# Capital Markets Commentary and Quarterly Report: 3rd Quarter 2025

## Capital Markets Highlights

The stock market[1] continued its strong recovery from the April 8 lows, gaining +8.12% in Q3 2025. Year-to-date through September 30, the market was up +14.83%. While it has been a year of healthy gains for the stock market, there was a lot of volatility along the way. At its low on April 8, the S&P 500® was down -14.98%.

Stocks in the Technology and Communications sectors led the market's rally in the third quarter, accounting for close to 70% of the S&P 500's performance. Within these two sectors are many companies that benefit from investor enthusiasm for artificial intelligence (AI) including the Magnificent 7. Year-to-date through September 30, these two sectors made up 65% of the market's gain.

The worst performing sectors in the quarter and for the year-to-date were Consumer Staples and Health Care. We discuss why we believe these lagging defensive sectors should show better performance in upcoming periods in the outlook section below.

Positive economic growth, solid corporate earnings reports, and the conviction that the Federal Reserve would lower short-term interest rates in September (it did) all contributed to a positive backdrop for stocks in Q3. Whatever concerns investors had over slowing economic growth, a back-up in inflation, the growing budget deficit, and geopolitical uncertainties were put aside for now.

Fixed income returns[2] were modestly positive in the quarter and up generally in the 4.5%-7.5% range through September 30, depending on maturity. Treasury yields moved very modestly lower across the yield curve in Q3, with the most significant decline being only 8 basis points in the 10-year Treasury Bond. As of September 30, the 10-year U.S. Treasury yield was 4.15%, compared to 4.23% on June 30 and 4.57% at the start of the year.

Matrix's equity portfolios performed well in Q3 and for the year-to-date through September 30[3]. The Matrix Dividend Income (MDI) portfolio had a solid quarter, up mid-single digits, and up low teens through September 30. Notably, the strategy's results were achieved with significantly lower volatility than the market. Our Large Cap Value (LCV) portfolio, with a higher technology exposure, fully participated in the market's rally and was up high single digits for the quarter and in the mid-to-high teens for the first nine months of the year.

## Our Thoughts Going Into Q4

At the start of the year, we expected 2025 to be a volatile year for the stock market, but that stocks would ultimately have a positive year, in line with historic high single-digit returns. So far both of those predictions have played out. After a positive start to the year, stocks then had a rapid -18.7% sell off from February 19 through April 8. That decline was followed by an even steeper recovery, up 35.07% from the April 8 lows to September

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[1] All references to the stock market are the S&P 500® unless otherwise noted.
[2] All references to bond market & fixed income performance from Bloomberg & JP Morgan Asset Management Guide to Markets 9/30/2025.
[3] All references to Matrix performance (MDI & LCV) are net of fees.

30, leaving stocks nicely higher through the first nine months of the year. From here, after three years of strong market returns, we expect the pace of gains to moderate with continued market volatility (both good and bad).

Growth in earnings has been strong, at approximately 10% year over year, accounting for most of the market's gains this year, along with some expansion in the P/E valuation multiple. With the S&P 500® trading at 22.8x times estimated next 12 months earnings, more than 1 standard deviation above the 30-year average of 17.0x[4] (and 22.1X 2026 estimated year-end earnings), there is little margin for safety for bad news, particularly for the high-flying Mega-cap Growth stocks. The 10 largest stocks made up 40.4% of the S&P 500 as of September 30 and have an average P/E multiple of 29.9x versus 19.5x for the rest of the market. Eight of the top 10 are Technology companies.

We expect smaller gains for stocks during the remainder of the year, accompanied by significant volatility and sector rotations from the best-performing growth stocks to more defensive areas as the economic slowdown becomes more evident.

We think weaker employment data and a slowdown in business spending[5] are pointing to decelerating economic growth. As a result, we believe there is a reasonable likelihood of an uptick in earning shortfalls accompanied by a higher number of cautious business outlooks. In that scenario, more stable businesses, such as Consumer Staples and Health Care stocks, should provide better relative performance. An expected decline in short-term interest rates in the months ahead should also draw more attention to high quality, high dividend paying stocks.

While elevated valuations and our expectations of slowing economic and earnings growth temper our near-term optimism for stocks[6], there are some clear offsetting strengths underpinning this historically high stock market. First and foremost, lower interest rates should serve as an economic tailwind, providing support for stock prices. Second, earnings growth remains solidly positive as corporations find new ways to run their businesses more efficiently. We expect this to continue as they incorporate AI. Third, the less restrictive regulatory environment has been a boon for M&A activity, often a sign of CEO confidence, and highlighting the undervaluation of many individual stocks versus their value to a private equity or strategic buyer.

Our advice is to stay committed to your long-term equity investment plan, ride out the volatility, and put money to work during periods of price weakness. Following this plan, we continued to be active in our equity accounts in Q3, selling or trimming some stocks that had performed very well and adding to some laggards, as well as buying new positions during market selloffs.

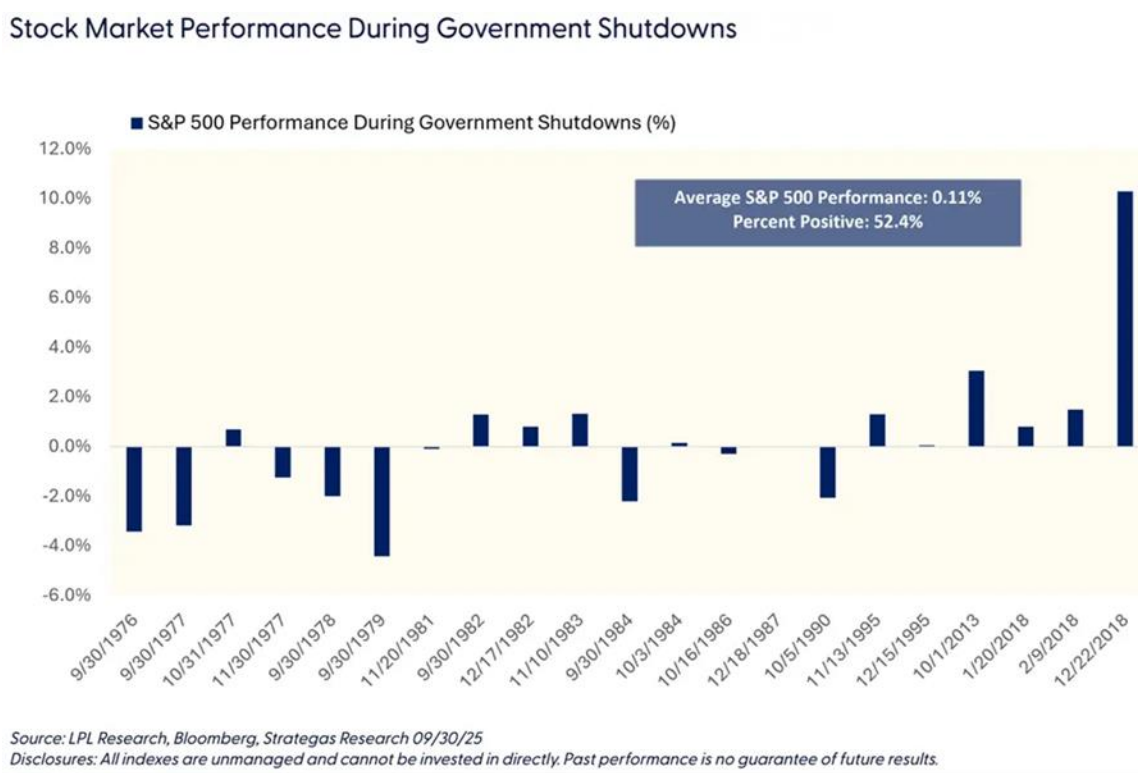
Capital Gains: For taxable accounts, we expect to have larger realized capital gains than usual this year. Please know that we are mindful of the tax implications of selling and scaling back some of our stocks that have reached or exceeded our target fair value. For taxable accounts, we factor capital gains into our investment decision-making process. However, our ultimate focus is on growing and protecting assets. When stocks become richly priced, it can make sense to lock in the profit, even after taking the tax impact into account. This has been the case in 2025 after three years of sharp stock price increases. When possible, we strive to offset these gains with

[4] Source J.P. Morgan Asset Management Guide to the Markets, September 30, 2025.
[5] WSJ, Beneath the GDP, a Recession Warning, 9/29/2025
[6] The current forward P/E on the S&P 500 is more than one standard deviation above the 30-year average of 17.0x. Source: J.P. Morgan Asset Management Guide to the Markets 9/30/2025.

losses to the extent that it makes economic sense, while preserving the portfolio's appreciation potential. For 2025, we have the happy problem of having limited tax loss harvest opportunities. When it makes sense, we plan on taking those few losses in the 4th quarter.

For accounts with fixed income in their portfolios, we remain cautious about the outlook for longer-term interest rates and are generally keeping our maturities inside of five years. Inflation remains above the Federal Reserve’s 2% target, the budget deficit is expanding rapidly, and we believe that higher prices from tariffs are inevitable. That said, we are firm believers that fixed-income securities are a core component of balanced portfolios, providing stability and income. Based on the current economic and interest rate landscape, we believe short-term bonds will provide a reasonable and stable return.

As we write this letter, Congress has been unable to agree on a budget, and the government has shut down. We expect that the shutdown will be resolved soon. It is a hardship for businesses and individuals who will miss their regular paychecks, but historically, government shutdowns have had little impact on stock market performance for investors. Markets have averaged a 0.1% gain across 20 government shutdowns since 1976, according to Dow Jones Market Data.




## Large Cap Value Strategy

The Matrix Large Cap Value strategy performed well in the third quarter, rising by high single digits. This was modestly better than the S&P 500® gain and significantly ahead of the Russell 1000 Value® Index. For the first nine months of 2025, the strategy is up in the mid-to-high teens, ahead of both benchmarks.

Portfolio gains were led by stocks in the Technology, Financials, Communication Services, and Industrials sectors. Consumer Staples and Consumer Discretionary were lagging sectors during the quarter.

Following a very active Q2, during which we opportunistically bought two new names and added to many existing positions, our trading activity moderated in Q3 as the market moved higher. On the buy side, we added to the new names bought last quarter, Applied Materials and Fiserv. We sold the position in TE Connectivity for tax-exempt accounts (modestly scaled back for taxable accounts) and trimmed positions in the defense company L3Harris and in Bank of New York Mellon, all based on price strength.

On September 30, the LCV portfolios' largest sector weights were Financials, Technology, and Communications Services. We expect these sectors to continue showing strong earnings, but after several years of strong price performance, the gains in these sectors may temporarily slow. On the other hand, we expect some of the lagging sectors, such as Consumer Staples and Health Care, to show better performance, as their earnings have historically been resilient during economic slowdowns and they sell at very attractive valuations.

The LCV portfolio's companies' businesses are performing well, and their valuations remain attractive. All of our companies beat earnings estimates in the most recent quarter compared to the S&P 500's 85% beat rate. It had an average P/E multiple of 16.9x on estimated 2026 earnings, compared to the S&P 500 multiple of 22.1x.

Looking ahead, we expect continued volatility but believe the portfolio is well-positioned to navigate a wide range of market outcomes.

**Dividend Income Strategy**

Following a good first half of the year, the Matrix Dividend Income strategy (MDI) posted another solid quarter, up in the low-mid single digits. Although this quarter's performance trailed the Russell 1000 Value® Index and the S&P 500 for the three months, results for the nine months through September 30 were strong, with gains in the low teens, ahead of the Russell 1000 Value® Index and modestly behind the tech-heavy S&P 500®. As noted above, the portfolio achieved these very healthy gains, with far less volatility than the overall market. We have generally arrived at the same place but had a much smoother ride.

Portfolio gains in Q3 were led by stocks in the Financials, Health Care, Industrials, and Utilities sectors. Our holdings in the Communications and Consumer Staples sectors underperformed.

For the nine months through September 30, stocks in the Financial, Technology, Health Care, Utilities, and Industrial sectors contributed the most to the portfolio's gains, while Communications Services and Consumer Staples lagged.

After a period earlier in the year when we did not add any new names to the portfolio, the market provided us with the opportunity during Q3 to buy three well-run companies at very attractive prices: Accenture (Technology), Constellation Brands (Consumer Staples), and Lockheed Martin (Defense).

Accenture (ACN) is a global professional services firm providing consulting, technology, and operations services. Its stock has declined sharply this year due to a slowdown in client spending and reduced forward bookings. An additional headwind for the company this year is the delay and cancellation of government contracts in its federal services unit (about 8% of revenue). Although it is unclear when the federal services business will recover, the company is projecting earnings growth of 5% to 8% for 2026. ACN has a very strong balance sheet, with more cash than debt, and is expected to generate close to $10 billion in free cash flow this year. The company recently raised its dividend by 10% bringing its yield up to 2.7% and authorized an additional $5 billion share repurchase program.

Constellation Brands (STZ) is the leading provider of imported beer in the U.S., offering premium brands such as Modelo, Corona, and Pacifico that have a large and loyal customer base. The stock has been a poor performer in 2025. The company's results have been negatively impacted by lower alcohol sales overall and a decline in sales to its core Hispanic customers. We think the price decline has created an opportunity to buy a well-run, high-quality business with a depressed stock valuation. STZ is now selling for less than 13x reduced earnings guidance, with a 3.0% dividend yield.

Lockheed Martin (LMT) is the largest U.S. defense contractor, supplying advanced military systems to the U.S. Government and allies worldwide. Prior to starting our position, LMT's stock had underperformed its peer group of defense contractors by a wide margin in 2025 for several reasons. It lost out to Boeing for the next generation of fighter jets and announced an unexpected charge of $1.6 billion on its Aeronautics and Canadian helicopter programs. These charges are a black eye for the company, but we believe LMT's strong defense programs will allow the shares to rebound when investors gain confidence that the charges are sufficient to address the cost overruns. The company gave investors some reassurance on that score when it recently reiterated its full-year earnings guidance. LMT has a long history of dividend increases and was yielding 3.1% at the time of our original purchase.

We also opportunistically added to positions in Nestlé, Starbucks, Target, and Tyson Foods.

We sold the position in Union Pacific for a profit after it announced a deal to buy Norfolk Southern using its shares and cash. While we expect the combination of the two railroads to be a long-term positive for UNP, the timing of the deal closure is uncertain and likely to take 12 to 18 months. In our experience, the shares of the acquiring company often remain in stock market limbo until after the deal is finalized. We took our gains and reinvested the proceeds in better near-term investment opportunities. We trimmed positions in Cisco Systems and General Dynamics due to price strength.

The MDI portfolio's largest sector weights at the end of Q3 are in Financial Services, Technology, Consumer Discretionary, Health Care, and Utilities. Our holdings in these sectors are well-positioned to show good earnings growth going forward. We expect that several lagging portfolio sectors, such as Communications Services and Consumer Staples, will show better performance as market sentiment shifts towards companies that can demonstrate positive earnings in a slowing economy. As noted earlier, we also believe that higher dividend paying stocks will also benefit as investors try to replace the income they will be losing from declining rates on money markets in the upcoming year.

Strong financial performance allowed four of the portfolio's holdings to increase their dividends in Q3 by an average of 8.8%. In the first nine months of the year through September 30, twenty portfolio companies have increased their dividends by an average of 6.4%. All of our 26 portfolio companies have raised their dividends in the past year. The average dividend increase for the portfolio over the past 12 months was 6.2%.

As of September 30, the portfolio yielded 2.85%, which compares favorably with the 1.17% yield on the S&P 500® and the 1.93% yield on the Russell 1000 Value®. It had an average P/E multiple of 16.0x on estimated 2026 earnings, compared to the S&P 500's multiple of 22.1x.

We remain confident that the Dividend Income strategy will continue to deliver on its objectives of generating high current and growing income and capital appreciation over time, while providing downside protection, even in challenging markets. We look for the portfolio to continue making progress in future periods.

## Fixed Income

Fixed income returns in the third quarter were modestly positive. The September cut in the Federal Funds rate by 0.25%, combined with data showing a weakening labor market, overcame concerns about higher-than-desired inflation, worries about future price increases as tariffs are passed through, and a rising budget deficit.

For the first nine months of the year, fixed income returns are up in the 3.5% to 7.5% range, depending on maturity. The 2-year Treasury was up 3.79%, the 5-year Treasury was up 6.01%, and the 10-year Treasury was up 7.01%. Interestingly, the 30-year Treasury underperformed, gaining 4.26%[7] for the nine months.

Matrix fixed income portfolios were positive in the quarter and nine months through September 30, generally performing modestly below to in line with our benchmarks having similar duration. For the quarter, our continued emphasis on shorter-term maturities and high credit quality across our portfolios, including U.S. Treasuries, agencies, municipals, and investment-grade corporate bonds, was a modest headwind to performance. However, we believe our shorter-term bond focus will serve us well in the declining short term interest rate environment we foresee with greater risks than usual and uncertainty in longer term maturities.

Interest rate movements in the municipal bond market vs. the U.S. Treasury market in the past 9 months have resulted in tax-free bonds offering higher tax-adjusted yields vs. U.S. Treasuries than the recent past, for those in higher tax brackets. For taxable bond accounts, where appropriate, we have been modestly adding more exposure to tax-free bonds.

We remain cautious on long-term bonds, as we view the risk-reward balance as unattractive due to the potential for renewed inflationary pressure and rising rates, given the government's substantial borrowing needs. We expect short-term fixed income to continue delivering positive, steady returns and to provide stability during periods of equity market volatility.

## Balanced Accounts

We have actively managed asset allocations across our balanced portfolios this year. We started the year at the higher end of our targeted equity exposure for many accounts – the result of strong stock market returns and our belief that equities were more attractive than fixed income securities. As the market rallied early in the year, we sold into strength and modestly reduced our significant equity overweight. In the aftermath of the February-April stock market swoon, we put some of these funds back to work in stocks. Following the stock market's rally in Q2 and Q3, we have been trimming back our equity exposure again.

While stocks continue to offer good long-term upside, the balance of risks has shifted somewhat, with overall equity valuations at a record high and high-quality short-term bonds providing acceptable returns. We see better

[7] Fixed Income return data from J.P. Morgan Asset Management Guide to the Markets, September 30, 2025, and Bloomberg.

value in fixed income than we did 12-18 months ago and have adjusted our positioning accordingly. As a result, we are reducing our significant overweight in stocks to a more modest overweight. We have been less active in implementing some of these changes in the asset allocation for taxable accounts, as we balance the capital gains implications against more significant changes.

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While these remain volatile and uncertain times, we remain confident in the positioning of our portfolios. Our disciplined approach, valuation focus, and willingness to act opportunistically have served us well throughout past cycles and are proving effective again. We appreciate the trust you place in Matrix Asset Advisors and are always available to discuss your portfolio or the markets in greater detail.

**Disclosure:**

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*All performance data is through (or as of) 09/30/2025 unless otherwise noted.*

*For more information about Matrix Asset Advisors, please visit our website at [www.MatrixAssetAdvisors.com](www.MatrixAssetAdvisors.com). Our website includes our firm's Client Relationship Summary document.*

**Definitions:**

***The S&P500® Index*** *is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.*
***The Russell 1000® Value Index*** *measures the performance of those Russell 1000 Index® companies with lower price-to-book ratios and lower forecasted growth values.*
***Fixed Income*** *type of investment security that pays investors fixed interest or dividend payments until their maturity date.*
***Inflation*** *is a sustained increase in the general level of prices for goods and services.*
***Financials*** *a section of the economy, is made up of firms and institutions that provide financial services to commercial and retail customers.*
***Health Care*** *all businesses are involved in the provision and coordination of medical and related goods and services.*
***Information Technology*** *businesses that sell goods and services in electronics, software, computers, artificial intelligence, and other industries related to information technology (I.T.).*
***Industrials*** *Companies that manufacture machinery, handheld tools, and industrial products. This sector also includes aerospace and defense firms as well as companies engaged in transportation and logistics services.*

***Consumer Discretionary*** *an economic sector classification of non-essential consumer goods and services.*
***Communication Services*** *includes companies that sell phone and internet services via traditional landline, broadband, or wireless. The communications sector also includes companies that create and produce movies, television shows, and other content.*
***Federal Reserve*** *is the central banking system of the United States. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, after a series of financial panics led to the desire for central control of the monetary system to alleviate financial crises.*
***Economic Growth*** *an increase in the production of economic goods and services, compared from one period of time to another*
***Balanced Accounts*** *combines asset classes in a portfolio in an attempt to balance risk and return. Portfolios are divided between stocks and bonds, either equally or with a slight tilt, such as 60% in stocks and 40% in bonds. Balanced portfolios may also maintain a small cash or money market component for liquidity purposes.*
***Utility Sector*** *companies that provide electricity, natural gas, water, sewage, and other services to homes and businesses.*
***Corporate Profitability*** *is a measure of an organization's profit relative to its expenses.*
***Volatility*** *is the degree of variation of a trading price series over time, usually measured by the standard deviation of logarithmic returns.*
***U.S. Governments*** *(Treasuries) are debt obligations issued by the United States Government and secured by the full faith and credit (the power to tax and borrow) of the United States.*
***Municipal Bond*** *is a bond issued by state or local governments or entities they create such as authorities and special districts. In the United States, interest income received by holders of municipal bonds is often, but not always, exempt from federal and state income taxation.*
***10-year Treasury Yield*** *the yield that the government pays investors that purchase the specific security.*
***Net Rate of Return*** *is the total rate of return on an investment after the deduction of any fees, commissions, or expenses. Often quoted as the rate of return on an investment in strategy marketing materials. Returns for more than a year are often annualized, which provides the geometric average return of an investment for each year over a given time period.*
***Interest rates*** *are the amount a lender charges a borrower and is a percentage of the principal—the amount loaned.*
***Operating Results*** *show what the company has earned in connection with its business activities before deduction of interest and taxes.*
***Dividend Yield*** *a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.*
***Maturities*** *are the agreed-upon dates on which the investment ends, often triggering the repayment of a loan or bond, the payment of a commodity or cash payment, or some other payment or settlement term.*
***Consumer Spending*** *the value of the goods and services purchased by, or on the behalf of, U.S. residents.*
***Short Term Bonds*** *are bonds that will pay back your principal, or mature, quickly, typically within four years.*
***Intermediate Term Bonds*** *issued with maturity dates that are between two and 10 years.*
***Long Term Bonds*** *maturities between 10 years and 30 years.*
***Unemployment Rate*** *represents the number of unemployed people as a percentage of the labor force.*
*Yield Curve is a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates.*
***Unemployment Rate*** *represents the number of unemployed people as a percentage of the labor force.*
***P/E Multiples*** *the ratio for valuing a company that measures its current share price relative to its per-share earnings.*
***Corporate Profitability*** *is a measure of an organization's profit relative to its expenses.*
***Tariff*** *is a tax imposed by a government on goods imported from another country.*
***Deficit*** *is when expenses exceed revenues, or when a person, company, or government spends more than it receives in a given period.*
***Consumer staples*** *are products that people buy regularly, regardless of their financial situation or the economy.*
***Tax- Exempt*** *some or all of a person's or business's income is free from federal, state, or local tax.*
*-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years).*
***Capital Appreciation*** *is an increase in the price or value of assets.*
***Operating Performance*** *measures results relative to the assets used to achieve those results.*
***Mergers & Acquisitions (M&A)*** *transactions in which the ownership of companies or their operating units — including all associated assets and liabilities — is transferred to another entity.*
***Duration*** *measures the sensitivity of a bond's price to changes in interest rates. For instance, a bond with a duration of 2.0 years will decrease by 2% for every 1% increase in rates.*
***Agencies*** *a low-risk debt obligation that is issued by a U.S. government-sponsored enterprise (GSE) or other federally related entity.*
***Short Term Interest rates*** *the interest rates on financial instruments or loans with maturities of less than one year.*
***Economic slowdown*** *is a period when the rate of economic growth, as measured by Gross Domestic Product (GDP) (GDP), decreases significantly but doesn't necessarily turn negative.*
***Weaker employment data*** *signifies an economic downturn and includes metrics showing slower job creation, a rising unemployment rate, declining hours worked, a lower labor force participation rate, and fewer job openings relative to openings.*
***Business spending*** *most often refers to investment spending, which is money spent by businesses on capital goods like machinery, equipment, and structures to increase their future production capacity and profits.*
***Tax loss harvest*** *an investment strategy in which an investor sells securities at a loss to offset capital gains and reduce their total tax liability.*
***Investment Grade Corporates*** *refers to a corporate bond from a company rated by credit agencies as having a strong financial health and a low risk of default. These ratings are provided by agencies like Standard & Poor's, Moody's & Fitch Ratings.*

***Earnings Expectations*** *refer to the projected future financial performance of a company, specifically its profits, typically expressed as earnings per share (EPS) for a specific period, such as a quarter or a year.*
***Profit Margin*** *the percentage of revenue left after paying business expenses.*
***Bloomberg Treasury Intermediate Index*** *measures the performance of U.S. Treasury bonds with maturities between one and ten years, according to Bloomberg.*
***Artificial Intelligence*** *the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings.*
***The Magnificent Seven*** *Large tech-oriented companies. The group includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta.*
***Slowing Economy*** *a period of slower economic growth, typically characterized by a decrease in the rate of growth of real gross domestic product (GDP).*
***Mega Cap Growth*** *is an investment strategy that involves choosing large, well-known companies with the potential to grow faster than other companies. Mega cap stocks are the largest companies in the world, with market capitalizations of over $200 billion.*
***Realized capital gain*** *occurs when an investment is sold for more than its purchase price, and it becomes a taxable event.*
***Geopolitical*** *is the study of how political, geographical, and economic factors influence international relations and foreign policy.*
***Capital Gains*** *taxes levied on earnings made from the sale of assets, like stocks or real estate.*
***Treasury Securities*** *often simply called Treasuries, are debt obligations issued by the United States Government and secured by the full faith and credit (the power to tax and borrow) of the United States.*
***Taxable accounts*** *are accounts where the normal IRS tax rules apply. In a taxable account, you pay taxes on interest, dividends, and capital gains, in the year in which you earn them.*
***Asset Allocation*** *is an investment strategy that involves dividing an investment portfolio among different asset classes, like stocks, bonds, and cash, to optimize returns while managing risk.*
***Sector Rotation*** *is an investment strategy where investors shift their investments between different sectors of the stock market, such as technology, energy, or healthcare, based on the current stage of the economic cycle.*
***Stock Valuation*** *is the process of determining the worth of a company's stock, essentially calculating how much an investor should pay for a share.*