

Investment Narrative

Quarter Ending September 30, 2025



U.S. Economy

The U.S. economy continued to show stability during the third quarter, though at a slower pace than earlier in the year. Inflation kept trending lower but remained slightly above the Federal Reserve's 2% goal, ending the quarter around 3%. Prices for everyday items such as rent and medical care stayed elevated, while energy and food costs softened.

Job growth eased as employers became more cautious, yet unemployment held near 4%, suggesting the labor market remains healthy overall. In September, the Federal Reserve cut interest rates by 0.25%, its first rate cut for the year and fourth rate cut in this most recent cutting cycle.

Consumers continued to drive the economy, with household spending holding steady through the summer. Rising wages and modest improvements in savings helped offset lingering cost pressures. Overall, the economy remains resilient even as growth cools, inflation gradually moderates, and policy shifts toward a more supportive stance.

U.S. Stock and Bond Markets

Financial markets performed well in the third quarter, buoyed by optimism that inflation is easing and the Federal Reserve's rate cuts will help sustain growth.

The S&P 500 Index gained roughly 8% during the quarter, marking another period of strong performance. Large technology and artificial intelligence-related companies continued to lead, but smaller and value-oriented stocks also saw modest recoveries as investor confidence broadened.

Bond markets also delivered positive results. Falling interest rates lifted bond prices, with the Bloomberg U.S. Aggregate Bond Index up about 2% for the quarter. The 10-year Treasury yield ended near 4%, reflecting growing expectations that inflation will continue to decline.

International Economy and Markets

Outside the U.S., global growth held steady as inflation eased and interest rates began to come down in several major economies. Both the European Central Bank and the Bank of England reduced rates during the quarter, supporting consumer and business confidence across Europe.

Emerging markets were among the strongest performers, helped by a weaker U.S. dollar and renewed investor interest in Asia. Chinese equities rallied late in the quarter following signs of improving trade relations and increased investment in technology and artificial intelligence. Other key markets, including India and Taiwan, also contributed to gains.

While global trade and geopolitical tensions remain ongoing concerns, international markets ended the quarter on firmer ground. Investors entered the final months of the year with a cautiously positive outlook, encouraged by slower inflation, steady economic growth, and a return to greater market balance worldwide.

Endowment Portfolio

For the quarter, the Endowment Portfolio had a net return of 4.6%, in line with the benchmark's 4.8% return. Performance was driven mainly by the portfolio's allocation to U.S. large-cap equities, stemming from the continued technology rally around AI-related companies. Calendar year-to-date performance has slightly lagged the benchmark due to an environment that has not been favorable for active management. That said, the portfolio was still able to produce a 10.7% net return compared to the benchmark's 11.1%.

Long-Term Portfolio

The Long-Term Portfolio had a net return of 5.5% for the quarter and 13.3% year-to-date. Performance was in line with the benchmark over both periods and ranks in the top quartile among peers. Like the Endowment Portfolio, the Long-Term Portfolio was bolstered by the strong performance of U.S. large-cap equities and experienced some drag in other areas such as U.S. small-cap equities and international equities.

Medium-Term Portfolio

The Medium-Term Portfolio was ahead of its benchmark slightly for the quarter and year-to-date periods, posting a net return of 3.5% and 9.1% respectively. The allocation to U.S. large-cap equities had less of an impact on the portfolio compared to the Endowment and Long-Term due to a smaller allocation to the asset class. However, the portfolio's large weight to bonds helped drive performance as our bond managers continue to perform well in this rate-cutting cycle.

Intermediate-Term Portfolio

The Intermediate-Term Portfolio had a net return of 2.1% for the quarter and 6.3% year-to-date. The portfolio experienced a more notable outperformance over its benchmark which, like the Medium-Term Portfolio, was driven by strong performance by the portfolio's bond managers.

Short-Term Portfolio

The Short-Term Portfolio posted net returns of 1.1% for the quarter and 3.2% year-to-date. Returns for the portfolio are slowly reverting to the longer-term average as rates continue to be cut by the Federal Reserve. This phenomenon is expected given the portfolio's investment allocation, which is more directly correlated to Treasury yields driven by the Federal Reserve's decision on rates.

Sustainable Endowment and Non-Endowment Portfolios

The Sustainable Endowment and Non-Endowment Portfolios had a 5.2% net return for the quarter and have yielded a 12.5% net return year-to-date. The portfolios continue to benefit from the shift to a passive equity allocation, which has resulted in performance more in line with their benchmark.