

September 30, 2025

Dear Clients,

U.S. markets posted a strong September and third quarter as risk assets rallied, led by tech and AI-related names and a late-quarter lift from the Federal Reserve's policy pivot. For the quarter, the NASDAQ rose 11.2%, the S&P 500 gained 7.8%, and the DJIA added 5.2%. Market breadth improved, earnings expectations were revised modestly upward, and resilient economic data further supported equity gains. Year to date equities have provided continued strong returns with the NASDAQ, the S&P 500, and the DJIA, up 17.3%, 13.7% and 9.1%, respectively. Our portfolios have benefited in tandem from the aforementioned factors.

The US economy showcased continued strength as the ongoing robust AI infrastructure buildout drove demand for compute, memory, and software, as well as adjacent beneficiaries in the industrial, utility and energy segments. Additional economic stimulus has been provided by the sizable boost to household wealth from significant equity gains over the trailing three years, fueling spending among higher-income households. Markets remain unfazed by the ongoing government shutdown, with historical data suggesting a strong rebound post-disruption. Geopolitical tensions in the Middle East and Russia-Ukraine as well as tariff uncertainty sustain elevated risk premiums, posing potential volatility, however, investors have mostly relegated these as tail risks. Rose colored glasses rule the day.

During the quarter, the Federal Reserve executed a pivotal policy shift, with September's meeting signaling heightened concern over rising downside risks to employment, paving the way for a 25-basis-point rate cut to a 4.00%-4.25% range. Fed communications and minutes from summer meetings revealed an evolving risk assessment- balancing economic expansion supporting corporate growth against uncertainties with labor markets cooling and inflation ticking up to 2.9%. This dovish stance boosted investor risk appetite, driving equity multiple expansion, particularly in growth sectors.

S&P 500 third quarter earnings estimates are currently forecasting 8-10% year-over-year growth, driven by a remarkable 25% surge in technology. This strength has driven valuations higher, with the S&P 500's forward price- to-earnings ratio climbing from 18 to 22.8 in just six months, the fastest expansion since 2020. However, this figure is misleading, as record concentration among a few mega-cap stocks inflates the index's valuation. The average S&P 500 stock remains significantly cheaper, presenting compelling bargains for selective investors when sentiment becomes more defensive. With earnings

season beginning next week, led by big banks, investors remain buoyant but sensitive to Fed messaging, AI-driven earnings revisions, geopolitical headlines, and potential disappointments outside tech, which could disrupt the current smooth glide path for stocks. We believe the most important segment will continue to be AI/tech and if strong earnings are delivered, it would justify elevated valuations and sustain market gains.

As portfolio managers, diversification remains challenging due to the concentration in a few outperformers. Tactically, we continue to reduce weightings in these outperforming segments, adding fixed income and more defensive positions as appropriate. However, the relative strength both in revenue and earnings growth and corresponding appreciation merits continued portfolio inclusion. We are constructively positive and continue to recommend an invested posture, however, we are cognizant of the known risk factors and will monitor corporate reports and economic datapoints as we make strategic portfolio revisions.

As always do not hesitate to contact us if you have any questions. Fall is upon us, enjoy the cooling temps, changing foliage, football, and annual arrival of pumpkin spice.

Best regards,

*Will Wurm*

*Beech Hill Advisors*