Q3 2025

NOTES ON THE MARKET

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STRATEGIC INVESTMENTS

Q3 2025 RECAP

Markets moved from a tumultuous Q2 to a much calmer Q3, quietly marching forward and continuing to hit fresh all-time highs. Thematically, investment within the artificial intelligence sector remained strong throughout the quarter. It has very much been a stock pickers' market with many individual names providing double-digit returns for the quarter and year-to-date, with certain sectors going hyperbolic while value stocks lagged behind. Gold continued its steady climb as geopolitical tensions increased, and the dollar declined further.

The first Federal Reserve rate cut in a year is now in the books, after a very public pressure campaign, with expectations for more rate cuts to come. The economy remains well positioned, yet that strength may be tenuous, and vigilance is recommended to navigate these waters.

"Through discipline comes freedom." ~Aristotle

THE MEGATRENDS DRIVING THE MARKET

7 MEGATRENDS DRIVING STOCK RETURNS

While much of the AI stock trends are within the large-cap index, S&P 500 (SPX), the majority of the other megatrends are based among smaller growth companies found within the Russell 2000 (RTY), a small-cap index, which had greater returns the past quarter.

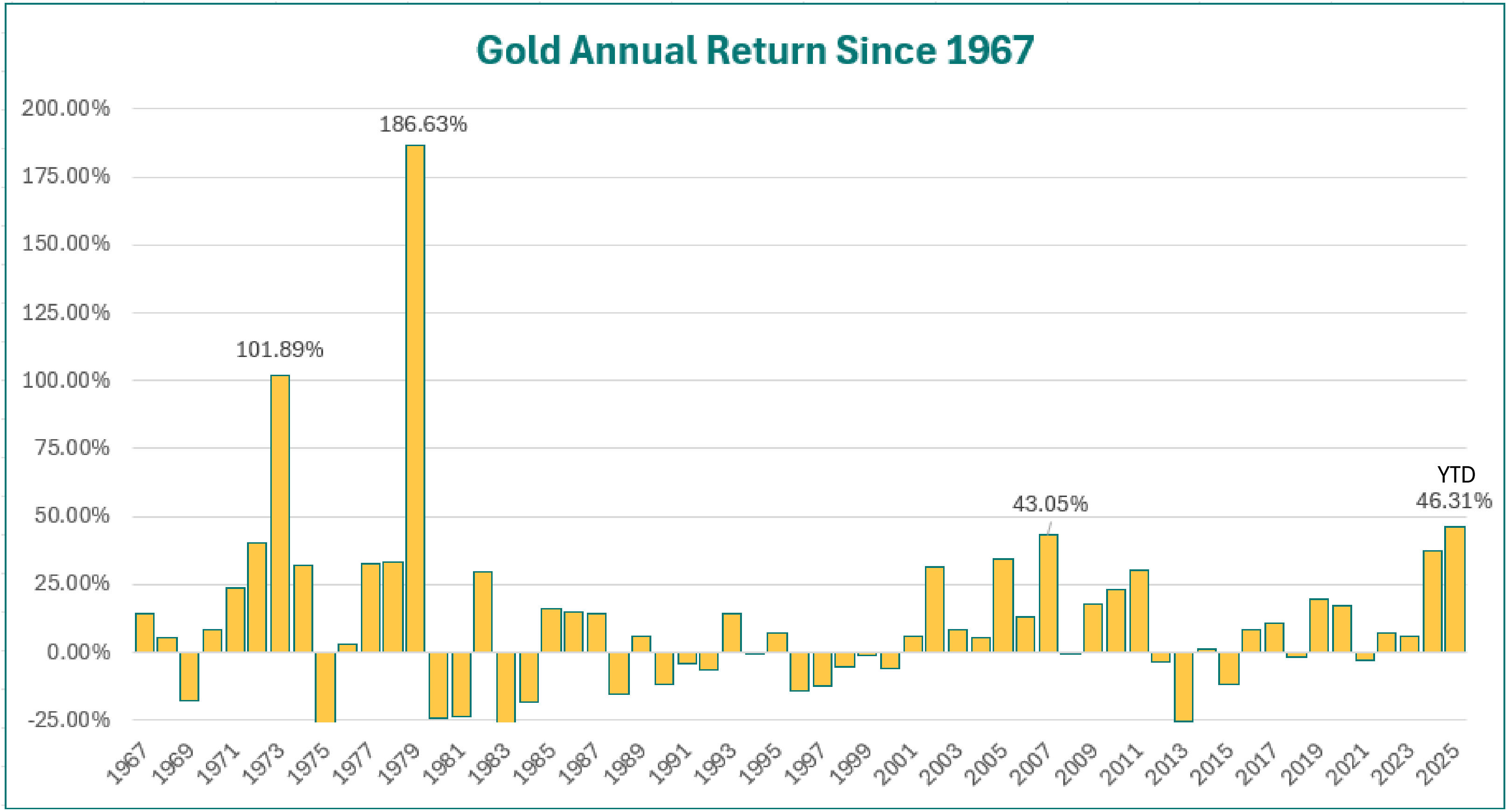
- AI spending from hyperscalers
- Chips needed to run AI
- AI platforms aiding commercial enterprise clients in implementation
- Nuclear power to feed the growing needs of AI
- Quantum computing
- Robotics
- Cutting edge defense technology such as drones

Large Cap versus Small Cap Index Returns for Q3

Data from Koyfin

ALL THAT GLITTERS IS GOLD

GOLD HASN'T PARTIED THIS HARD SINCE 1979



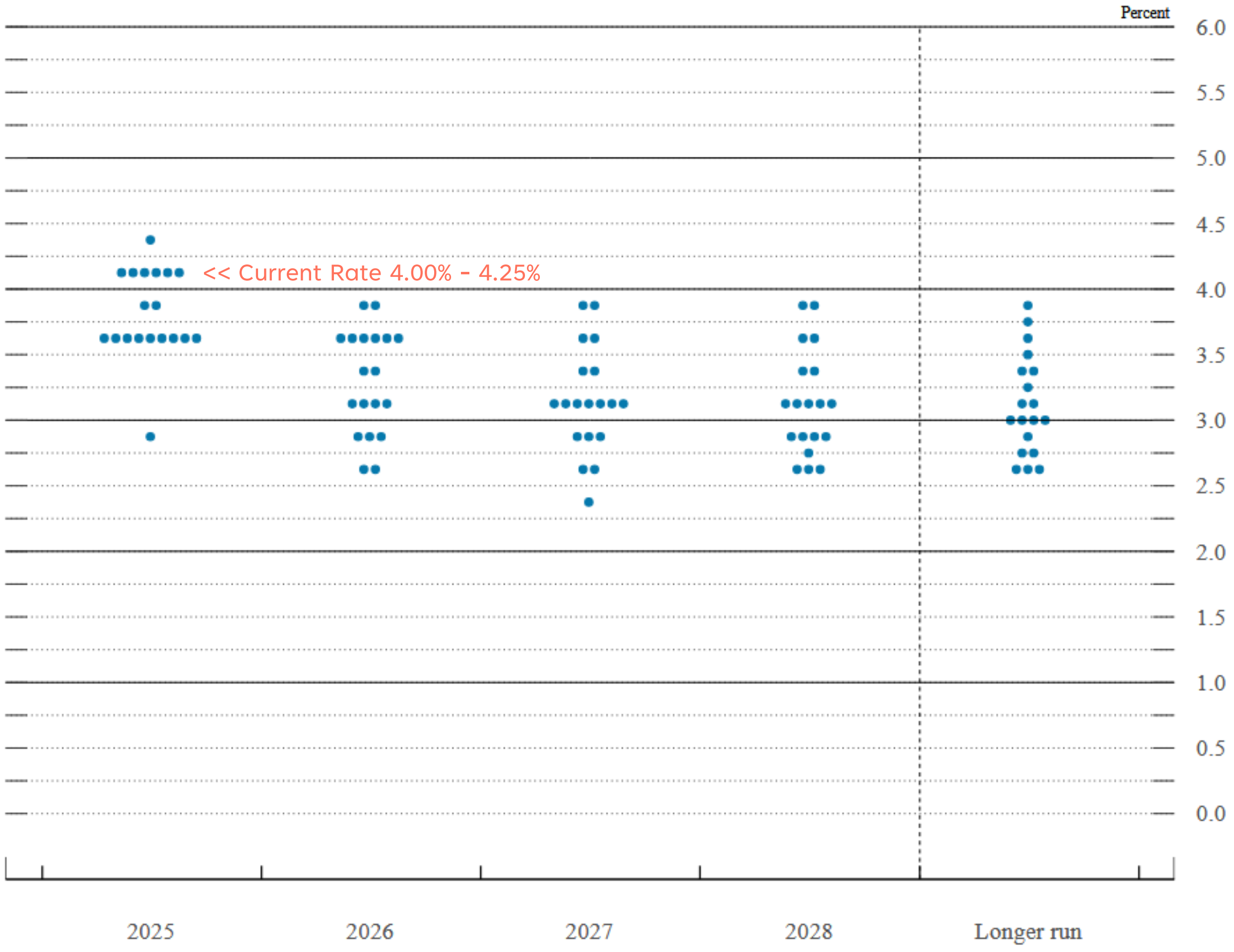
- 9 months into the year and gold has proven to be one of the best performing asset classes, returning 46.31%.
- The only times we have had returns greater than this was 1973 and 1979. These periods were marked by geopolitical uncertainty, rising inflation/stagflation, and US dollar devaluation.
- The uncertainty surrounding the Great Financial Crisis brought similar, yet slightly lower returns.

Data from MacroTrends.com

DECONSTRUCTING THE DOT PLOT

SEPTEMBER GAVE US THE FIRST FED RATE CUT IN A YEAR; EXPECTATIONS ARE FOR TWO MORE IN 2025

The Federal Reserve "Dot Plot"



Data from FederalReserve.gov

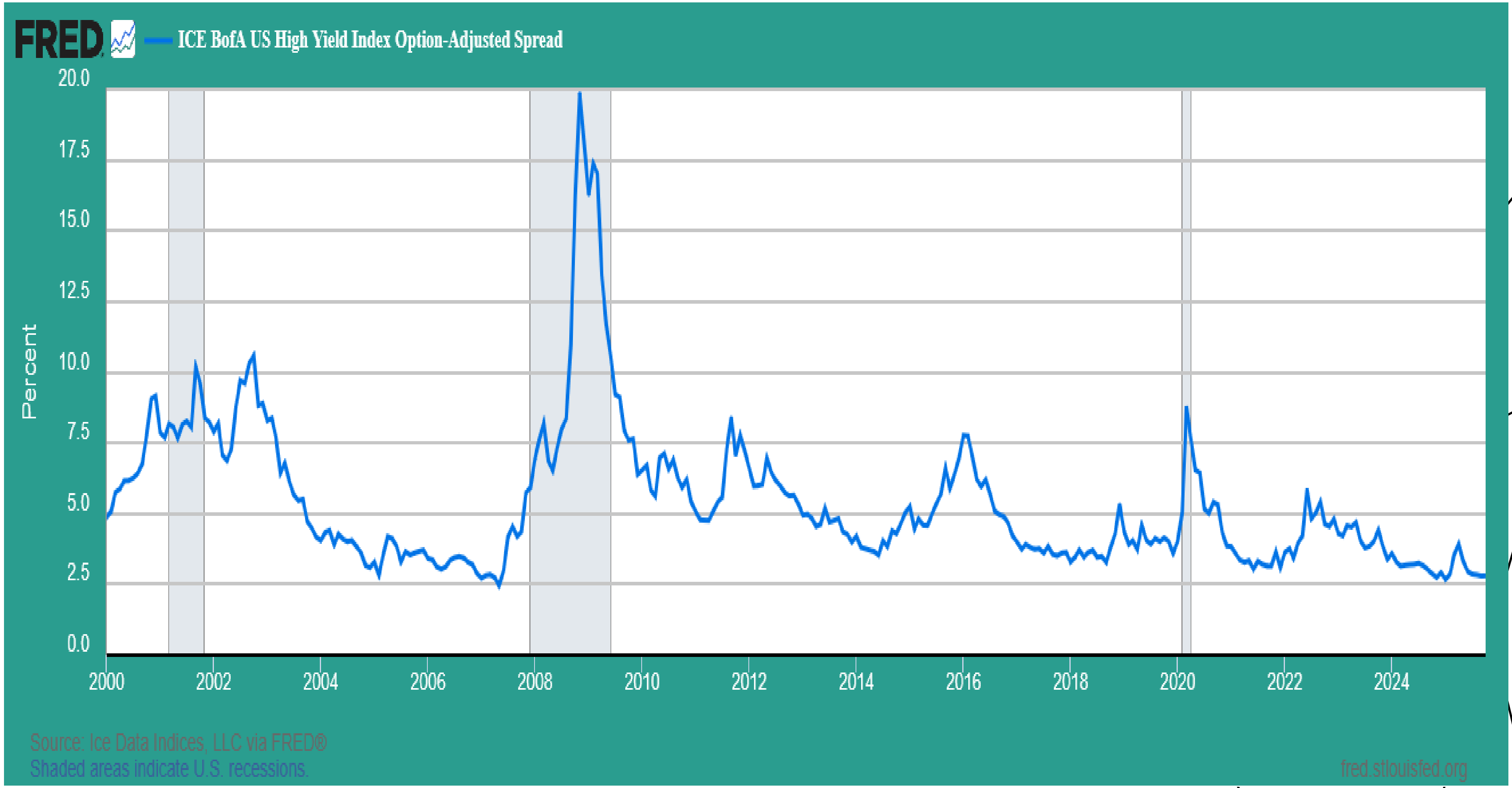
- The Dot Plot shows each voting member's expectations of where rates should be at the end of each year, covering this year on the left, and subsequent years after.
- The 0.25% cut in September brought the Federal Fund Rate down to 4.00% - 4.25%.
- Lower rates means lower costs to borrow for consumers and businesses alike. Lower rates also help spur business investment but reduce returns for savers as they earn less on bonds and CDs.
- The majority of members at the last vote expected rates to close out the year at 3.50% - 3.75% and stay at that level through 2026.
- Note that more of the votes for 2026 are below that majority rate, indicating a greater openness for lowering rates next year.

YIELD SPREADS TOE THE LINE BETWEEN ECONOMIC STABILITY AND INVESTOR COMPLACENCY

TIGHT SPREADS, CALM NERVES… FOR NOW

Investor confidence is high, but tight spreads leave little room for error.

- The high yield spread measures the difference in the yield between riskier high yield bonds and risk-free treasuries. When yield spreads are tight investors are not getting paid much for the additional risk of owning lower quality bonds.
- A tight yield spread is often also indicative of a stable economic backdrop as investors are not showing concern around defaults and reflecting strong investor demand.
- Yield spreads widen in times of turmoil as indicated by the grey areas that mark recessions.
- Other than the blip in April, yield spreads in 2025 have been the lowest levels since before the Great Financial Crisis.

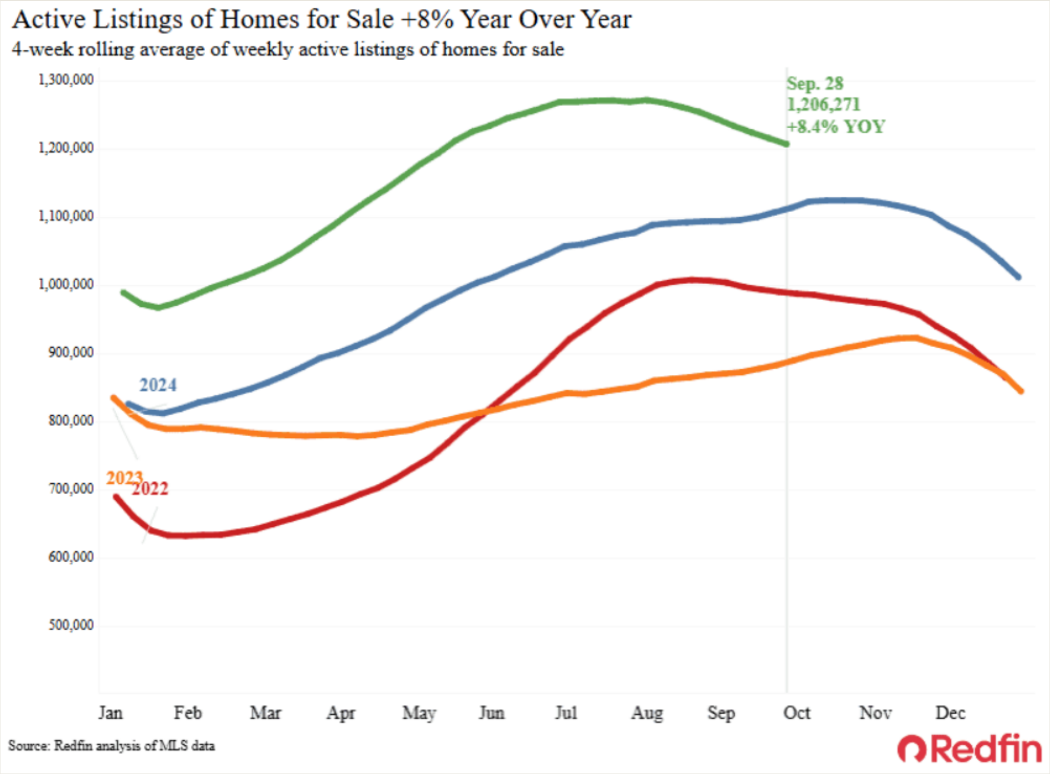


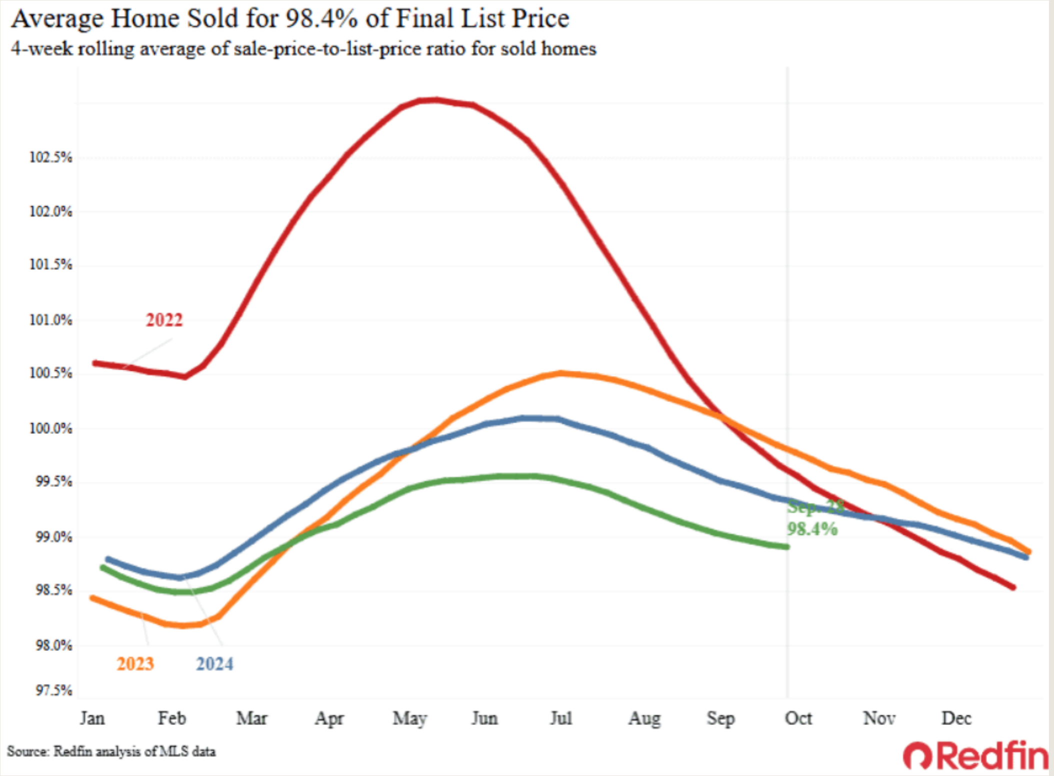
Data from FRED.StLouisFed.org

REAL ESTATE TEETERS AT A TIPPING POINT WITH LOWER RATES AND HIGHER SUPPLY

HIGHER HOUSING SUPPLY AND LOWER SALES PRICES POINT TO A TIPPING POINT IN REAL ESTATE

- **Homes listed for sale are up more than 8% for the year, significantly higher than levels seen in recent years, while the trend of homes selling above list price has eased to 98.4% of list price.**
- **Mortgage rates decreased as we headed into the September Fed meeting and the much-anticipated Fed rate cut.**
- **Meanwhile, home prices continue to climb, rising a modest 2.5% year over year.**





Data from Redfin

WHERE DO WE GO FROM HERE?

While the meteoric rise of certain stocks and sectors may not continue unchecked, a modest pullback could offer attractive opportunities. A broadening of returns as the benefits of AI adoption spreads through the economy is likely to influence Q3 earnings. It remains a stock pickers' market, with index performance heavily weighted toward the Magnificent 7.

Continued positive trends may carry into Q4, barring major geopolitical disruptions. Headline risk remains, as tensions between the US and China are still at the forefront of trade talks and Russia continues to be elusive, but positive macro trends persist as a strong underpinning.

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Questions? Comments? Like what you read?
Reach out to chat or schedule a financial review:

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