

Big market run...a soft spot coming?

As we move into the final stretch of 2025, we want to reflect on the economic landscape and share perspective on what's ahead.

The third quarter brought continued growth, but at a slower pace.

Consumer spending remained strong, particularly in services like travel, dining, and entertainment. However, rising prices have begun to temper this momentum. Higher interest rates and increased costs from tariffs are starting to weigh on purchases of durable goods—such as homes, vehicles, and appliances—which have become more expensive.

At North Star, we believe that staying informed is key to navigating any market environment.

KEY HIGHLIGHTS

- **Interest Rates:** The Federal Reserve has a dual mandate to maintain full employment and control prices, and earlier this year, they raised interest rates to fight inflation. Despite persistent inflation and a softening labor market, the Fed implemented its first rate cut of the year in mid-September.
- **Inflation:** An inflation rate of 2.9% showed prices higher than normal and above the Federal Reserve's goal of 2%.
- **Jobs:** The labor market remains strong, with unemployment low at around 3.8%. Many industries were still hiring, but all numbers are starting to show signs of weakness.
- **Tariffs:** Ongoing uncertainty around tariffs, both in scope and amount, is creating headwinds for certain sectors.
- **GDP Growth:** The economy grew during Q3, but at a rate slower than Q2.
- **Stock Markets:** Stock markets continued to gain but became more volatile as investors were unsure if the Fed would raise rates or start cutting them. A small number of companies continue to drive the markets.

Overall, while the economy is still growing, signs of a potential slowdown or "soft spot" are beginning to appear. At this time, no major recession or market correction is expected.

FOURTH QUARTER OUTLOOK

The fourth quarter began with a government shutdown as Congress could not pass an appropriation bill for the next budget cycle.

The big question will be how long this shutdown will last. Recent averages are just under two weeks, with the longest being 35 days. The longer the government shutdown lasts, the more it has the potential to affect the economy and markets.

The Federal Reserve will continue to struggle with a balancing act of inflation concerns and strength of the job market, but all expectations are that the Fed will continue with a couple more rate cuts this year.

Growth is projected to slow, with consumers remaining the primary engine of economic activity. Interest rates and potential higher costs from tariffs will continue to weigh on consumer decisions. Longer term, lower expected interest rates, lower taxes from the One Big Beautiful Bill, and continued low unemployment should keep consumer confidence and spending strong.

We at North Star Resource Group remain committed to long-term, diversified portfolio management with your goals and risk tolerance matched in your investment portfolio. We encourage you to stay the course during periods of market volatility and trust in the long-term nature of the stock market.

We welcome investment discussions. Should you have any questions or concerns, or if there is a change in your investment time horizon or financial circumstances, please feel free to contact your advisor.

Written by North Star Investment Resource Center

	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P500	14.8%	17.60%	24.95%	16.47%	15.3%
US Small Caps	10.4%	10.76%	15.21%	11.56%	9.77%
Int'l Stocks	25.7%	14.99%	21.70%	11.15%	8.17%
Bond Market	6.13%	2.88%	4.93%	-0.45%	1.84%

Returns over 1 year are annualized. S&P500 index, US Small Caps use Russell 2000 index, international stocks use MSCI EAFE NR USD, Bond Market use Bloomberg US Agg Bond TR USD.

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The Russell 2000 is a stock market index measuring the performance of 2000 small capitalization stocks. It represents the 2000 smallest companies in the Russell 3000 Index, which in turn represents the 3000 largest companies in the U.S. Thus, the Russell 2000 is a barometer of small-cap stocks. Though small, the companies represented by the Russell 2000 are not the smallest of the small as they are not penny stocks. The Russell 2000 is weighted by the market capitalization of the stocks.

MSCI EAFE – Designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The Bloomberg U.S. Agg Total Return Value Unhedged, also known as “Bloomberg U.S. Aggregate Bond Index,” formerly known as the “Barclays Capital U.S. Aggregate Bond Index,” and prior to that, the “Lehman Aggregate Bond Index,” is a broad-based flagship benchmark that measure the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).