



KESTREL

WEALTH MANAGEMENT

Kestrel's View

Quarterly Economic Commentary
October 2025

Market Returns

	12/31/2024	09/30/2025	% Gain/Loss
Dow	42,544	46,398	9.06%*
S&P 500	5,882	6,688	13.70%*
NASDAQ	19,311	22,660	17.34%*

**Total Return Including Dividends*

Welcome to the fourth quarter and fall. Arguably, one of the best times of the year, if you love college football, being outdoors, the upcoming holidays, and typically, if you are an investor. Currently, the markets are poised for a strong finish, building on a great year so far. Now, that does not mean that there couldn't be some minor hiccups along the way, just ask Alabama and UNC football fans. Go Wolfpack! Now that I have possibly alienated the majority of you, let's take a look at what lies ahead through 2025 and into 2026.

In mid-September, the Fed did as was expected and cut interest rates by 25 basis points. While this was a significant step for the Fed, as it was widely anticipated, the markets remained largely unchanged. What was most surprising was that the yield on the 10-year Treasury actually increased, rather than decreased. The yield is actually higher now than it was before the interest rate cut. I think this is because the Fed Governors are split on how many more rate cuts will be made in 2025; some see two, some one, and some see no more cuts for 2025. The stock market seems a little more optimistic, continuing to see new higher highs.

Inflation has proven to be more stubborn than most expected. So far this year, there has been virtually no improvement in reducing inflation closer to the 2% target. It's like I always say: inflation is like losing weight - the closer you get to your goal, the tougher it is to see improvement. There are differing views as to the effect of tariffs on inflation. Is it showing up yet? Who is bearing the brunt of the additional costs? Is it transitory? In my opinion, we are beginning to see the effects of tariff inflation come into play now, and it will be realized even more over the next two quarters. It will not be transitory; once in place, it will continue to match or outpace inflation, creating a drag on economic growth. How much, and will it impede economic growth? That remains to be seen.

One factor that significantly contributes to inflation is energy costs. Oil prices have decreased from one

year ago, when they were in the mid-\$70s, to the low \$60s. Oil prices have declined by more than 18% over the past 12 months. Gas prices, although slightly lower, have not dropped nearly as much. This keeps pressure on consumers to pay for higher energy prices. I thought gas prices might see a nice drop after the summer driving season, but that has not materialized.

The only easing in inflation that I have seen is in the price of eggs. However, given enough time, the supply chain came back online, balancing demand with supply, and thus prices dropped. Nothing else in the grocery store is cheaper than it was 12 months ago; prices continue to rise. In fact, I suspect that meat prices have risen well above the normal inflation rate, especially beef. In addition, I live in one of the poorest counties in NC. When I go to the grocery store, regardless of the day or time, it is always crowded, and people are pushing full grocery carts. Where is all this money coming from? I thought that with the closed borders, deportations, and crackdown on immigration, this would relieve some pressure on inflation, especially food inflation. So far, that is not the case.

Looking at 2026, which is just around the corner, depending on various factors, including political, fiscal, monetary policy, inflation, economic, and geopolitical considerations, it could be a continuation of 2025. I suppose the two biggest concerns are inflation and geopolitical risks. Inflation should guide the Fed / economy / monetary policy. In addition, there are growing concerns about Russia's aggressiveness and lack of good faith in negotiating an end to the war with Ukraine. While Russia, on its own, is a concern, it has fairly strong ties with India and China, which most likely allow Putin to push the envelope. Navigating this issue probably concerns me more than inflation. Growing inflation is a very real concern as President Trump is set to replace Chair Powell in April with a new, more dovish Fed President. I expect this to potentially impact the path of interest rates in the second half of 2026. Easy monetary policy and lower interest

rates would almost certainly create a surge in inflation that would harm the economy. In conclusion, I believe the landscape is positive for stocks and bonds in 2026, particularly in the first half. However, these two concerns are likely to cause additional volatility.

As you may have noticed by now, our department is changing its name to Kestrel Wealth Management. As Roger said in his recent letter, this will not change anything for our clients. We have the same staff, the same office locations, the same phone numbers, and, most importantly, the same employer, KS Bank. We are just a division of KS Bank now. This was done to allow our department to expand its footprint. We already have clients in about nine different states.

Additionally, we have been approached by a couple of small community banks in surrounding states that would like us to offer their customers wealth management solutions. By rebranding as a boutique firm, their customers can work with us while understanding that we work for them through their current bank. We are in the process of officially implementing the changes to the website, email addresses, and other relevant details. This should be complete by year-end. Once again, you will not notice anything different except our name.

Another exciting development in our department is that we are in the process of switching to a new processing vendor. In 2015, as a start-up trust department, we needed a processing vendor to help us get started. Over the past 10 years, we have been very successful and have grown thanks to you, our valued clients. We are now approaching \$300M in assets and need a processing vendor to offer all the "bells & whistles" our clients deserve and should expect, like a mobile app. The new platform will provide us with increased efficiencies, improved tools, and enhanced access for our clients. This is a lengthy process, and we expect to have it fully in place by the end of the first quarter of 2026.

We believe we are well-positioned to participate in the expected moves higher during the fourth quarter. However, we are always looking to strengthen your portfolio(s) as opportunities arise. We always welcome your comments, concerns, and questions.

We appreciate each client's uniqueness and will always strive to do what is best for each individual client. Please do not hesitate to ask us questions or express your concerns. This is your money and we are your stewards.



KESTREL

WEALTH MANAGEMENT



Our Company

Since 2015 our mission has been to protect, manage, and grow our client's wealth. With our truly holistic client approach, we get to know you and your goals on a deeper level. By doing this, we can create a financial plan that meets your needs now, and in the years to come. And as life changes and priorities shift, our team of experts will be right by your side.

Our Services

Kestrel Wealth Management offers a full range of services including:

- Investments
- Retirement Planning
- Financial Planning
- Employee Benefits Administration
- Trust & Estate Management
- Business Succession Planning

We serve a variety of clients, each with unique circumstances and challenges that improve us daily. We create a fully custom strategy for each client to ensure the best fit for your situation.

Scan the QR code
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