

## *How many cuts does it take to get to the center of the Tootsie Pop?*

### Economic Highlights

- The Federal Reserve (Fed) delivered its first rate cut of 2025, lowering the federal funds target range to 4.00% to 4.25%. Fed Chair Jerome Powell called it a “risk management cut” as the Fed weighs risks to its dual mandate of full employment and price stability. Newly confirmed Governor Stephen Miran dissented, favoring a 50 basis point (bps) cut.
- The median forecast from the Fed’s updated “dot plot” shows an additional 50 bps of rate cuts this year, 25 bps more than its June projections. This comes despite an upward revision to Fed projections for gross domestic product (GDP) growth and inflation, which is projected to remain above the Fed’s 2% target for longer, along with a slight downward adjustment to the projection for the unemployment rate.
- The October 1 shutdown of the U.S. government delayed the September jobs report, a key data point for the Fed given its focus on the labor market. Other labor market data continues to suggest a low hiring/low firing environment.
- The Consumer Price Index (CPI) rose to 2.9% year-over-year. Certain import-reliant goods are showing modest tariff passthroughs, but the Fed expects tariff price effects to be short-lived. The tension between the weakening labor market and sticky inflation reinforces the Fed’s data dependence.
- August’s retail sales and consumer spending data showed consumers continued to support the U.S. economy. Q2 GDP was revised higher with consumer spending up 2.5%, rebounding from Q1’s 0.6% reading

### Bond Markets

- Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended the month at 3.93%, 3.61%, and 4.15%, representing decreases of 21 bps, 1 bps, and 8 bps, respectively.
- The 30-year U.S. Treasury yield declined 20 bps and modestly flattened the yield curve from its steepest levels in over three years. This drop in longer-dated Treasury yields pushed mortgage rates to their lowest levels in nearly three years, improving the backdrop for home buying activity.
- As a result of lower yields in September, fixed income indices produced positive returns for the month. The ICE BofA 3-month, 2-year, and 10-year U.S. Treasury indices returned +0.33%, +0.27%, and +0.94%, respectively.

### Equity Markets

- Equities rallied throughout the month and ended September just shy of all-time highs. The NASDAQ ended the month up +5.7%, the S&P 500 up +3.6%, and the Dow Jones Industrial Average up +2.0%. Year-to-date, the S&P 500 has returned 14.8%, while the NASDAQ is up 18.0% and the Dow Jones Industrial Average is up 13.9%. Notably, U.S. small cap stocks – which have materially lagged large caps – finally eclipsed their previous high from November 2021.

- International equities also reached all-time highs by month-end as measured by the MSCI ACWI ex U.S. Index which rallied +3.6% for the month. International equities continue to outperform domestic stocks as the index is up over 26% for the year.
- The value of the U.S. Dollar reached its lowest level in over three years in September and is now down nearly 10% on the year. This continues to serve as a tailwind for international equities.

### PFMAM Strategy Recap

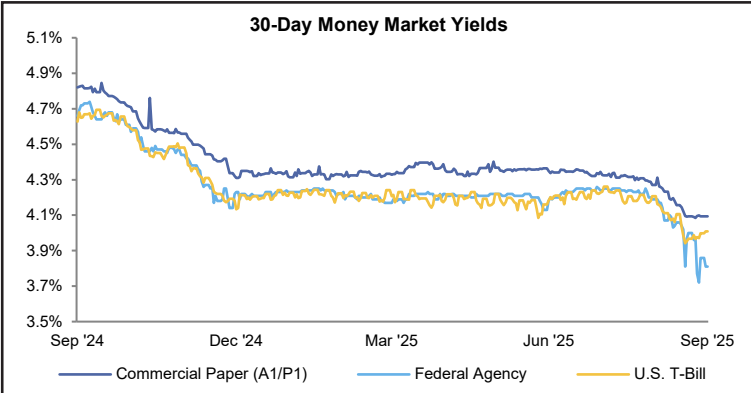
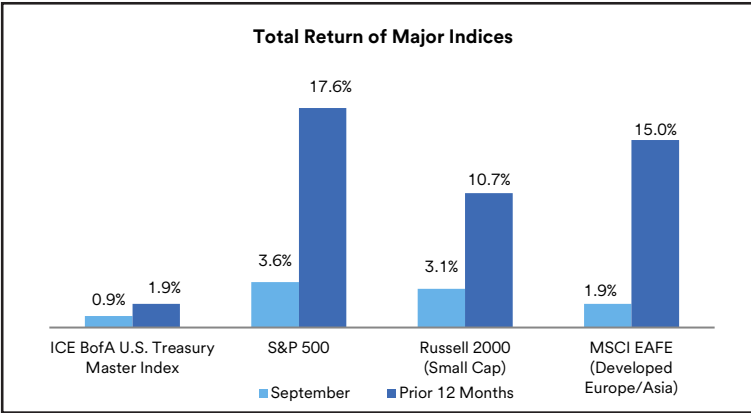
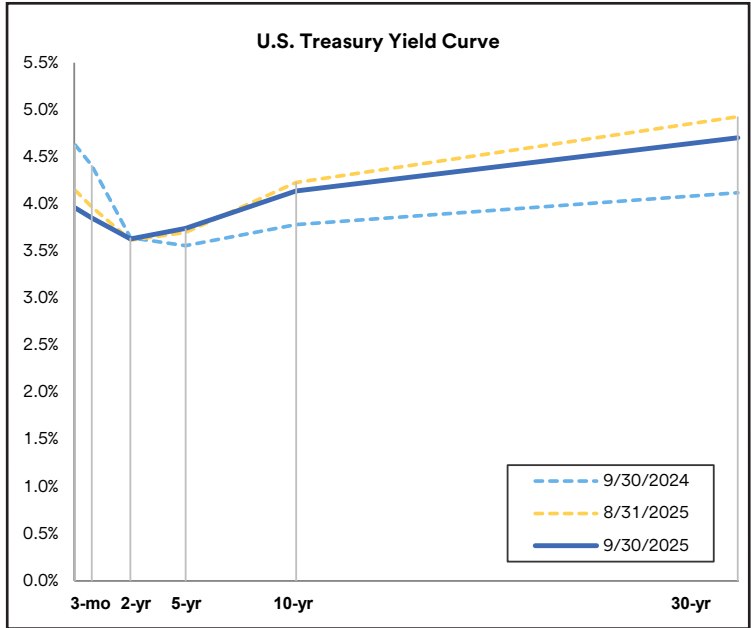
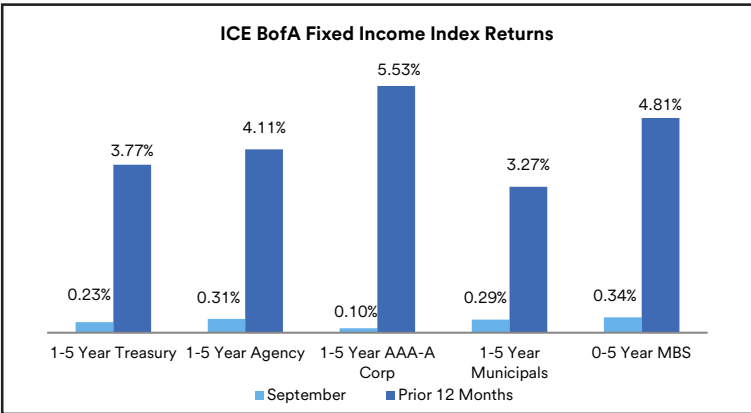
- Given the expected trajectory of additional Fed rate cuts, we plan to maintain portfolio durations near 100% of benchmarks and position portfolios to take advantage of our curve steepening bias.
- Spreads on federal agencies and supranationals remain quite narrow amid a lack of issuance. We do not anticipate any material changes or new issuance in the near term. We continue to monitor the Administration’s ongoing efforts to at least partially privatize Fannie Mae and Freddie Mac. Treasury Secretary Bessent has suggested a possible initial public offering (IPO) by year-end, though this timing remains challenging. Initial estimates are in the \$50 billion range for up to a 15% equity stake, which would be the largest IPO in history.
- Investment-grade (IG) corporate bond spreads remained extremely tight through the month, ending near multi-year lows across most maturity structures. Spreads on the long end of the curve in particular remain exceptionally narrow. Relentless demand continues to highlight strong technicals while resilient economic conditions have supported corporate fundamentals. We continue to look for opportunities to trim any issues we perceive as overvalued.
- Spreads on asset-backed securities (ABS) stabilized and remained mostly unchanged over the month. AAA-rated ABS continue to offer more yield than equivalent-maturity AAA-A corporates. Current supply projections are for issuance to be down year-over-year.
- Mortgage-backed securities (MBS) posted strong excess returns in September as longer collateral MBS securities (30-yr mortgages) outperformed shorter-duration collateral structures (15-yr mortgages). Agency-backed commercial MBS (CMBS) grinded out positive excess returns for the month. Lower volatility continues to serve as a tailwind to the sector, although heightened fiscal policy uncertainty may weigh on volatility going forward. We remain cautious on rich valuations.
- On the short end of the curve, gross Treasury Bill issuance rose but net issuance declined as maturities of existing securities outweighed new issuance. The Treasury Bill market remains priced for further Fed rate cuts. Credit spreads on the short end of the curve stabilized during the month, allowing selective attractive buying opportunities across various maturities.

U.S. Treasury Yields				
Maturity	Sep 30, 2024	Aug 31, 2025	Sep 30, 2025	Monthly Change
3-Month	4.63%	4.15%	3.96%	-0.19%
6-Month	4.41%	3.97%	3.85%	-0.12%
2-Year	3.64%	3.62%	3.63%	0.01%
5-Year	3.56%	3.70%	3.74%	0.04%
10-Year	3.78%	4.23%	4.14%	-0.09%
30-Year	4.12%	4.93%	4.70%	-0.23%

Spot Prices and Benchmark Rates				
Index	Sep 30, 2024	Aug 31, 2025	Sep 30, 2025	Monthly Change
1-Month SOFR	4.85%	4.27%	4.16%	-0.11%
3-Month SOFR	4.59%	4.17%	4.00%	-0.17%
Effective Fed Funds Rate	4.83%	4.33%	4.09%	-0.24%
Fed Funds Target Rate	5.00%	4.50%	4.25%	-0.25%
Gold (\$/oz)	\$2,636	\$3,487	\$3,825	\$338
Crude Oil (\$/Barrel)	\$68.17	\$64.01	\$63.05	-\$0.96
U.S. Dollars per Euro	\$1.11	\$1.17	\$1.17	\$0.00

Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-AA-A Industrials	AAA Municipals
3-Month	3.96%	3.97%	4.15%	-
6-Month	3.85%	3.85%	4.16%	-
2-Year	3.63%	3.64%	3.98%	2.38%
5-Year	3.74%	3.75%	4.27%	2.42%
10-Year	4.14%	4.20%	4.79%	3.11%
30-Year	4.70%	-	5.52%	4.05%

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	15-Sep	Aug	0.60%	0.20%
FOMC Rate Decision	17-Sep	Sep	4.25%	4.25%
GDP Annualized QoQ	25-Sep	2Q T	3.80%	3.30%
Existing Home Sales MoM	25-Sep	Aug	-0.20%	-1.50%
U. of Mich. Consumer Sentiment	26-Sep	Sep F	55.1	55.4
PCE YoY	26-Sep	Aug	2.70%	2.70%
ISM Manufacturing	1-Oct	Sep	49.1	49



Source: Bloomberg. Data as of September 30, 2025, unless otherwise noted.

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