

Dear friends of Arcus Capital Partners,

We hope this letter finds you well and you are having a great start to the fall season. Equities extended their strong run in Q3 2025, with many indices and sectors posting double-digit gains, while precious metals demonstrated their alignment with the current secular cycle by delivering exceptionally strong returns that far outpaced equities. Loose financial conditions and the fastest pace of money growth since 2022 helped fuel risk assets, while the Fed's decision to cut rates into an environment of robust growth and easy credit added further tinder. Bond markets were subdued, with volatility falling to four-year lows, yet prices struggled to gain traction amid persistent concerns over stronger growth and firmer inflation. The dollar, by contrast, was volatile but ultimately—and somewhat quietly—ended the quarter higher. Commodities outside of precious metals were broadly weaker, with energy and agricultural markets under pressure. On the economic front, the labor market softened, and inflation ticked higher, highlighting the difficult balancing act policymakers face as they weigh further easing against mounting risks.

I. Market & Economic Overview

Equities delivered another quarter of broad-based strength in Q3, with many indices and sectors posting double-digit gains, while precious metals underscored their alignment with the prevailing secular cycle, as gold, silver, platinum, palladium, and the miners all delivered exceptionally strong returns that far outstripped equities¹. Loose financial conditions, underscored by the fastest year-over-year money supply growth since 2022³, helped support the rally, while the Fed cutting

rates into an environment of robust growth and easy credit added fuel to the fire. At the same time, cracks emerged in the labor market and inflation ticked higher⁵, creating a more complex macro backdrop as policymakers and markets brace for Q4.

Growth held up better than many feared, though the picture was uneven. Manufacturing showed signs of life, with the S&P Global PMI hitting 53.0 in August—its strongest since mid-2022—even as ISM surveys still pointed to contraction¹. Services, by contrast, lost momentum, leaving the economy looking more bifurcated. This divergence has created wide gaps in forecasts: the Atlanta Fed's GDPNow model pegs Q3 growth at 3.9%⁴, while the consensus sits closer to 1.9%¹. Looking ahead, most forecasters expect the pace to drift lower into year-end as tariffs, fiscal drag, and inflation inertia weigh more heavily on activity.

Inflation firmed during the quarter, with headline measures edging higher on energy rebounds, tariff passthroughs, and persistent shelter costs. Notably, the August CPI (released in September) showed that year-over-year headline inflation, along with 1-, 3-, and 6-month annualized inflation all ticked higher simultaneously for the first time since inflation peaked in 2022⁵. Goods inflation, negative for much of the past year, turned positive over the summer and outpaced its pre-pandemic norm⁵—making the Fed's job of returning inflation to its 2% target all the more difficult. Median CPI inflation continues to hover in the mid-to-high 3s, core CPI is annualizing at 3.1%, and core PCE is holding firm at 2.9%¹, underscoring the challenge for the Fed as it weighs rate cuts against renewed price pressures.

The U.S. housing market showed clear signs of cooling as affordability pressures and elevated



mortgage rates weighed on demand. Housing starts and permits declined sharply, with single-family construction slowing to its weakest pace since early 2023¹, while new home sales softened and inventories built to multi-year highs¹. Existing home sales were little changed overall but diverged regionally, and price appreciation slowed markedly, with several metros slipping into year-over-year declines¹. With demand weakening, supply edging higher, and affordability stretched, housing shifted from being a stabilizing force in the post-pandemic economy to a sector facing headwinds that could drag on growth into 2026.

The consumer held steady in Q3, with retail sales and personal spending trending higher and personal income supported by wage growth¹. That resilience helped underpin overall growth, even as consumer sentiment slipped to its lowest level since April on account of tariff uncertainty, policy risks, and labor market softness. The consumer remains a key swing factor going forward, as higher inflation and cracks in employment could test the durability of spending into year-end.

The labor market dominated as the quarter's biggest story, shifting the Fed from a relatively hawkish, wait-and-see stance on rate cuts at the outset to a dovish position by late-August amid weakening data, political pressure, and internal dynamics.

Job openings and hires trended downward, while private payrolls (ADP) showed volatility but averaged modest gains. Initial claims remained low, but nonfarm payrolls (NFP) growth slowed sharply to an average of 29k/month, with unemployment ticking up to 4.3% by August¹.

The BLS's September benchmark revision, slashing 911k jobs from April 2024-March 2025—the largest downward adjustment since 2009⁵—underscored this slowdown, driven by overestimated business formations amid low response rates. Fed Chair Jerome Powell attributed the weakness to reduced immigration and cooling demand from tariff uncertainty and AI disruptions, prompting a 25-basis-point rate cut in September, with markets pricing in a 95%

probability of another in October¹. Trump's public criticism of Powell, alongside Fed governors (e.g., Waller, Bowman) publicly auditioning for the next Chair role with dovish calls (that undermined Powell's previously hawkish stance), as well as the growing perception that the September 2024 Fed rate cut was politically motivated (as inflation was higher at the time) helped to expedite the Fed's dovish shift.

II. Global Equities

Equities' exceptionally strong performance off the April bottom carried through Q3. Gains were broad-based, though not without pockets of weakness in select sectors.

Tailwinds for equities were plentiful. Positioning stayed favorable throughout the quarter, ranging from bullish to solidly bullish². Money supply expanded at its fastest pace in three years³. Financial conditions remained loose, and the market began to price in a Fed cutting cycle on top of those already accommodative conditions. Economic growth was robust—though not without the occasional growth scare—while inflation ticked higher year-over-year, even as oil prices held steady and bond volatility declined sharply.

The S&P 500 advanced 8.1% in Q3, following a 10.8% surge in Q2. The Nasdaq 100 climbed 9%, adding to its 17.8% prior-quarter gain. The standout, however, was the Russell 2000, which jumped 12.4% to lead all major indices, domestic or global. By contrast, the equal-weighted S&P 500 gained a respectable 4.8%, but notably lagged, underscoring how much of the S&P's advance was driven by mega-cap tech¹.

The Magnificent 7 illustrates the point: Apple rose 24%, Google 38%, Tesla 40%. Near-Mag 7 names such as Broadcom (+20%) and Oracle (+29%) also caught fire, compounding their already eye-catching Q2 gains of 65% and 57%¹, respectively. Oracle's earnings report highlighted tens of billions in committed OpenAI-related revenue over the next five years. Stepping back, it is remarkable that multi-trillion-dollar companies can tack on trillions more in market cap over a single quarter, after



already having rallied for nearly three straight years. Such gains are unlikely to prove sustainable.

Sector leadership reflected this backdrop. Technology (+11.4%) and consumer discretionary (+10.5%) led, while utilities (+7.5%) and energy (+6.2%) also posted solid returns. Consumer staples was the lone sector in the red, down 2.5%¹.

International equities remained strong during the quarter. Developed markets cooled on a relative basis, rising 5.6% and underperforming the S&P by 250 basis points after outpacing it by 1,300 in the first half. Emerging markets showed no such pause, matching and even exceeding U.S. performance with a 10.1% gain, led by China's 11.9% advance¹.

From a positioning perspective, institutional investors remain more bullish on equities than retail², a dynamic that historically supports further upside until that balance reverses. Accordingly, we maintain a tactically bullish near-term stance. Strategically, however, equities appear headed for a lost decade, with forward returns and risk premiums as compressed as they were during the dot-com era. By contrast, non-U.S. markets, particularly emerging ones, look better positioned over the coming decade, aided by more favorable valuations, stronger demographics, and healthier growth prospects.

III. Fixed Income

Q3 was considerably calmer for bonds than Q2. In Q2, fixed income markets endured extreme volatility—initially rallying on the risk-off tone of Liberation Day before selling off on capital flight from U.S. assets and concerns that an economic downturn would dramatically swell Treasury supply.

By contrast, Q3 saw bond volatility collapse, with the MOVE Index falling to its lowest level since late 2021¹. That decline provided a modest lift to bonds, as the 10-year yield edged down 8 basis points (4.24% to 4.16%) and the 30-year yield slipped 5 basis points (4.78% to 4.73%)¹. Still, the substantial drop in volatility failed to translate into

meaningful rate declines. Residual fears of inflation—justified, in our view, by the secular backdrop—and expectations of stronger growth under a more accommodative Fed have kept long yields stubborn. Indeed, bonds sold off following the Fed's September rate cut, underscoring that growth and inflation concerns remain firmly in place.

The weak July jobs report, along with the sizable -911k downward revision to payrolls from April 2024 through March 2025 and Powell's acknowledgment of a cooling labor market, spurred investors to price in an aggressive path of easing: two more cuts in 2025 and one in Q1 2026¹. This repricing occurred even as late-quarter economic data surprised to the upside, capped by an Atlanta Fed GDPNowcast of 3.9%⁴.

The combination of collapsing bond volatility and surging equities drove credit spreads to their tightest levels since 1998¹.

With the U.S. fiscal backdrop fragile, policymakers are unlikely to tolerate a sustained rise in long-term yields, which could destabilize the system. Still, long-duration Treasuries remain richly priced relative to a secular environment defined by persistent inflation and are therefore likely to deliver negative real returns across this cycle. Against that backdrop, we continue to favor shorter maturities and inflation-protected securities.

IV. Dollar, Commodities, and Precious Metals

Despite all the chatter about a weak dollar, the greenback quietly rose 1.4% in Q3¹. It bottomed on the first day of the quarter, rallied nearly 4% into early August, then plunged on the weak July jobs report. From there, it drifted sideways for a month before sliding again ahead of the September FOMC meeting. Immediately after the Fed's rate-cut announcement, the dollar briefly undercut its early-July low by just 15 basis points, only to rebound into quarter-end.



Technically, the dollar sits at a precarious crossroads: at the lower end of a megaphone pattern on the daily chart and near the bottom of a 20-year rising channel on the weekly chart¹. A bounce here could insert a headwind into the equity rally by tightening financial conditions. A breakdown, by contrast, would likely fuel risk assets—but only so long as inflation remains contained and the Fed stays dovish. Positioning adds weight to the bearish case: institutions ended the quarter bearish the dollar versus retail traders², while simultaneously relatively bullish on precious metals, a “tell” that they expect the dollar’s next leg to be lower.

Q3’s stronger dollar did not derail the broad commodities index, which rose 4.2%. But beneath the surface, most commodities finished lower: crude oil (-0.7%), natural gas (-17.6%), copper (-4.9%), corn (-4.0%), wheat (-8.3%), soybeans (-4.2%), oats (-23.9%), rough rice (-18.1%), cotton (-6.4%), cocoa (-23.2%), and lumber (-20.0%)¹. Only six of 20 non-precious metals commodities posted gains (brent oil, heating oil, gasoline, coffee, live cattle, and lean hogs).

The real story was in precious metals. Gold, which had been consolidating since April, began climbing steadily just ahead of Powell’s dovish pivot at Jackson Hole, and from that point through quarter-end gained nearly 16%. Silver surged 28.1%, and logged its highest quarterly close of all time, \$46.81. Platinum (+17.5%) and palladium (+14.4%) also rallied, while miners soared—gold miners up 46.8% and silver miners 48.8%¹.

Notably, despite record highs, institutions maintained a strongly bullish tilt in precious metals versus retail traders², suggesting that retail got nervous and sold into strength while producers and bullion banks used that selling to reduce some of their persistent short exposure.

While pullbacks are inevitable, precious metals are well aligned with the current inflationary secular backdrop, marked by developed-market fiscal fragility and BRICS efforts to bypass the dollar in trade and settle balances in gold. These dynamics suggest the secular bull market in precious metals may still be in its early innings.

Despite Q3 weakness across much of the commodity complex, we also view commodities broadly as entrenched in a secular bull that began when crude briefly turned negative in April 2020. The extraordinary near-300% rally over the subsequent 26 months was followed by a three-year consolidation phase¹. Now, commodities appear to be forming a rounded bottom and starting a gradual ascent, with the next leg of the secular bull likely to intensify in coming quarters.

V. Looking Ahead

The macro environment remains complex. The administration is likely to sustain heavy stimulus through deficit spending while continuing to pressure the Federal Reserve to lower rates. We remain agnostic on recession risk: manufacturing has likely been in recessionary conditions for some time, while housing may be entering one now. Yet the broader economy continues to show growth, driven largely by higher-income consumers carrying more of the load.

Market valuations are stretched—by some measures at their worst levels on record¹—and present clear risks once institutions shift toward a more bearish stance relative to retail. For now, equity and cross-asset positioning suggest we remain a fair distance from that turning point².

Within equities, the extraordinary gains in mega-cap tech suggest future rewards may favor contrarian allocations: non-U.S. equities (particularly emerging markets), small caps, and value. Challenges in monetizing AI, combined with the likelihood that only a handful of dominant players ultimately capture the spoils, stand in stark contrast to the broad premium currently applied across the sector. Since late 2021, the secular backdrop has favored—and likely will continue to favor—energy, materials, and gold miners.

Long-duration Treasuries face an unfavorable secular environment and are unlikely to deliver positive real returns, especially if the Fed is forced into yield-curve control to cap long rates and prevent bond market dysfunction. Consequently, we prefer shorter maturities and inflation-



protected securities for their relative stability and resilience.

We continue to view commodities as entrenched in a secular bull market that began after oil's negative pricing in April 2020. Following a multi-year consolidation, the next leg higher appears to be forming, led by precious metals, which remain closely aligned with the prevailing macro and geopolitical backdrop. A weakening dollar also looks likely, driven by the need to ease financial conditions, sustain debt dynamics, and promote reindustrialization. Ironically, efforts by the Trump administration to counter BRICS' de-dollarization push may accelerate the very trend they aim to resist.

Geopolitical risks remain elevated. Europe's posture toward Russia suggests the potential for a broader conflict, while in the Middle East, the recent repositioning of U.S. military assets indicates the Israel–Iran saga may not be over.

Overall, while valuations, fiscal fragility, and geopolitical risks abound, we remain cautiously optimistic in the near term. The reason is simple: if this cyclical bull were to end now, the Russell 2000 would mark a rare triple top at its all-time high (November 2021, November 2024, September 2025)¹. Given how infrequently such patterns occur, we believe the Russell 2000 is more likely to break decisively to new highs before this bull market ends. Thus, we see further life in the current rally.

As always, we are available to discuss these topics and address any questions. Thank you for the trust you have in our firm.

Sincerely,

Arcus Capital Partners



Sources:

1. Bloomberg
2. CFTC
3. Federal Reserve Bank of St. Louis
4. Federal Reserve Bank of Atlanta
5. BLS

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