

CORE

Q3 | 2025 Commentary

The third quarter of 2025 brought many gifts for investors, via higher asset prices for both equities and fixed income, the first rate cut since last year, and stronger than expected corporate earnings and guidance. All 3 of these together brought much warmer waters for investing as compared to Q2, where the markets were rocked periodically by geopolitical shifts, amid ongoing tariff turmoil bringing uncertainty about the future. For most of Q3, the market shrugged off these concerns and hit the gas pedal seemingly placing any recession or tariff concerns in the rear-view mirror.

The equity recovery from the April lows has been divided with some significant outperformers and many laggards, as evidenced by the cap-weighted S&P significantly outperforming its equal weight counterpart over the quarter and since the start of the year. This has been largely due to continued momentum and further investment into artificial intelligence and the largest mega-cap technology names. Fixed income has also started to find a tailwind with rate cut expectations increasing, but still again lagged equity performance overall for the quarter.

The markets once again seem to be on a forward path higher from here, setting the stage for a possible strong fourth quarter that seemed unlikely near the start of the year. Volatility is back near its average lows and credit spreads closed out the quarter near record lows.

Most of the recent rise in equity markets can be directly attributed to optimism with recent corporate earnings releases and beats, combined with last quarter's rate cut and increased clarity for the future. Emerging markets shined on the back of a weaker U.S. dollar, along with continued prospects for increased fiscal spending abroad and generally tame inflation globally.

Fixed income in Q3 edged higher aided by reduced inflation and the prospect of further Fed rate cuts that fueled declines across the yield curve. While bond prices pushed higher during the quarter along with further spread tightening and increased bond demand, the majority of the moves seen in fixed income can be directly attributed to bond and duration mechanics from lower yields across the curve.

The treasury yield curve, as measured by the 2/10 year treasury spread, was flat over the entire quarter, after also treading water the second quarter and marching steeply into positive territory during the first quarter under a notable bull steepener pattern. A bull steepener has historically been a bullish sign for fixed income, as falling shorter term rates help prop up bond prices. The current bond environment in general is still signaling confidence in the underlying economy, as credit spreads have contracted and now trade near historic lows, albeit with a guarded stance going forward.

Q3 overall saw a bit of the "changing of the guard" so to speak with respect to small cap value and international doing well with a broad thematic rotation that brought some of the discarded parts of the market back into the limelight.



Lead Portfolio Manager Mitch Ehmka, CFA®, CIPM®

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Mitch Ehmka is the Managing Director of Research and Performance for Kingsview Partners. for Kingsview Partners. Mitch has worked with Kingsview since 2010 and has assumed increasing responsibility during his tenure, serving as Head Trader for 3 ½ years, and then as Director of Trading for five years before being named Chief Trading Officer in 2022. Mitch oversees all trading operations within the firm from Chicago, runs the day-to-day trading operations of Kingsview Investment Management and is a founding member of the Investment Committee.

Mitch helps Advisors, fellow Portfolio Managers and the Investment Committee implement investment strategy, and assists in guiding portfolio implementation within Kingsview's systems. Mitch also spearheads the GIPS efforts of Kingsview Investment Management and oversees its claim of compliance with the GIPS standards in investment performance reporting.

It is our belief bonds will continue to see a continued range-bound to higher environment as rates continue to remain seemingly capped given the Fed's current active rate cutting cycle combined with the market's current acceptance. According to Fed Futures rate consensus information, two more rate cuts are possible during the remainder of the year, largely dependent on economic data.

Fixed income in general continues to remain historically inexpensive even after recent rallies and the intermediate and longer-term bond market outlook continues to remain attractive with current pricing. In our view, the Fed's longer-term target for both inflation and its stated neutral aiming point for short-term rates still leaves opportunity on the table for current bond holders.

2025 so far has continued to illustrate the merits of owning a diversified portfolio and we expect further benefits to be demonstrated into the remainder of the year and into 2026. In the Core Portfolio Series ("CPS"), our general strategy is to own a bit of everything in weights reflective of the optimized forward market opportunity. One of the key pillars of CPS is rebalancing asset classes to normalize overweight winners and add to those that are not performing as well. This in general means that CORE portfolios may benefit from reversion to the mean over time. While the last few years have been difficult for diversified portfolios in general due to momentum, we feel that the markets ahead will bring continued widening market breadth that may reward those with well diversified portfolios.

We at Kingsview Investment Management appreciate your continued support of the CORE Portfolio Series. Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.

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