



Comerica Investment Quarterly | Q4 2025

Office of the CIO

Comerica Wealth Management

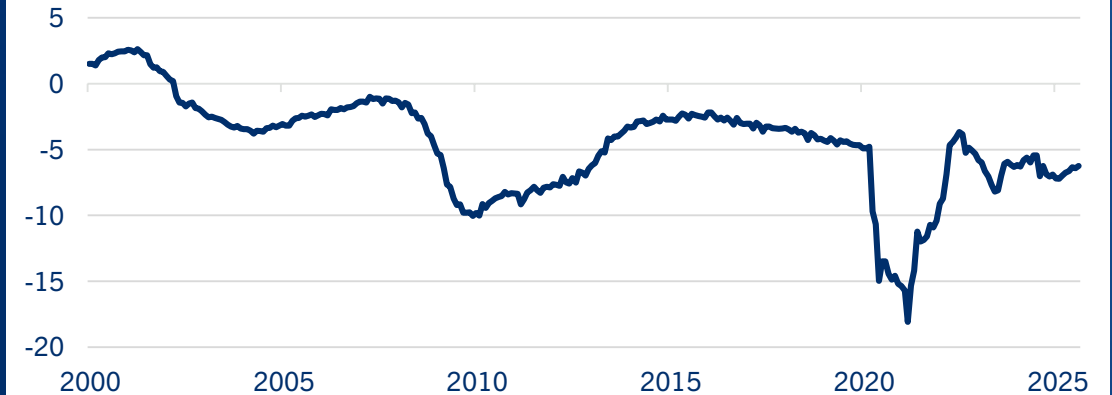
Policy

Budget Battles and Data Blackouts

Government closure complicates policy outlook.

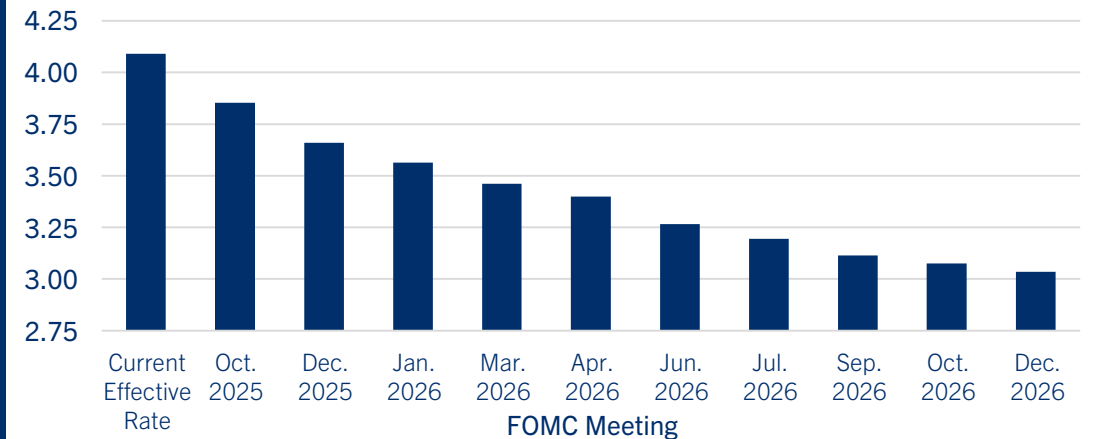
- The U.S. federal government has shut down as the fourth quarter begins. Historically, shutdowns have had minimal long-term economic effects, but they still leave short-term marks. Each week of a shutdown has shaved an estimated 0.1 to 0.2 percentage points off annualized real GDP growth for that quarter, with roughly half of the lost output recovered after the government reopens.
- The shutdown also disrupts the release of key economic reports on jobs, inflation, and consumer spending, leaving the Federal Open Market Committee (FOMC) with less visibility ahead of its October 29th policy meeting. These gaps complicate the Fed's data-dependent decision-making process, potentially increasing market uncertainty.
- Fed Funds futures markets are now fully pricing in a 25-basis-point rate cut in October, with a total of four to five cuts anticipated through the end of 2026. The combination of weaker data, delayed reports, and rising fiscal concerns supports expectations for an easing cycle to continue.
- The U.S. budget deficit for FY 2025 totaled approximately \$1.8 trillion, per Congressional Budget Office (CBO) estimates. However, this figure appears \$131 billion lower due to accounting changes related to the One Big Beautiful Bill Act (OBBBA), which booked 30 years of student-loan savings into a single year. This one-time adjustment does not reduce actual borrowing needs, meaning true financing requirements remain higher than last year despite the appearance of fiscal improvement.

U.S. Treasury Federal Budget Deficit/Surplus
(Pct of GDP)



Source: Bloomberg L.P.

Fed Funds Futures Implied Rate



Source: Bloomberg L.P.

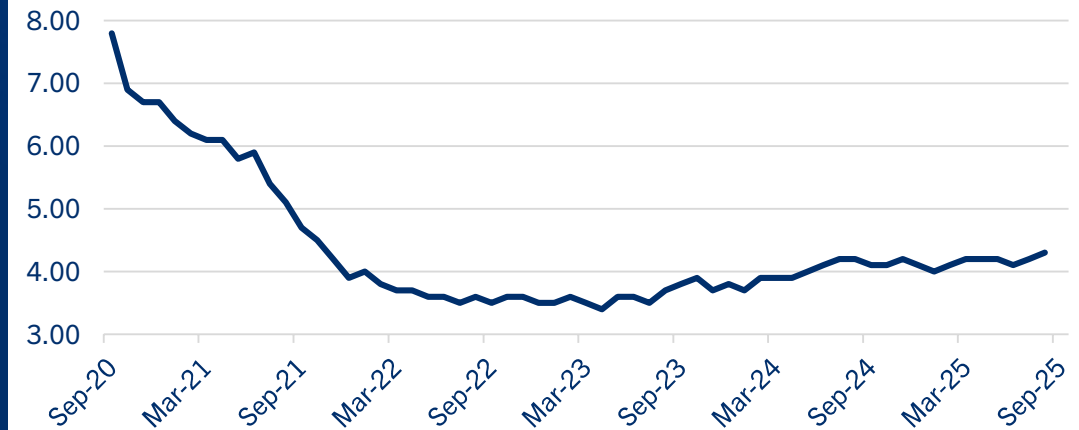
Economy

Jobs Falter, Fed Follows

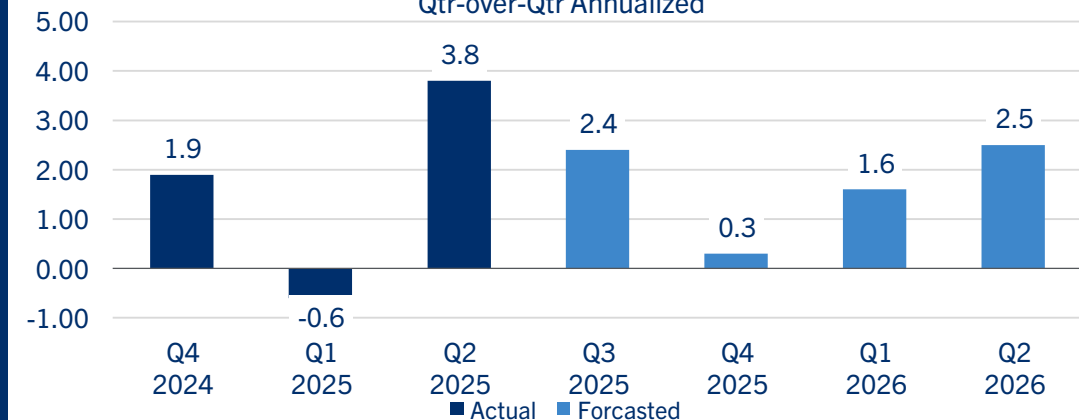
Soft labor data prompts rate cuts as growth remains uneven.

- The August jobs report was considerably weaker than expected, with anemic payrolls growth, downward revisions to prior months, and the unemployment rate edging up to the highest since late 2021. The Preliminary Benchmark Revision released September 9 made further downward revisions to payrolls and confirmed a weak trend of job growth throughout this year.
- Following these releases, the Fed cut the federal funds target a quarter percent on September 17. Comerica forecasts for the Fed to cut their target rate a quarter percent at both their late October and mid-December decisions, to a range of 3.50% to 3.75% by year-end. The Fed is also forecast to end run-off of their bond holdings ("Quantitative Tightening") in early 2026.
- Real GDP has been volatile in 2025, with a modest contraction in the first quarter followed by catchup growth in the second; Comerica forecasts a solid third quarter, as well. Some of this mid-year strength is payback after volatility of imports and inventories fueled the first quarter's drop.
- Real GDP is forecast to hit another air pocket in the fourth quarter. The federal government shutdown that began October first will be a headwind. Tariff-fueled inflation is another nagging headache for the private sector, squeezing margins, pressuring businesses to slow-roll hiring and investment, and eating into consumers' purchasing power.

U.S. Unemployment Rate



Source: Bloomberg L.P.

U.S. Real GDP Growth
Qtr-over-Qtr Annualized

Source: Comerica Bank Economics

Fixed Income

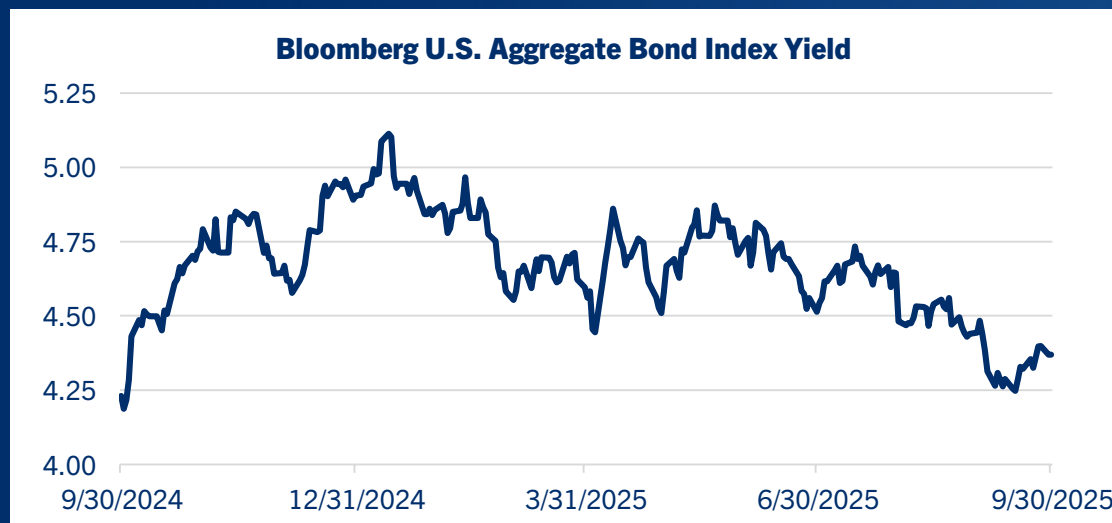
Yields Ease, Spreads Tighten

Market Returns as of 9/30/2025

- Fixed income markets delivered positive total returns across major indexes in the third quarter. The Bloomberg U.S. Aggregate Index rose 2.0%, while municipal bonds (+3.0%), investment-grade credit (+2.6%), and high yield (+2.5%) led performance among domestic sectors. The rebound reflected both easing rates and solid investor demand across the curve.
- U.S. Treasury yields drifted lower throughout the quarter, aided by declining inflation pressures and a Fed rate cut. The yield curve steepened early, as short-term yields fell faster than longer maturities, reflecting expectations for additional easing. After the rate cut, longer-dated Treasuries rallied, leading to a partial re-flattening of the curve as investors extended duration exposure.
- Corporate credit outperformed as spreads tightened significantly across both investment-grade and high-yield markets. Much of the quarter's return was driven by spread compression rather than duration gains, suggesting investors were rewarded for taking credit risk rather than interest rate exposure.
- Indeed, corporate credit spread are extremely tight. Investment grade spreads are just 75 basis points, a multi-decade low. The spread compression reflects rising investor confidence, resilient corporate fundamentals, and modest issuance volumes.

Fixed Income Indexes	Yield	Q3	YTD	1YR	3YR
Bloomberg U.S. Aggregate	4.37	2.03	6.13	2.88	4.93
Bloomberg U.S. Treasury	3.94	1.51	5.36	2.06	3.56
Bloomberg U.S. Corporate (IG)	4.81	2.60	6.88	3.63	7.07
Bloomberg U.S. High Yield	6.70	2.54	7.22	7.41	11.09
Bloomberg U.S. MBS	4.74	2.43	6.76	3.39	5.05
Bloomberg U.S. Municipals	3.66	3.00	2.64	1.39	4.74

Source: Bloomberg L.P.



Source: Bloomberg L.P.

Equities

Momentum Fueled Market

Market Performance as of 9/30/2025

- Domestic equity markets have demonstrated resilience in 2025, with major indices posting solid double-digit gains for the year following a momentum led third quarter. The S&P 500 closed Q4 up nearly 15% year-to-date, supported by strong corporate earnings, technology sector, and growth leadership. Although the market remains led by AI and momentum stocks trading at lofty valuations, we expect value-oriented sectors to gain wider appeal as the market broadens out and relative valuations become more attractive.
- The Russell 2000 and Microcap index led the market in the quarter rising over 12% and 17% respectively reflecting a broader and healthier market that is set to benefit from lower interest rates and consumer resilience. Additionally, an increase in mergers and acquisition activity should continue to benefit small and midcap companies.
- Sector rotation has been a defining feature of 2025. Technology remained a top-performing sector, buoyed by advances in artificial intelligence, cloud computing, and semiconductor innovation. Healthcare delivered lower returns, with only biopharmaceuticals participating due to breakthrough therapies and strong demand. Energy stocks stabilized after a volatile first half, as oil prices leveled off and renewables saw increased investment. Financials improved from more favorable net interest margins and should benefit from improved asset quality and consolidation. Consumer discretionary stocks are mixed, with luxury brands outperforming mass-market retailers. Utilities have been a stand-out as demand for data centers and computing continues to grow with the expansion of networking services and hyperscalers.

U.S Equity Indexes	Price	Q3	YTD	1YR	3YR
DJIA	46,398	5.67	10.47	11.50	19.63
S&P 500®	6,688	8.11	14.81	17.56	24.91
S&P 500® Eq. Wght.	7,693	4.83	9.88	7.80	16.41
Nasdaq Composite®	22,660	11.43	17.96	25.47	29.96
Russell 1000® Growth	4,718	10.51	17.23	25.52	31.60
Russell 1000® Value	2,005	5.31	11.63	9.40	16.93
Russell Mid Cap®	3,855	5.33	10.42	11.10	17.68
Russell 2000®	2,436	12.39	10.38	10.74	15.18
Russell Micro Cap®	940	17.03	15.72	22.52	14.61
S&P 500® Sectors	Price	Q3	YTD	1YR	3YR
Comm Svcs	423	12.04	24.51	35.55	38.95
Cons Disc.	1,918	9.54	5.30	20.31	20.54
Cons Staples	871	-2.36	3.89	0.51	10.58
Energy	683	6.21	7.04	4.43	11.04
Financial	897	3.22	12.70	20.66	23.25
Health Care	1,624	3.76	2.61	-7.95	6.61
Industrials	1,306	4.91	18.25	15.40	24.98
Info Tech	5,612	13.19	22.31	28.22	40.31
Materials	571	3.10	9.32	-4.27	12.26
Real Estate	265	2.59	6.19	-2.24	9.24
Utilities	443	7.57	17.69	11.20	13.61

Performance Reflects Total Returns. Source: Bloomberg L.P.

Global

AI Bonanza for EM economies

Market Performance as of 9/30/2025

- Emerging Markets (+11% in 3Q) driven by the AI boom, specifically Asia, outpaced developed markets as measured by the EAFE index (+4.9%) .
- Taiwan (17.8% in 3Q) has been the biggest beneficiary of the US AI boom due to their exports of high-end chips. 3Q exports increased 34% YOY and their August trade surplus of \$16.8B equaled 25% of GDP. Goldman Sachs revised their 2025 GDP forecast from 2.5% to 5% with 2/3rds of the growth driven by the technology sector.
- Other Asian countries in the chip/tech supply chain include Japan (11%), South Korea (11.7%), China (13.9%), Singapore & Malaysia.
- India (-3.2%) was dealt a policy shock with the US imposing a hefty new \$100k fee on US companies per skilled work visa applicant. 70% of these work visa are held by Indian nationals who collectively remit \$30-35B per yr to India. The expectation is that US companies will be deterred from sponsoring visa applicants in favor of an off-shore workforce. This growth obstacle, in addition to existing 50% tariffs, led investors to sell Indian equities in the 3Q driving the rupee to an all-time low of 88.8 against the US Dollar.
- China's economy has grown faster than expected this year due to robust exports, and more recently US- China relations appear to be on a more stable path. China has leverage over the supply of 'heavy' rare earth minerals critical to the production of high-temperature magnets used in EVs and defense equipment. US domestic investment in mining & refining will produce 'light' rare earths rather than the 'heavy' mineral, leaving China in the catbird seat.

International Equity Indexes	Price	Q3	YTD	1YR	3YR
MSCI ACWI ex. US®	402	7.05	26.69	17.19	21.40
MSCI EAFE®	2,767	4.87	25.83	15.69	22.47
MSCI Emerging Markets®	1,346	10.92	28.17	18.12	18.77
MSCI Frontier Markets®	711	14.97	38.26	36.67	18.95
Developed Country/Region (Index)	Price	Q3	YTD	1YR	3YR
Eurozone (EURO STOXX 50)	5,530	4.57	16.15	14.13	22.54
Japan (TOPIX)	3,138	11.01	15.26	21.48	22.49
United Kingdom (FTSE 100)	9,350	7.51	17.67	17.46	14.70
Canada (TSX Composite)	30,023	12.50	23.95	28.63	21.35
Germany (DAX 40)	23,881	-0.12	19.95	23.57	25.39
France (CAC 40)	7,896	3.26	10.29	6.82	14.59
Emerging Country/Region (Index)	Price	Q3	YTD	1YR	3YR
China (Shanghai Comp)	3,883	13.90	18.54	19.41	11.72
India (NSE Nifty 50)	24,611	-3.19	5.32	-3.31	14.53
Hong Kong (Hang Seng)	26,856	12.48	38.18	31.44	20.49
Taiwan (Taiwan Stock Ex.)	25,821	17.79	15.21	19.60	28.09
South Korea (KOSPI)	3,425	11.66	44.92	34.79	19.18
Mexico (S&P/BMV IPC)	62,916	10.13	30.58	24.47	16.04
Global Fixed Income Indexes	Yield	Q3	YTD	1YR	3YR
Bloomberg Global Aggregate	3.48	0.60	7.91	2.40	5.45
Bloomberg Emerging Mkts USD	6.01	3.40	8.51	6.91	10.38
Bloomberg Global High Yield	6.77	2.60	9.60	9.20	13.79

Currencies & Commodities

Gold Rush Fever

Price Levels as of 9/30/2025

- The broad dollar DXY Index increased by almost 1% in the 3Q as the Japanese Yen and Euro currency remain under pressure. Japanese rates are expected to remain low following the election of Sanae Takaichi as leader of Japan's ruling party, reinforcing the Yen as the preferred funding currency in 'carry' trades. Carry trades involve the investor borrowing in the low-rate currency to invest in the higher yielding one, placing pressure on the funding currency.
- Gold is up 46.5% YTD and continued higher in the 3Q, rising 16.8%. The rally in early 2025 which began as a hedge against US policy uncertainty, has continued, fueled by geopolitical tensions. Central banks continue to be major purchasers of gold. In addition, investor enthusiasm with both households and professional speculators, is driving the demand for Gold ETFs. Gold & crypto currencies are being viewed as 'dollar substitutes' allowing investors to de-risk their US dollar portfolios.
- Silver surged to all-time highs as supply constraints squeezed the London Bullion Market pushing borrowing costs to a record 35%. The price surge was sparked earlier this year by a fear that tariffs would be levied, causing a drawdown in inventories in London and bullion transfer to New York. Much of the silver in London is stored in vaults backing Silver ETFs and is not readily available for futures contract delivery.
- West Texas Intermediate Crude Oil (WTI) has remained stable in the 3Q. US production is hitting all-time highs due to technological progress and productivity growth despite the ongoing decline in the number of drilling rigs.. OPEC is trying to regain control of the market by increasing production, which bodes for continued easing in oil prices.

Currencies	Q3 '25	Q2 '25	Q1 '25	Q4 '24	Q3 '24	1 Yr %
U.S. Dollar Index	97.78	96.88	104.21	96.88	100.78	-3.0%
Euro	1.17	1.18	1.08	1.18	1.11	5.4%
Japanese Yen	147.67	144.03	149.96	144.03	143.63	-2.7%
British Pound	1.35	1.37	1.29	1.37	1.34	0.7%
Canadian Dollar	1.39	1.36	1.44	1.36	1.35	-2.8%
China Renminbi	7.12	7.16	7.26	7.16	7.02	-1.4%
Mexican Peso	18.33	18.75	20.47	18.75	19.69	7.4%
Cryptocurrencies	Q3 '25	Q2 '25	Q1 '25	Q4 '24	Q3 '24	1 Yr %
Bitcoin	113.58 k	107.61 k	82.42 k	107.61 k	63.79 k	78.1%
Ethereum	4,149	2,504	1,820	2,504	2,614	58.7%
XRP	2.85	2.30	2.09	2.30	0.62	356.6%
Metals	Q3 '25	Q2 '25	Q1 '25	Q4 '24	Q3 '24	1 Yr %
Gold	3,859	3,303	3,124	3,303	2,635	46.5%
Silver	46.65	36.11	34.09	36.11	31.16	49.7%
LME Aluminum	2,681	2,598	2,533	2,598	2,612	2.6%
LME Copper	10,269	9,869	9,710	9,869	9,829	4.5%
LME Nickel	15,235	15,215	15,918	15,215	17,514	-13.0%
Energy	Q3 '25	Q2 '25	Q1 '25	Q4 '24	Q3 '24	1 Yr %
WTI Crude	62.37	62.06	67.88	62.06	66.47	-6.2%
Brent Crude	66.03	65.25	71.14	65.25	70.70	-6.6%
NYM Gasoline	192.23	189.04	197.55	189.04	186.67	3.0%
NYM Natural Gas	3.30	3.99	4.77	3.99	3.65	-9.4%

Source: Bloomberg L.P.



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