



Wealth Advisory Market Update

October 13, 2025

Market Commentary – October 2025

Market Overview

The market continued its advance following the April selloff, with the S&P 500 rising over 3.6% in September. This performance was largely driven by a strong rally in the final days of the month, fueled almost entirely by large-cap technology stocks. The first, and widely anticipated, rate cut from the Federal Reserve took place during the month. However, the primary driver of market momentum remains optimism around artificial intelligence (AI).

In our view, several developments in the final weeks of September raised questions about the sustainability of AI-related spending. A number of large-cap companies released revenue and capital expenditure projections that appeared overly ambitious. These announcements were followed by vendor financing deals—arrangements where one company invests in another to provide better financing terms and facilitate product purchases.

Concerns arise when these deals evolve into "circular" financing, in which companies essentially buy back their own products through intermediaries to artificially inflate revenue and sustain market momentum. This behavior is eerily reminiscent of the dot-com era, particularly among telecom equipment makers like Cisco, Lucent, and Nortel—the latter two of which no longer exist.

Valuations continue to stretch as the AI rally pushes forward. Since November 2022, AI-related stocks have accounted for:

- 75% of the S&P 500's returns¹
- 80% of earnings growth¹
- 90% of capital expenditures¹

The S&P 500's forward price-to-earnings (P/E) ratio has now reached 23x—levels only seen twice this century: just before the COVID-19 pandemic and during the dot-com bubble. While valuations alone do not predict market tops, they do serve as a warning sign. The current rally has been prolonged, and history suggests that when bubbles burst, the resulting drawdowns can be significant.

These valuation levels reinforce the importance of avoiding overexposure to overheated sectors and maintaining a well-diversified portfolio.

1 Lichtenberg, Nick. "75% of Gains, 80% of Profits, 90% of Capex-AI's Grip on the S&P Is Total and Morgan Stanley's Top Analyst Is 'Very Concerned.'" Fortune, Fortune, 8 Oct. 2025, fortune.com/2025/10/07/ai-bubble-cisco-moment-dotcom-crash-nvidia-jensen-huang-top-analyst/.

Economic Indicators & Monetary Policy

The Federal Open Market Committee (FOMC) implemented its first rate cut of the year and released its Summary of Economic Projections (SEP). The SEP showed a modest 20 basis point upward revision in GDP forecasts. Inflation expectations remained unchanged for 2025 but increased by 20 basis points for 2026.

The Fed also projected two additional 25 basis point cuts for the remainder of the year.

In his remarks after the September meeting, Fed Chair Jerome Powell cited "meaningful downside risks" to employment as the primary reason for the rate cut. While job creation and layoffs have both been low, Powell warned that unemployment could rise quickly.

Regarding inflation, he noted that new tariffs are likely to cause a one-time price bump, which has not yet been fully passed on to consumers—though companies intend to do so. He acknowledged the tension between achieving price stability and maximum employment, stating there is no "risk-free" path forward, and that future policy decisions will be challenging.

Meanwhile, the release of the official labor report from the Bureau of Labor Statistics (BLS) has been delayed due to a government shutdown, as the Senate failed to pass a Continuing Resolution (CR). Historically, such shutdowns have been temporary and resolved through bipartisan agreements.

In the absence of BLS data, the ADP employment report showed a contraction of 32,000 jobs—significantly below the expected 45,000 increase. This marks the weakest print since March 2023 and suggests continued weakening in the labor market as economic growth slows.

Portfolio Strategy

Given current market dynamics, a defensive positioning remains appropriate. We remain disciplined in our investment approach and are not chasing short-term returns.

Companies best suited for a slowing economy typically have:

- Strong balance sheets
- Operate in non-cyclical sectors
- Possess robust pricing power

Recently, we selectively added positions where valuations provided attractive entry points, and where businesses demonstrated consistent customer demand.

In fixed income, yields initially rose following the Fed's rate cut, but have since declined, returning to pre-cut levels in response to softer economic data.

The middle portion of the yield curve remains the most attractive, offering favorable risk-adjusted returns. Among fixed income sectors, Mortgage-Backed Securities (MBS) stand out for their compelling spreads and relative value. Given current conditions, we continue to favor high-quality credit.

Outlook

We remain focused on active, risk-aware portfolio management as we navigate an increasingly complex and dynamic macroeconomic environment.

While uncertainty remains, we continue to identify opportunities that align with our long-term investment philosophy.

We appreciate your continued trust and partnership as we move through this evolving landscape together.

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