Quarterly Economic and Market Review

Q3 2025

David Lundgren, CFA
Executive Vice President, Chief Investment Officer

Paul Teten, CFA
Senior Vice President, Chief Investment Strategist

Bryan McCaulley, CFA
Senior Vice President, Equity Strategy Manager

Jeffery Tanguis
Senior Vice President, Director of Fixed Income

Stephen Morgan
Senior Vice President, Investment Director

Richard Chauvin, CFA
Senior Vice President, Investment Director

3Q25 Market Review

David Lundgren, CFA

The third quarter of 2025 continued a remarkable rebound for financial markets that began in the second quarter, following the early April "Liberation Day" tariff announcement and subsequent pause. After the steep selloff that followed the initial tariff rollout, a swift policy reprieve and continued hopes for moderation set the stage for a durable rally that persisted through the summer and into the fall. Tariff escalations, mounting concerns about a slowing economy, and the imminent threat of a government shutdown were not enough to deter stock markets from powering forward and by quarter-end, equity markets had pushed to fresh all-time highs. Notably, even as the administration steadily reinstated tariffs to levels near those first proposed in April, markets looked past trade headwinds, focusing instead on robust investment in technology and industrial reshoring, much better than expected earnings growth, as well as positive signs from ongoing global trade talks. Risk appetite remained surprisingly strong, underscoring the market's ability to compartmentalize macro risk and reward sectors showing durable earnings momentum. Despite a turbulent first quarter, the S&P 500 has climbed nearly 15% year-to-date and is on track for another impressive year. However, beneath the surface, the economic landscape has become increasingly complex, with pronounced divergences emerging between financial markets and the broader economy—trends that could present challenges for sustaining such strong results into the next quarter.

ECONOMIC DISRUPTION: EMPLOYMENT, INFLATION AND THE SUPPLY CHAIN

While the turbulence of the tariff rollout has moderated, the steady drumbeat of new tariffs—now averaging around 15% versus just 2.5% in recent years—continues to disrupt U.S. and global growth. The burden is falling especially hard on global supply chains, with exporters and importers struggling to absorb costs and increasingly passing them on to consumers. As a result, core goods prices, which had been deflating in recent years, have reversed and are now trending toward 3% annual inflation. The effects are compounded by stepped-up immigration enforcement: since March, it is estimated well over one million foreign-born workers have exited the labor force, either through deportation, detention, or other means. Because these departures do not appear in traditional unemployment statistics, the jobless rate has remained deceptively stable around 4%. Yet, hiring has slowed dramatically as native-born workers have not been able to fill the gaps—either due to labor force constraints or a skills mismatch—while consumption demand from the formerly employed migrant workforce has vanished.

While headline figures like the 3.8% Q2 real GDP growth suggest strength, they obscure a notable slowdown from recent years, with first-half 2025 annualized growth averaging just 1.6% and "core" GDP slightly higher at 2.4%. Beneath the surface, the economy is increasingly split: technology and reshoring sectors are driving market gains, while households face persistent challenges from high prices, interest rates, and softening job growth. A temporary lift in summer consumer spending is unlikely to continue, but prospects may improve in the first half of 2026 when new tax cuts and ongoing tech investment could help restore more balanced, sustainable growth.

BONDS, RATES AND POLICY SHIFTS

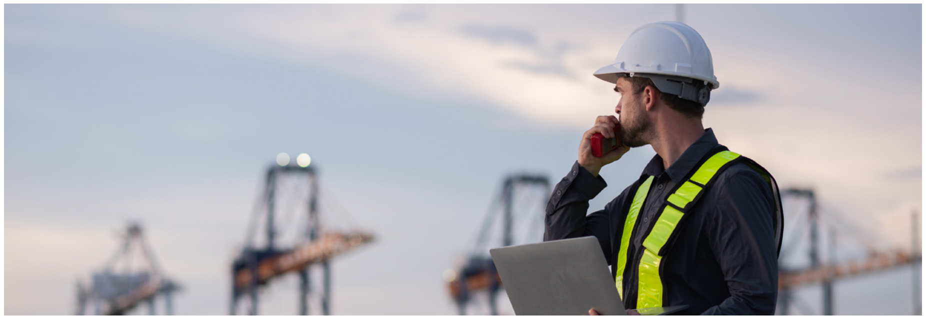
Bond investors experienced another solid quarter as easing inflation fears and a more measured approach to tariffs supported fixed income performance. Importantly, the Federal Reserve returned to center stage - delivering its first rate cut in nearly a year in response to softer labor market data and slowing economic growth. Policymakers have signaled a willingness to continue lowering rates if economic conditions warrant, shifting their primary focus from inflation to supporting the job market and sustaining growth.

Looking forward, market expectations are for additional Fed rate cuts in the coming months, with policymakers emphasizing data dependence and a balanced approach. While political debates and fiscal questions remain in the background, the direction of Fed policy will remain the dominant influence on fixed income markets. Investors should be prepared for further adjustments in monetary policy as the Fed navigates evolving economic challenges and a transition in Fed leadership on the horizon.

GEOPOLITICAL UNCERTAINTY: RISKS AND OPPORTUNITIES FOR MARKETS

Persistent global tensions—from conflict in Eastern Europe to renewed instability in the Middle East—continue to cast a shadow over the economic outlook, raising risks across asset classes and keeping markets alert for potential shocks. Escalating warfare, especially the Russia-Ukraine conflict, is straining Europe's economy and disrupting global trade. In the U.S., policy measures such as permanent tax cuts and incentives for corporate investment may help counteract some headwinds, but concerns about rising deficits and political brinkmanship, including government shutdowns, still linger. While markets have shown resilience in the face of past geopolitical shocks, today's persistent and complex challenges call for continued vigilance from investors and policymakers as they navigate an increasingly uncertain global environment.

In the following pages, senior leaders of the Hancock Whitney Asset Management team provide detailed analysis of portfolio implications, sector performance, and ongoing market risks. Please reach out to your advisor for a more tailored discussion of these themes and their implications for your portfolio.



3Q25 Macroeconomics Review & Outlook [1,2]

Paul Teten, CFA

TARIFFS SET THE TONE FOR THE QUARTER

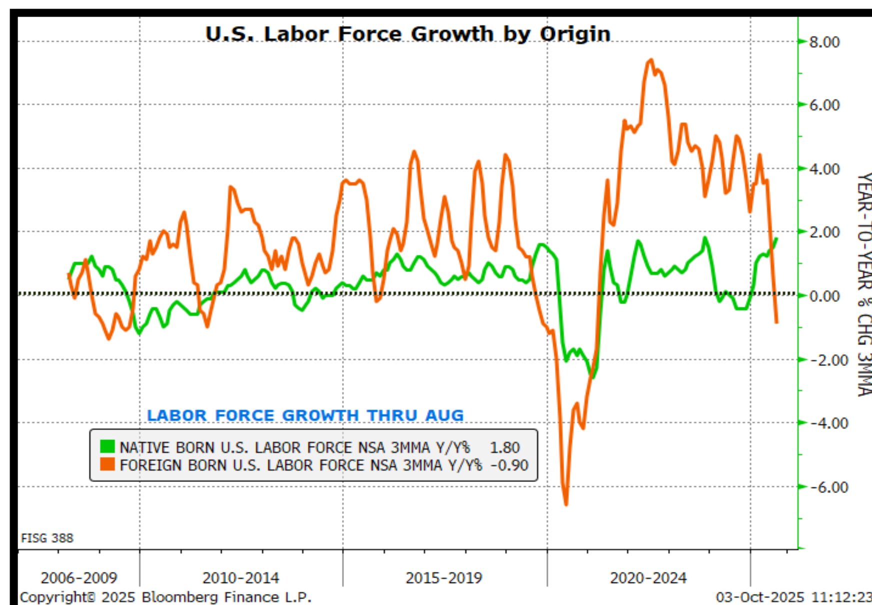
While the atmospheric chaos of the tariff rollout has subsided some, even as new tariffs continue to be posted on an almost weekly basis, evidence continues to accumulate that the weight of the average tariff rate around 15%, up from 2.5% in recent years, is suppressing growth in the U.S. economy and elsewhere. Global supply chains are reeling as both exporters and importers are choking on tariffs and beginning to pass them through to consumers. Core goods prices which were deflating in recent years have reversed and are pushing up toward 3% trends in recent months. Compounding the disruption to consumer appetites for acquisition is the immigration enforcement initiative that has driven 1.5 million foreign born workers out of the labor force since March. Exiting the labor force by deportation, detention or hiding means they do not show up in the unemployment rate, which has remained relatively steady and low around 4%. But hiring has slowed to a crawl, and among other attributions, including supply chain shocks, also implying that native born workers are not signing up to fill the vacancies from migrant worker flight. That's partly due to the maxed out nature of the native born workforce and partly because new entrants either do not have the requisite skills or are aiming for higher compensatory opportunities.

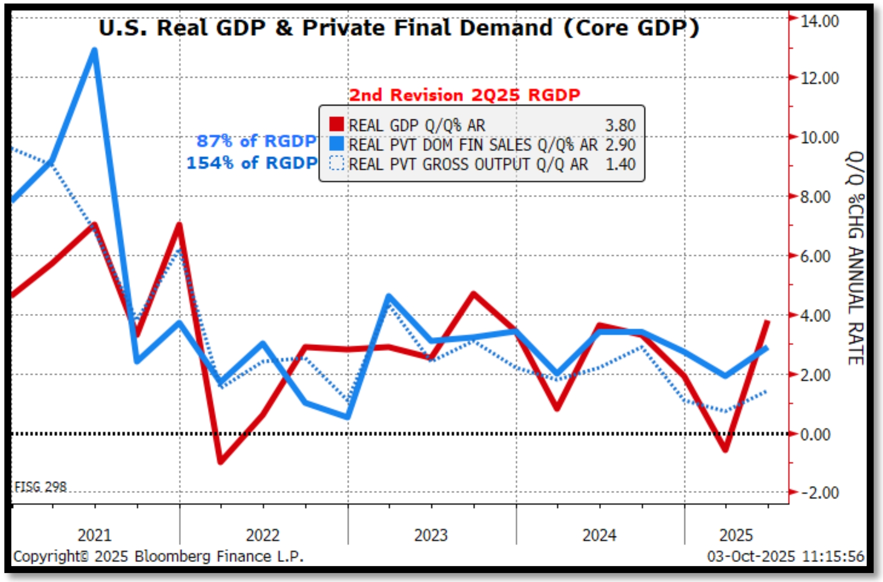
Due to weak labor utilization the U.S. economy will need and will probably get a productivity boost to push 3Q25 Real GDP growth up above the water line.

So economic activity is disrupted and the consumption demand formerly provided by migrant labor is extinguished. The impact of the double disruption is observed in the collapse in the aggregate hours worked trend, the bottom line of labor force output, which ranged +1-2% over the last year and plummeted over the summer at a rate around -1% through August, a stiff headwind to Real GDP growth in 3Q25.

BOUNCE-BACK TO SLUGGISH

Readers may wonder from the foreboding preamble if we're studying the same economy they live in, with weekly new highs in stock prices and solid 3.8% Real GDP growth in the 2nd Quarter. Understandably, but recall that the 1st Quarter was severely disrupted by the tariff rollout and the surge of imports to beat them, which resulted in a massive expansion in the trade deficit and contracting Real GDP to the tune of -0.6% Q/Q annual rate. The average annual rate over the first half was 1.6%, after substantial upward revisions to 2Q25, a fairly accurate appraisal of the first half economy, representing a significant deceleration from more robust 2.5-3.0% trends in recent years. There is good news and bad news under the hood of the 2Q25 GDP report. The good news is found in our measure of "core" Real GDP, real private domestic final sales (RPDFS), which excludes weakish government consumption and the erratic adjustments from the trade deficit and inventory changes. RPDFS has trended steadily around 2.5-3.0% growth

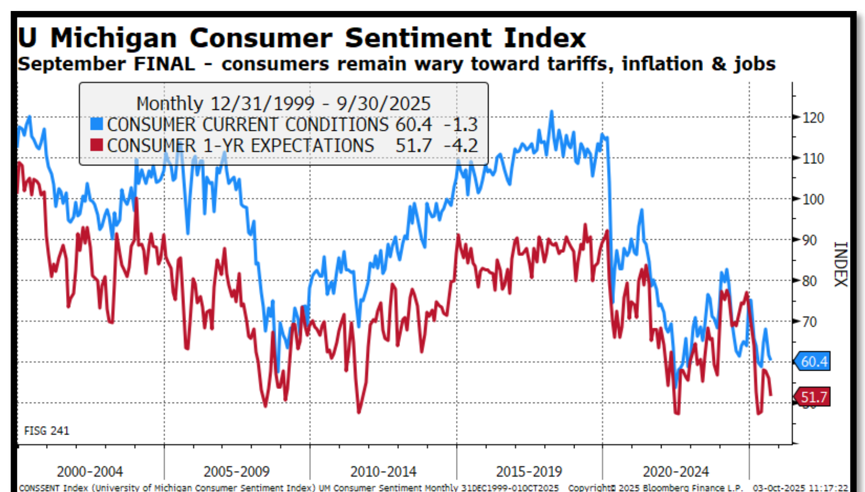




trends in recent years, clocked 2.9% Q/Q AR in 2Q25 and averaged 2.4% AR over the first half. The core measure representing 87% of Real GDP has benefited from strong capital investment growth in data center buildouts and AI technology adoption, overcoming modest first half growth in household consumption at a 1.5% AR. The bad news is found in a relatively obscure measure of economic activity known as real gross output. GDP stats measure final demand, the consumption of goods and services at end use stage. Gross output, half again larger than GDP, measures in addition to final demand spending at earlier stages which stock the supply chain. In recent years private sector gross output (RPGO) has tracked relatively close to RGDP and RPDFS. However, so far this year RPGO has trailed substantially behind the final demand metrics and trended around 1% AR growth over the last three quarters. We interpret the RPGO slowdown as evidence that the tariff rollout has disrupted the supply chain, suppressed inventory spending and production, and is a factor in shrinking employment in manufacturing, warehousing and construction. A stronger disruption signal comes from the core of RPGO that encompasses manufacturing, construction, mining, utilities and the retail and wholesale trade infrastructure they supply, comparable to about half of RGDP, whose combined real gross output contracted at a -3% AR rate in 2Q25 and -1.6% over the first half. Our assessment is that the weak production and supply chain gross output reflects that the disruption from the tsunami of imported goods and consumer resistance to tariffed goods continue to destabilize the U.S. economy.

WHEN MAMA AIN'T HAPPY, AIN'T NOBODY HAPPY

The U.S. economy appears to have devolved into two growth engines with different dynamics that are not very well synchronized. The tech industry and a panoply of support sectors which supply electricity, materials, engineering and a variety of services are flourishing from the acceleration of information power fostered by AI. Reshoring and the industrial development it entails, the goal of the tariff agenda, has actually been percolating in recent years and is escalating rapidly in conjunction with the adoption of trade agreements. These activities are the main thrust of corporate earnings growth and high equity valuations. The household sector which drives consumer spending lives in another world which has struggled with high prices and high interest rates, exacerbated this year by tariffs, and is alarmed by slowing jobs growth and the upward creep of the unemployment rate. Household consumption patterns that are dominated by sluggish goods consumption and strong takedown of services align with the production components of core gross output that are struggling this year. The recent upward revisions to 2Q25 RGDP and consumer spending were concentrated in household services, with goods consumption unrevised from the flash to the final. Consumer resistance to tariffs appears to be a significant factor in the malaise afflicting goods production and supply chains. Stronger than expected consumer spending in July and August, mostly seasonal services and recreational goods, are driving up our assessments of likely 3Q25 RGDP and real personal consumption to 2.0-2.5% Q/Q AR and 3.0-3.5%, respectively. Given the depressed consumer sentiment reflected in the University of Michigan survey, which indicates consumer alarm on par with the nightmares of 2008 and 2020, we are not inclined to project a continuing consumer resurgence this fall. The first half of 2026 still looks like the more plausible scenario, with new consumer tax cuts effective in January, for continuing investment in technology development to be accompanied by balanced and sustainable household consumption.



Equity Markets Power Forward In 3Q25 [3,4]

Bryan McCaulley, CFA

STOCK MARKETS RESPOND DESPITE UNCERTAINTY ON EARNINGS AND AI

Tariff escalations, mounting concerns about a slowing economy, and the imminent threat of a government shutdown were not enough to deter stock markets across the globe from powering forward in the third quarter. U.S. large-cap stocks were a beneficiary of significantly better-than-expected corporate earnings growth and investor optimism in artificial intelligence and technology advancements. Meanwhile, U.S. small-cap and emerging market stocks posted outperforming returns, providing evidence of a broadening rally and continued "risk-on" appetite. Gold and cryptocurrencies participated as well, though oil was volatile and showed extreme sensitivity to slowing global economic activity data that ultimately weighed on prices. Moving forward into the fourth quarter, stock markets climbing the wall of worry supports the idea that investors remain confident in the business environment despite rising risks.

The S&P 500 returned a robust 8.1% in the quarter, which was supported by earnings that were far better than feared following the tariff tantrum's lowered expectations. The blended earnings growth rate for second quarter results came in at 12.0%, significantly exceeding the lowered estimate of 4.2% in early July, and even outperforming the estimated 11.2% expected for the quarter on December 31st. Technology and artificial intelligence spending were key drivers, as Communication Services impressed with a 45.6% blended earnings growth rate, followed closely behind by Information Technology at 23.0%. These results helped power the outperformance of the S&P 500 Growth, returning 9.8% for the quarter and exceeding the S&P 500 Value's quarterly return of 6.2%.

Highlighting the incredible growth in technology, NVIDIA became the first company to eclipse a $4 trillion market cap, followed shortly by Microsoft exceeding the mark. Beyond the largest players, Intel and Oracle made waves with several significant announcements. Intel reported key partnerships and strategic investments that helped provide a resurgence to the company. In September, Intel and NVIDIA announced a strategic partnership in data centers and client products, alongside a $5 billion investment from NVIDIA in Intel's stock. This followed a landmark deal in August where the U.S. government acquired an $8.9 billion stake in the company. Shortly after quarter end, Intel announced its support for the White House's AI pledge, providing schools with the resources to promote AI education. Oracle, not to be outdone, noted a surge in demand for its AI-related services in its most recent earnings release. The company announced a massive five-year, $300 billion agreement with OpenAI, positioning itself as a vital infrastructure provider for one of the leading-edge companies in AI. The boom was not contained solely to the Information Technology sector either, as industrials and utilities also benefited from the demand for infrastructure and power needed to continue developing the technology's capabilities.

BROADENING OF THE RALLY PROVIDES SUPPORT

Small-cap stocks capitalized on investor optimism, driven by the Federal Reserve rate cut, attractive valuations, and confidence in the business environment. While the majority of the move in small caps occurred prior to the Fed's rate cut in September, market expectations for a rate cut had already begun to rise, helping to alleviate concerns about borrowing costs for smaller companies. Combining this with companies that were trading at a discount to their large-cap peers and an economy that appears on pace to avoid recession, the S&P Small Cap 600 returned 9.1% for the quarter, flipping its year-to-date return to a positive 4.2%. Emerging markets benefitted from these themes along with a weakening U.S. dollar, helping to lighten the load of servicing their dollar denominated debt. This propelled the MSCI Emerging Markets index to a return of 10.6% in the quarter. China, Taiwan, and South Korea were all positive contributors with additional support coming from their close alignment with the AI technology boom.

The MSCI EAFE lagged other major stock indices despite its solid 4.8% return for the third quarter. While a weakening dollar helped emerging markets, a significant portion of revenues for developed international companies is generated in U.S. dollars, which reduces the value when those sales are denominated in their local currency. Additionally, the rate-cutting cycle in Europe appears closer to an end than the Federal Reserve's, creating a more favorable environment for domestic stocks compared to their European counterparts. Finally, developed international stocks have had an impressive return of 25.1% for the year, with the S&P 500 returning 14.8% over the same time period.

COMMODITIES AND CRYPTOCURRENCIES

Commodities, as represented by the Bloomberg Commodity Index, returned 3.7% for the quarter. Gold shined as its price rose from $3,290.40 to $3,840.80, while oil's sensitivity to weakening economic data caused it to be a primary detractor as its price fell from above $65/bbl to close the quarter at $62.37/bbl. In other risk assets, cryptocurrencies had an impressive quarter on the passing of the GENIUS Act, landmark legislation that provided a regulatory framework for stablecoins in the U.S. Bitcoin, the largest cryptocurrency, closed the quarter at $114,059.09, up from $107,135.34 at the end of the previous quarter, but Ethereum, the second largest cryptocurrency and a major blockchain used for stablecoins, was up 66.7% to a price of $4,145.96.

LOOKING TO THE HORIZON

As stock markets move through the end of the year, investors will likely still have to deal with the challenges presented from tariffs, slowing economic data, and concerns about the impact of the government shutdown. To date, the stock market has been resilient enough to power to all-time highs despite the risks. While currently unhampered by the tariffs and recent announcements on prescriptions drugs, heavy trucks, and other household products, many of these impacts will take a significant amount of time to understand the full impact on the economy. Similarly, the full effects of the government shutdown may not be known for months. For the time being, market participants are showing confidence in the business environment despite the risks, and we are inclined to believe the market until we have more concrete signs of something more ominous.

3Q25 Serves Up More Favorable Bond Returns [1]

Jeffery Tanguis

THE GOOD, THE BAD & THE IMPORTANT

There was plenty for bond investors to like and dislike about the economy, inflation, politics and the Federal Reserve during the third quarter of 2025 but the end result was a third consecutive quarter of solid fixed income returns. Bond investors not only collected their quarterly coupon income but also racked up nearly as much in capital appreciation. The fog hanging over the bond market, namely uncertainty around tariffs and tariff related inflation, largely dissipated as the Trump administration softened its position on a host of initial threats and hammered out tentative trade policies. Bond holders breathed a sigh of relief when tariff costs feeding into consumer inflation proved to be much less onerous than originally forecasted. The slowing but not stalling U.S. economy concurrent with a softening labor market opened the door to more Federal Reserve easing of short-term borrowing costs and a soft economic landing. Over on Capitol Hill the One Big Beautiful Bill legislation passed thus raising the federal debt ceiling and averting a technical Treasury default. Nonstop political bickering in Washington over federal spending priorities, tax policy, Federal Reserve independence and sundry other issues generated lots of click bait headlines but were largely ignored by serious bond investors. Speculation about international investors boycotting our bond markets proved greatly exaggerated. Bloomberg reported recent U.S. Treasury auctions were well attended by international investors. Despite all the rancor bond market volatility plummeted while interest rates declined in a sign markets were largely tuning out the noise. A leading measure of bond market volatility, the Intercontinental Exchange (ICE) "MOVE" Index fell to its lowest level in over a year by mid-September. Investors were making a clear statement that a slowing economy and looming Federal Reserve rate cuts were what really mattered to bond holders and were the driving force behind the bond market rally. Easily the biggest market moving event of the quarter came on August 1st with a much weaker than anticipated monthly Nonfarm Payroll report for July that included significant downward revisions for the previous 2 months, a clear indication the economy was facing headwinds. Federal Reserve Chairman Powell was on record stating labor market weakness could be cause for rate reductions. The bond market responded to the weak jobs report with a sharp rally that drove the price (not yield) of 10 year Treasury notes up over 1% in a day. Powell put any doubt to rest about cutting rates in late August during his Jackson Hole Wyoming address to global central bankers. Powell stated the time had come to resume lowering interest rates. Cracks in the U.S. labor market had tilted the Fed's attention more toward the weakening job market and less so on inflation. Chairman Powell followed through on his pledge at the Fed's mid-September meeting by lowering the benchmark federal funds lending rate range 25 basis points to 4.00% to 4.25%. After a 9 month pause the Fed had resumed easing monetary policy but gave little guidance as to the pace of future reductions. Committee members all acknowledge interest rates are restricting economic growth but differ on where the "neutral" policy rate lies. Differences aside, the Fed's own forecast updated at the meeting made clear lower rates are on the way.

BY THE NUMBERS

The broad-based Bloomberg Intermediate Term Aggregate Bond Index generated a 1.79% total return for the quarter with 0.91% attributable to coupon income return and 0.88% capital appreciation. The third quarter total return of 1.79% outpaced the 2nd quarter return of 1.51% but trailed the 1st quarter return of 2.61%. As of September 30th the bond index was up an unannualized 6.02% total return year to date. The mortgage-backed/securitized sector led the performance charge during the quarter returning 2.38% while intermediate investment grade corporate bonds returned 2.04%. Intermediate term Treasury securities ended the quarter up 1.26%. The benchmark U.S. Treasury 10 year note yield finished the quarter down 8 basis points to 4.15% while the more Fed policy sensitive U.S. Treasury 2 year note yield ended 11 basis points lower to 3.61%. In a sign of confidence to corporate financial strength the incremental yield spread of intermediate term investment grade corporate bonds over Treasury securities dropped 9 basis points to +66, near historic lows.

LOOKING AHEAD

With the U.S. economy expected to slow and multiple Fed rate cuts highly likely in the months ahead, the bond market still has the wind at its back. Markets anticipate another rate reduction at the upcoming October 30th Fed meeting and a follow up cut by January 2026. Another 2 to 3 additional reductions in 2026 are deemed likely.

Investors, however, must remain vigilant. A great deal of "good" bond news is already baked into the markets. Economist surveys along with the Fed's own forecasts already anticipate a slowdown in the U.S. economy and a modest rise in unemployment. Remember that slower economic growth forecasts generally qualify as "good" news for bonds investors. Additional bond market gains may be harder to come by in the 4th quarter and early 2026 especially if growth accelerates or inflation remains sticky for longer. Also on the horizon is the looming change of leadership at the Federal Reserve. Chairman Powell's term expires in May 2026 but President Trump will likely nominate his successor before year-end and maybe as soon as this month. Markets will be on alert for any sign the new Chairman will be soft on curbing an inflation rate that remains well above the Fed's 2% target. Financing the growing federal debt remains a long term concern but presents less of a risk near term given tariff revenue is helping contain the federal deficit while declining short term rates will reduce pressure on the federal budget from interest expense. In summary the risks to the bond market in the coming quarters look to be fairly balanced. Prudent fixed income investors employing proper risk management should expect to collect the coupon interest on their bond portfolio with only modest price volatility.

Policy and Politics [5-13]

Stephen Morgan

TRADE AND TARIFFS

Investors and business leaders scrambled to maintain their footing on a rapidly shifting landscape of U.S. trade policy. President Donald Trump's reciprocal tariffs, announced in early April, went into effect in August albeit at levels different than originally announced. Notably key trading partners – including the European Union, the United Kingdom, and Japan – agreed to new trade arrangements (though actual formal treaties are still in negotiation). These arrangements impose tariffs on goods from the trading partners while generally providing free access for U.S. goods to their markets. In addition, they include hundreds of billions of dollars in pledged investment in the U.S. which will help support a reinvigoration of domestic manufacturing.

Meanwhile other countries saw heightened tariffs on goods imported to the U.S. as both reciprocal and other tariffs came into effect. Indian goods, for example, saw not only reciprocal tariffs but also secondary tariffs as a result of the country's ongoing purchases of Russian oil, typically representing a 50% tariff. China and the U.S. extended a tariff ceasefire that they entered in April in the midst of rapidly increasing tit-for-tat tariff escalation. It will now expire November 10 meaning many holiday goods will already be in American warehouses. As the quarter closed, though, the administration announced a number of new tariffs going into effect on October 1 including new levies on upholstered furniture and, critically, branded pharmaceuticals. The White House had previously indicated it would delay tariffs on drugs for 18 to 24 months, but decided to move more quickly, apparently as a way to incentivize pharmaceutical companies to lower the cost of their drugs and to accelerate the reshoring of drug manufacture.

China and the U.S. extended a tariff ceasefire that they entered in April in the midst of rapidly increasing tit-for-tat tariff escalation.

The tariffs now represent hundreds of billions of dollars in governmental revenue, but many of them are subject to legal challenge. Federal courts ruled that the legislation invoked in imposing the reciprocal tariffs – the International Emergency Economic Powers Act – did not actually authorize the President to impose the broad ranging tariffs. The matter will now go to the Supreme Court in November. Regardless of the high court's ruling, the President can likely rely on separate authorizations to support the tariffs, but the court could demand a return of previously collected levies. That would represent a significant liquidity injection into the economy, supporting economic activity and growth.

BUDGET STANDOFFS

Fiscal brinksmanship forced a government shutdown at the end of the quarter. Democrats had been angered by President Trump's exertion of authority over federal spending, including successful rescissions of previously authorized spending. As such, they demanded concessions, largely around health care policy, in order to support a Continuing Resolution (CR) to authorize government spending past the end of the federal fiscal year on September 30. Neither Congressional Republicans nor the White House were willing to make the concessions demanded, so neither party's version of the CR was able to clear the filibuster hurdle in the Senate.

As such, the government ceased all services deemed non-essential (and not funded under separate means) at the beginning of the fourth quarter. Social Security payments continue as does mail delivery and air traffic control, but many federal workers were furloughed and those who remain at their posts will not be paid until Congress acts.

Economists generally estimate that each week's shutdown creates a 0.2% drag on GDP, but that the losses are mostly regained when the government reopens and missed payments are made up. In this case, as in the most recent shutdown in 2019 which lasted 34 days, the path to a resolution is less than clear. In the case of an extended government outage, companies that are highly dependent on federal payments could struggle to meet payroll and other obligations. Recipients of food support like WIC will also find those funds exhausted in relatively short order. Both parties, though, seem to have drawn clear lines and so a resolution depends on a messaging battle already underway.

ONE BIG BEAUTIFUL BILL

At the outset of the quarter, Congress passed, and the President signed the budget reconciliation generally referred to as the One Big Beautiful Bill Act. Most notably, the bill made permanent the tax rate cuts from 2017's Tax Cuts and Jobs Act which were set to expire at the end of the year. It also has a number of provisions including 100% bonus expensing and research-and-development expensing that incentivize corporate investment.

Other provisions of the bill increase work requirements for health and food programs, potentially leaving millions uninsured or with less food support. The Congressional Budget Office estimates that the bill will likely accelerate the growth of federal debt, but that the effect could be offset by increased tariff collections.

Most notably, the bill made permanent the tax cut rate cuts from 2017's Tax Cuts and Jobs Act which were set to expire at the end of the year.

IMMIGRATION AND BORDER SECURITY

The administration ramped up its immigration enforcement during the quarter, notably targeting worksites. The White House appears to have moved from a “worst first” phase to increasingly targeting those working illegally but otherwise not criminally active. In one high-profile example, Customs and Immigration authorities raided a Georgia battery plant under construction as part of a joint venture between Hyundai and LG Energy Solutions. They detained almost 500 undocumented workers, many of whom were South Korean.

As the quarter closed, the administration announced it was imposing a $100,000 fee on H-1B visas, the program that allows companies to hire highly skilled workers and is a mainstay of the information technology sector.

As the quarter closed, the administration announced it was imposing a $100,000 fee on H-1B visas, the program that allows companies to hire highly skilled workers and is a mainstay of the information technology sector. The fee is aimed at discouraging companies from hiring consultants and others in positions that could be filled by U.S. workers but also creates a hurdle for startups, universities, and others looking to import expertise in artificial intelligence and other cutting edge research areas.

TECHNOLOGY

The administration took ownership stakes in companies including lithium miners and Intel. Historically, the U.S. has invested in companies on the edge of insolvency, but these represent a more active and potentially longer-term involvement by the government. Much of this seems to be in support of the administration’s emphasis on leadership in technology, especially artificial intelligence.

Congress also passed the GENIUS Act requiring stable coins to be backed by cash or certain permitted investments. As such, it creates a new demand for U.S. treasuries that may help limit interest rates.

Geopolitical Update 3Q25 [11, 14-20]

Richard Chauvin, CFA

We have noted previously that geopolitical events in the post-WWII era have historically caused short-term market volatility without long-term negative effects. We have also opined that geopolitical risks have become a structural feature in recent years, with greater potential for lasting impact. Therefore, assessment of the risks should be included in any forecast of economic and market outcomes. We should not be lulled into a sense of complacency by the resilience of the financial markets this year and instead remain aware of the fragile set of conditions present in this multi-polar world.

Space constraints do not allow us to cover the many geopolitical risks of concern today. We will focus on one with escalating risk - the Russia-Ukraine conflict.

RUSSIA-UKRAINE CONFLICT HAS TAKEN AN OMINOUS TURN

Since August, when a series of talks that began with the Alaska meeting between President Trump and President Putin did not lead to a hoped-for peace deal or even a cease-fire between Russia and Ukraine, a series of worrisome developments have occurred that point to a rising risk of escalation beyond the borders of the two nations.

On September 9-10, drones that reportedly came from Belarus, an ally of Russia, entered Polish airspace, prompting NATO fighter jets to intercept and shoot down some of them. (FT) Russia denied involvement with any incursion into Polish airspace. Days later, Russian military jets entered Estonia's airspace and were intercepted by NATO aircraft.

On September 19-20, cyberattacks disabled the check-in systems at airports across Europe, stranding many passengers, and forcing manual processes to be used as back-up. Then on September 22, drones suspected to be Russian swarmed near airports in Denmark and Norway, resulting in the airports closing for safety reasons. Most recently, on October 2, observers spotted drone near Munich airport, resulting in a brief closure of runways. In all these cases of drone sightings, there has not been any confirmation the drones were linked to Russia or Russia-linked actors. The Kremlin has denied any involvement.

In an August 31 incident, the GPS guidance system of a plane carrying Ursala von der Leyen, the European Commission President, was allegedly jammed over Bulgaria, forcing the pilot to use manual navigation. Russia's spokesperson told the FT that the report blaming Russia was "incorrect."

The European Union's response is to begin the development of a "drone wall," which is not a physical wall, but a connected system of sensors, jammers and other countermeasures to detect and destroy unmanned aircraft. Estonia, a country of about 1.3 million people that shares a 183-mile border with Russia, has been given €2.66 billion in funds from the European Union to help support companies working on the effort.

The drone wall concept belongs to the European Union, which happens to overlap with a separate NATO effort called Eastern Shield, a plan to increase defense of NATO's eastern flank.

Tobias Ellwood, a former UK parliamentary undersecretary of state, has stated that because these new commitment of funds are lagging behind the threat, a "sense of panic" is present among NATO members. Estimates indicate that basic drone detection capability could be operable withing a year, while a fully capable land and sea network could take several years. The cost and complexity of such a network across Europe are challenges. NATO acknowledges that it lags both Russia and Ukraine in drone capabilities.

The Danish Prime Minister Mette Frederiksen may have placed these recent events in the proper context when she stated, "We need to be very open about [the fact] that it probably is only the beginning. We need all Europeans to understand what is at stake and what's going on. When there are drones or cyber-attacks, the idea is to divide us."

NATO acknowledges that it lags both Russia and Ukraine in drone capabilities.

While keeping in mind that the incidents cited above, save for the Russian fighters encroaching upon Estonia's airspace, have not been proven to be of Russian origin, we will assume that is the case, and postulate what Putin's objectives might be. The nature and frequency of these incidents suggest that Russia is testing Europe's resolve regarding the defense of Ukraine, and to sow doubt in Europe that NATO's Article 5 protections are of any value, particularly when it comes to reliance on the United States. Weakening confidence in NATO would tend to reduce the threat that Putin might have to face NATO forces to achieve his objectives in Ukraine.

The hybrid warfare techniques offer an additional benefit to Putin. The cost advantages of using drones in grey zone tactics create cost asymmetry by allowing Russia to inflict disproportionate costs on Europe. Low-cost drones can be produced and deployed in large numbers, overwhelming and economically draining the expensive conventional defenses of a modern military. Shooting down a drone worth thousands of dollars with a missile costing millions is not sustainable. Using low-cost drones to cause disruptions and damage is already creating a sense of vulnerability among a larger, more powerful adversary, forcing them to expend a great deal of resources on defense.

> In sum, Europe suffers from a lack of growth and excessive regulations that limit its ability to react to new threats.

The cost asymmetry presents risks to Europe's economy. While Germany's €100 billion debt issuance for defense was feasible because of the country's strong financial condition, many EU nations will struggle with massive increases in spending, and southern Europe does not have the sense of urgency to absorb the cost of a drone wall that is felt in eastern Europe. France, Europe's third largest economy, is facing a budget crisis and can ill-afford the new demands for European defense. In sum, Europe suffers from a lack of growth and excessive regulations that limit its ability to react to new threats. As Mario Draghi, the former European Centala Bank governor wrote in his 2024 report on European competitiveness, to protect its sovereignty, the EU must close its technology gap with the U.S. and China, reduce dependencies, and reform decision-making to allow for quicker and coordinated action. He emphasized that the era of relying on cheap energy from Russia and security from the U.S. is over and that inaction risks Europe's decline.

Sources

[1] Bloomberg Finance L.P., [2] Wall Street Journal, [3] Factset, [4] Yahoo Finance, [5] Strategas, [6] The Hill, [7] Politico, [8] Roll Call, [9] Punchbowl News, [10] Associated Press, [11] Reuters, [12] Yale Budget Lab, [13] Peterson Institute for International Economics, [14] Blackrock Geopolitical Dashboard [15] BBC, [16] Euronews, [17]Financial Times, [18] RAND, [19] Defense News, [20] Center for Strategic and International Studies

About the Authors

David Lundgren, CFA

Executive Vice President & Chief Investment Officer

David Lundgren, CFA is the chief investment officer at Hancock Whitney. He is responsible for directing the bank's investment approach; the delivery of asset allocation solutions to institutional and high net worth clients; the management of a platform of client-focused internal and external money managers; and ensuring the bank meets all regulatory requirements.

Additionally, he has been in the banking industry for almost 30 years.

Prior to joining Hancock Whitney, he was a portfolio manager at First Commerce Corporation. David has a Bachelor's Degree in Finance and a Masters in Business Administration from the University of New Orleans, and holds the Chartered Financial Analyst designation.

Paul Teten, CFA

Senior Vice President & Chief Investment Strategist

Paul Teten, is a chief investment strategist at Hancock Whitney, where he supervises the formulation and implementation of proprietary equity and fixed income strategies. Paul has over 40 years of experience in the finance industry. He joined Hancock Whitney as part of the acquisition of Capital One Asset Management LLC. His prior experience includes portfolio management for the Bank of America Private Bank and fixed income trading and portfolio management at Criterion Investment Management in Houston. He earned his Bachelor's Degree in Finance and Masters of Business Administration from the University of Texas at Austin. Paul is a Chartered Financial Analyst and remains active at the College of Natural Sciences at the University of Texas and serves on the Board of Visitors of McDonald Observatory.

Bryan McCaulley, CFA

Senior Vice President, Equity Strategy Manager

Bryan McCaulley, CFA is a senior portfolio manager for Hancock Whitney Bank Wealth Management and is the sector analyst for Communication Services. He is an Equity Strategy team lead responsible for the Large Cap Growth, Mid Cap Core, and Dynamic Asset Allocation strategies. Bryan develops and implements strategies for individual and institutional portfolios using quantitative statistical analysis, and he has experience in performance analytics, equity trading, Real Estate Investment Trusts (REITs), database management, and proxy voting. He joined the firm in 2010 with approximately 5 years of experience in the insurance industry. Bryan graduated from Loyola University in New Orleans with a B.S. in Mathematics. He is a board member of the CFA Society of Louisiana and is a CFA charter holder.

Jeffery Tanguis

Senior Vice President & Director of Fixed Income

Jeffery Tanguis is an investment director at Hancock Whitney, where he is responsible for developing and implementing fixed income strategy and serves as a portfolio manager for high net worth clients. Additionally, Jeff has been in the banking industry for 37 years. Prior to joining Hancock Whitney, Jeff worked with Hibernia Bank as a senior fixed income portfolio manager. He has a Bachelor's of Science in Finance from Louisiana State University. Jeff is a MSRB registered Series 55 Municipal Advisor.

Stephen Morgan

Senior Vice President & Investment Director

Stephen Morgan is the investment director at Hancock Whitney, where he facilitates a team of investment professionals focused on delivering superior investment strategies and client outcomes. Stephen has been in the investment industry for 25 years. He joined Hancock Whitney as part of the acquisition of Capital One Asset Management LLC. Prior to joining Capital One, Stephen worked at Morgan Stanley, efolio.com, Hibernia Bank and Waterhouse Securities. He has a Bachelor of Mathematics from Carleton College and a Master of Mathematics from the University of Wisconsin.

Richard Chauvin, CFA

Senior Vice President & Investment Director

Richard Chauvin, CFA is an investment director at Hancock Whitney, where he is responsible for investment research and strategy, and serves as a portfolio manager for high net worth personal and institutional clients. He has been in the banking industry for over 30 years. Prior to joining Hancock Whitney, Richard served as the Chief Investment Officer at Capital One and was a Senior Portfolio Manager at Hibernia Bank. He has a Bachelor's Degree and a Master's in Business Administration from Louisiana State University, and holds the Chartered Financial Analyst designation.