Weekly Mosaic – End of QT 2.0?

Week of October 20th, 2025

Madison INVESTMENTS

98.8

NFIB Small Business Optimism Index

Small business optimism fell -2.0 points in September as the report saw a decline in responses expecting strong business conditions in the next six months and increased concern over excess inventories.

+14.9%

Mag-7, 3rd Quarter, Year-over-Year, Estimated Earnings Growth

The Magnificent-7's dominance in earnings growth is anticipated to continue in the third quarter. Consensus estimates are targeting +14.9% EPS growth for the Mag-7 while the remaining 493 are only anticipated to grow at +6.7%.

-2.3%

PPI, China, Not Seasonally Adjusted, Year-over-Year

The Producer Price Index (PPI) in China continued to indicate an economy being stalked by deflationary forces with the year-over-year measure having contracted since September of 2022.

Top of Mind

This past week, Federal Reserve (Fed) Chairman Jerome Powell indicated that the Fed's latest bout of balance sheet reduction, quantitative tightening, is likely nearing its end.

To reduce their balance sheet, as they have in the past, the Fed is not reinvesting the proceeds from maturing bonds each month up to a set limit, thereby allowing their balance sheet to run off.

After more than three years of controlled balance sheet decline, as of last Wednesday, the Fed's portfolio of Treasury and Agency mortgage-backed securities stood at just under $6.6 trillion, down from nearly $9.0 trillion when they embarked on their latest round of quantitative tightening.

Impressively, despite the Fed intentionally reducing their holdings by nearly $2.4 trillion since early 2022, the US economy has avoided what may have been one of the most overly forecasted recessions and the equity market has hardly missed a beat, with the S&P 500 standing over 50% higher today than it was in the spring of 2022.

As their latest effort to reduce the balance sheet concludes, more signs of credit stress have surfaced. The question now turns to how long until they switch gears and begin to expand their balance sheet, quantitative easing, once again.

Index Returns

As of 10/17/2025 (%)	1-Week	QTD	YTD	1-Year	3-Year
S&P 500 TR	1.71	-0.31	14.47	15.57	23.72
Russell Mid Cap TR	1.40	-1.29	9.00	7.72	16.18
Russell 2000 TR	2.41	0.67	11.13	8.98	13.86
MSCI EAFE NR	0.68	0.38	25.62	18.71	21.14
MSCI EM NR	-0.29	1.19	29.05	22.42	19.12
Bloomberg US Agg Bond TR	0.45	1.03	7.23	5.48	5.76
Bloomberg Intermediate Corporate Bond TR	0.38	0.65	7.27	6.48	7.50
Bloomberg High Yield Corporate TR	0.47	-0.15	7.06	7.43	10.72
Bloomberg Commodities TR	1.54	1.13	10.61	12.12	2.59

Price Levels

	10/17/2025	1 Mo	3 Mo	6 Mo	1-Year
US Dollar Index	98.98	97.78	97.85	100.10	102.99
10 Year Treasury Yield	4.06	4.04	4.42	4.47	4.08
West Texas Crude (WTI) $/bbl	61.56	64.01	69.63	61.91	76.46

Current Positioning

Cautiously optimistic while intentionally avoiding some of the most expensive areas of the equity and credit markets.

	Min			Neutral			Max	
EQUITIES								Guarding against elevated levels of complacency and stretched valuations.
U.S. Equity								Relative advantages remain attractive; however, valuations have become less attractive. Our longstanding overweight to US equities relative to international equities remains.
Large								The balance sheet strength of many large cap companies remains attractive. However, their valuations are among the richest relative to other segments of US and international equities.
Mid								Absolute and relative valuations combined with a higher percentage of domestically driven supply chains and sales, combine to position mid-cap stocks attractive.
Small								Valuations continue to remain attractive against large caps and stand to benefit from less onerous regulations. Within small caps, we are focused on quality companies able to navigate an elevated interest rate environment.
Value								Overweight Energy and Financials while avoiding the cheapest valued companies, leading us away from deep value sectors and industries.
Growth								Driven by an underweight to Consumer Discretionary and Communication Services, neutral weight Technology.
International								International equity valuations are attractive and central banks around the world have largely shifted toward easing monetary policy.
Developed Markets								Overweight Japanese and Eurozone equities relative to benchmark.
Emerging Markets								Attractive valuations, global monetary easing, and stimulative measures in China, position emerging Asian equities to potentially benefit from multiple tailwinds.

FIXED INCOME								We believe opportunities within fixed income markets are attractive over the mid- to long-term time periods while recognizing volatility could persist over the short-term.
Duration								Slightly underweight duration as uncertainty around growth and inflation persist.
Treasury								Neutral US Treasuries, favor the securitized sector.
Corporate								Prefer short-term and intermediate-term investment grade corporate credit relative to long-term. High-quality bias remains with little value offered in the form of spreads across the high yield universe.
MBS/Securitized								Attractive relative yield, adequate spreads, and strong implied credit quality position the asset class attractively, specifically residential mortgages.

ALTERNATIVES								
Commodities								A persistent lack of a durable geopolitical risk premium, lower global trade, and slower global economic growth combine for a challenging environment for commodities moving forward.

CASH								Excess cash position is being driven by our active underweight to international equities.

Mosaic by Madison Investments

Mosaic by Madison Investments represents Madison's global multi-asset product suite spanning the risk spectrum with a series of distinct portfolios across ETF/Mutual Fund and ETF mandates. Madison's Multi-Asset Solutions team has deep experience monitoring worldwide macroeconomic trends and their associated investment implications. Risk management and a commitment to consistency are key components of our philosophy and process. We believe that efficient asset allocation and downside volatility mitigation should lead to increased long-term client investment success.

Multi-Asset Solutions Team

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The S&P 500® Index is a large-cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the U.S.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 11% of the total market capitalization of the Russell 3000® Index.

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The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

The Bloomberg Commodity Total Return index (BCOM) is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg US Intermediate Corporate Bond Index measures performance of United States dollar-denominated investment grade, fixed-rate, taxable corporate bond securities with maturities greater than or equal to one year, but less than ten years, that are issued by U.S and non-U.S. industrial, utility and financial issuers.

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All investing involves risks including the possible loss of principal. There can be no assurance the asset allocation portfolios will achieve their investment objectives. The portfolios may invest in equities which are subject to market volatility. In addition to the general risk of investing, the portfolio is subject to additional risks including investing in bond and debt securities, which includes credit risk, prepayment risk and interest rate risk. When interest rates rise, bond prices generally fall. Securities rated below investment grade are more sensitive to economic, political and adverse development changes.

Equity risk is the risk that securities held by the fund will fluctuate in value due to general market or economic conditions, perceptions regarding the industries in which the issuers of securities held by the fund participate, and the particular circumstances and performance of particular companies whose securities the fund holds. In addition, while broad market measures of common stocks have historically generated higher average returns than fixed income securities, common stocks have also experienced significantly more volatility in those returns.

Commodity values can be very volatile. They can be impacted by world or local events, government regulations and economic conditions. Investments in commodities can lose value.

Each portfolio is subject to the risks and expenses of the underlying funds in direct proportion to the allocation of assets among the underlying funds.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

The National Federation of Independent Business (NFIB) Small Business Optimism Index is a combination of ten seasonally adjusted components. It provides an indication of the health of small businesses in the United States.

The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

EPS Growth: the annual rate at which a company's earnings are expected to grow.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.