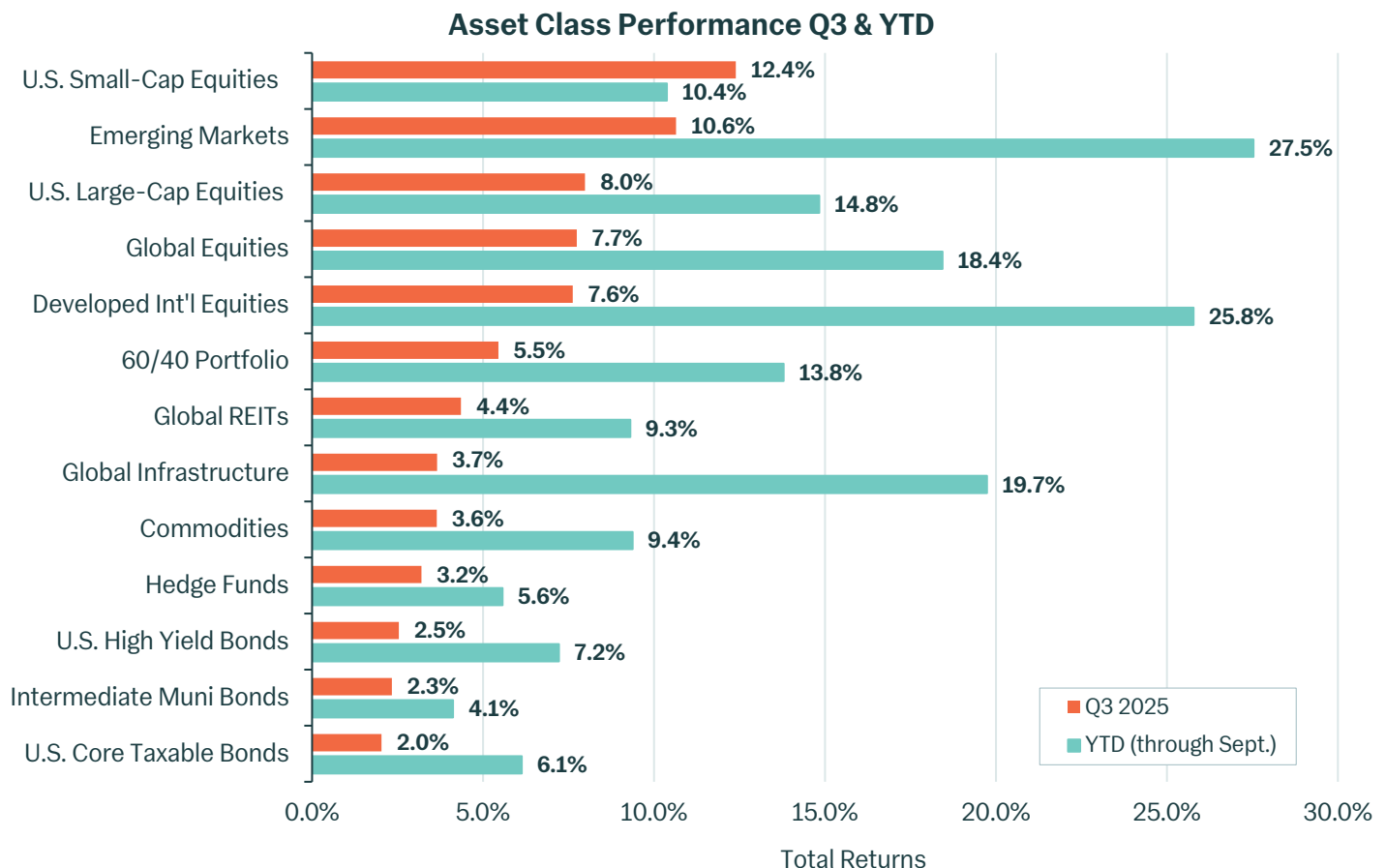


Sticking the Landing: Markets Seem Priced to Perfection Amid Unsettled Realities

Strong prints, narrow margins for error, and a wide distribution of outcomes.

In the summer of 1984, Mary Lou Retton captivated the world by nailing her final vault, clinching Olympic gold and forever etching “sticking the landing” into the sports lexicon. Today, equity and bond markets seem to be performing their own gravity-defying routine—priced for flawless execution, with record-high levels for the S&P 500, global equity benchmarks also scaling new peaks, and investment grade bond spreads lingering at historic lows. Just as Retton’s flawless execution left no room for missteps, market valuations now suggest investors expect nothing short of perfect outcomes.

Yet, beneath these dazzling numbers lies an uneasy paradox. The economic scoreboard flashes many of the right stats—low unemployment, moderate inflation, high productivity, and robust profit margins—painting a portrait of resilience and prosperity. But to the more discerning observer, the backdrop of persistent global instability challenges the notion that all is as flawless as the data implies. As we dive into Q4 2025, the story is not just about “sticking the landing,” but about questioning how solid the ground truly is beneath our feet. But first, let’s take a look in the rearview mirror of the quarter that has just elapsed.



Source: Bloomberg & HFRI as of 10/1/25.



Year-to-Date Asset Class Summary

- Global Equities.** Stocks entered the quarter at lofty valuations and only grew more expensive after 3 consecutive months of gains. US stocks led global markets with small-cap companies leading the charge on expectations that lower interest rates would reduce headwinds such as borrowing costs. The US dollar had fallen around 10% heading into July, boosting foreign investment returns for US-based investors, but stabilized over the summer as US economic data generally beat expectations. Still, foreign equities remain the strongest performers year-to-date as both developed ex-US and emerging markets have posted returns between 25-27% in that span according to MSCI indices.
- Fixed Income.** US interest rate volatility has been muted aside from the brief “Liberation Day” tariff spike in April, and bonds benefited from net falling interest rates through September. Year-to-date, core taxable fixed income, as measured by the Bloomberg US Aggregate bond index, has returned more than 6% with corporate bonds and mortgage bonds providing the best results. Municipal bonds (+3% Q3) have performed well in the last few months as well, with issuance falling and investors recognizing value relative to taxable bonds.
- Real Assets.** The S&P Real Asset Index (+11.5% year-to-date) which is a blend of inflation sensitive stocks, bonds and commodities, outpaced bonds but lagged global equities in Q3 as the secular AI story boosted Magnificent 7 stocks returns and the technology sector at large (+22% year-to-date) but inflation sensitive sectors like real estate, energy and materials returned only 6-9% in that period with little direct connection to that trend. Gold (+46% year-to-date) continues to surge as investors covet safety amid geopolitical and economic risk whereas global infrastructure (+19%) may have lagged in Q3 but has outpaced global equities in 2025.
- Diversifiers and Private Markets.** Hedge funds have delivered returns in line with fixed income and provided ballast in the few short periods when equity markets have struggled this year. Similarly, private credit has quietly posted strong absolute results and is on pace for high single digit returns at yearend. That said, equity-oriented managers have been able to find the most success, posting double-digit returns in some cases. Private markets, meanwhile, are thawing – transaction activity and distributions are picking up, as buyers and sellers start to meet more in the middle on valuations. While fundraising has been slow for managers for the last several months, similar periods have been shown to offer better entry points for investors which can go a long way toward long-term successful results.

Assessing the Path Forward

The Rhyming Case

Some strategists have compared today's AI-led momentum to the late-1990s internet cycle. If you overlay the S&P 500 path today against the dot-com era, we might be “somewhere around 1997”–which, if history rhymes, implies more room to run. That is not a prediction, just a frame of reference. Your quick scorecard:



Indicator	1997	Today
Federal Funds Rate	5.50%	4.00%-4.25%
10-Year U.S. Treasury Yield	6.35%	4.16%
30-Year Mortgage Rate	7.60%	6.33%
Inflation (YoY)	2.30%	2.90%
GDP Growth (Q2 annualized)	4.40%	3.80%
Unemployment Rate	4.70%	4.30%
Productivity Growth	1.60%	3.30% (Q2)
S&P 500 Forward P/E	21.7x	24.6x
S&P 500 Net Profit Margin	~6%	~12%
Investment-Grade Bond Spreads	~67 bps	~72 bps

Sources: **Federal Funds Rate**: 1997 average from Federal Reserve historical data; 2025 target range from FOMC statements (Sept 2025). **10-Year U.S. Treasury Yield**: 1997 annual average from U.S. Treasury; 2025 current yield from Treasury market data (Oct 2025). **30-Year Mortgage Rate**: 1997 average from Freddie Mac Primary Mortgage Market Survey; 2025 rate from Freddie Mac weekly survey (Oct 2025). **Inflation (YoY)**: 1997 CPI from Bureau of Labor Statistics (BLS); 2025 CPI YoY through August from BLS. **GDP Growth**: 1997 Q2 annualized from BEA; 2025 Q2 annualized from BEA final estimate. **Unemployment Rate**: 1997 year-end from BLS; 2025 August rate from BLS. **Productivity Growth**: 1997 nonfarm business productivity from BLS; 2025 Q2 annualized from BLS. **S&P 500 Forward P/E**: 1997 and 2025 estimates from FactSet and historical market data. **S&P 500 Net Profit Margin**: 1997 historical averages from FactSet; 2025 estimates from FactSet Earnings Insight. **Investment-Grade Bond Spreads**: 1997 from Federal Reserve/ICE BofA indices; 2025 from ICE BofA US Corporate Index (Oct 2025).

The Takeaway: On several dimensions (growth, productivity, margins, rates), the current setup looks as good—or better—than 1997, which helps explain why markets may be looking through noisy headlines toward a soft-or-better landing.

MEEGA Investment and Trade Accelerates

We have previously referred to a phenomenon we call “MEEGA”—Making Everyone Else Great Again. This is not a political statement or a critique of any movement; it’s an observation that today’s trade and security realignment is pushing many countries that had possibly become overly reliant on the U.S. to invest in themselves and diversify their trade partner relationships. That reengineering has created friction, but strong markets may be suggesting this process could be laying the groundwork for a potentially more balanced—and more resilient—global system as well as a compelling case to remain globally diversified.

Allies and partners have continued to build resilience at home and strike new regional deals in 2025:

- Germany changed its constitution in March 2025, exempting higher defense outlays from the debt brake and creating a €500bn special fund for infrastructure and climate neutrality over the next decade—on top of the €100bn Bundeswehr (Germany’s Armed Forces) fund established via constitutional amendment in 2022.
- UK-India (2025) struck a “historic” free trade agreement projected by the UK government to lift bilateral trade by ~£25.5bn per year in the long run, with 99% of Indian goods duty-free into the UK and sizable Indian tariff cuts for UK exports (e.g., autos, spirits).
- EU-Indonesia (Comprehensive Economic Partnership Agreement “CEPA”, Sept 23, 2025): negotiations were finalized after nine years; 98.5% of Indonesian tariffs on EU goods removed, saving EU exporters ~€600m/year in duties and opening priority sectors (EVs, electronics, pharma). Implementation expected by 2027.
- UAE’s sprint of CEPA agreements: Kenya, Malaysia, New Zealand all signed January 2025 as part of a broader program to de-risk and diversify. (The UAE-Malaysia CEPA has since entered into force, Oct 1, 2025.)



The Takeaway: U.S. protectionism and tariff policies have catalyzed a wave of trade diversification, prompting allies and partners to deepen regional ties amongst each other and build resilience through new alliances and domestic investment. The resulting world looks more multipolar, with potentially positive implications for supply-chain robustness and, ultimately, global growth—if macro and geopolitical risks remain contained.

Fed Policy Evolution: Canary or Siren?

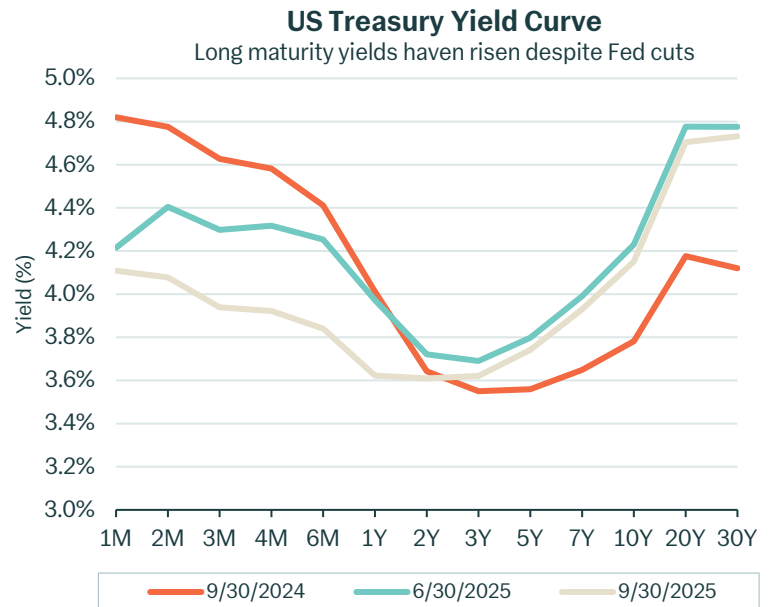
A canary in the coal mine is the recent appointment of Stephen Miran to the Fed. His push for another 125bps of cuts in the final two meetings of 2025 underscores how quickly the center of gravity may be shifting toward dovishness. If this is a preview of the next Fed chair's priorities, inflation vigilance could give way to a stronger bias toward stoking growth. That may keep the short end of the yield curve anchored and risk assets supported in the short and possibly the intermediate term.

However, it also sets the stage for bond vigilantes to reassert themselves at the long end—steepening the curve and reminding markets that policy and market discipline do not always move in harmony. And if higher long-bond yields emerge not from strong real growth and productivity, but from doubts about Fed independence and a loss of focus on the dual mandate, the result could be an abrupt headwind—potentially halting the bull market in equities in its tracks.

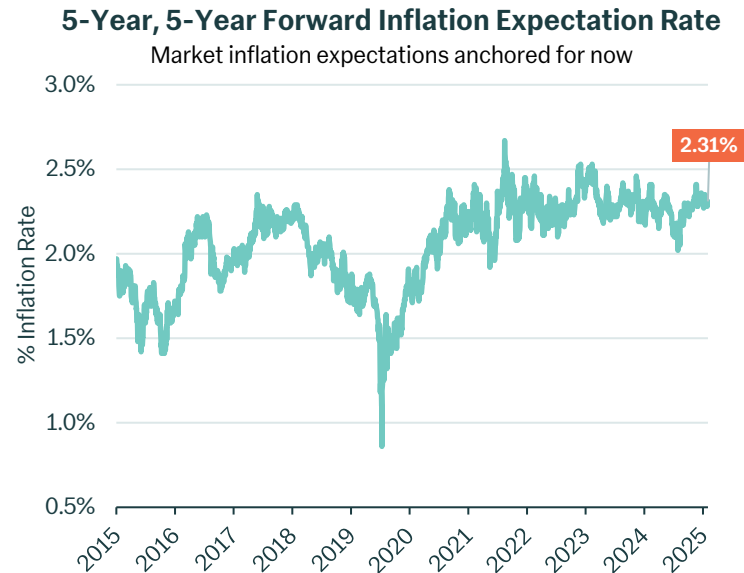
The Takeaway: The Fed's tilt toward deeper cuts may feel like a short-term boost, but it comes with longer-term questions. If policy shifts too quickly, confidence in the Fed's independence could erode, and markets may demand higher yields to compensate for that uncertainty. That would make borrowing more expensive and could pressure stocks just as optimism peaks. In other words, easier money now doesn't guarantee smooth sailing later—especially if growth slows or inflation flares back up. Staying alert to these crosscurrents is critical.

The Fork in the Y-Shaped Economy

The economy today looks Y-shaped. On one upper branch sit Americans aged 50+, who account for roughly half of all U.S. consumption and have benefited from asset gains that keep their spending resilient. The other branch is the AI capex boom—hundreds of billions in annual investment in chips, data centers, and cloud infrastructure, so far concentrated in a handful of mega-cap firms. The lower stem of the Y, however, represents middle- and lower-income households, increasingly burdened by higher prices for essentials and heavier debt service at elevated interest rates.



Source: Bloomberg as of 10/6/25.



Source: Bloomberg, FRED as of 10/7/25.



The key development to watch is whether AI's productivity gains can spread beyond the tech giants and into the broader economy. If firms in retail, logistics, health care, customer service, and education adopt AI at scale, it could lower costs for everyday services, reduce paperwork and wait times, and lift the productivity of less-experienced workers. That diffusion—AI as a tool to make ordinary jobs more efficient and services more affordable—would provide meaningful relief to households in the lower and middle segments at the base of the Y. If not, the benefits stay concentrated at the top, widening the split in the Y-shaped economy.

The Takeaway: While U.S. equity momentum could persist if AI productivity diffuses beyond the tech

giants, concentration risk remains high. Staying globally diversified and balanced across asset classes is not just prudent—it's essential to capture upside in regions benefiting from trade realignment, while preserving resilience through fixed income, real assets, and alternatives should the diffusion stall or policy credibility falter.

Sticking the Landing

Given the previous, one could make the case there is a lot to like where the economy and markets stand headed into the final frame but, at the same time, despite strong market performance through three quarters of 2025, we can't ignore the VUCA backdrop (Volatility, Uncertainty, Complexity and Ambiguity) which we detailed in our [Q3 Commentary](#). The tape may be ignoring:

- **Geopolitics:** Two major shooting wars (although, at press time, one looks to be on a path toward ending, hopefully) and multiple trade conflicts underway.
- **Policy risk:** Questions around central-bank independence, an aggressive approach to immigration, changes and challenges to the mandates of existing government agencies and government shutdown dynamics that have become almost routine. Also, substantial rate cuts are priced into markets and should the Fed fail to meet those expectations it would likely challenge valuations for risk assets.
- **Fiscal overhang:** Large primary deficits layered on already heavy debt loads across many developed markets. Perceived fiscal irresponsibility could lead to a spike in yields driven by the amorphous group called the "bond vigilantes" who are, in effect, the market's check on our fiscal excesses.

S&P 500 Tech Sector Forward P/E Ratio

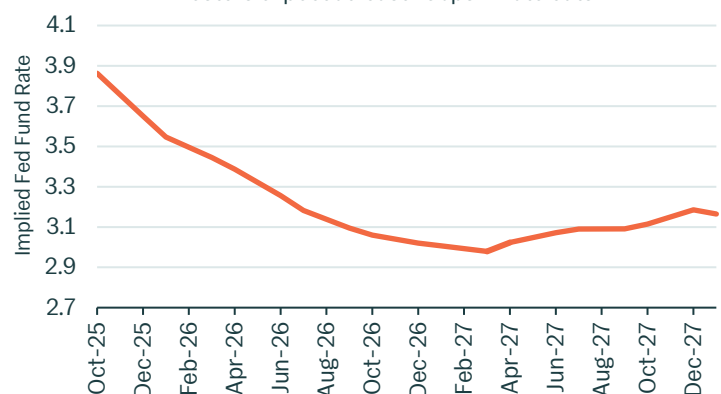
US tech looks very expensive after big AI gains



Source: Bloomberg as of 10/6/25.

Federal Funds Implied Rate Expectations

Investors expect at least 75bps in rate cuts



Source: Bloomberg Market Expectations. as of 10/6/25.



- **Real economy cracks:** A housing recession in an activity-heavy sector; weakening consumer and labor indicators at the margin; restrictive immigration constraining labor supply (and potentially adding inflationary pressure).
- **Political turbulence & demographics:** Large economies—France, Japan, the U.K., and the U.S.—are grappling with political flux, debt sustainability questions, and aging populations.

So, can we stick the landing in 2025 and beyond?

It seems improbable and we tend to think odds are against it. With that said we cannot ignore the idea markets may be right—so let's play it out (as we should given our discipline of mapping out both positive and negative scenarios).

Think of it as the market's Mary Lou Retton scenario—hard, but not impossible. Here is how that might transpire:

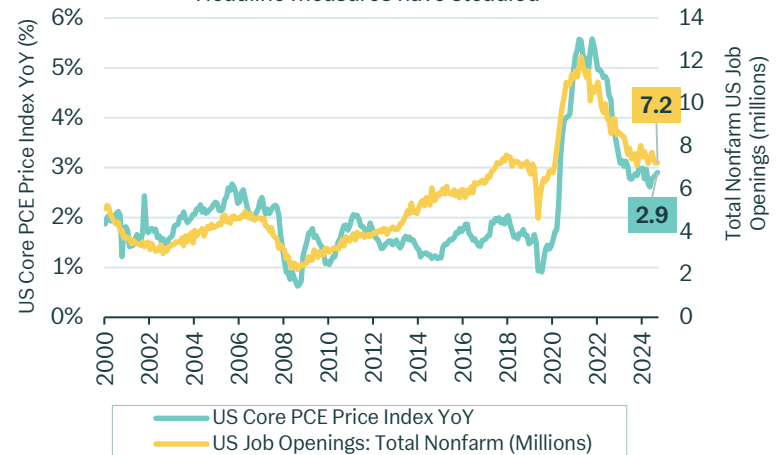
- The One Big Beautiful Bill Act (OBBBA) and accelerated bonus depreciation leads to a wave of domestic capex from U.S. and foreign firms, creating new jobs and boosting productivity.
- Targeted deregulation leads to more capital-markets activity (M&A, IPOs), and fewer frictions around new domestic investment.
- Trade begins normalizing and even if messy, new and updated trade deals ultimately address imbalances embedded in the post-WWII trade order and improve long-run allocative efficiency.
- **Perhaps most importantly:** corporate earnings meet or even exceed the high expectations priced into markets for AI leaders and expectations rise more broadly.

Portfolio Strategy & Positioning

2025 has rewarded investors heading into Q4. If the year ended here, we would be looking at one of the strongest 3-year runs of performance for a moderate 60/40 Global Stock / Bond portfolio in the last 25 years, falling just behind the 3-year return following the '08 Global Financial Crisis. That said, the path forward is anything but clear. Yes, we can make the case that strong markets can continue. Hard economic data hasn't deteriorated meaningfully and when looking through the lens of a comparable period like '97, some of the metrics flashing warning signs maybe aren't all that alarming either. Meanwhile, the shift to a multi-polar world may serve to improve the economic foundation around the globe, improving financial market resiliency to geopolitical and economic shocks.

US Inflation & Employment

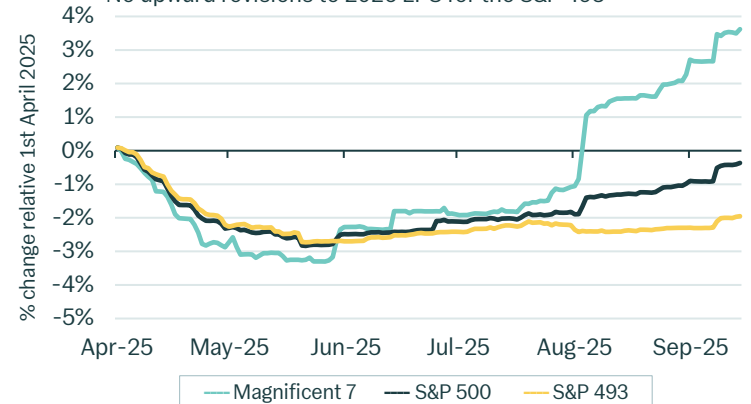
Headline measures have steadied



source: Ycharts & Morningstar as of 8/31/25.

It is All About the Mag 7:

No upward revisions to 2026 EPS for the S&P 493



Source: Apollo, Bloomberg.



The counterbalance: equity valuations are elevated (at extreme levels for the S&P 500) and credit spreads historically tight—limiting upside and leaving little margin for error in earnings and Fed policy. On that latter front, it appears Fed policy is likely to be accommodative with more dovish FOMC board members on deck as Jerome Powell's term ends in the months ahead. In the near-to-intermediate term that could support risk assets but could have net negative effects if it results in non-productive inflation and a loss of policy confidence further down the road. Additionally, a critical and often underappreciated risk is whether the rise of AI-driven productivity will genuinely enhance—or potentially undermine—the financial well-being of low- and middle-income households. Finally, the dramatic drop in immigration could cause wage pressures as well as slow growth (i.e. new workers become new consumers).

Against that backdrop, our priority remains the same: managing risk intelligently while staying positioned to capture opportunity. Our portfolios are built with the intention that the underlying exposures work together through a variety of market environments. Below are the key components we are focused on today:

Liquidity and Flexibility

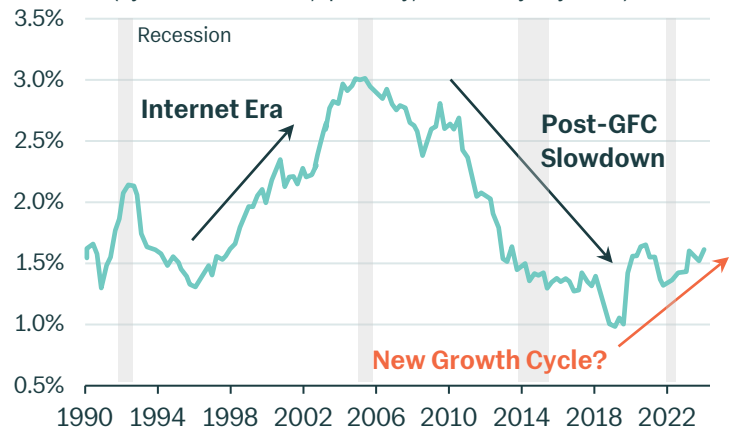
Cash continues to have a role in portfolios. With U.S. equities at all-time highs and valuations stretched, longer-term rates threatening to drift upward even if Fed cuts continue to materialize, and cash yields competitive with core bonds, maintaining a healthy cash allocation makes sense. Cash acts as a stabilizer and gives portfolios flexibility to be opportunistic in your rebalancing when the next bear market unfolds.

After long-term interest rose dramatically from 2022 through fall of 2023, they have remained fairly stable and even if there is some risk to interest rates rising, fixed income remains a portfolio stabilizer. If equities come off their lofty perch, we anticipate core taxable and tax-exempt bonds will provide the ballast that they have during most equity market selloffs historically. That said, municipal bonds stand out as offering solid yield-to-Treasury ratios even if they aren't as attractive as they once were entering the summer. (10 yr)

Global Growth Opportunities

Equities remain a central driver of returns, but with nuance. Non-U.S. markets are benefiting from coordinated stimulus, a weaker dollar, and a lack of trade-war headwinds — trends that could persist supporting a disciplined approach to maintaining global diversification. In the context of history, the degree of recent U.S. market underperformance is not extraordinary. That said, U.S. equities should not be written off; the ongoing integration of AI across the broader economy, beyond the mega cap hyperscalers and chipmakers, could sustain earnings growth beyond what consensus expects.

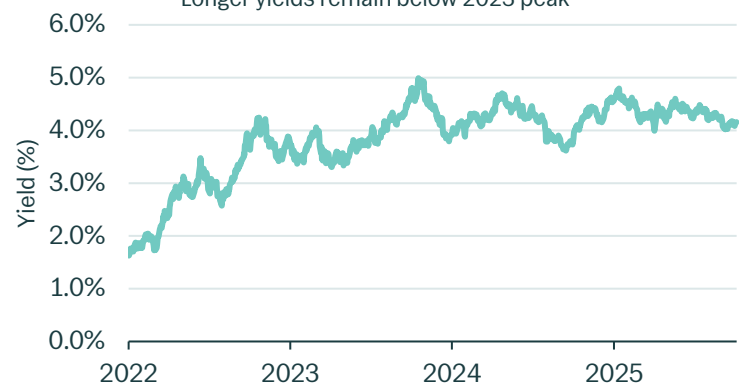
U.S. Nonfarm Labor Productivity Growth
(5yr annualized rate, quarterly, seasonally adjusted)



Source: BLS, J.P. Morgan Asset Management as of 12/23/24.

10-year US Treasury Yield

Longer yields remain below 2023 peak



Source: Bloomberg as of 10/6/25.



Today we are leaning into our strategic global diversification, where structural shifts and trade realignment have created new growth paths. That can be challenging in practice with equity portfolios commonly saddled with large gains after the rally over the last few years. Strategies such as a 130/30, which introduces short positions into the portfolio, and/or select diversifiers may offer the opportunity to reposition portfolios with reduced tax consequences.

US Dollar Debasement

The “debasement trade,” centered around the potential for mismatched monetary policy and unchecked government spending, has brought greater attention to real assets where gold, real estate and other tangible assets can serve as a hedge or “safe haven” for weakness in the US dollar and other currencies. Moreover, intangible digital assets like cryptocurrencies have also gained steam and, with more reliable and practical ways to invest in the space every day, may have a role in portfolios for that purpose if positioned thoughtfully.

While US dollar debasement is a risk we previously identified as worth considering, capital flows into the U.S. have been massive year-to-date suggesting demand for dollar denominated assets if not the dollar itself. To that end, according to Bloomberg, the proportion of the stock market owned by foreign investors has reached nearly 30%, an all-time high dating back to 1945. So, investors are still finding a lot to like in the US.

Broadly, real assets as a strategic component are invaluable as an inflation hedge and a source of differentiated returns. Sustainable infrastructure in particular looks attractive even with tapered government stimulus in the renewable power segment as the secular support for the asset class, including AI need for power generation, persists, leaving room for selective investors to capitalize with relatively higher cash flow strategies that offer defensive characteristics should the greater equity markets lose their luster.

Private Markets for the Long-Run

Private equity has been challenged in the last few years while working through a difficult financing environment that has left a glut of capital to be invested and only middling distributions back to investors. Looking forward, their slower price adjustments relative to public markets could unlock opportunities as dislocations emerge and valuations “catch up.” Moreover, the OBBBA’s tax incentives for small businesses and potential deregulation could also catalyze activity in private markets – spurring more transactions, exits, and distributions (DPI) in the quarters ahead.

Private markets encompass a broad universe of strategies that ebb and flow in terms of attractiveness where you can arguably invest opportunistically more than within public markets. Today, given the still “thawing” nature of private equity markets, one such opportunity includes strategies entering the space that are offering secondary market liquidity to investors in exchange for substantial discounts. In some cases, investors can potentially receive more regular “income like” distributions with favorable long-term capital gains treatment.

Final Thoughts

Mary Lou Retton’s perfect landing wasn’t luck—it was preparation for wobble. That’s the posture we believe matters now. Markets may look flawless on the surface, but the floor beneath them is anything but steady.

The next leg of this cycle will likely turn on two forces: policy credibility and productivity diffusion. If AI’s efficiency gains spread beyond mega-cap tech into sectors like health care, logistics, and education, it could ease cost pressures and lift broad-based growth. If not, the benefits stay concentrated, and the Y-shaped economy becomes more pronounced. Also, if the volatility related to policy changes does not begin to stabilize into a steady state, market volatility will likely ensue.



Our approach is built for this reality. This is not about predicting the next headline. It's about engineering portfolios that can absorb shocks and harness change—whether AI productivity broadens, policy credibility holds, or volatility spikes.

We said last quarter that VUCA is always lurking. That hasn't changed. What has changed is the degree of optimism priced into markets. Sticking the landing in 2025 and beyond will require balance, discipline, and humility. Our job is to choreograph for imperfection, not hope it away.

Bottom line: We don't need a perfect landing to achieve long-term goals. We need a portfolio routine built for resilience—liquidity for flexibility, income for stability, global equities for growth, real assets for protection, and diversifiers for the unexpected. That's how we turn volatility into opportunity and progress into outcomes.



ABOUT THE AUTHOR



Ronald G. Albahary, CFA® is Chief Investment Officer at LNW. As head of the investment team (see below), Ron determines the firm's investment strategy, directs the investment selection process, and works in tandem with client advisory teams to deliver investment solutions structured to attain each client's unique goals. Prior to joining LNW, Ron served as CIO or CEO at regional investment firms focused on ultra-high-net-worth families and foundations. Earlier in his career, he held leadership positions in the private client business of major global financial institutions, including Merrill Lynch and Northern Trust Private Bank. Ron has a degree in economics from the Wharton School at the University of Pennsylvania and currently serves as advisor to the Center for High Impact Philanthropy at the University of Pennsylvania.

The LNW investment team is comprised of 10 analysts and strategists working together to design and implement investment solutions for client portfolios. Six analysts at the firm hold the Chartered Financial Analyst® designation, with expertise spanning macroeconomics, public and private asset classes across the global capital markets, and impact investing. Collaborating with each other and with client advisors, the investment team's overarching goal is to help clients and their families preserve and grow their wealth over many generations.

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