Talbot Financial – Third Quarter 2025 Review

Please find attached your Talbot Financial Third Quarter 2025 portfolio review to supplement your monthly account statements available from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index ("Index"), Talbot Financial's benchmark, and lists your investment portfolio holdings by industry sector.

Investment Review

The stock market sustained its positive momentum with the Index up 8.1% during the third quarter. The favorable return was driven by three factors: a Federal Reserve interest rate cut, solid quarterly financial reports from technology companies, and continued strength from the consumer. On a sector basis, Technology, Consumer Discretionary, and Communications were the best performing sectors. Stock price momentum, the tendency for a stock's price to continue to move in the same direction, persisted as September marked the fifth straight month of equity market gains.

Year-to-date through September 30, the Index increased 14.8%. The drivers of the return for the period were similar to the quarter, with Artificial Intelligence ("AI") related stocks and interest rates sensitive stocks performing the best.

The equity markets remained resilient in the face of persistent trade and tariff issues. On the economic front, political turmoil led to the U.S. government shutdown in early October over a deadlock between Democrats and Republicans on healthcare spending legislation. We are beginning the third week of the stalemate and the length of the closure remains uncertain. We analyzed the historical impact of U.S. government shutdowns on equity markets.

The primary takeaways from an equity markets perspective include:

1. Government funding gaps have been short-lived. Since the early 1980s, there have been nine shutdowns, lasting an average of nine days. The longest period was a 34-day closure in 2018.

2. The typical market reaction was benign with equities generally experiencing an initial decline that reversed once government operations were restored. For example, during the over month-long closure 2018, the Index declined by about 6%. This was followed by a quick rebound with the Index climbing over 13% in the subsequent 30-day period.

3. Overall, the shutdowns had little effect on longer-term equity market returns. In the six months following a closure, the Index posted average gains of over 10%. Of note,

returns were stronger when interest rates declined, a period we are currently in given the latest Federal Reserve easing of interest rates.

S&P 500 Total Returns in Six Months Following a Government Shutdown		
Shutdown Start Date	**Shutdown Duration (Calendar Days)**	**S&P 500 Total Return After Six Months**
Nov 20, 1981	2	-2.5%
Oct 4, 1984	1	9.9%
Oct 16, 1986	1	20.1%
Oct 5, 1990	3	22.6%
Nov 13, 1995	5	14.6%
Dec 15, 1995	21	10.3%
Oct 1, 2013	16	8.7%
Jan 19, 2018	2	-1.9%
Dec 22, 2018	34	14.1%
Average	**9**	**10.7%**

In summary, U.S. government shutdowns have had negligible ramifications on stock market returns.

The strength of the financial fundamentals of the companies in your investment portfolio position them to persist through periods of economic uncertainty. Our research driven process is to own companies with superior balance sheet and cash flow metrics, industry leading long-term secular returns, and sustainable competitive advantages. Your investment portfolio is constructed to endure periods of political turmoil.

On a personal note, we acknowledge the hardships and fear a significant number of people experience because of the inability of the government to work with one another to find common ground to reach an agreement.

We welcome the opportunity to review your portfolio in person, by phone or a virtual meeting. Please contact us for a review, or to answer any questions you may have about your portfolio.

Sincerely,

Talbot Financial, LLC

www.talbotfinancial.com