



# Edgemoor's Quarterly Report

Suite 315  
7250 Woodmont Avenue  
Bethesda, MD 20814  
(301) 543-8881  
[www.edgemoorinv.com](http://www.edgemoorinv.com)  
[www.edgemoorblog.com](http://www.edgemoorblog.com)

**October 2025**

---

## **Another Record Quarter for Stocks**

Stocks registered another record quarter during the three months ended September 30<sup>th</sup>, posting their strongest third quarter performance since 2020. The S&P 500 Index hit 23 record highs during the period, among the most ever in a single quarter.

Momentum built throughout the quarter as market volatility remained unusually low. Investor sentiment was lifted by resilient corporate earnings, continued optimism around artificial intelligence (AI), and expectations for a new cycle of monetary easing.

All of these positives played out despite ongoing concerns about tariff and trade policies, slowing labor conditions, and geopolitical crises around the world.

The S&P 500 Index posted a total return of 8.1% and the Nasdaq returned 11.2% in the third quarter, which came on the heels of double digit returns in the second quarter for both indices. Year-to-date through September 30<sup>th</sup>, the S&P 500 has delivered a total return of 14.8% and the Nasdaq has returned 17.3%.

Technology and communication stocks once again drove the rally, however a strong showing by industrial, financial, and materials stocks fueled a more broad-based market rally in Q3 than has been seen for quite some time. Small-cap and

international stocks also outperformed, with the healthcare and consumer defensive sectors as the only notable laggards. For the first nine months of 2025, all eleven sectors of the S&P 500 Index have generated positive returns.

Bonds also posted gains, with the Bloomberg Barclays Aggregate Bond Index returning 2.0% in the third quarter and 6.1% year-to-date.

## **The Fed Makes Its Move**

The Federal Reserve announced its first interest rate cut of the year at its September 17<sup>th</sup> meeting, cutting its benchmark short-term rate by one-quarter of 1% (or 25 basis points) to a target range of 4.0% - 4.25%. This marked the first rate cut since December 2024 and was largely prompted by a softer-than-expected August jobs report. The move was seen as a measured step to support economic growth, by balancing concerns about inflation with the need to support the labor market.

Markets largely applauded the move, although stocks actually ended mixed that day, as much of the rate cut expectation had already been priced in by investors. Looking ahead, the Fed also signaled two additional rate cuts before the end of the year, which, if they occur, would provide a further tailwind for equities.

### **The U.S Economy: Mixed Messages**

The U.S. economy has been sending somewhat mixed messages of late, with strong GDP growth counter-balanced by a slowing labor market. Let's begin with a discussion of the positive signs.

U.S GDP grew at a better-than-expected annual rate of 3.8% in the second quarter of 2025, according to the third and final estimate of the U.S. Bureau of Economic Analysis. The estimate was revised upward from the previous figure of 3.3% and marked a sharp turnaround from the negative 0.5% rate in the first quarter. The strong second quarter growth was driven by increases in both consumer spending and private business investment, offset in part by reduced government outlays.

For the third quarter ended September 30th, the forecasts for GDP growth range from 3.9% (the Fed's GDPNow model) to 2.5% (the New York Fed's projection). And for the full year 2025, estimates range from 1.5% to 1.9%, signaling a deceleration of growth in the latter half of the year. The primary culprit of this deceleration is the expected negative impact of ongoing tariffs on consumers and businesses.

Another bright spot in the economy has been corporate earnings, which have continued to grow at a solid clip so far this year. Year-over-year earnings of the S&P 500 Index grew by 11% in Q2 and are expected to grow by nearly 8% in Q3, which would be the ninth consecutive quarter of earnings growth for the index. For the full year 2025, S&P 500 earnings are projected to grow by 10.8% and revenues by 6% over 2024 levels.

The fact that corporate earnings have continued to beat expectations has surprised many, but not all economists. The bulls point to strong capital spending and productivity gains across many sectors, while the bears warn that the full impact of tariffs have not yet been felt. Both may be true, but for now, corporate balance sheets remain strong, AI advances continue to boost profits, and many companies are raising their forward earnings guidance.

### **Headwinds Growing Stronger**

But not all the economic news is this optimistic.

The U.S. labor market is gaining much of the focus now that it has started to show some cracks. The August unemployment rate rose to 4.3%, up from 4.2% in July, as a modest 22,000 jobs were added during the month. The unemployment rate has shown a steady uptick since June, when the rate stood at 4.1%. Persistently weak hiring since the spring has contributed to the uptick, but the lack of mass firings has also kept a lid on unemployment.

Meanwhile, consumer confidence fell in September due to growing worries about the labor market. The September level was the lowest since April. Private sector businesses cut jobs for the third time in four months in September, marking the weakest stretch for the job market since the pandemic.

Finally, fears about inflation re-igniting continued to play out in August. The Consumer Price Index (CPI), the broadest measure of inflation, increased by 2.9% year-over-year in August 2025, up from 2.7% in July. Elevated costs for food, shelter and services contributed to the increase, while



moderating costs for energy and medical care provided some marginal offset. The expectation for year-ahead inflation also rose to 3.1% in July from 3.0% in June.

### **The Government Shutdown**

Congress failed to pass a continuing resolution to fund the government beyond midnight on September 30<sup>th</sup>, causing the government to shut down. There have been several shutdowns since the Congressional Budget Act was passed in 1974, with some lasting just a few hours and others, like the last one in January 2019, lasting several weeks (35 days, to be exact). Prolonged shutdowns can impair economic activity and reduce government revenues and spending.

Historically, financial markets have treated shutdowns as a short-term disruption, triggering a typical “risk-off” reaction. That means that volatility can rise, the flow of capital tends to slow, the dollar may fall, and stock markets can sell-off. But the depth of a sell-off tends to mirror the length of the shutdown, with markets bouncing back quickly once government operations are restored.

It is no secret that we live in a heightened political climate, so there is greater uncertainty around the current shutdown. But, while we will be watching the situation closely, we do not anticipate any changes to our long-term investment strategy.

### **Portfolio Implications and Actions**

Having said that, we do remain somewhat cautious on equities in the near term given the economic, fiscal, and geo-political uncertainties. We also consider the broad market to be fairly valued,

based on the S&P 500’s current forward price-to-earnings ratio of approximately 22.5 times, just above its 5-year average of 20 times.

However, we believe that many parts of the market warrant valuations higher than historical averages based on factors like technological progress, productivity advances, and asset-light business models that have produced consistently higher profit margins and free cash flow for a large number of companies in the S&P 500 Index.

In addition, not all segments of the market carry lofty valuations. For example, many healthcare, energy, and financial stocks are trading substantially below the market’s average P/E multiple, and we continue to look for opportunities in these and other undervalued sectors.

Overall, we continue to favor more value-oriented, dividend-paying stocks that have strong cash flow characteristics, leading market share, a wide economic moat, and solid growth prospects. While we still own 6-12 month Treasury bills with annualized yields just below 4% for excess cash, we are on the lookout for additional income securities as those Treasury yields continue to decline.

### **All-Time Highs Can Be Bullish for Stocks**

Despite stocks reaching all-time highs during the third quarter, investors should not assume that markets have peaked, or that they have missed out on a rally. Since 1950, each time the S&P 500 hit its first all-time high during a year, stocks went on to deliver a 17% average return for the subsequent twelve months (the only exception being at the start of the global financial crisis in 2007). This phenomenon is referred to as momentum, and

historically it has been a very powerful force that can propel markets for months, if not years.

Of course, periodic market declines are also inevitable. However, they do not change the long-term, positive trajectory of the stock market. In fact, bull markets have historically lasted much longer than bear markets, meaning that even new highs within a cycle can still be good entry points for long-term investors.

### Outlook

Our outlook for the markets is guardedly optimistic, as we believe volatility may continue until there is more clarity on unemployment, interest rates, and the long-term impact of tariffs on the economy.

Despite these near-term uncertainties, we emphasize to our clients the importance of sticking to a long-term investment plan focused on their specific goals and objectives. We believe our patient, disciplined approach to individual security selection offers our clients strong, long-term return potential in a transparent, cost effective, and tax efficient manner.

We appreciate your confidence in our time-tested investment philosophy, and we remain steadfast in our commitment to helping our clients and their families reach their long-term financial goals.

### Analysis of Selected Securities

The following are analyses of three selected securities we are currently buying for client accounts:

#### Booking Holdings Inc. (BKNG)



Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (09/30/2025)	\$5,399.27	Forward P/E	21.7
Market Cap (\$B)	\$ 175.0	Price/Book	-
Dividend Yield	0.7%	Price/Sales	7.0

Booking Holdings Inc. is the world's largest online travel agency by sales, offering travel reservations and search services for hotels, alternative accommodations, flights, cars, restaurants, vacation packages and cruises through its website and mobile app. The company's five primary brands are: Booking.com (global), Priceline (U.S.), KAYAK (travel search engine), Agoda (Asia) and OpenTable (restaurant reservations).

As of June 30, 2025, Booking offered accommodations at approximately 4.3 million properties in over 220 countries, consisting of 500,000 hotels, motels and resorts, and 3.8 million

alternative accommodations, including homes, apartments and other unique properties. The company's expanding presence in flights, rental cars, and restaurant reservations has provided an additional growth driver for the company.

Booking's broad travel platform also provides the company with numerous competitive advantages. Its size and scale have allowed the company to spend more on marketing, advertising and technology than most of its competitors, resulting in a steadily increasing market share and a strong brand name. In addition, Booking's platforms enjoy a virtuous cycle of demand due to an increasing number of property owners and customers using their travel services. Finally, Booking's growing and loyal customer base provides the company with a unique and robust understanding of consumer behavior, creating high customer retention.

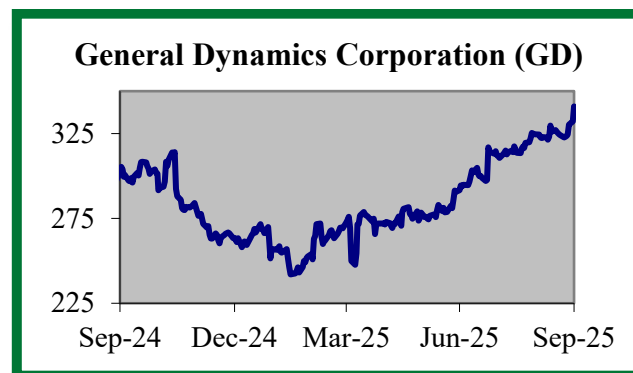
Global travel demand has remained strong post-pandemic as consumers continue to make travel spend a core part of their budget. Booking's share of the approximately \$3 trillion global travel market is still just in the single digits, offering plenty of room for future growth. In addition, the integration of artificial intelligence into their platform should help Booking continue to find innovative ways to improve profitability and customer reach.

Booking's business model is "asset light", relying more on technology and partnerships to drive business as opposed to physical assets or bricks and mortar buildings. This model has allowed Booking to generate high profit margins, strong free cash flow, and attractive returns on assets and invested capital. The company has used this free cash flow to opportunistically repurchase a

significant number of shares over time, thereby boosting earnings per share and investor returns.

Booking has a long track record of industry-leading growth, operational performance, and strategic execution which has resulted in strong stock outperformance over time, as compared to both the S&P 500 Index and the travel services industry. Booking's stock currently trades at a forward price-to-earnings multiple of 21.7, roughly in line with the S&P 500 Index. We believe Booking remains an attractive investment that is trading at a reasonable valuation for a high-quality company that is projected to generate greater than 15% earnings per share growth over the long term.<sup>1</sup>

### General Dynamics Corporation (GD)



Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (09/30/2025)	\$341.00	Forward P/E	20.6
Market Cap (\$B)	\$ 91.7	Price/Book	3.9
Dividend Yield	1.8%	Price/Sales	1.8
Return on Equity	18.8%	Debt/Equity	67.3

Virginia-based General Dynamics is the world's sixth largest defense contractor and the second largest manufacturer of corporate jets. The company's four operating segments include

<sup>1</sup>Per Booking Holdings, Inc. Q2 2025 Earnings Call Transcript on 7/29/25



Aerospace, Marine Systems, Combat Systems, and Technologies. The company derives approximately 70% of its revenues from the U.S. government, 9% from foreign governments, and the remaining 21% from commercial customers.

General Dynamics' well-diversified business mix and entrenched product offerings are the source of its strong market position and wide economic moat. The company recently reported a record order backlog of \$104 billion, equivalent to more than three years of revenue.

The Aerospace segment, which is predominantly composed of Gulfstream jets, enjoys a commanding position in the high end of the business jet market. Its G700 business jet is one of the best-selling business aircraft in the market, and the company just introduced the world's longest-range business aircraft, its ultra-large-cabin G800, in August 2025. The Aerospace division also provides diversification from defense spending, which we consider to be a unique advantage General Dynamics has over many of its peers in the defense contractor industry.

The Combat Systems segment produces land-based vehicles, such as the Abrams tank, which has been the primary battle tank of the U.S. Army and the global standard for nearly four decades.

The Marine Systems segment, which operates as one of only two major shipbuilders in the United States, enjoys one of the widest economic moats in the defense industry and accounts for nearly 51% of the company's \$104 billion backlog.

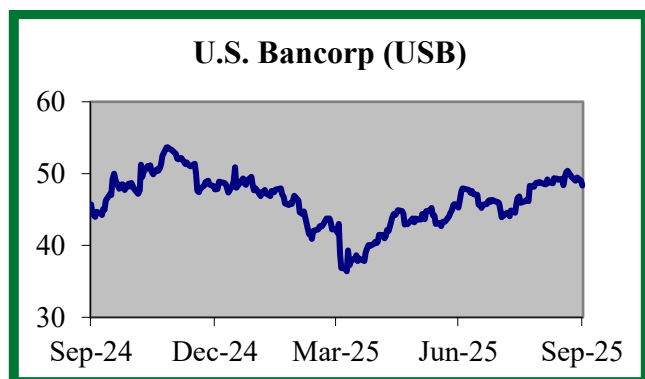
Finally, the Technologies segment provides mission-critical IT services and systems for military applications. This is a durable and

profitable business for General Dynamics due to its large installed base and high customer switching costs.

General Dynamics is committed to shareholder-friendly policies, highlighted by 28 consecutive years of dividend increases and the consistent use of excess cash to buy back its stock. The company has grown its dividend by 8.6% annually over the past decade, and management remains committed to steadily growing the dividend in the future. In total, General Dynamics has returned nearly \$12.5 billion to shareholders over the last five years in the form of dividends and share repurchases.

General Dynamics stock currently trades at a forward price-to-earnings ratio of 20.6 times, slightly above its historical range, but well below the industry average. Given the state of current geopolitical tensions, we believe defense spending globally should remain strong for the foreseeable future. In addition, we believe the steady growth and high visibility of the company's earnings make GD shares an attractive core holding for Edgemoor clients.

## U.S. Bancorp (USB)



Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (09/30/2025)	\$48.33	Forward P/E	10.3
Market Cap (\$B)	\$ 75.2	Price/Book	1.4
Dividend Yield	4.3%		
Return on Equity	11.2%		

U.S. Bancorp is a recent addition to Edgemoor's income portfolios. Founded in 1929 and headquartered in Minneapolis, MN, U.S. Bancorp is the largest regional bank in the United States, serving customers primarily in the midwest and western regions. It is also among the most profitable regional banks, due to its unique mix of traditional loan and depository services with highly profitable fee-based services such as payment processing, corporate trust, and wealth management. The bank has consistently earned returns on tangible equity well above its peers, which is a source of its competitive advantage, or wide economic moat.

As of December 31, 2024, the bank had \$518 billion of consolidated deposits, 2,165 branches across 26 states, and a network of 4,489 ATMs.

Edgemoor added USB shares to our income portfolios because of its attractive and growing dividend, currently yielding 4.3%. U.S. Bancorp has increased its dividend every year since 2010, and we believe management's focus on driving continued growth and efficiencies should allow the company to keep raising its payout going forward.

Specifically, a declining interest rate environment should drive an increase in loan issuance, as lower rates convert pent-up demand into new financing opportunities. Additionally, management is increasing its focus on payment services and asset management, two businesses which have strong growth potential, enjoy high profitability, and reduce overall cyclical of earnings.

We believe shares of U.S. Bancorp are attractively valued, currently trading at 10.3 times forward earnings estimates. As a result of the attractive valuation and solid and growing dividend, we believe these shares are a solid addition to our clients' income portfolios.

*Source for text and charts: FactSet, Morningstar, S&P/CFRA, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, Bank of America, JP Morgan Markets, MarketWatch, WSJ and Argus reports.*



**October 2025**

**Page 8**

*Edgemoor Investment Advisors is an independent wealth management firm providing investment and financial planning advice to individuals, retirement plans, trusts, family foundations, and an equity mutual fund. We manage approximately \$1.6 billion as of September 30, 2025, for our clients and focus on long-term capital appreciation, preservation of capital, and income generation through disciplined management of value-oriented equity and income portfolios. Please contact us if you would like more information.*

**Anne B. Baker**

Office Administrator

(301) 543-8366

[abaker@edgemoorinv.com](mailto:abaker@edgemoorinv.com)

**Timothy C. Coughlin, CFP®**

Managing Director

(301) 543-8371

[tcoughlin@edgemoorinv.com](mailto:tcoughlin@edgemoorinv.com)

**Paul P. Meehan, CFA**

President

(301) 543-8373

[pmeehan@edgemoorinv.com](mailto:pmeehan@edgemoorinv.com)

**Christine J. Potts**

Senior Vice President

(301) 543-8881

[cpotts@edgemoorinv.com](mailto:cpotts@edgemoorinv.com)

**Gay S. Truscott, CFP®**

Director

(301) 543-8375

[gtruscott@edgemoorinv.com](mailto:gtruscott@edgemoorinv.com)

**Philipp B. Bentley**

Senior Investment Analyst and Lead Trader

(301) 543-8369

[pbentley@edgemoorinv.com](mailto:pbentley@edgemoorinv.com)

**Steven D. LaRosa, CFA, CFP®**

Director and Senior Portfolio Manager

(301) 543-8361

[slarosa@edgemoorinv.com](mailto:slarosa@edgemoorinv.com)

**Sara R. Parker**

Vice President

(301) 543-8881

[sparker@edgemoorinv.com](mailto:sparker@edgemoorinv.com)

**Bryce Sistrunk-Lewis**

Analyst and Trader

(301) 543-8374

[bsistrunklewis@edgemoorinv.com](mailto:bsistrunklewis@edgemoorinv.com)

**7250 Woodmont Avenue, Suite 315**

**Bethesda, MD 20814**

**(301) 543-8881, (301) 543-8358 fax**

[www.edgemoorinv.com](http://www.edgemoorinv.com)

[www.edgemoorblog.com](http://www.edgemoorblog.com)





Past performance is not indicative of future results. The opinions expressed are those of Edgemoor Investment Advisors. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Forward looking statements cannot be guaranteed. Material presented has been derived from sources, including Bank of America, JP Morgan Asset Management, BlackRock, Fidelity Investments, Morningstar, S&P, Schwab, ValueLine, Argus, Credit Suisse, Black Diamond Performance Reporting, and Yahoo Finance, considered to be reliable, but the accuracy and completeness cannot be guaranteed. The information provided in this report should not be considered financial advice or a recommendation to buy or sell a particular security. There is no assurance that any securities discussed herein will be included in or excluded from an account's portfolio. The securities discussed may not represent an account's entire portfolio and, in the aggregate, may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. The current yields of the specific securities referenced herein may not be a reliable guide to future performance. Yields and gross returns to individual investors will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Edgemoor Investment Advisors, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The companies identified above are examples of holdings and are subject to change without notice. The companies have been selected to help illustrate the investment process described herein and were selected based on a pre-set methodology. This information should not be considered a recommendation to purchase or sell any particular security. All recommendations for the last 12 months are available upon request.

The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

The NASDAQ measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite includes over 3,000 companies.

The Barclays U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least \$100 million and have at least one year until maturity.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries\*. With 2,308 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

Edgemoor Investment Advisors, Inc. is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Edgemoor Investment Advisors, Inc. including our investment strategies, fees, and objectives can be found in our ADV Part 2 and/or Form CRS, which is available upon request.