Capital Markets Review & Outlook
October 31, 2025

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STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST

REVIEW

REVIEW - Summary Capital Market Commentary – October 2025

❖ **Economic & Market Summary**

Global growth held steady but uneven through October. Manufacturing softened while U.S. technology and service sectors carried most of the expansion. Inflation eased toward ~3 percent but remained sticky in wages and input costs, consistent with Atlanta Fed business-uncertainty surveys. The St. Louis Fed's "swoosh-shaped" yield curve shows markets expecting easier policy now but limited long-term relief. Bloomberg commentary suggested policymakers remain cautious, balancing inflation risk against slower momentum.

❖ **Interest Rates & Policy**

Short-term yields drifted lower while long-term rates stayed firm. Credit spreads tightened, providing less cushion for new risk-taking. Monetary policy is supportive but not loose; further easing depends on clearer inflation progress.

❖ **Trade & Geopolitics**

Trade frictions and shifting alliances are ongoing globally with firms continuing to adapt supply chains amid uncertain tariffs and industrial-policy shifts.

❖ **Market Performance (October Direction Only)**

- **Bonds ↑** Modest gains as yields eased.
- **Stocks ↑** Led by large-cap technology; broader markets mixed.
- **Currencies ↔** U.S. dollar steady; euro / yen softer.
- **Gold ↑** New highs on inflation and geopolitical hedging.
- **Oil ↓** Weaker global demand; ample supply.
- **Other Commodities ↔ / ↓** Industrial metals stable, agriculture softer.

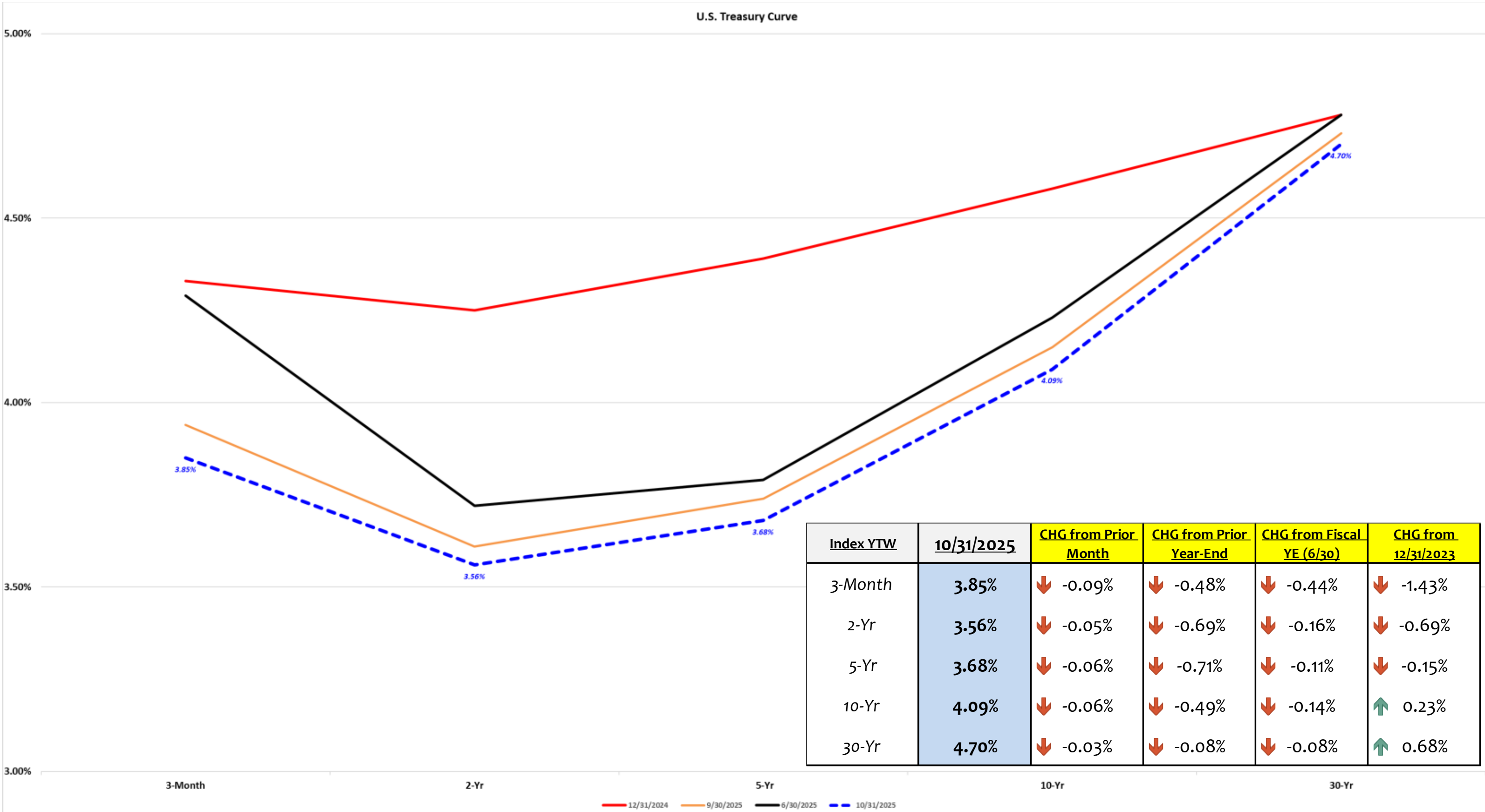
❖ **Key Takeaways for Boards & Staff**

• Expect moderate, uneven growth through year-end.
• Inflation remains a risk; policy easing is conditional.
• Equity strength remains concentrated in a few large names—diversification is essential.
• Maintain liquidity flexibility and continue scenario stress-testing for tariffs or cost shocks.

The information contained herein has been obtained from sources believed to be reliable, but the accuracy of the information cannot be guaranteed.

Source: SAA, WSJ, FTimes, The Economist, Bloomberg.

REVIEW - UST Yield Curve & Expectations



Index YTW	10/31/2025	CHG from Prior Month	CHG from Prior Year-End	CHG from Fiscal YE (6/30)	CHG from 12/31/2023
3-Month	**3.85%**	-0.09%	-0.48%	-0.44%	-1.43%
2-Yr	**3.56%**	-0.05%	-0.69%	-0.16%	-0.69%
5-Yr	**3.68%**	-0.06%	-0.71%	-0.11%	-0.15%
10-Yr	**4.09%**	-0.06%	-0.49%	-0.14%	0.23%
30-Yr	**4.70%**	-0.03%	-0.08%	-0.08%	0.68%

Key Take Away:

- **Short end priced for calm — long end whispering caution:** The short end (3-month ~3.85%, 2-year ~3.56%) reflects confidence that the Fed will glide toward mild rate cuts through 2026. The long end (10- to 30-year ~4.1–4.7%) remains higher, signaling investor unease about fiscal deficits, supply shocks, or an unexpected inflation flare-up. This growing disconnect shows how "calm today" markets can overlook "costly tomorrow" risks.
- **A black-swan shock could flip the curve fast:** A sudden geopolitical escalation, cyber-event, or financial-system liquidity break could drive investors into Treasuries, yanking long yields down and steepening the curve overnight. Conversely, an inflation or credit surprise could send long yields sharply higher while the Fed stands pat — a long-end steepener. Either way, complacency on curve shape may prove misplaced.
- Overall, the yield curve's gentle slope hides tension between near-term optimism and long-term fragility. Portfolios should stay liquid and laddered — poised for supporting enterprise goals.

Source: Bloomberg, JPM & SAA

OUTLOOK

Outlook Summary

- ***The global economy enters late 2025 on steadier footing all things considered: growth remains positive, inflation continues to cool, and the U.S. appears headed for a soft landing rather than a slump. Yet beneath this calm surface, several potential "black swan" risks—unpredictable events capable of upending consensus forecasts—continue to warrant attention.***

- **Economic Backdrop:**
  The **Atlanta Fed's GDPNow** model estimates Q3 growth near **4% annualized**, suggesting resilience across consumer and business sectors. Inflation has dropped sharply from its 2022 peak of 9% to roughly **3%**, with the sharpest declines in energy and goods. However, **services inflation**—driven by housing, healthcare, and insurance—remains stubborn.

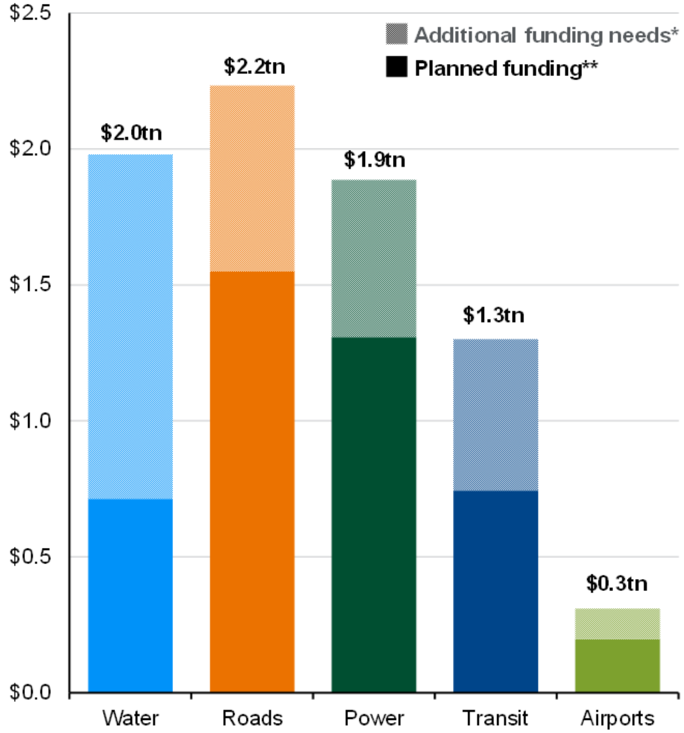
- **Labor Dynamics:**
  The job market is cooling in an orderly fashion. Job openings have fallen from record highs to about **7 million**, while payroll gains have slowed to around **25,000 per month**. Immigration-driven labor supply has historically prevented wage spikes, yet demographic and political shifts could quickly reverse that balance as immigration policy tightens and participation weakens.

- **Market Landscape:**
  Markets are priced for stability. Bonds have regained their footing, delivering positive returns as yields retreat. Equities remain concentrated in mega-cap tech, while smaller companies and international markets lag. **Gold**—trading near **$4,000/oz**—and record **ETF inflows** highlight investor preference for liquidity and perceived safety. Infrastructure and real assets continue to attract long-term capital, with a global investment need exceeding **$26 trillion** through the next decade.

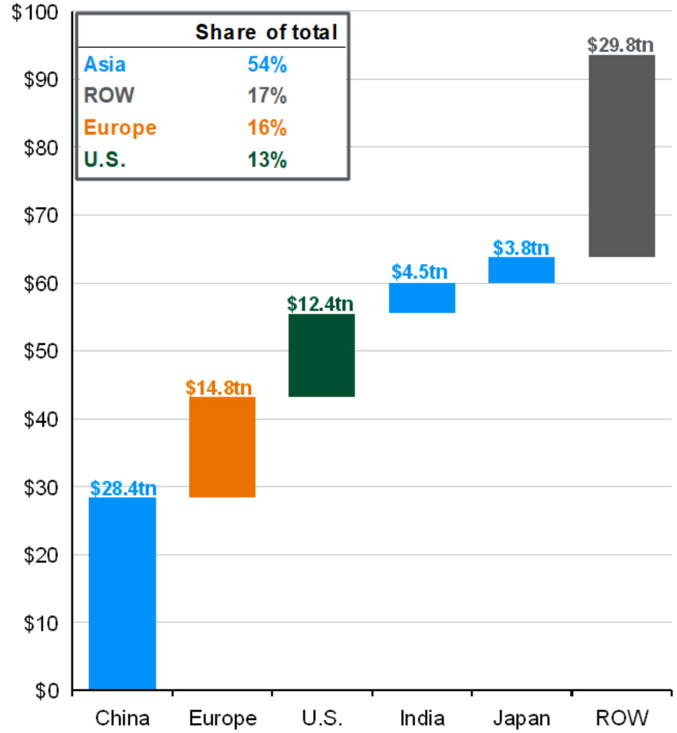
- **Black Swan Watch List:**
  - **Geopolitical rupture:** Escalation in a major regional conflict (e.g., Taiwan Strait, Middle East) disrupting trade, energy flows, or semiconductor supply chains.
  - **Cyber or AI shock:** Widespread system outage or misuse of AI disrupting financial markets or critical infrastructure.
  - **Financial plumbing stress:** Liquidity event within U.S. money markets or ETF structures leading to rapid repricing of "safe" assets.
  - **Climate or natural disaster:** Extreme weather or grid failure causing broad economic or insurance losses, especially in energy transition hubs.
  - While individually unlikely, such events could instantly reverse current confidence in disinflation, liquidity, and growth stability.

LONGER-TERM OUTLOOK – Infrastructure Investment Needs

U.S. infrastructure funding & funding gaps
USD trillions, 2024 - 2033, as of 2024



Infrastructure investment needs by region
USD trillions, 2016 - 2040, constant 2016



Key Take Aways:

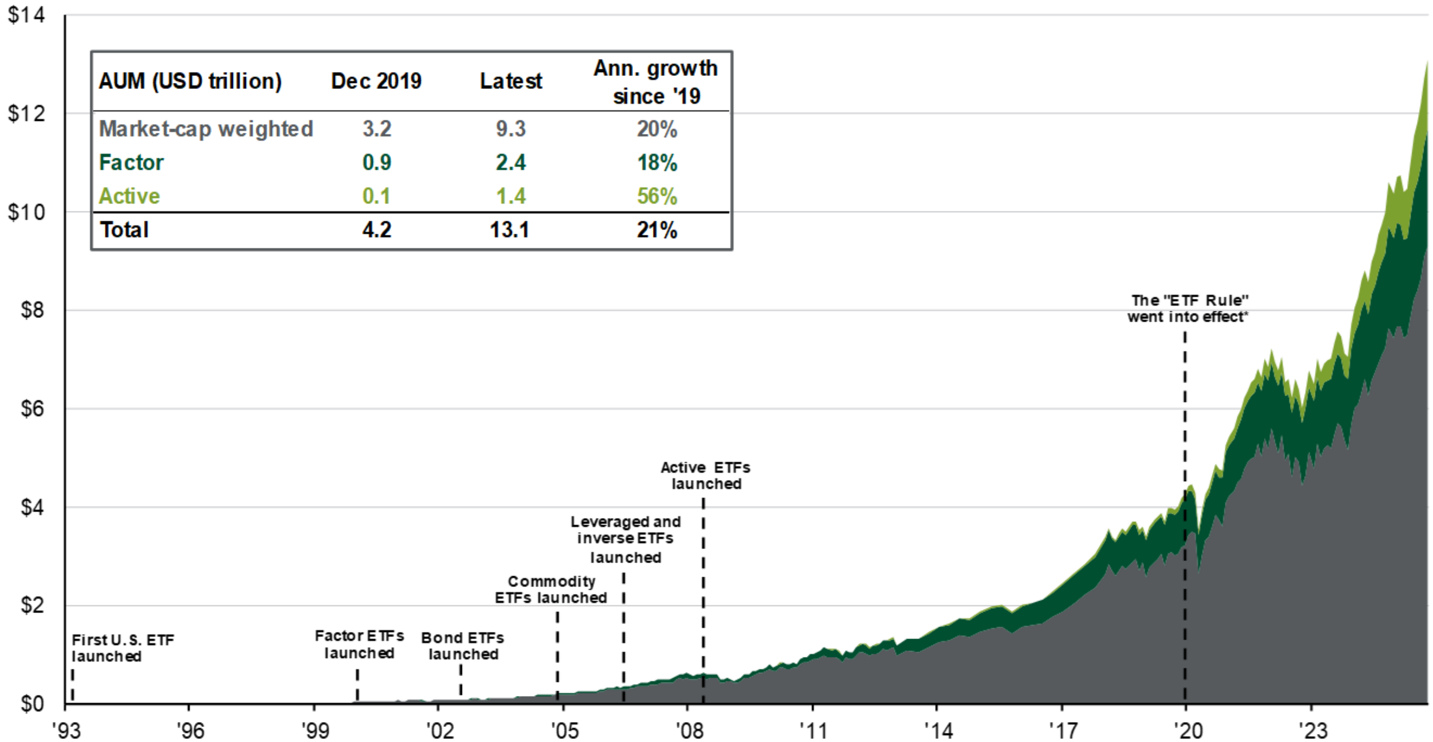
- **Massive global build-out = steady long-term demand (Pro):** From water systems to power grids, the world will keep spending trillions—creating a durable tailwind for construction, materials, utilities, and green-energy firms. The world isn't short of projects—it's short of financing clarity. Infrastructure will stay a multi-year growth engine, but investors should expect uneven timing and returns shaped by regional politics, borrowing costs, and execution risk → *Investment theme: long-duration, inflation-linked assets remain attractive.*
- **Funding gap widens before it narrows (Con):** Even after government pledges, only about **two-thirds of projects are financed**. Fiscal fatigue, higher borrowing costs, and political gridlock (especially in the U.S. and Europe) delay shovel-ready execution. → Expect slow progress and more public-private partnerships (PPPs).
- **Asia sets the pace (Pro/Mixed):** Asian economies—especially India and Indonesia—continue heavy infrastructure investment to support growth. That concentrates both opportunity **and** risk for investors tied to emerging-market debt or construction supply chains.
- **Energy transition drives new priorities (Pro/Con):** Power and transit spending increasingly target renewables and electrification but aging grids and permitting hurdles still slow rollout. → *Policy consistency will decide whether the "green build-out" accelerates or stalls..*

Source: American Society of Civil Engineers (ASCE), Global Infrastructure Hub by G20, J.P. Morgan Asset Management.
(Left) Categories defined by the ASCE in the March 2025 "A Comprehensive Assessment of America's Infrastructure: 2025 Report Card for America's Infrastructure" report. *Additional funding is the amount of funding needed to get each category to a "B" rating, or a state of "Good" repair, as defined by the ASCE. **Planned public funding is the amount of investment from 2024 to 2033 that is currently in place by U.S. law. (Right) ROW = Rest of World.
This slide comes from our Guide to Alternatives.
Guide to the Markets – U.S. Data are as of October 31, 2025.

LONGER-TERM OUTLOOK – Growth and Evolution of the ETF Market

Growth in AUM of U.S. ETFs

By ETF investment process, USD trillions



AUM (USD trillion)	Dec 2019	Latest	Ann. growth since '19
Market-cap weighted	3.2	9.3	20%
Factor	0.9	2.4	18%
Active	0.1	1.4	56%
Total	**4.2**	**13.1**	**21%**

Key Take Aways:

- **ETFs are now the default investment vehicle (Pro):** Cost transparency and daily liquidity have made ETFs the core building block for institutions and individuals. This trend likely continues as regulatory reforms favor simpler, lower-fee structures. The ETF industry's next wave is likely to be less about growth in size and more about breadth — active, thematic, and fixed-income ETFs will define how capital markets allocate and hedge risk over the next decade
- **Active ETF growth = a new competitive phase (Pro/Mixed):** Managers are blending active insights into ETF wrappers, merging flexibility with lower cost. Expect more "hybrid" strategies and tighter fee compression — good for investors, challenging for margins.
- **Systemic concentration risk (Con):** The bulk of flows remain concentrated in a few index providers and market-cap products, increasing potential feedback loops in times of stress. Liquidity looks deep but can dry up if passive rebalancing turns one-sided.
- **Institutional shift favors liquidity and collateral use (Pro/Con):** ETFs are now tools for balance-sheet management and derivatives hedging — not just equity exposure. That deepens market efficiency but ties short-term trading to long-term asset pools.

Source: Bloomberg, J.P. Morgan Asset Management.
"Market-cap weighted" ETFs are index-linked passive investment vehicles. "Factor" ETFs are ETFs that focus on specific factors or characteristics and are passively linked to a custom index. *The "ETF Rule," officially SEC Rule 6c-11, went into effect in December 2019 and modernized regulation of ETFs as open-ended funds by establishing a clear and consistent framework for most ETFs across both index and actively managed strategies, enabling ETF issuers to bring new strategies to market, and permitting "custom in-kind" creation and redemption baskets to be available for all types of covered ETFs under the new regulation. Data are as of the latest available month, typically with a one-month lag.
This slide comes from our Guide to ETFs.
Guide to the Markets – U.S. Data are as of October 31, 2025.