

### Highlights

- Financial assets continued to rally despite economic crosscurrents. Credit spreads narrowed and interest rates declined giving fixed income assets a boost.
- Despite a surprise revision to the employment picture, the economy likely grew at a solid pace in Q3. The Fed cut rates and signaled additional moves which aided market sentiment.
- The Trump Administration is pursuing unorthodox industrial policy. While this may be driven by foreign competition, such actions are unlikely to deliver beneficial outcomes.

### Markets

GIA	Average Quality	Returns (%)			
		3Q25 Gross	3Q25 Net	12 Months Gross	12 Months Net
<b>Core Plus Composite</b>	<b>(A+)</b>	<b>2.44</b>	<b>2.35</b>	<b>4.16</b>	<b>3.80</b>
<b>Global Investment Grade Composite</b>	<b>(A-)</b>	<b>3.03</b>	<b>2.93</b>	<b>4.93</b>	<b>4.51</b>
<b>Global Credit Plus Composite</b>	<b>(BBB+)</b>	<b>3.16</b>	<b>3.03</b>	<b>6.40</b>	<b>5.87</b>
<b>Global High Yield Composite</b>	<b>(BB-)</b>	<b>2.75</b>	<b>2.60</b>	<b>7.89</b>	<b>7.24</b>
<b>Emerging Market Corporate Debt Composite</b>	<b>(BB+)</b>	<b>3.71</b>	<b>3.56</b>	<b>6.71</b>	<b>6.07</b>
<i>Benchmark Bonds</i>					
Bloomberg U.S. Agg. Index	(AA)	2.03		2.88	
Treasury	(AA+)	1.51		2.06	
Corporate	(A-)	2.60		3.63	
Mortgage	(AA+)	2.43		3.39	
Government/Credit	(AA)	1.91		2.67	
ICE BofA U.S. Corporate & Yankees	(A-)	2.63		3.94	
ICE BofA U.S. Corporate	(A-)	2.65		3.92	
ICE BofA U.S. High Yield	(B+)	2.40		7.23	
ICE BofA Global High Yield Constrained Index (USD)	(BB-)	2.46		8.24	
ICE BofA EM Corporate Plus	(BBB)	3.19		6.05	
ICE BofA Global Gov't ex-US	(AA-)	-0.59		-1.79	
JPM Emerging Markets EMBI GD	(BB+)	4.75		8.52	
JPM CEMBI Broad Diversified	(BBB-)	3.18		6.48	
JPM GBI-EM Global Diversified	(BBB+)	2.80		7.35	
<i>Benchmark Equities</i>					
S&P 500	NA	7.79		16.07	
Nasdaq Composite	NA	11.24		24.58	
Russell 2000	NA	12.02		9.26	
MSCI EAFE	NA	4.23		12.09	
MSCI Europe	NA	3.14		12.36	
MSCI Japan	NA	6.96		14.04	
MSCI Emerging Markets Equity	NA	10.08		14.96	

\* Please refer to the respective factsheets for the long-term composite and benchmark returns for each strategy.

## Markets

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Confounding is a tempting word to describe the third quarter of 2025. Amidst confusing policy directives, political rancor, more tariff weaponization, and unresolved geopolitical conflict, the economy continued to churn, and financial markets celebrated. Mid-quarter, July's payroll report featured downward revisions to the employment data that suggested starkly weaker labor conditions than economists and the Fed had incorporated into their forecasts. President Trump "shot the messenger," and bond markets immediately discounted a September Fed rate cut. The Fed acquiesced citing a priority shift from stubbornly elevated prices to deteriorating employment. Ignoring the likely economic implications of a worse-than-thought labor market, equity markets continued to run hitting nearly 20 new highs before quarter end. Bond markets also cheered the Fed's policy turn with ten-year yields declining to 4.15% from 4.60% in mid-May. For the quarter, the S&P 500 was up 7.79%, bringing year-to-date return to 13.72%. Nasdaq was more impressive, up 11.24% and 17.34%, respectively. The Bloomberg Aggregate Index returned 2.03% for the quarter and 6.13% year-to-date. Away from the U.S., emerging market equities had a strong quarter gaining over 10.0% on the back of continued fund flows. Also, after declining precipitously during the first half of the year, the U.S. dollar stabilized. Nonetheless, funds continued to flow into other non-U.S. equity and bond markets further boosting their performance in U.S. dollar terms.

Investment grade credit outperformed again on the back of solid financial metrics and persistent fund inflows. Despite elevated valuations, issuers successfully borrowed large sums with limited pricing concessions. The sector's longer duration and modest spread compression enabled the sector to generate positive excess returns for the quarter and year-to-date. For the quarter, the investment grade corporate bond index, the ICE BofA U.S. Corporate Index (COA0), was up 2.65%, which outperformed government bonds and delivered 98 b.p. of duration adjusted excess returns. Corporate option adjusted spreads (OAS) narrowed by 12 b.p. to 75 b.p., while the yield to worst of the index declined 23 b.p. from 5.01% to 4.78%. Borrowing remained healthy as issuers took advantage of tighter spreads and steady investor demand. New credit issuance totaled \$432.8 billion, which brought the year-to-date borrowing to nearly \$1.5 trillion, a pace that should enable the year's eventual haul to exceed last year's total and perhaps overtake 2020's \$2.1 trillion record.

The high yield market also delivered solid performance, although a couple of September credit events in the leveraged loan market softened the sector's ultimate return. The ICE BofA U.S. High Yield Index (H0A0) was up 2.40% for the quarter and 7.06% year-to-date. At quarter-end, the spread to worst was narrower by 26 b.p. from 322 b.p. to 296 b.p. The yield to worst declined to 6.66% compared to 7.02% in June. Fund flows remained healthy as absolute yields remained attractive, and defaults were modest. Specifically, investors added \$5.0 billion during the quarter, bringing the total through September to \$14.9 billion. The default rate, including distressed exchanges decreased to 1.39% from 1.41% at the end of June (0.49% not including distressed exchanges) well below the 3.3% historical average. While defaults remain well behaved for high yield bonds, the leveraged loan market experienced a still elevated default rate driven by distressed exchanges. The new issue market came alive with \$121.9 billion of gross issuance well above the year's prior quarters and boosting year-to-date issuance to \$267.5 billion.

Emerging markets hard currency bonds had a strong quarter as spreads compressed on solid economic performance in many countries and robust fund flows. Local currency markets also benefited due to elevated interest rates and currency stability. Argentina, an emerging markets darling since the Milei administration took over, was an exception following a disappointing electoral outcome in the Province of Buenos Aires. For emerging markets in general, after lengthy periods of fund outflows, investors reversed course and started adding funds to the asset class. The Emerging Market Bond Index – Global Diversified (EMBIGD), a dollar denominated sovereign index, was up 4.75% for the quarter and 10.66% over nine months. Similarly, the JPM Corporate Emerging Markets Broad Diversified Index (CEMBI BD) rose 3.18% over the last three months and 7.34% year-to-date. The year-to-date performance champion was the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, which returned 2.80% for the quarter and a healthy 15.41% year to date aided by robust currency appreciation.

## Economy

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The first half of 2025 highlighted President Trump's blunt interference in global trade by introducing penal tariffs in the name of fairness. His actions led many businesses and consumers to alter their purchase decisions, although ultimately anticipated economic disruptions due to price increases did not materialize. Instead, consumers continued to power the economy to better than expected performance.

In early August, July's non-farm payroll report featured an outsized downward revision that altered everyone's perceptions about labor market conditions. While not yet widely corroborated, the likely implications of the release include higher unemployment and reduced consumer confidence. It also led the Fed to cut rates in September and to indicate more cuts were coming. With the government shut down, September's payrolls and other official announcements were postponed. Data from private providers have not suggested a decisive turn in employment has occurred, although some industries have slowed hiring.

We, and many economists, expected the economy to moderate gradually due to the eventual tariff-related price burdens and trade friction from retaliatory actions by other nations. However, our third quarter review of industries did not support our slowing narrative as companies are maintaining their guidance and anticipating healthy earnings in 2025 and into 2026. Much of their confidence rests on consumers continuing to spend. While we believe this assumption could run into conflict with a weak labor market, the Fed's policy shift could be a source of support.

Meanwhile, despite the global trade conflict, economic performance away from the U.S. is relatively good. Many European economies are recovering from the Covid and Russia/Ukraine war with the aid of the European Central Bank. Emerging economies are also bucking the trade disruption behind an improving Chinese economy, firm commodity prices, and growing domestic consumption.

## Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the U.S. economy growing at a slower yet positive pace of about 1.5% over the next six months. Despite crosscurrents, the economy's momentum appears to be supported by capital investment and healthy wage growth. In addition, the Fed's policy shift from restrictive toward neutral should ameliorate conditions in the labor market and aid rate sensitive sectors like housing. Despite rumblings about elevated leverage in private credit markets, most banking and financial institutions continue to report low delinquencies and charge-offs. Growth improvements abroad should be an additional source of support. PROBABILITY 60%
2. A second scenario has the economy slowing to a rate of 0.0% to -0.5% at an annual rate during the next six months. In this scenario, investment momentum wanes and the unemployment rate rises. Consumers become disenchanted with the direction of the economy and postpone purchases. In addition, the Fed is slow to recognize the economy's vulnerability and keeps rates too elevated to counteract the sluggishness. PROBABILITY 20%
3. A third scenario has the economy expanding at a stronger pace of 2.0% to 2.5% at an annual rate during the next six months. In this scenario, final tariffs turn out less onerous than originally indicated leading consumers to resume purchases. Productivity inducing investment accelerates with measurable results that carry over into new business formations and renewed employment. In addition, the Fed's rate cuts boost rate sensitive industries like housing providing a lift to confidence. PROBABILITY 20%

## Market Outlook

Unfortunately, the completion of another quarter did not clarify the likely trajectory of economic activity, especially given the final quarter commences with the government shut down. Valuations remain stretched across most asset classes. The Fed's shift toward accommodation appears to be fueling further unwarranted investor enthusiasm. Despite crosscurrents, there seem to be few destabilizing threats to the economy and financial markets. With the Fed likely to cut rates further, it is probable employment will receive a boost. For fixed income, tariffs and rising government debt may keep the yield curve steep. Meanwhile, corporate America will likely deliver steady financial performance and stable creditworthiness. While credit spreads are tight by historical standards, we believe retaining exposure makes sense to earn a compelling yield.

In terms of positioning, our higher quality strategies are underweight government bonds and securitized instruments. In credit, we are slightly underweight investment grade, offset by exposure to investment grade emerging markets. Although we are retaining exposure to lower quality sectors, we continue to upgrade the creditworthiness of that exposure and limit purchases in the highest risk industries and countries.

## Commentary – Interventionist Industrial Policy?

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On October 2, 2025, WSJ reporter Greg Ip published an article titled “Trump Keeps Blurring the Line Between Capitalism and Socialism.” On the heels of the Administration’s deal with Pfizer whereby the drug maker would lower prices in exchange for reduced tariffs on pharmaceutical imports, Mr. Ip questions the distinctions between the President’s actions, including the introduction of “TrumpRx,” and New York City “Democratic Socialist” mayoral candidate Zohran Mamdani’s policy proposals. He compares Mamdani’s suggestion regarding city-owned grocery stores to TrumpRx’s discounted drug promise. Furthermore, he writes, “Trump and Mamdani share a fondness for strong-arming private companies that raise prices.”<sup>1</sup>

We believe the article and its thrust highlight a grave turn in U.S. industrial policy. In a manner akin to socialism, the Trump Administration’s interventionist approach to the economy, the private sector, and segments of the public sector set a dangerous precedent regarding the independence of private organizations and the unfettered functioning of free markets. Government intrusion will likely result in weaker growth, reduced efficiency and stifled entrepreneurship.

Every nation pursues some form of industrial policy seeking to exploit domestic advantages, enhance employment, and boost growth. Policies and legislation range from complete ownership and management of companies or industries like oil and natural resource producers to more targeted strategies for selected industries. The U.S. has traditionally taken a more subtle approach to industrial policy using tax incentives, import duties, or the provision of subsidized financing to promote certain industries within the context of free markets. During the last decade, as countries like China and Russia spurred growth by spending heavily to promote certain sectors, other nations took notice and questioned the merit of their own policies by comparison. In a 2023 Harvard Business Review article titled “The New Era of Industrial Policy is Here,” author Willy C. Shih wrote, “Governments around the world are increasingly intervening in the private sector through industrial policies designed to help domestic sectors reach goals that markets alone are unlikely to achieve.”<sup>2</sup>

Many complex questions arise when thinking about optimal or even desirable industrial policy. Goals and objectives are paramount, followed by implementation methodologies. However, we believe core ideological principles should guide decision-making and ultimate policy choices. As a free and democratic society, the U.S. has long been a leading advocate

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<sup>1</sup> The Wall Street Journal, “Trump Keeps Blurring the Line Between Capitalism and Socialism,” Greg Ip, October 2, 2025.

<sup>2</sup> Harvard Business Review, “The New Era of Industrial Policy is Here,” Willy C. Shih, September – October 2023.

of free and open markets. Free markets guided industrial development, entrepreneurship, education, and policy. The U.S. also led on global free trade which powered GDP growth and brought many nations, including China, out of poverty. Global trade played a critical role in taming inflation and boosting productive efficiency.

Recently, free markets have been criticized by many across the political spectrum. The loss of manufacturing competitiveness has been highlighted as a free market failure, while China's ascension has been ascribed to unfair play and an appropriation of western nations' openness. Mr. Shih adds, "A more controversial, and increasingly common, type of intervention focuses on helping specific industries and sectors."<sup>3</sup> He cites examples like Europe's subsidization of Airbus, and China's support for their domestic electric vehicle industry as interventions that enabled the beneficiaries to achieve financial success and a global prominence they might not have reached if left purely to free markets.

Actions by politicians and governments, including President Trump, make it seem as though the pendulum has swung. Disenchanted voters empowered politicians who disparage existing policy and accuse countries like China of "stealing jobs" and "endangering national security." While the rhetoric has a powerful political dimension, we believe the response must embrace the successes of prior policy and be rooted in the ideology that guides the nation's societal structure. During the Biden Administration, the Inflation Reduction Act provided tax credits and other incentives for renewable energy and clean technologies. The CHIPS Act allocated money for the domestic production of semiconductors with the intent of ensuring supply and eventually motivating further domestic innovation. Neither of these initiatives took equity interests in companies, played off competitors against each other, or threatened beneficiaries into potentially uneconomic decisions. Even Trump's One Big Beautiful Bill Act provided broad-based incentives for capital investment across the economy.

The Trump Administration's transactional interventions breach a fundamental element of our democracy, the freedom to operate independently and choose the products and services one wants to consume. A properly democratic government should not choose winners and losers, nor decide what goods and services citizens should purchase. Examples abound of failed or underperforming companies managed jointly by public and private sector groups. Elected governments should have the freedom to reflect voters' preferences via their policies without mandating society be beholden to a preferred company or industry. Ultimately, free (and democratic) markets provide an immensely efficient (and objective) mechanism by which to allocate capital and achieve economic competitiveness. No government has the insight and managerial competence to supersede a free market. Even China, deemed by many to be leading many development races through its authoritarian industrial policy, faces the uncomfortable hurdle that its citizens know their choices are not ultimately free.

October 15, 2025

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<sup>3</sup> Harvard Business Review, "The New Era of Industrial Policy is Here," Willy C. Shih, September – October 2023.

## Important Information

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## Index Definitions

### **Bloomberg U.S. Aggregate Index**

The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

### **Bloomberg U.S. Treasury Index**

This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

### **Bloomberg U.S. Government/Credit Index**

The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

### **Bloomberg U.S. Corporate Index**

This index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. (Future Ticker: I02765US)

### **Bloomberg U.S. Mortgage-Backed Securities Index**

This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

### **ICE BofA U.S. Corporate & Yankees Index**

The ICE BofA U.S. Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

### **ICE BofA U.S. Corporate Index**

The ICE BofA U.S. Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody’s, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody’s, S&P and Fitch foreign currency long term sovereign debt ratings).

**ICE BofA U.S. High Yield Index**

The ICE BofA U.S. High Yield Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

**ICE BofA Global High Yield Constrained Index**

ICE BofA Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets and issuer exposure is capped at 2%..

**ICE BofA US Emerging Markets Corporate Plus Index (EMUB)**

The ICE BofA US Emerging Markets Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities denominated in US dollars.

**ICE BofA Global Government Excluding the U.S. Index (N0G1)**

The ICE BofA Global Government Excluding the U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency. N0G1 excludes U.S. government bonds.

**Emerging Markets Bond Index Global Diversified (EMBI® Global Diversified):**

The EMBI Global Diversified is a uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

**JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)**

The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

**JP Morgan Government Bond Index-Emerging Markets (GBI-EM)**

The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

**S&P 500 Index**

An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

**Nasdaq Composite Index**

An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

**Russell 2000 Index**

An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

**MSCI EAFE Index**

The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

**MSCI Europe Index**

The index is a free-float weighted equity index measuring the performance of Europe Developed Markets.

**MSCI Japan Index**

The index is a free-float weighted equity JPY index.

**MSCI Emerging Markets Equity**

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.