



Q3 2025

Quarterly Perspectives



MEEDER

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Equities Defy Seasonal Weakness

The S&P 500 posted an 8.1% gain in Q3, defying its long-standing reputation as the weakest quarter of the year. Since its April lows, the index has climbed more than 36%, with pullbacks remaining shallow and brief—averaging less than 3% and lasting only four days. The Nasdaq and large-cap growth names continued to lead, though market participation broadened meaningfully as small-cap equities regained strength. The Russell 2000 Index rose 12.2% year-to-date through October 3, its first new all-time high since November 2021.

International equities also contributed positively. A weakening U.S. dollar and solid earnings in Europe and Japan supported continued outperformance in developed and emerging markets, both of which have outpaced U.S. equities year to date.

Fed Cuts Rates as Growth Moderates

At its September 17 meeting, the Federal Reserve cut the federal funds rate by 25 basis points, its first rate reduction since 2024, with the S&P 500 sitting near all-time highs. Chair Powell noted progress toward the Fed's 2% inflation target at the Fed meeting and has since acknowledged rising uncertainty from the ongoing federal government shutdown. The shutdown is delaying critical data releases from the Bureau of Labor Statistics and the Bureau of Economic Analysis.

Historically, when the Fed has cut rates with markets near record levels, equities, using the Dow Jones Industrial Average as a proxy, have averaged 18% total returns over the following year and 34% over two years, reflecting investors' confidence in supportive policy conditions.

Real interest rates—currently 1.35% above inflation—remain positive but have room to decline toward long-term historical averages near zero, suggesting potential for further easing.

Earnings and Profit Margins Stay Strong

Corporate fundamentals remained a key driver of the market's advance. Over 81% of S&P 500 companies beat Q2 earnings estimates, and aggregate profits expanded by more than 11% year-over-year. Trailing 12-month profit margins held above 13% for a fourth consecutive quarter, a near-record streak.

Earnings growth—not just multiple expansion—accounted for roughly 70% of the S&P 500's 14.8% year-to-date gain. Wide margins have provided a cushion against a slowing labor market, where job creation has averaged under 100,000 per month since May, but without triggering layoffs or a rise in unemployment beyond 4.3%.

Market Breadth Broadens

Unlike past peaks in 2000 and 2007—when the number of advancing stocks narrowed sharply—the 2025 rally has been supported by strong breadth. The NYSE Advance-Dcline line has risen in tandem with price since April, a pattern rarely seen during market tops.

Investor sentiment remains subdued. The AAI Bearish Sentiment Survey showed nearly 50% of retail investors bearish as of September 10, far above the historical average of 31%. This “wall of worry” underscores that optimism is far from excessive—another factor supporting continued equity strength.

Fixed Income Benefits from Falling Yields

Bond markets experienced a strong quarter as yields fell and duration extended. The Bloomberg U.S. Aggregate Bond Index gained 1.2% in August, aided by expectations of additional Fed rate cuts.

In addition, higher risk areas like Emerging Markets debt and U.S. High Yield both continued to perform well, driven by a weaker U.S. dollar and low credit risk in the fixed income markets.

Looking Ahead

As Q4 begins, markets balance a mix of tailwinds and caution. The Fed’s easing bias, robust corporate profitability, record liquidity in money market assets exceeding \$7 trillion, and broad market participation create a favorable backdrop for risk assets.

At the same time, tariff uncertainty, slowing labor trends, and the ongoing government shutdown present near-term challenges. Meeder’s portfolios remain fully invested within Defensive Equity, supported by positive momentum, low volatility, and attractive reward-to-risk measures.

With history as a guide, markets entering rate-cut cycles with strong fundamentals have typically delivered above-average returns. While vigilance remains essential, the weight of the evidence points toward continued strength into year-end.

INDEX DEFINITIONS:

S&P 500 Index: The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

Russell 2000 Index: The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the U.S. equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

Bloomberg U.S. Corporate High Yield Bond Index: The Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The U.S. Corporate High Yield Index is a component of the U.S. Universal and Global High Yield Indices. The index was created in 1998 with history backfilled to July 1, 1983.

Bloomberg U.S. Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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