



**WALKER, HIGGINS & ASSOCIATES**  
WEALTH MANAGEMENT, LLC

## **Fourth Quarter 2025 Review and Outlook**

### **Data Points**

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#### **Stock Market Data @ 9.30.25**

DOW Jones Industrial (DIA) <sup>i</sup>	19.41%	3-year average annual return <sup>i</sup>
S&P500 Index (SPY) <sup>ii</sup>	24.80%	3-year average annual return <sup>ii</sup>
NASDAQ Composite (ONEQ) <sup>iii</sup>	30.06%	3-year average annual return <sup>iii</sup>
S&P Small Cap (IJR) <sup>iv</sup>	12.73%	3-year average annual return <sup>iv</sup>
MSCI EAFE (EFA) <sup>v</sup>	21.90%	3-year average annual return <sup>v</sup>
U.S. Market Valuation		
S&P 500 Forward P/E Ratio		22.80x <sup>vi</sup>
S&P 500 Forward P/E Ratio 30-YR average		17.0x <sup>vii</sup>

#### **Interest Rates, Bonds, Federal Reserve Data @ 9.30.25**

U.S. Aggregate Bond (AGG) <sup>vi</sup>	4.91%	3-year average annual return <sup>viii</sup>
3 Month U.S. Treasury Bill Yield		4.02% <sup>ix</sup>
10 Year U.S. Treasury Bond Yield		4.16% <sup>x</sup>
U.S. Federal Reserve Effective Federal Funds Rate		4.00-4.25% <sup>xi</sup>

### **2025 3<sup>rd</sup> Quarter Review**

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Financial markets pushed higher during the 3<sup>rd</sup> Quarter. Even September, which is historically the worst month for markets<sup>xii</sup>, produced solid returns. All in all, markets moved higher with minimal volatility.

As markets advance despite mixed economic data, some market participants and economists have cautioned that pain lays ahead. We agree that U.S. stock valuations appear to be stretched. And while we do often use history as a guide, we also suggest that each data point needs to be considered in the context of the current situation.

### **2025 Economic and Market Outlook**

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#### **Washington, We Have a Problem! Or Do We?**

Plenty of politicians and media outlets have already assigned blame to the current Federal government shutdown. Some have started the fear mongering of lost Social Security benefits, travel delays, and declines in economic growth. As we often say, be cautious with where you consume news and be skeptical with the news that mainstream media presents.

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The unfortunate truth is that the Federal government has shut down before, and this iteration will likely not be the last. The question often on people's mind is, how does a shutdown impact me and the economy? The reality is that short-term government shutdowns rarely have a meaningful impact on most people's lives in the United States. You still go to work, you still buy food, you still pay your bills. In a scenario where a government shutdown lasts several weeks, we would still only anticipate minimal impacts. During President Trump's first term there was a shutdown that lasted more than a month (12/22/18-1/25/19). The Congressional Budget Office projected that this shutdown reduced GDP growth during the 4<sup>th</sup> quarter of 2018 by 0.1%.<sup>xiii</sup> For context, the Atlanta Federal Reserve's GDPNow model projects 3<sup>rd</sup> quarter GDP growth of 3.8%.<sup>xiv</sup>

There is little historical context to anticipate this shutdown will have a disproportionate impact on the U.S. economy or the overall stock market. In short, we would urge caution from anyone that feels that they should dramatically alter their long-term investment objectives because of the current shutdown in Washington, D.C.

### **Cut Baby, Cut**

To no surprise, the Federal Reserve reduced the federal funds rate by 0.25% at their September meeting.<sup>xv</sup> All FOMC members voted for this cut the exception of Stephen Miran, who was recently appointed by President Trump. Mr. Miran voted for a 0.50% reduction.<sup>xvi</sup>

We draw attention to the final statement as we believe that it is important to remember that Fed Chair Powell's term as Chair ends in 2026. President Trump has been very vocal about wanting the Federal Reserve to decrease interest rates. If you recall, he even floated the idea of firing Powell earlier this year. We think that his appointment of Miran is a clear message that whomever he appoints to replace Powell will be given a clear mandate to reduce interest rates.

Is it appropriate to reduce interest rates now? First, it is important to remember that the Federal Reserve has long had a dual mandate of controlling inflation and maintaining healthy employment numbers. As of this writing, it is possible to view the current data as being in conflict. Current inflation numbers exceed the Fed's stated goal of 2%.<sup>xvii</sup> Unemployment and hiring data are softening.<sup>xviii</sup> As such, it appears they have decided to prioritize unemployment and hiring.

We agree that cutting interest rates now seems appropriate. First, the Fed's stated goal of 2% seems arbitrary as the long-term average inflation rate exceeds 3%.<sup>xix</sup> Thus, we'd argue that the current inflation rate is in line with the long-term rate after the dramatic post-COVID increases. Second, borrowing is a significant driver of economic growth in the U.S. Higher interest rates make everything more expensive. For many at lower socio-economic levels, higher interest rates have a larger impact than for those at higher levels. Finally, lower interest rates reduce the Federal government's deficit and debt burden as maturing debt can be refinanced at lower rates.

In short, we anticipate the Federal Reserve to cut 1-2 more times in 2025 with the potential for multiple cuts in 2026. Given President Trump's desire for lower rates and that there will almost certainly be a different chair in 2026, we think this is a safe bet.

### **Financial Markets**

As the U.S. stock market has been on a steady increase since the correction earlier this year, some prognosticators have concerns that another correction is imminent. Some even take a step further, a more serious correction could occur due to declining economic conditions such as unemployment and hiring.

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We agree 100% that by almost every data point we follow, the U.S. stock market as represented by the S&P 500 is ahead of itself. Some figures suggest that the S&P 500 is dramatically overvalued. However, we'd point out that using valuation as the sole method of timing market entry or exit points is historically inaccurate. Markets can remain overvalued or undervalued for long stretches of time. Imagine if you decided that the S&P 500 was overvalued in 2018 when by some measurements the S&P 500 was at its second most expensive point in history.<sup>xx</sup> In doing so, you decided to dramatically reduce your exposure to U.S. stocks. Sure, you would have potentially missed some dramatic drawdowns in late 2018, COVID and 2022. Of course, you would have also missed the almost 150% return of the S&P 500 since January 2018.<sup>xxi</sup>

From this perspective, we suggest that a correction would not be surprising to us. If a correction did occur in the short term, where appropriate, we would consider areas to add stock exposure. Currently, we remain overweight U.S. stocks in most accounts, but have, in some cases, added international exposure in 2025. Additionally, we continue to explore areas where technology has an impact such as AI, defense, and nuclear energy.

On the other side of financial markets, we are quite satisfied with the bond positions we hold. First, many of the fixed income positions offer attractive dividend yields. Second, if interest rates do decline across the interest rate spectrum, we'd anticipate some price appreciation in these holdings. As such, we have looked to slightly increase the duration of these fixed income positions.

## Final Thoughts

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As we look towards the year end, we are cautiously optimistic of the direction of the economy and the U.S. stock market. In our opinion, one would be hard-pressed to find another country in our lifetimes that offers as much flexibility and innovation as the U.S. Additionally, the 4<sup>th</sup> Quarter, especially late December, historically has been a solid period of market advancement.<sup>xxii</sup>

When we look towards next year, it is important to remember that 2026 is a mid-term election year. Often volatility can emerge during mid-term years.<sup>xxiii</sup> Obviously, too early to judge, but we plan to discuss in the future.

Market cycles tend to be more volatile during election years, often leading to increased uncertainty and short-term fluctuations. Investors should be prepared for a potentially bumpy ride, but history shows that these periods can also present unique opportunities for growth and portfolio rebalancing<sup>vii</sup>. Staying disciplined and focusing on long-term objectives remains key to navigating such environments.

Finally, we continue to remind our clients that the most important economy to focus on is your own. Your situation should remain at the absolute pinnacle of decision-making, financial goals and investment strategy. This is where you have the most control and influence.

As always, thank you for your continued confidence and trust. It is our mission to understand your unique situation and to the best of our ability offer sound, prudent advice on your ever-changing financial goals and challenges.

We hope that you and your family have a great rest of 2025!

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and there is no guarantee of future results. All indices are unmanaged and may not be invested into directly. The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Stock investing includes risks, including fluctuating prices and loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

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<sup>i</sup> <https://www.morningstar.com/etfs/arcx/dia/performance>

<sup>ii</sup> <https://www.morningstar.com/etfs/arcx/spy/performance>

<sup>iii</sup> <https://www.morningstar.com/etfs/xnas/oneq/performance>

<sup>iv</sup> <https://www.morningstar.com/etfs/arcx/ijr/performance>

<sup>v</sup> <https://www.morningstar.com/etfs/arcx/efa/performance>

<sup>vi</sup> "Market Insights: Guide to the Markets®". J.P. Morgan Asset Management. Page 5. September 30, 2025.

<sup>vii</sup> Ibid.

<sup>viii</sup> <https://www.morningstar.com/etfs/arcx/agg/performance>

<sup>ix</sup> [https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily\\_treasury\\_yield\\_curve&field\\_tdr\\_date\\_value=2025](https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2025)

<sup>x</sup> Ibid.

<sup>xi</sup> <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

<sup>xii</sup> <https://www.morningstar.com/news/marketwatch/2025090155/september-is-historically-the-worst-month-of-the-year-for-stocks-why-this-time-could-be-different>

<sup>xiii</sup> "The Effects of the Partial Shutdown Ending in January 2019". Congressional Budget Office. January 2019.

<sup>xiv</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917a.htm> <https://www.atlantafed.org/cqer/research/gdpnow.aspx>

<sup>xv</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917a.htm>

<sup>xvi</sup> Ibid.

<sup>xvii</sup> <https://www.bea.gov/data/personal-consumption-expenditures-price-index>

<sup>xviii</sup> <https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm>

<sup>xix</sup> [https://ycharts.com/indicators/us\\_pce\\_price\\_index\\_yoy](https://ycharts.com/indicators/us_pce_price_index_yoy)

<sup>xx</sup> <https://www.multip.com/shiller-pe>

<sup>xxi</sup> <https://finance.yahoo.com/quote/%5EGSPC/history/?period1=1514764800&period2=1759853430>

<sup>xxii</sup> Jennewine, Trevor. "Here's the Average Stock Market Return in Every Month of the Year". February 6, 2024. The Motley Fool.

<sup>xxiii</sup> <https://www.capitalgroup.com/advisor/insights/articles/midterm-elections-markets-5-charts.html>

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<sup>i</sup> The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

<sup>ii</sup> The S&P500 is comprised of 500 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

<sup>iii</sup> The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indexes are unmanaged and cannot be invested in directly.

<sup>iv</sup> The S&P Small Cap 600 Index is an unmanaged index generally representative of the market for the stocks of small capitalization U.S. companies. Indexes are unmanaged and cannot be invested in directly.

<sup>v</sup> The MSCI EAFE Index is an unmanaged index generally representative of the market for the stocks of international companies. Indexes are unmanaged and cannot be invested in directly.

<sup>vi</sup> The Bloomberg U.S. Aggregate Bond Index is an unmanaged index generally representative of the market for the fixed income securities in the U.S. Indexes are unmanaged and cannot be invested in directly.

<sup>vii</sup> Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss

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