know what tomorrow will bring to the markets; however, we can act upon the information we have gathered in this report on top of the skills and knowledge shared among our Executives and Analysts. With the potential timeframes of post-ICOMM decisions in December, we must decide on DA Davidson’s portfolio holdings as well as conduct appropriate rebalancing measures, taking into account certain account constraints, following the guidelines. Following a good investment process, followed by the reliance on internal sources of returns such as cash flows and earnings, is a critical component in the selection decision process. Major macroeconomic information and events will significantly influence our decisions. As lagging indicators begin to realize the effects of the current economic shifts, we will be better positioned to make rational and calculated decisions on asset allocation.

Conducting investment decisions requires a lot of courage, confidence, and intellectual support. As the Portfolio Management team, our fiduciary duty is to act in the club’s best interest by remaining aware of various biases, maintaining the highest standards of work quality, and ensuring transparency with members and investors regarding both gains and losses.