



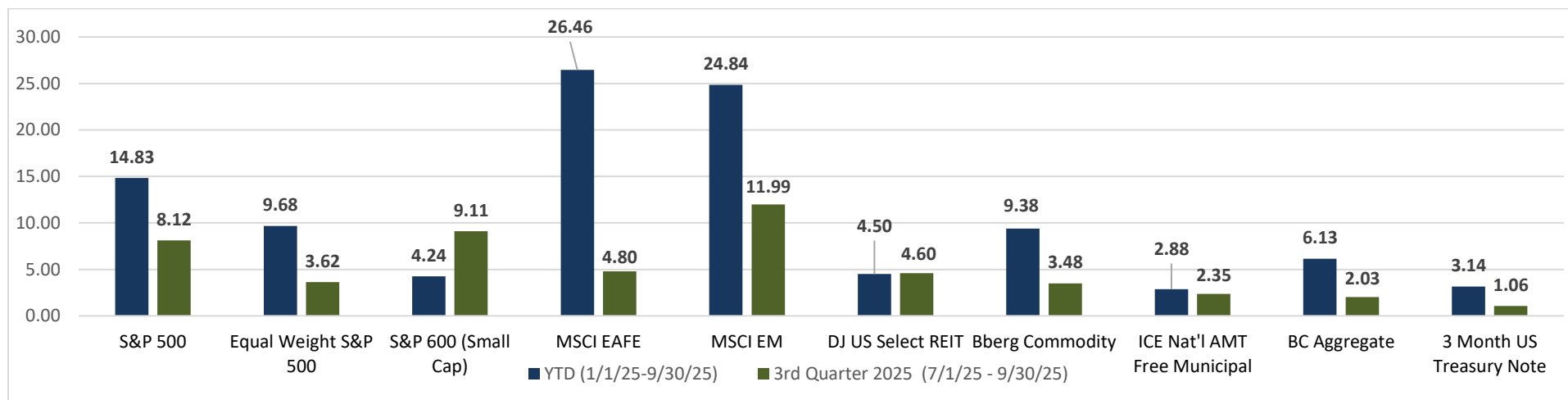
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Wealth Management



What Once Was Hip... Is Now Again: International Markets Take Center Stage

Q3 2025 Market Commentary



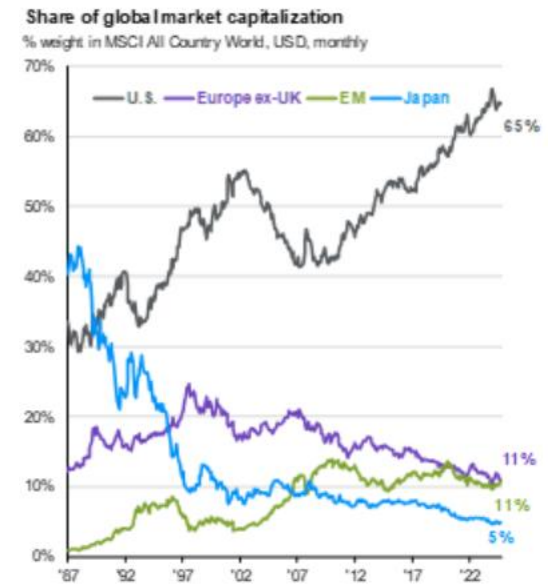
During one of our weekly meetings with the SDWMA team, I made a casual reference to the hit 1980's show Miami Vice¹. Discussing the timeless duo of Sonny Crockett and Ricardo Tubbs, the age of my colleague, Gregg Daily, and me were cemented among our younger colleagues.² As I take a step back and look at not only the third quarter, but also the first nine months of the year, it certainly feels like the market investors experienced at the height of Crockett and Tubbs. When Sonny and Ricardo were swiftly moving through the streets of South Beach, international equities were on the move. Japan was the dominant player on the global equity stage and there was fear in the United States that we would lose our place as the dominant economic and political power of the era. The run in Japanese/international equities ended around the same time that Crockett and Tubbs took their last ride together. Fast forward to September 2025 and international equities are once again atop the leaderboard, with the international developed (MSCI ACWI Ex-US) and emerging markets (MSCI Emerging Markets) up +26% and +25% respectively, and a reboot of Miami Vice was announced in September with the movie to hit theaters in 2027. Maybe the old guys know a thing or two – and what once was “hip” is now again.

The third quarter of 2025 has to be one of the most pleasant surprises for investors in recent memory. Following the tariff announcement by the Trump administration that shook the global economy in April, the S&P 500 made several all-time highs in every month in the third quarter. September, which is historically the most volatile month of the year, did not see even a 1% decline in the benchmark S&P 500 index. Not only was the month of September not volatile, but it was also one of the best months of the year, returning +3.65%. However, within the U.S. equity complex, the S&P 500, home to Microsoft, Nvidia, Apple, and Alphabet, would take a backseat to U.S. small cap stocks. Better than expected earnings growth, the first of an anticipated series of interest rate cuts by the U.S. Federal Reserve, and an estimated strong 3rd quarter GDP growth number, U.S. small cap stocks ripped higher. While the S&P 500 returned over 8% for the third quarter, the S&P 600, which tracks U.S. small cap stocks, returned over 9%. The broadening of the rally in the third quarter, to include U.S. small cap stocks, was a welcome sight for investors that were increasingly concerned about a market that seemed ever more dependent on the “artificial intelligence” trade.

¹ It is this author's opinion that the 2006 remake of Miami Vice starring Colin Farrell and Jamie Foxx is a vastly underrated watch.

² Gregg and I would argue, while being 100% correct, that our taste in TV shows and movies is far superior to our colleagues who poke fun at our age!

While U.S. small cap stocks stole the show in the third quarter, the story of 2025 has been the strength of the international stocks. One could be remiss if they didn't feel like it was the 1980s, as stocks from Europe to the United Kingdom to Japan climbed higher. An attractive mix of earnings growth, accommodative fiscal and monetary policy, strong dividend yield, and attractive valuations pushed the stocks higher as investors sought to increase their exposure. The most significant catalyst for international stocks was the decline of the U.S. dollar. The strength of the U.S. dollar post-Great Financial Crisis has been a wrecking ball for non-U.S. assets. One of the consequences of the rebalancing of trade to one that emphasizes more regional partnerships, rather than the globalization that characterized much of the last 40 years, is central banks diversifying into other currencies (and gold!). The strength of international stocks comes at a time when many (most?) investors having allocations that dramatically underweighted the asset class. The underweight was understandable after all the U.S. stocks market (mainly the S&P 500), powered by significant earnings growth in technology stocks and the mighty U.S. dollar, drove returns higher. As the chart to the right shows, at the time when Crockett, Tubbs, and Miami Vice reached its pinnacle, Japanese stocks accounted for over 40% of the global stock market capitalization while the U.S. was at 30%. Fast forward almost four decades and the U.S. stock market has doubled in size, moving from 30% to 65% while the size of the Japanese stock market has moved from 40% to 5% and Europe ex-UK has remained flat at 11%. What I like most about the chart is that it is a good reminder that markets are cyclical and market dominance is never permanent. Our team is very excited about the opportunity set in international equities and believe they will continue to be an important part of allocations in the coming months and years.



Coming into this year we believed that our continued commitment to diversification in portfolios would really elevate our client portfolios. One of the critical parts of that diversification is a strategy that owns a portfolio of global stocks combined with an allocation to gold bullion and gold mining stocks. That strategy has benefited from dual tailwinds of strong stock performance and gold having one of its best years in decades. There is an assumption in markets that gold mostly rallies in a “risk off” environment. However, the yellow metal has shook that narrative this year, outperforming stocks, bonds, and currencies in a year when stocks and bonds are both positive. Strong central bank buying, as well as investors looking for a hedge in portfolios to combat uncertainty in a shifting economic and geopolitical world, has pushed gold to +46% return through the first nine months of the year. Bucketed in our “alternative equity strategy” sleeve, as it is not truly a stock or a bond, it has been a force multiplier for our portfolios.

Perspective is gained through experience, and it is one of the most important qualities a person will need in life. From an investing standpoint, perspective allows you to acknowledge the strong performance of a particular asset class (hello large caps and the Mag-7!) and in the same breath emphasizing the need to not put all your eggs in one basket (no matter how tempting it may be – and it has been tempting over the past 5-7 years). Through the first nine months of the year, despite a rather uncomfortable ten-day period in April, markets have been quite good. Entering the fourth quarter, expectations are growing across asset classes, with the bar moving higher and higher for the Mag-7 stocks in the U.S. and investor expectations beginning to be elevated for international markets. Elevated valuations in the “artificial intelligence” trade are reminding some people of the late 90's internet trade, interest rates remain elevated causing disruption in the real estate market, and there are increasing concerns about a labor market that appears to be weakening. Add in a government shutdown that at this writing is on day eight, and there are no shortage of items on the SDWMA team's “watch list.” Despite the litany of items that are concerning, I think back to one of my favorite quotes from Miami Vice from Sonny

Crockett: “You just got to learn to go with the heat, Rico. You gotta keep telling yourself, no matter how hot it gets, sooner or later, there’s a cool breeze coming in.” The team at SDWMA is going with the heat, knowing it’s our job to get our clients and their portfolios to the proverbial “cool breeze.” We appreciate your trust and confidence in our team and look forward to meeting with you in the coming weeks and months to discuss our outlook for the remaining part of the year and into 2026.

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