Investment Update

October, 2025

2025 Third Quarter Update

Review: The S&P 500 continued to rally, boosted by Q2 earnings reports that were generally better-than-expected and a resumed interest rate cut cycle. International equities were also up, though developed markets underperformed the S&P 500 due to lackluster earnings growth. The US dollar was also relatively stable, which removed what had been a tailwind for international indices in the first half of the year. Bonds also delivered positive returns, boosted by the Fed's decision to cut rates in September.

	3Q25	2Q25	1Q25	2024
S&P 500	8.1%	10.9%	-4.3%	25.0%
MSCI EAFE[1,2]	4.8%	12.1%	7.0%	4.3%
MSCI Emerging Markets[2]	10.9%	12.2%	3.0%	8.1%
Bloomberg U.S. Aggregate Bond	2.0%	1.2%	2.8%	1.3%
Bloomberg Municipal Bond	3.0%	-0.1%	-0.2%	1.1%

[1]Europe, Australasia, Far East

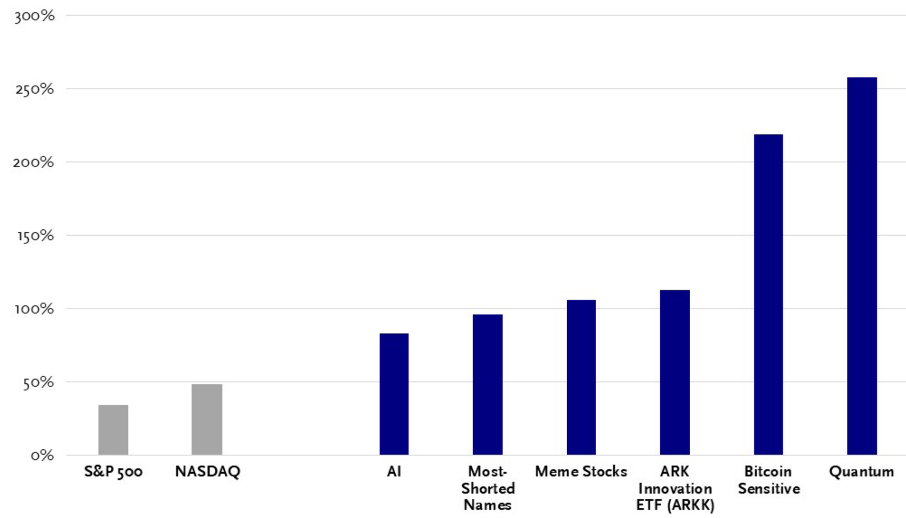
[2]MSCI returns are in U.S. Dollars

Is the Market Going to Party Like It's 1999?

We generally refrain from making comparisons between historical market periods, as there are typically too many differences—e.g. economic conditions, technology trends—to make such comparisons useful. However, some comparisons are helpful reminders of market psychology at peaks ("nothing will go wrong") or troughs ("nothing will improve").

The current AI-related investment boom in data centers is boosting economic growth, and AI-related companies are key drivers of S&P 500 performance. However, expectations for the capabilities of AI technologies appear to be outpacing actual performance in the near term. Despite this mismatch, hundreds of billions of dollars continue to pour into the space, which, in our view, is leading to increased speculative behavior by investors that reminds us of the late '90s dot-com boom. There are some significant differences between now and then, most notably that many of the key companies driving investment in the space are profitable and funding capital expenditures from operating cash flow. Additionally, some of the public market valuations of AI-related companies appear to be reasonable. However, some of the notable similarities include: 1) companies with questionable business models, and in some cases none at all, attracting billions of dollars of financing in the private and public markets; 2) vendor-customer relationships that appear to be somewhat circular in nature; 3) the use of significant leverage by some companies to fund capital expenditures. As we saw in the late '90s, such behavior can persist for longer than one might expect, but we highlight this as a risk worth monitoring. In the meantime, investors are piling into more speculative parts of the market, particularly in the past few months, as shown below.

Signs of Speculative Market Behavior? Select Price Returns 4/8/25-9/30/25



Source: Bloomberg, Goldman Sachs baskets GSXUMSAL and GSCBBTC1 for most-shorted and bitcoin sensitive, UBS baskets UBXXAIW and UBXXMEME for AI and meme stocks, MSXXQTM for quantum

Outlook: The US economy has been more resilient than expected this year. GDP growth is expected to be 1.8%, slower than last year's 2.8% but better than some of the dire predictions made by some in early April. Consumer spending has decelerated but has benefitted from continued spending by higher income households. Additionally, growth in IT equipment investments, driven by the AI-related spending boom on data centers, has partly offset the deceleration in consumer spending. That said, consumer debt delinquency data and commentary from retailers clearly suggests continued financial stress among a significant portion of households. Therefore, confidence in a reacceleration of economic growth seems dependent on improving labor market dynamics—more hiring and more wage growth—which have not yet materialized.

International growth continues to be mixed. Earnings growth trends continue to lag US growth, partly explaining the relative underperformance of developed markets in Q3. The US dollar stabilized against most major currencies during the quarter, but it may weaken further if the Fed continues to cut rates, since most central banks appear to have ended their rate cut cycles.

Strategy: We continue to view the risk-reward in fixed income as relatively attractive in the current environment, despite the year-to-date decline in yields. Within equities, we have a preference for higher quality growth stocks at reasonable valuations balanced by exposure to traditionally defensive sectors. Though volatility at the index level has been relatively benign in recent months, there is significant dispersion at the individual stock level, which may provide us with opportunities to add new positions or add to existing ones at relatively attractive valuations.