# Podcast Transcript: Market Indicators in Q4 2025 and Beyond

**Mark Rosenkranz:**

Hi, I am Mark Rosenkranz, investment strategist at JNBA Financial Advisors in Minneapolis, Minnesota. Today is November 18th, 2025. Joining me today is John Foster, Senior Advisor - Investment Strategist. John, thanks for joining me on the call today.

**John Foster:**

Yeah, thanks for having me, Mark. It's nice to be here.

**Mark Rosenkranz:**

So about earlier in November we published a blog on our website talking about interest rates, what rate cuts mean, how that impacts things like mortgages. We just scratched the surface of the topic a little bit and we actually got a good amount of follow-up questions. It's obviously a lot on people's minds as we look towards the end of the year and talking about potential rate cuts. Looking at the whole fixed income environment, since the October cut, what has been the reaction of overall interest rates since we saw that 25-basis points trim?

**John Foster:**

We saw the Fed come in and they did what was widely expected, they cut rates by 25 basis points. And usually if it's widely expected, it's already priced into the market. The market has moved there. A lot of people think that the Fed leads the market, and really the Fed more or less chases around the two-year note. So the two-year note sitting here today with a yield of 3.5%, 3.6%, right in that range, the Fed's likely to lower because the Fed's at three quarters to 4%. So the Fed's higher right now than the two-year note. So usually they try and chase that two year note lower versus really lead the market. So the Fed cuts rates in October, it was widely expected because at that time the two-year note was about three quarters of a percentage point lower than the Fed.

We actually saw the two-year note more or less just sit there and then we saw the 10-year note tick up a little bit. So longer-term yields, which the Fed really has no control over, just influence, call it, with verbiage that they'll maybe say after trying to talk down inflation expectations or long-term rates. Then obviously by lowering rates, typically the yield curve will be, call it ninety, ninety-five basis points from a two-year note to a 10-year note. So if they can get short-term rates down, then they can get long-term rates down, which impact mortgages and other things. But really the 10-year note was, or the 10-year treasury bond was around 4% when the fed cut rates, it's at about 4.1% today. So we've actually seen long-term rates tick a little higher, just given that it was widely anticipated and already priced into the market what the Fed did.

**Mark Rosenkranz:**

We touched a little bit on that blog about how long-term rates can be impacted by factors beyond just what the Fed can do with the short-term money market rates. I think one of the big surprises maybe coming out of that last fed cut, was the press conference where markets were pretty firmly anticipating another basis point cut in December. That was kind of hinted at maybe not being the case. The Fed chair, Jerome Powell was citing no near certainty. It's not a lock by any means. I think the old adage of being data dependent was thrown into a tough environment where we didn't have data due to the government shutdown. So I think over the next few months it's going to be important to see how the economy's doing as we get the new data that we've been missing over the last few weeks.

But just curious, when you look at the possibility for a December cut, the market's maybe pricing in right around a 40, 45% chance of a 25-basis point cut. What does that mean for not only fixed income but other risk assets like stocks?

**John Foster:**

I think early on as we went back through September and October, the chances of a December cut were really high. We've seen some inflation readings come in a little bit hot lately, and that's put the fed more, as you pointed out, data dependent. Typically, when the Fed's cutting rates, it's good for risk assets like stocks, where you have less competition from bonds if you have lower interest rates. The old adage, don't fight the Fed, where people are tending to look at allocating more money to stocks if they can make less money in bonds. We saw that a lot really with that pretty heavy risk on period from, call it 2010 to 2020, where rates were at one, 2% that entire timeframe. And people were like, "Well, why would I buy bonds when I can make similar yields on equities?" So the fact that this interest rate now is a little bit in question, and then you've had a long government shutdown, which people think are maybe going to dent fourth quarter earnings and growth a little bit in a market that's not overly inexpensive, right?

So right now the S&P 500 or U.S. large-cap stocks, they trade at about 23 times earnings with a 1.2% dividend yield. But that really only makes up about 35 to 40% of our typical asset allocation within the equity sleeve. Other areas of the market are a lot cheaper. Small-cap stocks trade at just 14 times earnings with a 1.9% dividend yield. And then international stocks, despite almost a 30% gain this year, they trade at 14 times earnings with a 3.2% yield. So you can make similar income in international stocks as you can on a two-year treasury bond right now. So while there's pockets of the market that are certainly a little bit more on the expensive side, the majority of a diversified portfolio right now with about 60 to 65% in mid caps, small caps, and foreign stocks, they're at normal to maybe a little bit cheap right now in terms of valuations.

**Mark Rosenkranz:**

It's an interesting environment. Even on the S&P 500, which may be trading a little rich, there are 500 companies in there, but the headlines are all around the seven largest, the Mag 7, maybe you call it 10, whatever they may be. But even just that one level below the service, the other 493 stocks, they're also trading around that 19 to 20 times earnings. And really that's been the story of the last two, three years, has just been that dominance of the largest of the large-cap stocks really fueled by earnings growth. I think that's where in the last couple months, when we haven't had a lot of economic debt out there, it's really been focused on earnings. So far those AI companies continue to deliver, but we have started to see some mixed signals from that department. But certainly interesting impact for the other remainder of the 493 or the mid-small- cap, which are typically a little bit more influenced by something like interest rates.

**John Foster:**

Absolutely. Small-cap stocks in particular, they oftentimes don't have the cleanest balance sheet. A company like Google or Apple, it's real easy for them to self-finance everything that they're doing. But a small company that wants to grow, a lot of times they might have to access debt markets, and if interest rates get cut, that can have a much bigger impact as you move down into those smaller companies where they tend to be a lot more rate sensitive.

**Mark Rosenkranz:**

I think when you look at small-cap stocks in particular, the returns have obviously been lagging the S&P 500, but they've been longer term pretty in line with their historical performance. What's different about say the last five or 10 years is just really the out-performance of large caps. But small caps generally have lived up to their historical rate of return. Its just large caps have done so much better. But when you look at a more similar business environment with the lower interest rate, maybe like you saw in the 2010s for example, you can start to see the benefits of having that more diversified asset allocation.

**John Foster:**

I certainly think moving forward, everything, if you go back to, call it the great financial crisis and then you had a big reset, and coming out of that, valuations were just cheap across the board, large, small, mid, international, everything traded at 10 times earnings or less. Now that we've seen that performance deviate over the last decade plus here, if you're really looking forward and you want to start with valuations as the, what's going to give me the best forward-looking return, it'll usually be the assets that are priced to deliver that type of return, it'd probably be moving down into mid caps, into small caps, into international. That's why it's good to know that while we've had some of that momentum in those positions we have in large cap forward-looking, we also have a good amount in small, mid, and international stocks. That actually make up, as I mentioned, over 60% of the diversified equity allocation right now.

**Mark Rosenkranz:**

And certainly internationals held up its end of the bargain this year, up just shy of 30% the last that we checked. I think that's also just an important aspect where U.S. dominance has been such a story over the last five or 10 years, especially U.S. large-cap. But there are other areas that are performing and you want to be diversified across those asset classes, where when you get these periods whenever they may arise, it helps smooth those concerns and the valuation concerns and the worry when you're looking at your full equity portfolio.

**John Foster:**

I think too, the other thing that really helps international, or has helped the returns this year, has been a weaker dollar. We went through a period we had a real strong dollar environment for an extended period of time, and all of a sudden international investors, they're not only buying US stocks, but they're buying the currency. Just like now, if you own international companies, unless they hedge out that currency risk, you also own the currency. So the indices are up, call it 19%, but then you have a 10% currency bump on there being a U.S. investor where you're investing in

Euros or Yen or other things that have strengthened against the dollar this year. And then all of a sudden it takes a nice return and it turns it into that really nice return with that 10% currency kicker.

Just given, as we've talked about a bit in the past, the debt and deficit situation here, it would not be surprising to see dollar weakness that persists a little bit, and international investors look to bring more money home as that dollar weakness erodes their U.S. returns. You think about it investing in the U.S. right now for a European investor, okay, well they've made, call it 12% in U.S. stocks this year, and then they've lost 10% on currency. All of a sudden you're saying, "Okay, I'm taking equity risk for a 2% return." And as that happens over time, then more people repatriate that capital and that can help their markets do better. So with these valuations as starting points, I think you could make a case as to why international could have a period of out-performance for a period of time here.

**Mark Rosenkranz:**

Yeah, absolutely. Well, switching gears a little bit. We're still talking interest rates a little bit. I want to get into the yield curve. We talked about that in our blog, but there's still a lot of questions and curiosity around a yield curve. We typically see an upward-sloping yield curve where longer-term borrowing is typically rewarded with the term premium for taking on more uncertainty over time. But there are periods where there has been inversion, and we actually encountered that one over the last few years.

Historically speaking, whenever you see the yield curve inverted, that's usually been a sign of a potential recession on the horizon. Fortunately, so far that hasn't been the case. We've actually gone from an inverted yield curve, where rates are higher on the short term than the long term and actually back to a more traditional upward-sloping. But walk me through the yield curve and why that is viewed as a classic recessionary concern when it inverts, and how does it shift over time?

**John Foster:**

I think usually that sign of inversion that we saw a few years ago, it's really a sign that the Fed is probably late to cut rates, right? Because if you think about it, if, we'll just say for simplicity's sake, a two-year note is at 5%, the Fed funds is maybe at 5.5%, and then a ten-year treasury is at, we'll call it 4%, that's an inverted yield curve.

**Mark Rosenkranz:**

Right.

**John Foster:**

And what it's really signaling is that the Fed is likely late to the game, because they’re well above the two-year note in terms of where they have fed funds, and they're way above the ten-year note that's saying, "Hey, we think rates are going a lot lower." So a lot of times it can be that. The Fed has remained too tight for too long and they're going to cause a recession. So far, to your point, we've had some soft patches, but we've avoided that economic downturn or that recession.

A normal yield curve, actually, as I mentioned earlier, front to back, will be about 95 basis points. So your two-year note, if it's 3%, then your ten-year note will be 3.95%. That's why I think the ten-year, even with some of these rate cuts, is at a harder time getting traction to the downside because we have a two-year note at 3.5%. Well, that implies a ten-year at 4.5. So the market's really pricing in the Fed, and this is the 2026 expectation that they're going to get all the way down to about three and a quarter percent at some point in 2026. Well, then that would imply, yeah, you had 90 basis points and we're basically spot on for where we should be. But the market's pricing and the Fed doing a few more cuts here to get down to three point a quarter percent.

**Mark Rosenkranz:**

I think when you look at those periods where it has inverted, where that long-term rate starts to go a little lower, that also does reflect the marketplace dynamics. And when there's more concern about the economy with stock market, the bonds are a typical flight to safety, and when there's more investors buying bonds, that rate starts to come down. So it can be impacted by the overall market's viewpoint of it, beyond just what the Fed is. Whether they're late or not, or whether investors as a whole are seeing signs of a deteriorating economy, a recession imminent, there's a lot of factors at play into how that yield curve can move back and forth.

Last thing, it's been in the news a little bit, it's still a fairly new topic, but you touched on mortgage rates and where we could see the ten-year influencing the 30-year. Over the last few weeks, we've heard a little bit more talk about a potential 50-year mortgage rate. Certainly something that we haven't necessarily seen before, but it's a way that some of you could lower your interest payment, get housing affordability a little bit more manageable to the average American. What's your overall take on a 50-year mortgage rate?

**John Foster:**

We did a little math just to look into this, the idea of a 50-year mortgage, and we just used a national median average in terms of home price of 415,000, and if you put 20% down. Then if you did a six and a quarter percent rate, we just used six and a quarter for both, you're likely to take on a little higher rate, though obviously if you go from 30 years to 50 years just for that extra term premium. There's not really a 50-year treasury bond to price it off of, so we don't know what that term premium would be. So really given the 50-year, the benefit of the doubt. Now the advantage comes in the monthly payment. That's always the idea, if you extend your car loan, your mortgage, whatever, you'll get a lower monthly payment because obviously you're making more payments over the total life of the loan.

But that 30-year mortgage was at $2,038, and then going out to 50 years, that would lower to $1,802. So you'd save roughly $235 a month in terms of your monthly payments. That's the idea about bringing down affordability is, "Well, what can I afford from a monthly payment standpoint?" The problem is though, is that your total payments go from 734,000 to 1.1 million, where you basically pay about 350,000 more in interest over the life of the loan. Which would be a good thing for the bank, perhaps a bad thing for the consumer. It could potentially get people into houses more often, but they'd be slower to build equity, and they'd be making payments to the bank for the bank's benefit for a long period of time. I think that's the big disadvantage there. We'll see what happens, but I think the buyer beware is, don't buy the monthly payment, but also look at the total payments you'll be making and how fast you'll be building equity. Because as an owner of a 30-year mortgage, those principal amounts come off slow enough the way it is, right?

**Mark Rosenkranz:**

I think when you look at a 50-year versus a traditional 30-year, the challenge is also lining up a typical income stream of your working life. You look at the average home buyer maybe in their twenties or thirties, working for 30 years to retirement, that kind of lines up. If you're talking about a 50-year mortgage, all of a sudden you're still need to make those monthly payments when you're theoretically, hopefully retired in your sixties. I think that mismatch is a challenge, where even if you had the capital in your sixties to maybe pay it off earlier, things like that, by then you've paid a large majority of that increased interest rate. So it's kind of a tough matchup between your working and income earning career versus when you're hoping to continue to pay that off.

**John Foster:**

Well, I think it's always just that danger too, of buying the payment versus looking at... We've seen trouble with people in car loans, as they used to never have a car loan more than three to five years, now you're seeing six, seven, eight-year car loans. Okay, well, what happens then if you have major problems with the car and you're backwards on it, now all of a sudden you have negative equity on your car even. So I always think, well, it'd be nice maybe to have the car that that longer payment or the house that that lower payment can afford. It's not necessarily the best thing for the consumer, in that you're maybe getting yourself into a little bit of a debt trap there, so to speak, longer term.

**Mark Rosenkranz:**

Yeah, certainly interesting to see how that plays out. All right. Well, thank you, John, for the great conversation today. Appreciate you hopping on. And thank you to our listeners. We hope you'll visit jnba.com and tune to other podcasts and videos where we touch on a variety of topics. Most of all, thank you for your continued trust in JNBA, not only as your financial advisor, but as your advocate.

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