Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE — SEPTEMBER 2025

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MARKET COMMENTARY

Stocks continued to rally in the third quarter. The S&P 500, representing large-cap stocks, reached a new high rising 8.12% in the quarter resulting in a year-to-date return of 14.83%. Small cap stocks in the Russell 2000 Index rose 12.39% in the quarter bringing them out of negative territory and resulting in a year-to-date positive return of 10.39%. International stocks continued to rise as developed market stocks had gains of 4.77% for the quarter and 25.14% year-to-date. Emerging market stocks were up 10.64% this quarter and 27.53% year-to-date. The Barclays U.S. Aggregate Bond Index had a return of 2.03% for the quarter and 6.13% for the year so far.

The communication services, technology, industrial and utility sectors all outperformed the S&P 500 with year-to-date returns of 24.5%, 22.3%, 18.4% and 17.7%, respectively. Meanwhile, the healthcare, consumer staples, consumer discretionary and real estate sectors were the worst performers with returns of 2.6%, 3.9%, 5.3% and 5.3%, respectively.

Following first quarter earnings growth of 12.4%, the S&P posted 12.6% earnings growth in the second quarter. Zacks projects the S&P to have earnings growth of 5.5% in the third quarter and 9.5% for the full year of 2025. Don Rissmiller of Strategas notes that "as long as corporate profits are growing, the capitalist US economy tends to avoid big trouble".

GDP growth was negative in the first quarter at -0.5%, largely due to increased imports ahead of anticipated tariffs. Second quarter rebounded with 3.8% growth as imports decreased and consumer spending was strong. Strategas Research projects third quarter GDP growth of 2.5% while the Federal Reserve Bank of Atlanta is projecting 3.8%. The Fed raised its full-year 2025 GDP growth estimate to 1.6% which may still be too low.

The unemployment rate is 4.3%. This is the highest it has been since October 2021. The labor market is showing signs of softening but is still considered near full employment.

Inflation has inched up slowly since hitting a recent low of 2.3% in October 2024. The Fed's favorite measure—the Core PCE deflator—is currently at 2.9% in August. Tariffs have contributed to this rise in inflation. The Fed views this as a one time price adjustment and not ongoing inflation that will rise each year. However, it may delay reaching the Fed's 2% target.

Gold has continued to rally and is now up more than 32% year-to-date. Gold is often seen as a safe haven in times of geopolitical and/or economic uncertainty and as a store of value or inflation hedge when higher inflation is expected.

Bitcoin and crypto currencies also continued to gain in the quarter. Bitcoin was up 6% for the quarter while Ethereum was up 15%. Investors in digital currencies are often looking for a hedge against inflation as well as diversification opportunities due to low correlation with both equities and bonds. Bitwise Asset Management also projects high growth opportunities over the long term. Please note that even with attractive growth potential, digital assets are not without risk and do have much higher levels of volatility.

The Fed lowered rates in September for the first time

2025 BENCHMARK RATES OF RETURN

INDEX	THIRD QUARTER	YTD
S&P 500	8.12%	14.83%
Russell 2000	12.39%	10.39%
International	4.77%	25.14%
Fixed Income	2.03%	6.13%
JPMorgan Diversified*	5.37%	12.26%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account. A copy of our proxy voting policy and how proxies have been voted is available on request.

this year. The current rate is between 4.00% and 4.25%. Fed Chairman Powell had indicated the move was as insurance against downside risks to employment. He also signaled two more quarter point cuts this year at the October and December meetings. Additional cuts are expected in 2026 depending on inflation and employment.

Money markets are yielding around 4.0%. The 10-year Treasury bond yield was 4.23% at the end of June and is 4.15% at the end of September.

The government shutdown is adding to uncertainty. First Trust notes that "headlines often frame shutdowns as economic calamities in the making, but history suggests otherwise...the political drama grabs attention but past shutdowns have typically only had modest and temporary impacts on growth, markets and government services". On average, the S&P 500 has been 11.9% higher six months from the start of a government shutdown.

Diversification continues to be prudent in times of uncertainty. Bonds can provide stability and income when stocks are volatile. "Target outcome" or "buffer" ETFs can also add protection to portfolios and provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out-of-the-money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. The goal is to be invested appropriately so that you don't panic and sell when the market goes down. Strategas points out "big spikes of policy uncertainty usually foreshadow strong equity market returns" especially twelve months later. Selling out when markets are volatile, can be detrimental. We use Nitrogen software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. Want to check your risk tolerance? Scan this QR code and you will be directed to a risk survey. We'll receive your results and compare it to your current risk score.

RISK 53

Cambridge Risk QR Code

Cambridge Advisors News

Have you checked out the client portal? The client portal has account information and also a document vault which provides a secure place to upload and download files or forms. Our website www.cambridgeadvisors.net has a direct link—hover over "clients" and click on "client portal". Your Username is your email address and you can reset your password if needed. If you haven't accessed the client portal in a while and have any trouble getting in, let your advisor know—inactivity can toggle off your access but it is easy to restore.

We appreciate the trust you place in us. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info and our website. We are accepting new clients right now and want to help the people who are important to you. We waive our $500,000 minimum for these referrals or offer the financial planning services on a stand alone basis. Thank you for your referrals!

Scam Alert

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you. In August, the Federal Trade Commission issued an alert about what they call "familiar place scams". Scammers infiltrate social groups, organizations like alumni networks, religious groups, or other communities where members know and trust each other. This creates a false sense of security and makes victims less likely to be skeptical.

In these groups, you'll hear about a can't miss investment opportunity from a friend or fellow community member. The person pushing the investment may not even know they are participating in the scam as they may have been duped as well.

The scam may promise high returns with little or no risk and they may lie about how much money others have made already investing with them. After you invest, they'll tell you your investments are doing well when the investment either isn't real or is extremely high-risk.

To avoid an investment scam, the FTC recommends looking for information about the investment company, its officials and its promoters. Search their name online plus words like "review", "scam" or "complaint". Check their licenses and registrations using investor.gov or check with the CFTC database for precious metal and coin investments. Know that investments always involve risk and don't trust those who play down the risk. If it sounds too good to be true, it probably is.

Be aware and be cautious and let us know if you have seen other scams we should alert our clients to in future newsletters.