Quarterly Market Review

Q3

Third Quarter | 2025

Honest questions. Genuine advice.

VERABANK WEALTH MANAGEMENT

2025 Q3 Market Review

This report features VeraBank Wealth Management market commentary, global stock and bond market performance data, and a timeline of events for the past quarter.

With commentary about what has taken place in the financial markets and economy from July 2025 through September 2025; you'll also find returns data for major asset classes which we also include in client portfolios.

The report concludes with our current views on the market and an article providing perspective on human behavior and markets.

Contact a [VeraBank Wealth Management Advisor] with any questions or if you know someone who might benefit from our expert advice.

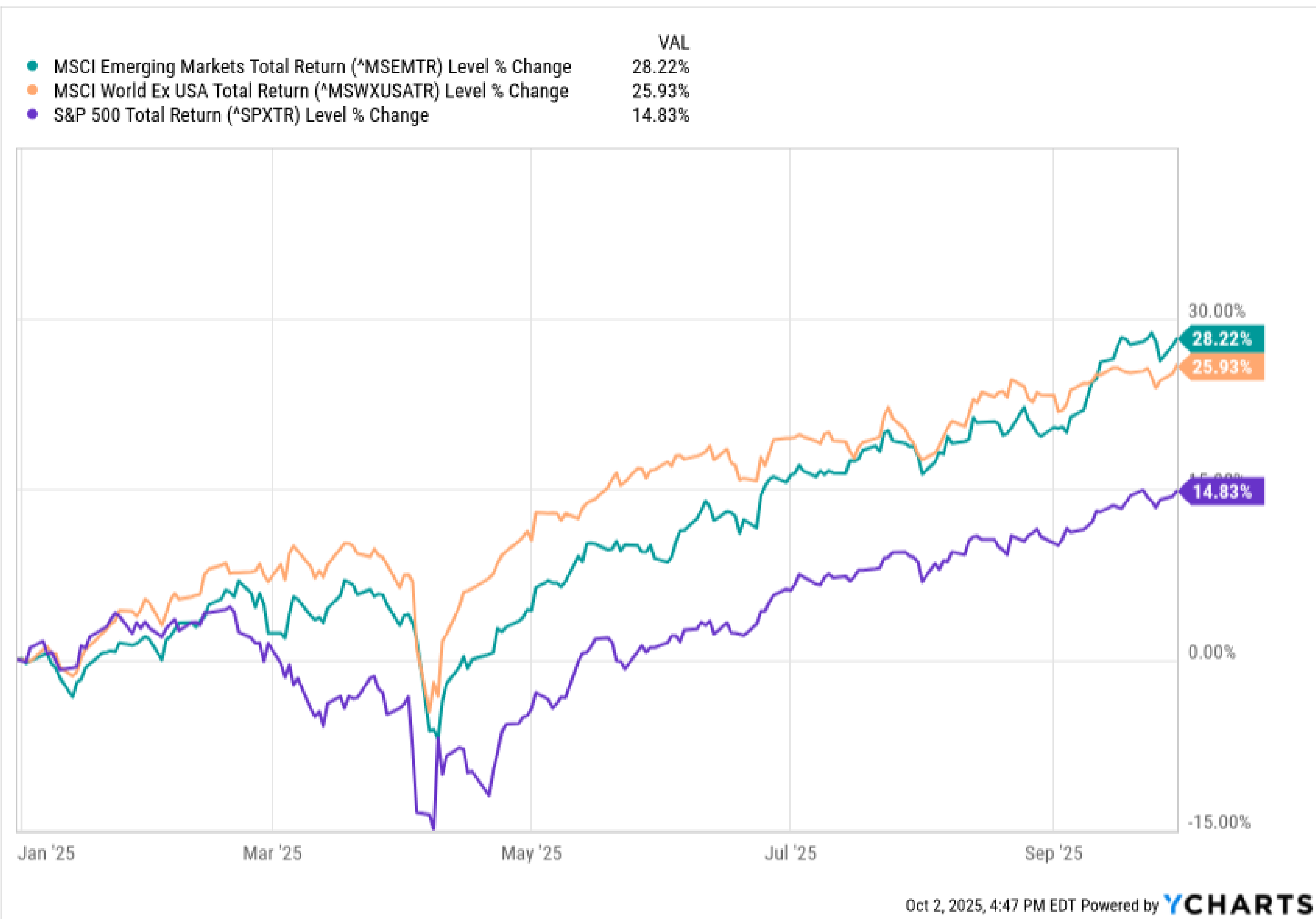
CONTENTS:

2025 Q3 Market Review

VeraBank Wealth Management Commentary

Equity market trends continue in Q3: All time-highs and international markets outperform

- US stock market indexes continue to climb to new record highs, with the S&P 500 up 14.83% YTD through Q3.
- Non-US stock markets continue to outperform the US in 2025, with non-US developed market stocks up 25.93% and emerging market stocks up 28.22% through Q3.



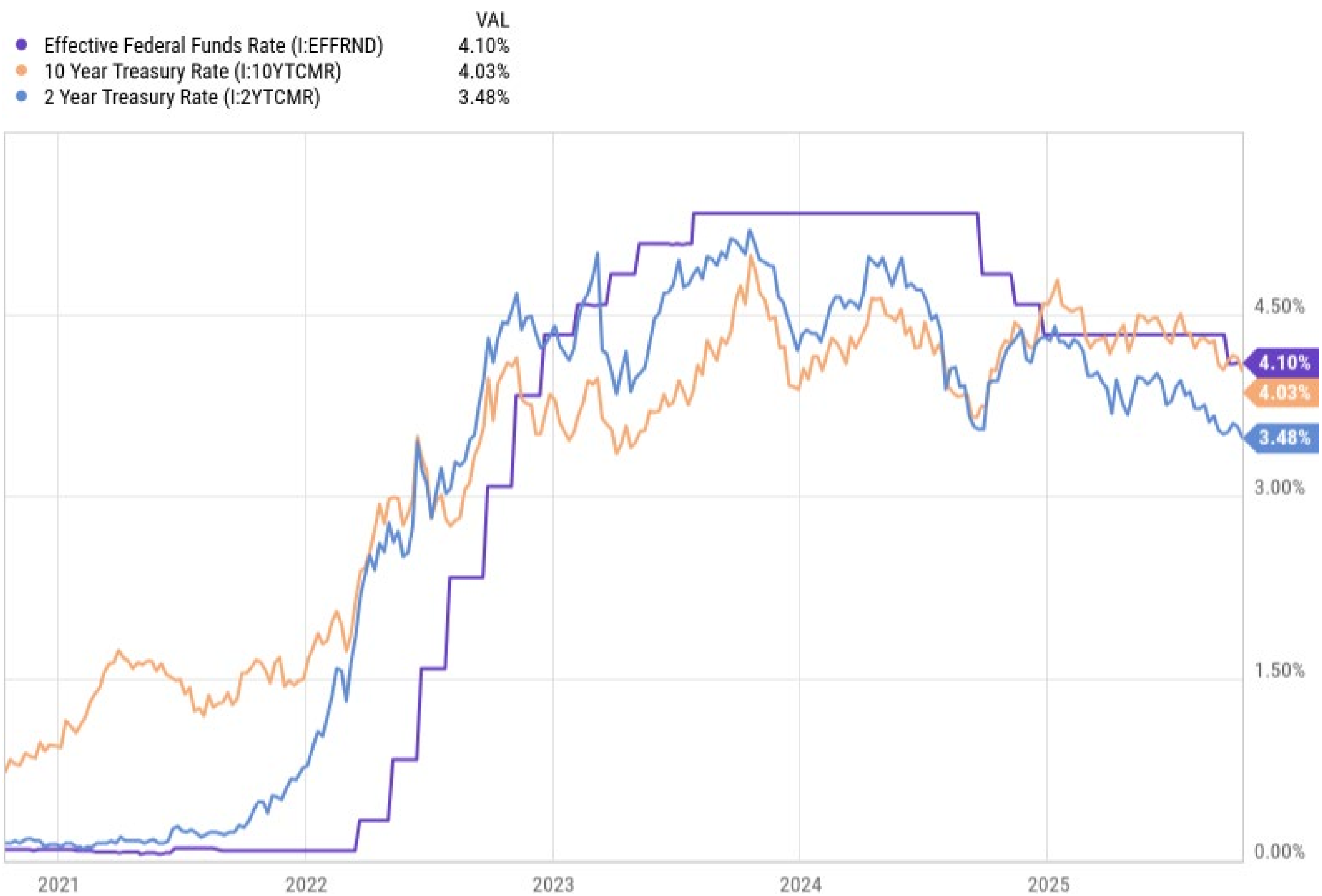
2025 Q3 Market Review

VeraBank Wealth Management Commentary

The Fed finally cuts, What's next?

- The Federal Reserve made the highly anticipated, and later than many expected, decision to cut the Fed Funds rate by 0.25% in September. As of October 14, the market is currently pricing in ¼ point cuts in October and December for a total of 0.50% additional rate cuts in 2025.

- It is important for investors to remember that a Fed interest rate cut doesn't necessarily result in a drop in other longer-term interest rates, mortgage rates, or other rates that investors and consumers interact with on a daily basis. As shown below, the market rates (10-year and 2-year treasury rates) often move in advance of a Fed Funds rate decision or may climb or drop because of market forces unrelated to the Fed.



Quarterly Market Summary

Third Quarter 2025 Index Returns

	Stocks				Bonds	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q3 2025	8.18%	5.33%	10.64%	4.22%	2.03%	0.49%
Since January 2001 Average Quarterly Return	2.5%	1.8%	2.7%	2.2%	1.0%	0.9%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3	6.8% 2023 Q4	5.4% 2023 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4	-5.9% 2022 Q1	-4.1% 2022 Q1

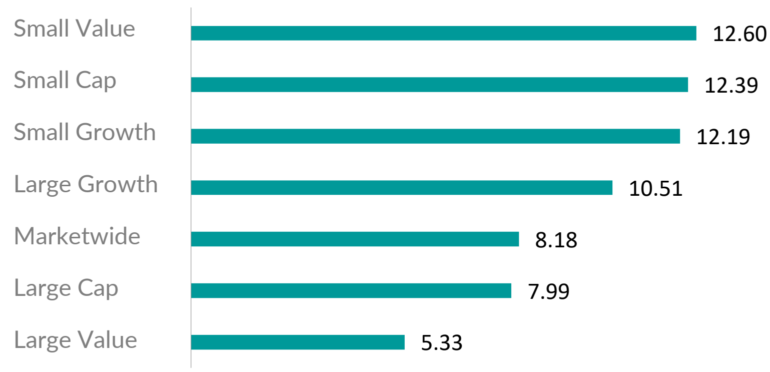
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

US Stocks

Third Quarter 2025 Index Returns

- The US equity market posted positive returns for the quarter and outperformed non-US developed markets but underperformed emerging markets.
- Value underperformed growth.
- Small caps outperformed large caps.

Ranked Returns (%)



Periodic Returns (%)

			ANNUALIZED					
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Small Value	12.60	9.04	7.88	13.56	14.59	9.23	9.54	7.27
Small Cap	12.39	10.39	10.76	15.21	11.56	9.77	10.42	8.14
Small Growth	12.19	11.65	13.56	16.68	8.41	9.91	11.01	8.78
Large Growth	10.51	17.24	25.53	31.61	17.58	18.83	17.36	13.33
Marketwide	8.18	14.40	17.41	24.12	15.74	14.71	14.23	10.75
Large Cap	7.99	14.60	17.75	24.64	15.99	15.04	14.49	10.92
Large Value	5.33	11.65	9.44	16.96	13.88	10.72	11.24	8.19

World Market Capitalization

63% US Market

$64.2 trillion

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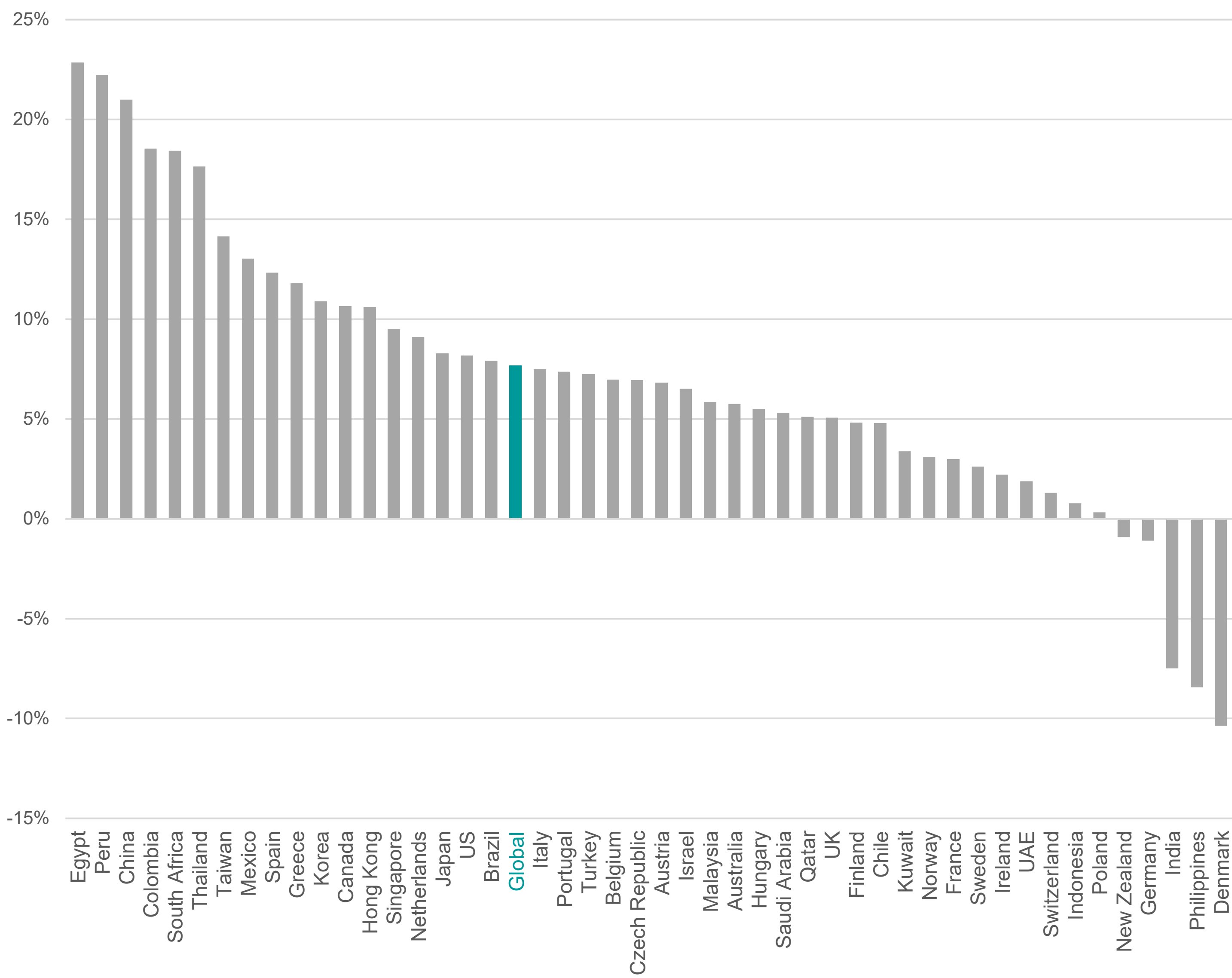
Country Returns

Third Quarter 2025 Index Returns



Past performance is no guarantee of future results. Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fixed Income

Third Quarter 2025 Index Returns

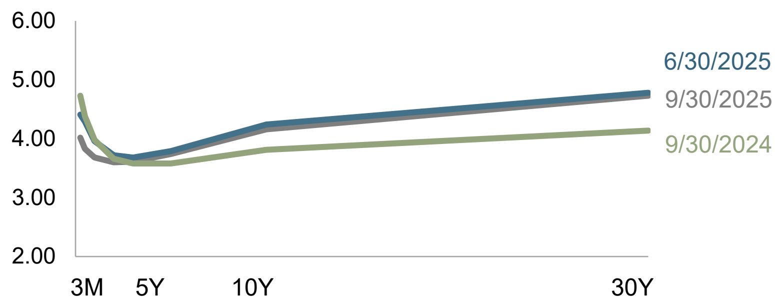
During the quarter, interest rates decreased within the US Treasury market.

On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 8 basis points (bps) to 4.20%, while the 1-Year US Treasury Bill yield decreased 28 bps to 3.68%. The yield on the 2-Year US Treasury Note decreased 12 bps to 3.60%.

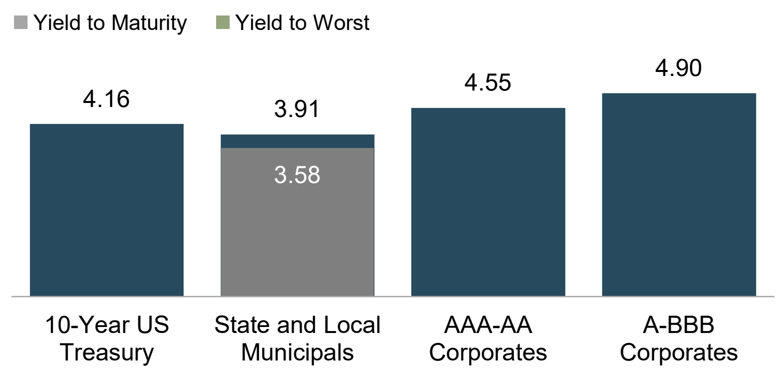
The yield on the 5-Year US Treasury Note decreased 5 bps to 3.74%. The yield on the 10-Year US Treasury Note decreased 8 bps to 4.16%. The yield on the 30-Year US Treasury Bond decreased 5 bps to 4.73%.

In terms of total returns, short-term US treasury bonds returned +1.17% while intermediate-term US treasury bonds returned +1.26%. Short-term corporate bonds returned +1.62% and intermediate-term corporate bonds returned +2.04%.

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED 1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Bloomberg Municipal Bond Index	3.00	2.64	1.39	4.74	0.86	2.34	2.94	3.48
Bloomberg US High Yield Corporate Bond Index	2.54	7.22	7.41	11.09	5.55	6.17	6.16	6.71
Bloomberg US Government Bond Index Long	2.49	5.65	-3.44	0.46	-7.73	-0.09	1.96	3.36
Bloomberg US TIPS Index	2.10	6.87	3.79	4.88	1.42	3.01	2.85	3.51
Bloomberg US Aggregate Bond Index	2.03	6.13	2.88	4.93	-0.45	1.84	2.26	3.23
ICE BofA 1-Year US Treasury Note Index	1.14	3.13	3.85	4.46	2.28	1.91	1.38	1.90
ICE BofA US 3-Month Treasury Bill Index	1.08	3.17	4.38	4.77	2.98	2.08	1.41	1.71
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.01	4.01	4.17	4.72	1.62	1.96	1.81	2.47
FTSE World Government Bond Index 1-5 Years	0.63	7.71	4.07	5.47	0.14	1.07	0.19	1.71

1. Bloomberg US Treasury and US Corporate Bond Indices
2. Bloomberg Municipal Bond Index

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Bloomberg data provided by Bloomberg.

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Market Perspectives

VeraBank Wealth Management Commentary

The Final Quarter: Government shutdown risks and the next interest rate moves in Q4

- How long will the US government shutdown last? Will the government shutdown begin to have an impact on the stock market? Will the fed cut rates again in 2025, and by how much?

- Uncertainty is a part of life and investing and the last few months of 2025 will be no different. Questions around the timing and impact of a government shutdown, the future path and magnitude of interest rate movements, potential softening in the labor market, and continuing tariff threats are just a handful of the themes that will impact financial markets to close out 2025. You can be sure there will be a few impactful headlines that aren't even being discussed yet that will move markets.

- Many optimistic investors continue to ride the AI/tech wave, piling money into these stocks and enjoying the rise in valuations and profitability. Some pessimistic investors might be waiting on a pullback – either too concerned about the future to begin investing cash now or waiting for an "all clear" signal.

- As we've seen throughout 2025, global markets continue to shrug off uncertainty and concerns, continuing to push to new all-time highs. In order to capture growth, the goal isn't avoiding risk – its balancing risk and taking the appropriate risk for an individual's specific circumstances.

- Global market reactions in 2025 are a clear reminder that searching for a crystal ball is not the answer. Managing risk and diversification is the most effective way to capture growth in bull markets and mitigate risks during downturns.

Contact a VeraBank Wealth Management advisor with any questions or if you know someone who might benefit from our expert advice.

There's Nothing New Under The Sun

Charles Mackay's Extraordinary Popular Delusions and the Madness of Crowds (1841) remains one of the most enduring explorations of financial manias and herd psychology. His study of Tulipmania, the Mississippi Scheme, and the South Sea Bubble demonstrates how collective enthusiasm can overpower rational judgment and lead to the misallocation of capital on a grand scale. Although these episodes took place centuries ago, the same behavioral dynamics can be seen in modern markets, from the dot-com bubble to cryptocurrency surges and the current enthusiasm surrounding artificial intelligence (AI). This report reviews Mackay's most notable examples, identifies recurring themes in crowd behavior, and draws direct parallels to the last thirty years of market history. We conclude with lessons and practical guidance for investors seeking to manage risk and avoid the pitfalls of speculative excess.

Historical Review of Financial Manias

Mackay begins with Tulipmania in seventeenth-century Holland, a period when tulip bulbs became symbols of wealth and exclusivity. As demand for rare bulbs grew, the market evolved into speculative trading contracts that bore little connection to the actual delivery of flowers. Prices rose to the point where a single bulb could cost as much as a house, yet buyers often had no intention of taking possession. Once confidence wavered and buyers failed to meet their obligations, the market collapsed abruptly, leaving many in financial ruin.

A century later, France experienced the Mississippi Scheme under the direction of John Law. Law's vision was to modernize French finance through his state-backed bank and the Mississippi Company, which promised vast wealth from colonial holdings in Louisiana. Investors eagerly bought shares, fueled by Law's monetary innovations and government endorsement. As the company's stock price soared, it became increasingly clear that the promise of immense wealth was based more on inflated expectations and money creation than on actual earnings. When doubts emerged over the bank's ability to honor redemptions in specie, both the currency and the company collapsed, causing widespread damage to France's financial system.

At roughly the same time, Britain experienced the South Sea Bubble. The South Sea Company offered to assume government debt in exchange for shares, presenting itself as a gateway to lucrative trade in Spanish America. Backed by Parliament and prominent aristocrats, the scheme captured the public imagination. Speculation spilled over into countless other companies offering dubious ventures, echoing the optimism of the era. When insiders began to cash out and political scrutiny intensified, the bubble burst. Many ordinary investors lost their fortunes, while the reputations of leading figures were permanently damaged.

There’s Nothing New Under The Sun

Recurring Themes in Crowd Behavior

Across these historical episodes, common behavioral threads emerge. Each mania was fueled by a powerful narrative promising unprecedented opportunity: tulips as symbols of status, America as a land of boundless riches, or financial innovation as a new economic order. Easy credit and leverage accelerated each boom, allowing investors to commit capital well beyond their means. The involvement of political leaders, aristocrats, or influential figures lent a false sense of legitimacy, making skepticism difficult to voice. Liquidity, which seemed abundant in rising markets, evaporated when confidence faltered, leaving participants unable to exit their positions. Above all, fear of missing out drove herd behavior. Investors were often less concerned with fundamentals than with the social stigma of being left behind while neighbors and peers appeared to grow rich.

Modern Parallels (1995–2025)

The same dynamics Mackay chronicled can be seen in recent decades. The dot-com bubble of the late 1990s is perhaps the clearest parallel to the South Sea Bubble. Technology stocks, many with no profits or even revenues, soared to extraordinary valuations on the back of a “new economy” narrative. Just as in 1720 London, companies rushed to market with little substance, while investors prioritized speed of participation over analysis.

The US housing and mortgage crisis of the 2000s mirrored the Mississippi Scheme. Credit expansion and complex financial engineering created an illusion of stability, while housing was proclaimed a riskless investment because “home prices never fall nationwide.” When defaults began and liquidity dried up, the fragile edifice of derivatives and mortgage-backed securities collapsed in cascading fashion.

The crypto and digital asset boom, particularly during 2017 and again between 2020 and 2021, echoed Tulipmania. Tokens, coins, and non-fungible assets traded at extraordinary valuations often disconnected from any clear economic use. Community-driven hype, amplified by celebrities and social media, encouraged speculative buying with little concern for long-term value. Similarly, the SPAC boom and meme stock rallies of 2020–2021 resembled the proliferation of bubble companies in 1720, as shell corporations and momentum-driven trades flourished on enthusiasm rather than fundamentals.

The most recent wave of investor enthusiasm, surrounding artificial intelligence and semiconductors, also bears resemblance to historical manias. Like the dot-com era, AI carries the aura of a general-purpose technology that could transform the economy. While leading companies today are more profitable and fundamentally sound than their dot-com predecessors, risks remain in speculative overextension and the tendency to extrapolate current growth into perpetuity.

There's Nothing New Under The Sun

Lessons Learned

The enduring lesson of Mackay's work is that manias are less about the specific asset class and more about the psychology of investors. Cash flows, not narratives, ultimately determine long-term value, and any investment thesis detached from earnings power is vulnerable to collapse. Incentives must be examined carefully, as promoters, bankers, and influencers often profit regardless of whether investors do. Leverage and financial complexity magnify the damage when markets reverse, while liquidity is never as deep as it appears during a boom. Investors must also recognize the seductive power of a narrative. Each bubble, from tulips to crypto, has been justified by the claim that "this time is different." The most effective antidote is disciplined skepticism and a willingness to ask what could go wrong. Finally, prudent risk management is essential. Position sizing, diversification, and humility about timing protect investors from the full force of crowd-driven reversals.

Practical Guidance for Today's Investors

Applying these lessons requires both discipline and self-awareness. Investors should begin with a commitment to fundamental analysis, ensuring that capital is deployed into businesses with durable cash flows rather than purely speculative resale value. Credit and liquidity conditions must be monitored closely, as shifts in monetary policy and credit availability often precede the end of manias. Diversification across sectors and asset classes helps to mitigate exposure to overheated markets, while reliance on long-term historical data provides a more reliable guide than comparisons to recent peers. Equally important is the practice of developing a counter-narrative before committing to an investment. By articulating how and why a story could fail, investors can protect themselves from overly optimistic assumptions. Finally, investors should remain aware of behavioral biases. If a decision is driven by fear of missing out, the influence of social proof, or celebrity endorsement rather than analysis, it is likely rooted in the same psychology that Mackay described nearly two centuries ago.

Mackay's Extraordinary Popular Delusions and the Madness of Crowds is more than a historical curiosity; it is a timeless reminder that markets are governed as much by human psychology as by fundamentals. Although the instruments and technologies of speculation have changed, the patterns of collective enthusiasm and collapse remain consistent. By studying these episodes and applying their lessons, investors can cultivate the discipline to remain rational when others are not, safeguarding capital and positioning themselves to seize opportunities when the crowd loses perspective.

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