

Quarterly Participant Bulletin – October 2025

Market Update

Last quarter, a powerful mix of factors propelled both equity and bond markets higher. A robust economy provided the underlying strength, while the Federal Reserve offered a timely boost in mid-September by cutting the Fed funds rate. Another quarter-point cut is expected this week, reinforcing the move toward a more accommodative monetary policy. Corporate profits were a bright spot, with strong earnings growth achieved despite the turbulence of a shifting tariff landscape. Even the ongoing government shutdown failed to derail this bull market's momentum, though we are certainly hoping for a swift and peaceful resolution to the budget stalemate.

Tech Stock Bubble?

Some may be asking with all the “AI” hype and tech stocks leading the market again this year, are we approaching bubble levels like late 1999? We admit it's starting to feel that way, especially with the skyrocketing stock prices of some nuclear power and quantum companies that have minimal positive earnings history. There's also the fact that prior to the peak of the tech bubble in March 2000, technology stocks represented 35% of the S&P 500 stock index, and after the big run this year, we've reached that same level again.

Is this a reason to sell and get out of stocks? In our belief any broad-based shifts in asset allocation can be disruptive to a well-constructed diversified portfolio. While some signs of froth have started to appear, we're in a different environment today with healthy corporate margins and moderate consumer leverage. Only 27.4% of the value of real estate owned by households today is encumbered by mortgages. This is stark contrast of what we saw in the mid-2000's when the financial crisis was brewing and this number was around 70%. Throw in the current Fed easing cycle and the outlook for lower interest rates, and it can keep the animal spirits going. We are also entering the most favorable six-months of the year for stocks from a seasonality perspective. Valuations are stretched on the biggest names in tech, but strong earnings growth and a constructive regulatory environment under the current administration are reasons to continue to be bullish. Please remember that we control risk out of the gate with our balanced asset allocation approach and value philosophy. Your stock exposure is diversified amongst several sectors and industries.

Our team is dedicated to guiding you through this changing market with thoughtful, disciplined portfolio management. If you'd like to discuss your investment strategy or have any questions, we're always here to help.

2026 Catch-Up Changes

Beginning in 2026, the SECURE 2.0 Act introduces a key change to those 50 and older who utilize catch-up contributions for their 457(b) plan. Those who are 50+ and whose wages from 2025 exceed **\$145,000** will be required to make their catch-up contributions to a Roth IRA with after-tax dollars. This means these catch-up contributions will no longer be eligible for pre-tax deferral. This rule change also applies for those who utilize the Special 3-Year Catch-Up (larger catch-up for those retiring within 3 years) and those aged

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60 – 63 who use the Super Catch-Up. Considering the new regulations, we want to clarify that there is still an important financial incentive to contribute to the Roth 457(b) as qualified distributions are 100% tax-free. We've informed the City and have initial indications they will accommodate these new rules. Be on the lookout for an email to follow with updates. If this new rule applies to you, feel free to reach out to our team to discuss.

Other Important Notes

- As we approach year-end, you may want to max out your deferred comp. contribution for 2025. As a reminder, you may contribute up to \$23,500 to your 457 Plan and \$31,000 if you are age 50 and older (as mentioned this will change in 2026 for high earners). Please reach out if you wish to adjust your contribution amount prior to year-end to take advantage of these important limits.
- The IRS has yet to announce new contribution limits for 2026; however, we expect some level of increases. We'll be sure to keep you updated once this news has been announced.
- If we haven't touched base in some time and you'd like to review your portfolio and investment strategy, please feel free to [Schedule an Appointment Here](#) or contact Nick at nick@walkerfinancial.com or 949-367-1991. If you're not available during the appointment times, please let us know and we can always set up a Zoom/Phone call to get connected.

PERFORMANCE REPORT

California 457 Plan

<u>California 457 Plan</u>	3 rd Quarter	Year-To-Date	One Year	Three Year	Five Year
	<u>Total Return</u>	<u>Total Return</u>	<u>Average Annual Rate of Return Thru</u> <u>9/30/2025</u>		
<u>Lifestyle Model Portfolios</u>					
Conservative Allocation (20/80)	3.19%	7.36%	5.32%	7.56%	5.22%
Moderate Conservative Allocation (40/60)	4.05%	8.55%	6.62%	9.41%	6.75%
Balanced Allocation (50/50)	4.30%	8.71%	6.16%	10.48%	7.38%
Moderate Growth Allocation (60/40)	4.70%	9.28%	6.59%	11.46%	8.17%
Growth Allocation (80/20)	5.56%	10.35%	7.33%	13.51%	9.65%
Maximum Growth Allocation (100/0)	6.35%	11.73%	8.85%	13.62%	11.03%

Performance is based on reinvested income and capital gain distributions plus or minus any change in principal value for the respective periods ended September 30, 2025. Individual results may vary depending on timing of deposits. Results shown are not a guarantee of future performance, and account values at the time of redemption may be worth more or less than cash invested. Returns do not reflect the deduction of a net annual asset management fee equivalent to 0.34% nor the 0.026% charged by independent 3rd party consultant utilized by the City of Costa Mesa Deferred Compensation Committee.