

## 2025 Q4 MARKET OUTLOOK

### SLOWER, NOT LOWER: NAVIGATING A JOBLESS EXPANSION



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# Together Forward Capital

## Q4 2025 Market Outlook for Philanthropic Organizations

### "Mission Resilience in Economic Transition: Navigating Growth, Giving, and Governance"

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#### Executive Summary

As we enter the final quarter of 2025, philanthropic organizations face a complex landscape where traditional market dynamics intersect with unique sector challenges. While the broader economy shows signs of resilience with continued growth and AI-driven productivity gains, the philanthropic sector confronts distinct pressures: shifting donor behavior, operational cost inflation, and evolving tax policies.

#### Key Takeaways:

- **Charitable giving reached \$592.5 billion in 2024**, growing 3.3% after inflation, but donor confidence remains fragile for the remainder of 2025
- **81% of nonprofits report 15% higher operating costs** while facing increased program demand, creating a "mission sustainability squeeze"
- **Tax law changes in 2026** will reshape giving incentives, with new deduction caps and floors affecting major donor strategies
- **Federal discretionary spending** faces projected 8% real-term cuts over the next two fiscal years

**Our House View:** Philanthropic organizations should adopt a "**Mission-First Portfolio Strategy**" that balances institutional investment best practices with values alignment and operational sustainability. This approach emphasizes endowment preservation, spending rate management, and strategic liquidity positioning while maintaining competitive returns.

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## The Dual Challenge: Economic Resilience Meets Philanthropic Pressure

### Macroeconomic Backdrop

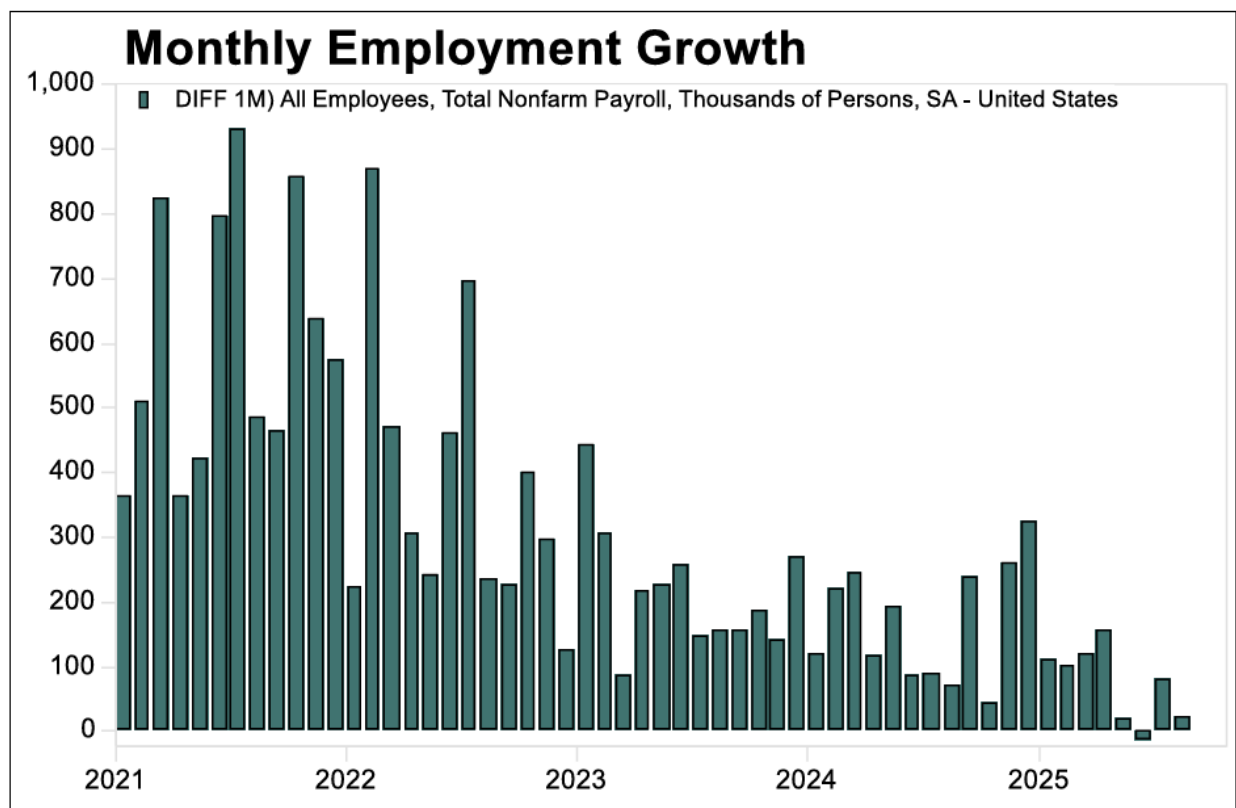
The U.S. economy continues its deceleration toward below-trend growth of 1.8-1.9% in 2025, supported by AI-driven capital investment but challenged by cooling labor markets. For philanthropic organizations, this environment presents both opportunities and risks:

### Supportive Factors:

- Strong stock market performance (+23.3% in 2024) bolsters donor wealth and endowment values
- Stabilizing inflation around 3% reduces uncertainty for long-term planning
- Federal Reserve rate cuts provide opportunities for strategic refinancing

### Challenging Factors:

- Employment weakness threatens middle-income donor capacity



Source: Cetera Investment Management, FactSet, U.S. Bureau of Labor Statistics. Data as of 8/31/2025.

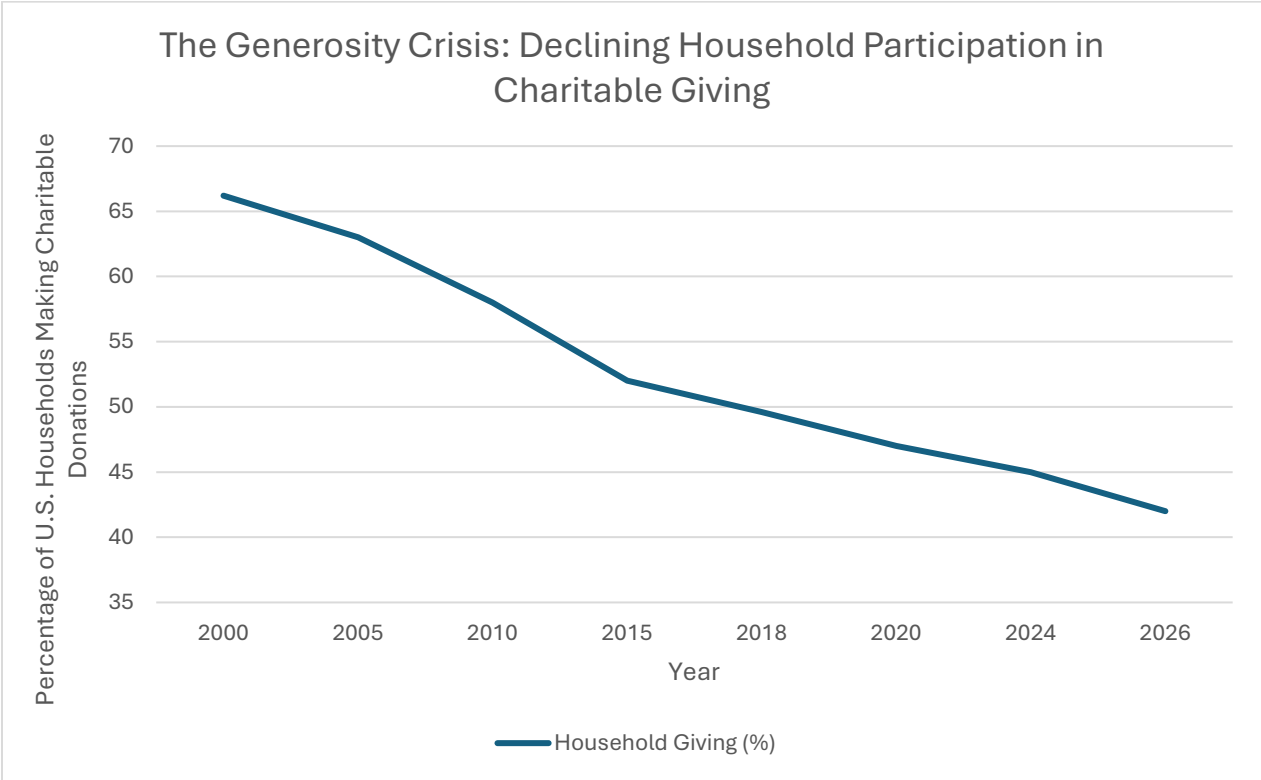
- Goods inflation from tariff policies affects operational costs
- Policy uncertainty complicates multi-year program planning

### The Philanthropic Landscape: A Sector in Transition

Walk into any nonprofit development office today, and you'll witness a fundamental transformation in American giving. Development directors speak of longtime donors "taking a pause," foundation program officers navigate tighter budget constraints, and

executive directors balance expanding service demands against shrinking traditional revenue streams. This isn't just an economic downturn story—it's a structural shift that's reshaping how Americans engage with charitable causes.

**The Great Donor Retreat:** The numbers paint a stark picture, but behind them lie millions of individual decisions. The decline from 66% of households giving in 2000 to under 50% today represents more than statistical change—it reflects altered priorities, decreased trust in institutions, and the practical reality that many families simply have less discretionary income after covering rising housing, healthcare, and education costs.



*The percentage of American households making charitable donations has declined dramatically since 2000, creating a 'Generosity Crisis' that concentrates giving among fewer, wealthier donors. The 2026 tax reforms may accelerate this trend, making donor retention and major gift cultivation even more critical for organizational sustainability.*

Data Sources for Attribution:  
Primary Data: Han, Hungerman & Ottoni-Wilhelm (2024), NBER Working Paper 32737  
Supporting Data: Urban-Brookings Tax Policy Center analysis

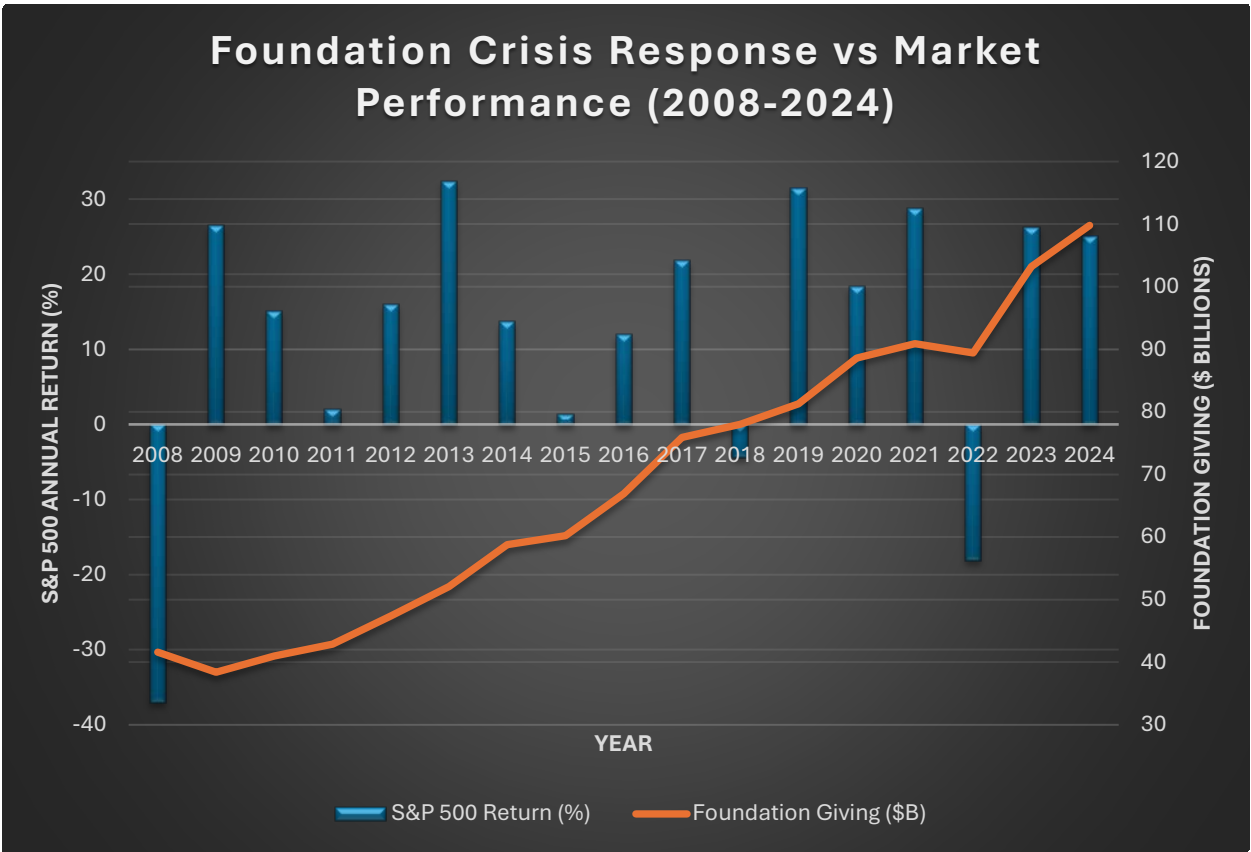
Yet this retreat isn't uniform. While overall participation declines, the donors who remain engaged are giving more. This concentration creates both opportunity and vulnerability for organizations: fewer donors to steward, but potentially devastating impact if one major supporter steps away.

**The DAF Revolution:** Meanwhile, donor-advised funds have emerged as the Swiss Army knife of modern philanthropy. The 300% growth in DAF giving among major donors reflects more than tax planning—it represents a fundamental shift toward intermediated philanthropy. Donors increasingly want flexibility, privacy, and control over timing, even as this trend creates uncertainty for recipient organizations about when recommended grants will actually materialize.

This shift demands new donor relations strategies. The traditional annual appeal to a home address may reach someone who has redirected their giving through a DAF sponsor, requiring development teams to track giving patterns across multiple platforms and intermediaries.

**Foundation Sector Resilience: A Historical Perspective**

While individual giving faces these structural challenges, the institutional foundation sector demonstrates the power of professional management and disciplined governance. Foundation giving has increased 164% since the 2008 financial crisis, growing from \$41.6 billion to \$109.8 billion in 2024—the third consecutive year above \$100 billion.



*Foundation giving increased 164% from \$41.6B to \$109.8B despite major market downturns, demonstrating institutional stability and counter-cyclical support during economic stress*

Sources: Sources: Giving USA Foundation; Standard & Poor's

This remarkable resilience offers three critical lessons for all philanthropic organizations:

**Counter-Cyclical Stability:** During the 2008 financial crisis (-37% market return) and 2022 market stress (-18% return), foundations not only maintained giving levels but often increased support through dedicated crisis response funding. This demonstrates that well-managed endowments provide stability precisely when communities need it most.

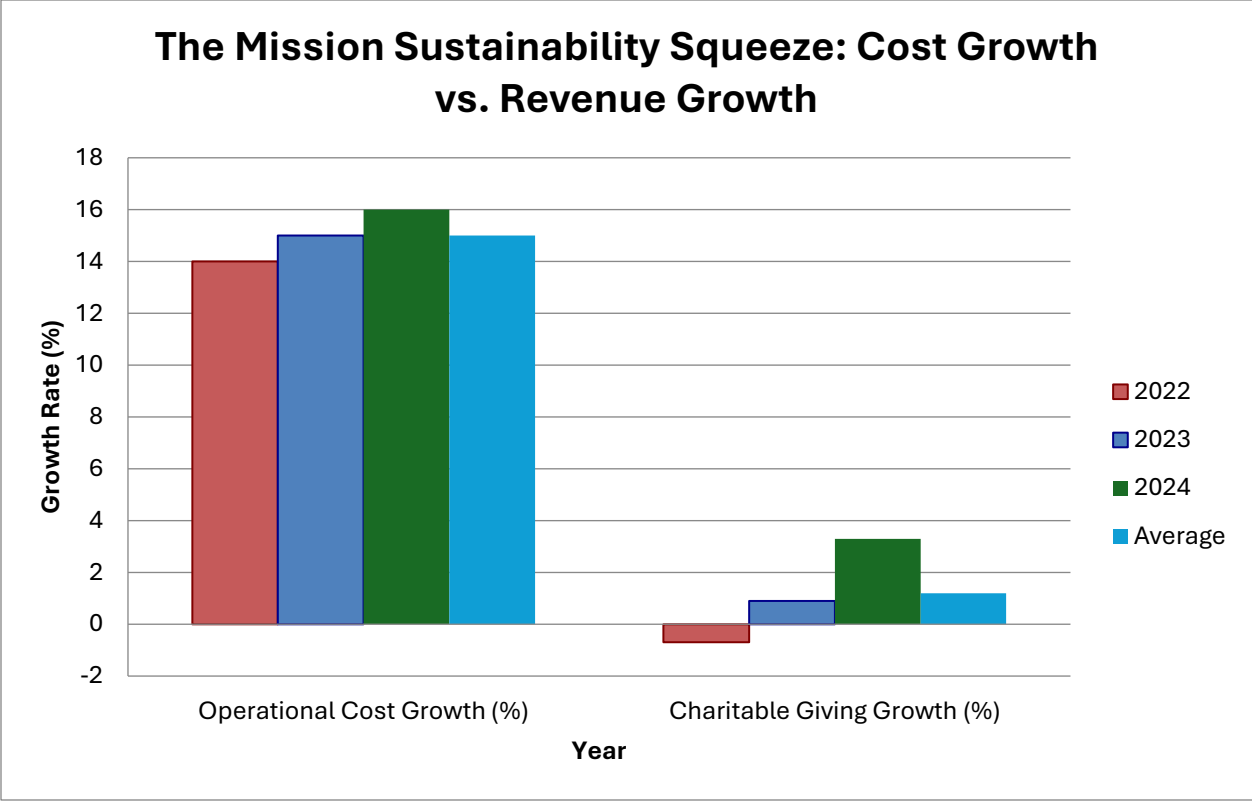
**Professional Management Impact:** The foundation sector's consistent growth reflects the disciplined spending policies (typically 4-6% annually based on rolling averages) and diversified investment strategies that Together Forward Capital advocates for all mission-driven organizations.

**Mission Sustainability Through Financial Strength:** By growing assets while maintaining steady program support, foundations prove that sophisticated investment management serves mission advancement, not just wealth preservation.

For philanthropic organizations navigating today's complex landscape, this track record validates the "Mission-First Portfolio Strategy" outlined in this report. The same principles that enabled foundation giving to more than double during a period of multiple crises—professional governance, disciplined spending, and strategic asset allocation—can help organizations of all sizes build resilience while advancing their missions.

**Cost Pressures:** The Hidden Crisis: Behind every successful program lies a sobering financial reality. The 15-20% increases in operational costs reported by nonprofits aren't just numbers—they represent real choices between hiring qualified staff and keeping programs running, between maintaining service quality and expanding reach, between investing in technology and preserving cash reserves.

Consider a community food bank: higher fuel costs for delivery trucks, increased food prices from suppliers, rising wages to compete for warehouse workers, and new technology requirements for client tracking. Each necessary expense reduces resources available for the core mission, creating a vicious cycle where efficiency demands compete directly with impact goals.



Nonprofits report operational costs rising 15% annually on average, while charitable giving growth averages only 1.2% (inflation-adjusted), creating mounting financial pressure.

Sources: CPA Journal 2024/2025 Nonprofit Survey; Giving USA 2025; National Council of Nonprofits operational cost analysis

Investment Strategy for Mission Sustainability

Beyond the Numbers: A Philosophy of Purpose-Driven Portfolio Management

Picture two foundation board meetings happening simultaneously across town. In the first, trustees scrutinize quarterly returns, debating whether their 7.2% performance justifies management fees. In the second, board members examine both financial returns and a report showing how their ESG-screened equity portfolio supported companies developing affordable insulin while generating competitive returns.

Both organizations care about performance, but only one integrates mission alignment into investment success. This distinction increasingly separates thriving philanthropic organizations from those struggling to connect financial management with values-driven impact.

Core Philosophy: Beyond Risk-Return Optimization

Traditional investment approaches optimize for risk-adjusted returns—a necessary but insufficient framework for philanthropic organizations. Mission-driven institutions must navigate competing priorities that for-profit investors never face:

**The Perpetuity Paradox:** How do you balance urgent current needs against unknown future challenges? A homeless services organization faces this tension acutely—spend more today to address a visible crisis, or preserve capital for tomorrow's potentially greater need?

**The Values Integration Challenge:** Can investments aligned with organizational mission generate competitive returns? A health foundation discovers this isn't theoretical when choosing between tobacco company dividends and biotech growth stocks.

**The Stakeholder Complexity:** Unlike corporate shareholders focused on returns, philanthropic stakeholders include beneficiaries, donors, staff, and communities—each with different expectations about appropriate investment approaches.

### **Strategic Asset Allocation Framework**

The most successful philanthropic organizations think about asset allocation not as abstract percentages but as tools for mission advancement. Consider how different allocation approaches serve different organizational personalities:

**For the Mission-Focused Endowment (Organizations over \$10M AUM):** These institutions have achieved scale that permits sophisticated strategies while maintaining strong mission focus.

#### **Equities (50-60%): The Growth Engine**

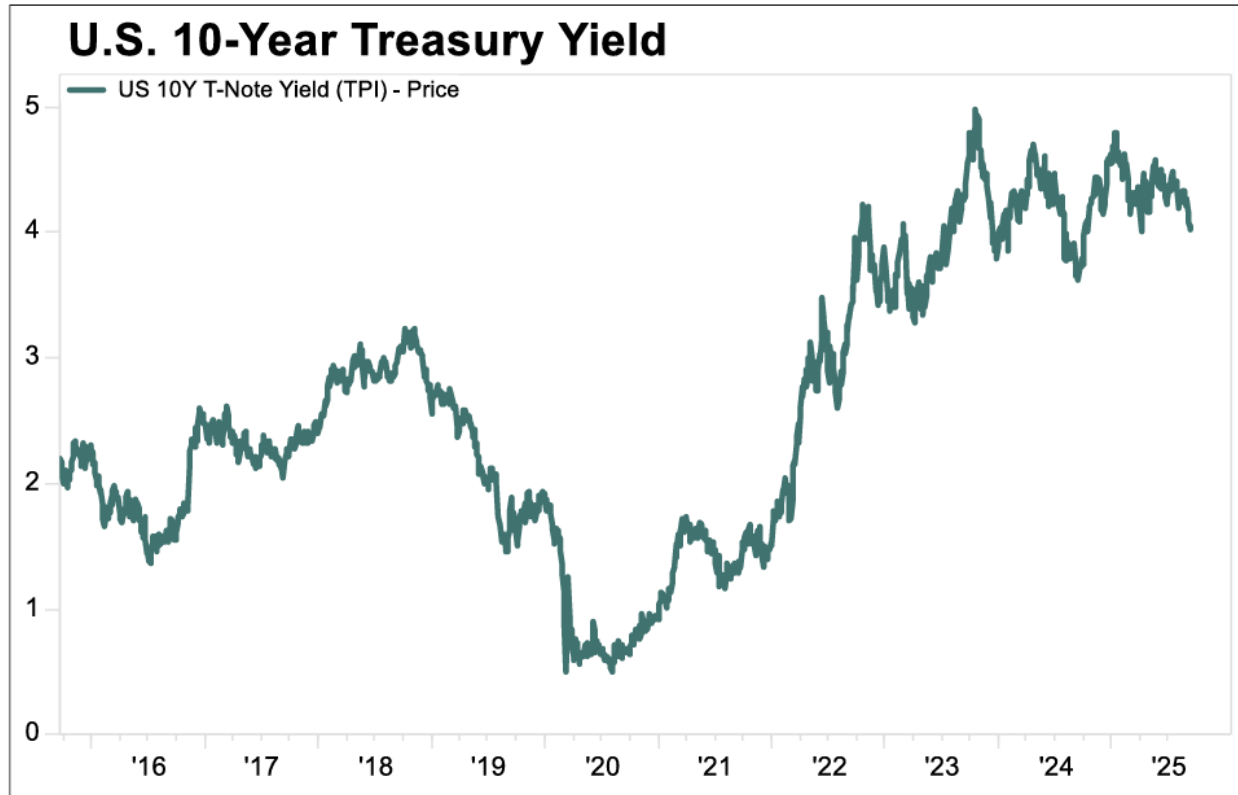
- *U.S. Quality Growth (25%):* Companies benefiting from AI productivity gains, but screened for values alignment. Think Microsoft advancing education technology, not just generating returns.
- *International Developed (15%):* ESG-integrated funds providing currency diversification while supporting sustainable business practices globally.
- *Emerging Markets (10%):* Impact-focused investments in developing economies, potentially including microfinance, clean energy, and education technology.

#### **Fixed Income (25-35%): The Stability Foundation**

- *Core Investment Grade (15%):* Liquidity anchor providing steady income and capital preservation during volatile periods.



- *Treasury Inflation Protected Securities (8%)*: Real return protection ensuring purchasing power preservation across market cycles.



Source: Cetera Investment Management, FactSet, U.S. Treasury Department. Data as of 9/18/2025.

- *Social Impact Bonds (7%)*: Mission-aligned fixed income generating measurable social outcomes alongside financial returns.
- *Developed Markets ex-U.S. (5%)*: Currency and policy diversification reducing concentration in U.S. economic policy decisions.

### **Alternatives (15-25%): The Innovation Space**

- *Impact-Focused Private Equity (8%)*: Investments in companies solving social/environmental problems while generating competitive returns.
- *Real Assets (7%)*: Infrastructure investments in renewable energy, affordable housing, sustainable agriculture.
- *Hedge Funds/Absolute Return (5%)*: Strategies providing portfolio diversification and downside protection.
- *Cash/Liquidity Reserve (5%)*: Strategic dry powder for opportunities and operational flexibility.

**For the Community-Focused Operating Organization (less than \$10M AUM):** Smaller organizations need simpler, more liquid approaches that support operational flexibility while still advancing mission objectives.

**Operating Reserve Strategy:**

- *Money Market/Short-term Treasuries (40%):* Immediate liquidity for operations and opportunities
- *Balanced ESG Funds (35%):* Professional management with values alignment, reducing internal resource requirements
- *Core Bond Funds (15%):* Stability and income generation for predictable cash flows
- *Cash/Emergency Reserve (10%):* Three to six months operating expenses for crisis management

**Spending Rate Considerations**

**The 4-6% Balance:** Most foundations target 4-5% spending rates, but current conditions warrant flexibility:

- **Conservative Approach (4%):** Appropriate during market volatility or funding uncertainty
- **Mission-Critical Approach (5-6%):** Justified when program needs are urgent and growth prospects remain positive
- **Smoothing Mechanisms:** Consider 3-year rolling averages to reduce spending volatility

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## **Tax Law Changes and Strategic Implications**

### **2026 Tax Reform Impact**

#### **New Charitable Deduction Structure:**

- **Non-itemizers:** New \$1,000 annual deduction cap (affecting 90% of taxpayers)
- **Itemizers:** New floor (0.5% of AGI) and cap (35% of AGI) restrictions
- **Estate Planning:** Potential changes to charitable remainder trusts and donor-advised funds

#### **Strategic Responses:**

1. **Accelerated Giving Campaigns:** Encourage major gifts before restrictions take effect
  2. **DAF Education:** Help donors understand timing and distribution strategies
  3. **Planned Giving Focus:** Emphasize estate planning tools less affected by current-year limitations
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## Scenario Planning for Philanthropic Organizations

Imagine three different philanthropic organizations in twelve months. The first has successfully navigated donor retention, maintained program quality, and even expanded services. The second struggles with funding gaps, has reduced programming, and faces difficult staffing decisions. The third has closed two major programs and is considering merger options. What separates these outcomes? Often, it's the strategic decisions made today about investment positioning, donor engagement, and operational flexibility.

### Scenario 1: Mission Continuity (45% probability)

**The Story:** Economic growth stabilizes, inflation moderates, and donor confidence slowly returns. Foundation boards approve measured increases in spending rates. Corporate giving remains stable as companies balance stakeholder expectations with community needs. Government funding stabilizes, reducing competitive pressure for private dollars.

**What This Looks Like:** Sarah, development director at a mid-sized health foundation, sees longtime donors resuming their usual giving levels. The board approves a 4.8% spending rate—slightly above their usual 4.5%—enabling expansion of a successful diabetes prevention program. Their endowment's balanced allocation captures market upside while ESG screening aligns with their health mission.

#### Investment Positioning:

- Maintain balanced allocation with ESG integration
- Spending rate: 4.5-5%
- Focus on multi-year program commitments
- Strategic technology investments for donor engagement

#### Operational Strategy:

- Selective hiring and program expansion

- Enhanced donor stewardship programs
- Technology infrastructure improvements
- Board development and governance strengthening

## **Scenario 2: Funding Pressure (35% probability)**

**Environment:** Donor uncertainty persists, government cuts materialize, and competition for philanthropic dollars intensifies

**The Story:** Mark, executive director of an education nonprofit, watches three longtime supporters reduce their annual commitments by 30%. Federal after-school funding is cut, increasing demand for private support just as it becomes scarcer. His organization faces the classic nonprofit dilemma: maintain service quality for fewer clients or spread resources thinner to serve more.

**What This Looks Like:** Organizations implement "managed decline" strategies—thoughtfully reducing scope while preserving core mission elements. Successful groups identify their most effective programs and double down, while eliminating peripheral activities. Collaboration becomes necessity, not choice, as organizations share resources and coordinate services.

### **Investment Positioning:**

- Increase liquidity reserves to 10-15%
- Reduce alternatives allocation for flexibility
- Spending rate: 4-4.5%
- Emphasize dividend-paying, stable equities
- Consider shorter duration fixed income

### **Operational Strategy:**

- Program prioritization and efficiency improvements
- Revenue diversification (earned income, partnerships)
- Collaborative service delivery models
- Enhanced grant writing and foundation relations

## **Scenario 3: Sector Reset (20% probability)**

**Environment:** Significant economic disruption coincides with major shifts in philanthropic behavior and regulatory changes

**The Story:** Lisa, board chair of a community foundation, presides over emergency meetings as three major donor families redirect their giving to direct cash assistance programs, bypassing traditional nonprofits entirely. New regulations restrict certain foundation activities, while economic uncertainty forces many organizations to consider fundamental changes to their operating models.

**What This Looks Like:** The philanthropic equivalent of creative destruction—some organizations merge, others close, but new models emerge. Direct giving platforms gain market share, traditional nonprofits focus on unique value propositions, and the sector becomes more concentrated but potentially more efficient.

**Investment Positioning:**

- Defensive allocation: 20%+ cash and short-term bonds
- Reduce equity exposure to 40% of portfolio
- Spending rate: 3.5-4%
- Focus on principal preservation
- Maintain maximum liquidity for strategic opportunities

**Operational Strategy:**

- Core mission focus with program consolidation
- Emergency reserve utilization
- Merger and partnership exploration
- Fundamental business model evaluation

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## **Governance and Risk Management**

### **Investment Committee Best Practices**

**Fiduciary Excellence:**

- Annual investment policy review incorporating mission alignment
- Regular education on ESG integration and impact measurement

- Stress testing of spending policies under various market scenarios

**Operational Integration:**

- Quarterly coordination between investment and program committees
- Annual review of spending rate sustainability
- Transparent impact reporting to stakeholders

**Risk Monitoring Framework****Financial Risks:**

- Market volatility impact on spending capacity
- Liquidity constraints during market stress
- Currency exposure for international operations

**Operational Risks:**

- Donor concentration and retention
- Regulatory compliance and tax status
- Talent acquisition and retention costs

**Mission Risks:**

- Values misalignment in investment portfolio
- Reputational risk from investment choices
- Program effectiveness measurement and adaptation

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**Technology and Innovation in Philanthropic Finance****Digital Transformation Opportunities****Donor Engagement:**

- AI-powered donor analytics and personalization
- Blockchain for transparent impact tracking
- Mobile-first donation platforms and recurring giving

**Operational Efficiency:**

- Automated financial reporting and compliance
- Cloud-based collaboration tools for board governance
- Integrated CRM and investment reporting systems

#### **Investment Innovation:**

- ESG data analytics and portfolio screening
- Impact measurement and financial return integration
- Alternative investment platforms for smaller organizations

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## **Looking Forward: Building Resilient Philanthropic Organizations**

The story of American philanthropy has always been one of adaptation and innovation. From Andrew Carnegie's libraries to today's impact investors, each generation has reimagined how private resources can address public challenges. The current moment demands similar creativity and courage.

### **The Path Through Uncertainty**

Consider the parallels to previous philanthropic transformations. The Great Depression forced foundations to become more strategic and professional. The social movements of the 1960s demanded greater accountability and inclusiveness. The 2008 financial crisis accelerated collaboration and efficiency improvements. Each challenge ultimately strengthened the sector's capacity to serve communities.

Today's challenges—donor concentration, cost inflation, and policy uncertainty—require similar adaptation. Organizations that thrive will be those that embrace both financial sophistication and mission clarity, that invest in relationships as seriously as they manage portfolios, and that view uncertainty not as threat but as opportunity to demonstrate irreplaceable value.

### **Strategic Priorities for 2026 and Beyond**

**Financial Resilience Through Diversification:** The organizations most likely to weather current storms are those building multiple revenue streams before they need them. This means viewing earned income not as mission drift but as mission sustainability, treating partnerships as strategic imperatives rather than nice-to-haves, and considering endowment building as essential infrastructure investment.

**Mission Effectiveness Through Innovation:** The pressure to demonstrate impact has never been greater, but neither has the opportunity. Technology enables measurement and storytelling capabilities that previous generations could only imagine. Data analytics reveal program effectiveness patterns that inform both operational improvements and donor communications. The organizations investing in these capabilities today will have competitive advantages tomorrow.

**Sector Leadership Through Collaboration:** Perhaps most importantly, the current environment demands moving beyond institutional competition toward collective impact. The organizations that will thrive are those that see other nonprofits as potential partners rather than rivals, that view foundation relationships as collaborative problem-solving rather than transactional grant-seeking, and that engage in policy advocacy as civic responsibility rather than self-interested lobbying.

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## Conclusion

The philanthropic sector in Q4 2025 stands at an inflection point that demands both courage and wisdom. The easy path—continuing traditional approaches while hoping external conditions improve—risks irrelevance or insolvency. The necessary path—embracing change while preserving mission integrity—requires the kind of leadership that has always defined effective nonprofit organizations.

The numbers matter: endowment returns, spending rates, donor retention statistics. But behind every number is a human story: the family that receives emergency assistance, the student who gains educational access, the community that preserves cultural heritage, the environment that receives protection. These stories provide both motivation for difficult decisions and measurement for successful outcomes.

Investment sophistication serves mission impact. Financial sustainability enables programmatic innovation. Donor stewardship supports community transformation. When these elements align—when technical competence meets passionate commitment—philanthropic organizations become capable of addressing society's most complex challenges.

The path forward requires embracing both financial realism and mission optimism, both operational efficiency and values alignment, both individual excellence and collaborative spirit. Organizations that master this balance will not merely survive current uncertainties but will emerge stronger, more focused, and more effective.



Together Forward Capital remains committed to supporting this transformation, providing the analytical rigor and sector expertise that mission-driven organizations need to navigate complexity while maintaining clarity of purpose. The challenges are real, but so is the potential for positive impact. The story of American philanthropy continues, and its next chapter depends on the decisions being made in boardrooms and development offices across the country today.

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## Sources and Methodology

This outlook incorporates analysis from Giving USA 2025, the National Council of Nonprofits, PNC Insights on Philanthropic Giving, various foundation investment policies, and economic forecasts from S&P Global, OECD, and the Federal Reserve. Investment recommendations reflect current market conditions and historical philanthropic sector performance, adapted for the unique needs of mission-driven organizations.

**Important Disclosures:** This material is for educational purposes only and does not constitute investment advice. Past performance does not guarantee future results. Philanthropic organizations should consult with qualified investment professionals and consider their specific mission, time horizon, and risk tolerance before making investment decisions.

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