



Market View

October 2025

US Stock Market at All-Time Highs

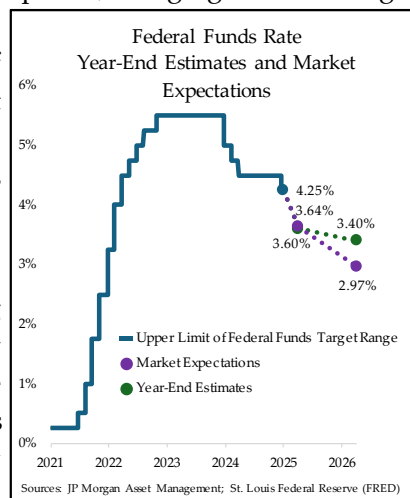
During the third quarter of 2025, US equity markets maintained their upward momentum despite volatility. The S&P 500 reached new highs, with a year-to-date return of over 14% as of September 30. This resilience is largely due to the easing of geopolitical tensions and economic concerns related to new tariffs. Solid corporate earnings growth has also helped. Another key driver has been the Federal Reserve's shift to an accommodative monetary policy.

The relentless rally in companies related to artificial intelligence (AI) has dominated equity market action. A small group of technology giants—including Amazon, Alphabet, Microsoft, and NVIDIA—has accounted for a disproportionately large share of the S&P 500's gains. This dominance is driven by massive capital expenditures on AI-related infrastructure, a new capital expenditures "arms race" that is exciting investors and driving stock prices to record highs.

Interest Rates and the Federal Reserve

The third quarter marked a turning point for interest rates when the Fed cut the benchmark federal funds rate by 25 basis points, bringing the new target range to 4.00%-4.25%. The Fed's "dot plot" suggests at least two more cuts by the end of 2025. This aggressive easing is a direct response to a changing economic landscape, in which a weakening labor market is becoming a greater concern than persistent, although manageable, inflation.

While short-term interest rates are coming down, long-term rates have remained sticky and, in some cases, have moved higher. The 10-year US Treasury bond yield remains elevated at levels above 4%. This is largely related to concerns about long-term fiscal sustainability, due to rising federal debt and deficits. As a result, the yield curve has steepened, a trend that began earlier in 2025.



Market Indicators 9/30/2025

TOTAL RETURN		
US Stock Markets	12 Mos	Year-to-Date
S&P 500 Index	17.6%	14.8%
S&P 500 Equal Weight Index	7.8%	9.9%
DJ Industrial Avg.	11.5%	10.5%
S&P 400 Mid Cap	6.1%	5.8%
Russell 2000 Small Cap	10.7%	10.4%

Int'l Stock Markets

ETF Returns in US\$		
EAFE Index		
(Europe, Australia, Asia, Far East)	15.1%	25.6%
Japan (MSCI Index)	14.8%	20.5%
China (FTSE 50)	33.2%	37.0%
Emerging Mkts Index	19.6%	28.9%

US Fixed Income Yields	12/31/2024	9/30/2025
6 Mo US T-Bill	4.24%	3.83%
2 Yr US T-Note	4.25%	3.60%
10 Yr US T-Note	4.58%	4.16%

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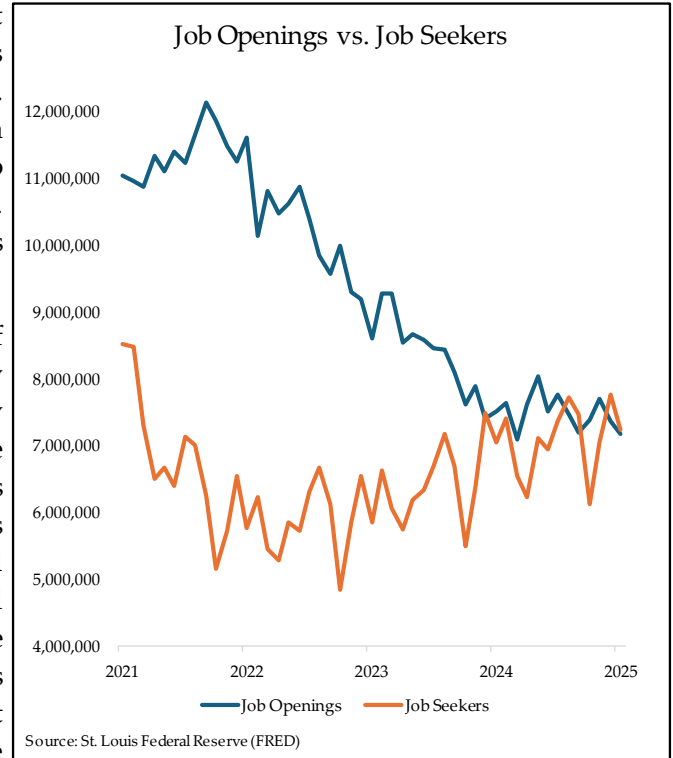
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Employment Trends and Political Influence

Recent employment data has been the primary factor in the Federal Reserve's decision to cut interest rates. Following a period of robust job growth, the labor market has shown signs of softening. The unemployment rate has edged up slightly, and the pace of job creation has slowed. The Fed's September rate cut was explicitly justified by a "shift in the balance of risks," with downside risks to employment now outweighing the risks of elevated inflation. This marks a significant departure from the central bank's previous focus on bringing down inflation.

The Fed's independence has also been a major topic of concern throughout 2025. President Trump has repeatedly called for more aggressive rate cuts and has publicly criticized Fed Chair Jerome Powell. This political pressure has been heightened by the confirmation of Stephen Miran's appointment to the Fed's Board of Governors. Miran, who is seen by many as an ally of the administration, has advocated a more rapid easing of monetary policy. While Chair Powell continues to defend the central bank's autonomy, the ongoing public disputes raise questions about the Fed's ability to operate free of external influence. A government shutdown began on October 1st. Analysts believe the shutdown will be relatively brief.



The Role of AI in Market Performance

The AI theme has been the most powerful narrative driving the US stock market in 2025. The performance of the S&P 500 has increasingly been tied to the success of a handful of "mega-cap" technology firms and their capital expenditure arms race to build the data centers and develop the processing power needed for large language models and other AI applications. The market has rewarded this spending with soaring stock prices, creating a significant valuation gap between AI leaders and the rest of the market.

Analysts and investors are increasingly raising concerns about the sustainability of this AI-driven rally. Some are warning of a potential "overinvestment bust," in which the immense capital expenditures on AI infrastructure might not translate into the expected revenue and productivity gains, or the gains could take longer than expected. The heavy reliance of the broader market on a single theme leaves it vulnerable to a sharp correction if the AI narrative sours.

Balancing Future Growth with Hints of Overenthusiasm

Following April's tariff shock, the stock market gradually recovered and then went on to set new highs in September. Investors believe resilient US corporations and consumers will weather the impact of tariffs and benefit from lower income tax rates. A bullish view of AI's future boost to economic productivity has resulted in surging demand for AI-related stocks. Some of this enthusiasm may eventually prove excessive. We believe a well-balanced portfolio of leading companies across multiple industries continues to be the soundest and most effective way to enhance investment capital in the long term.

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