

Full Steam Ahead?

U.S. equity markets march higher.

In Summary

Markets remain strong but face significant tests. Stocks pushed higher in the third quarter, as large cap and technology names continued to rally. Still, high prices, concentrated indices, and a softening job market could make the next stretch more challenging.

The Fed is shifting focus. The September rate cut shows the Fed is now more concerned about supporting the softening labor market than fighting inflation. How well it balances those priorities will shape what happens next in the markets.

Stay balanced. Much of this year's growth has come from AI-related companies, but OAM Research sees opportunity in value and international stocks, high quality bonds, and real assets that can help smooth returns if conditions change.

Asset Class Detail:

No changes this quarter.

For more information see page 4.

U.S. equity momentum carried into the third quarter as large cap indices continued to make new highs and small cap stocks joined the rally. The U.S. economy has exhibited resilience, yet the employment picture is emerging as a vulnerability that could catalyze a turn in the markets. While lower interest rates could further propel equities higher, a reacceleration of inflation or deterioration of the labor market may disrupt equity strength into year-end.

Potential Catalysts

Monetary Policy

The Federal Reserve has recommenced its rate-cutting cycle with a 0.25% reduction in September 2025, bringing the federal funds rate to a range of 4.00%–4.25%. This action reflects a pivot toward addressing labor market softness rather than prioritizing stubbornly elevated inflation. Corporations, investors, and consumers have benefited from interest rates trending lower, albeit on a volatile path, this year as markets anticipated more accommodative Fed policy. However, borrowing rates have moved higher since the Fed decided to lower the overnight rate in mid-September. There is no clear consensus among the voting members of the Fed, as risks to both employment and inflation remain.

Inflation

Inflation has moderated from prior highs but persists above the Federal Reserve's 2% target. The Fed's preferred measure, the *Core Personal Consumption Expenditure Price Index* ("Core PCE"), rose 2.9% for the 12 months ending August 2025 and has increased in each of the last four months. Recent upticks, exacerbated by tariff-related cost increases on imports but also evident in prices for services, suggest potential upward pressure on consumer prices. This dynamic highlights the need for exposure to asset classes that are more resilient during inflationary environments.

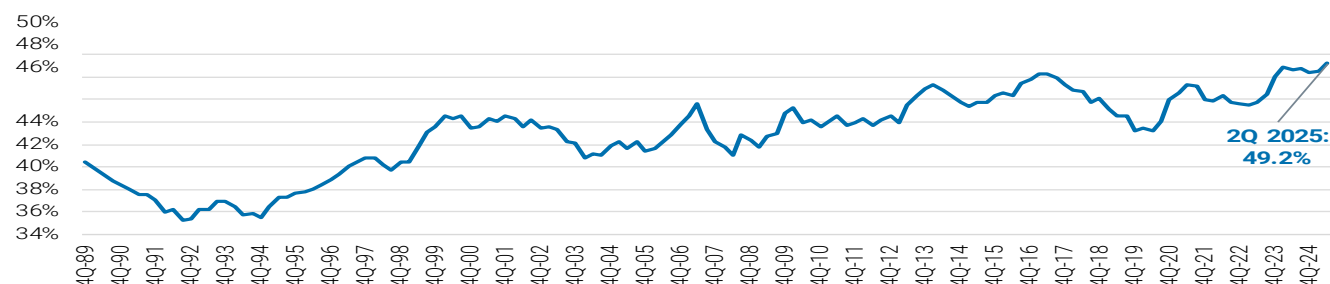
Consumer

Consumer spending, constituting approximately 70% of U.S. GDP, has demonstrated resilience this year. Retail sales advanced 0.6% in August, buoyed by seasonal factors such as back-to-school purchases. However, this strength partly reflects price inflation rather than volume gains. There has been a clear bifurcation between higher and lower-end consumers. Delinquency rates on consumer debt rose earlier in the year before

stabilizing, and the recent resumption of student loan payments could add further strain. Sustained low-end consumer weakness could adversely affect growth and sectors reliant on discretionary spending. However, the top 10% of earners have driven nearly half of retail spending. Continued wealth compounding from stock and housing market appreciation could allow this cohort to maintain spending habits despite higher prices.

High Earners Driving Consumer Spending

Share of Spending by Consumers in Top 10% of Income Distribution (4Q 1989 - 2Q 2025)



Source: Bloomberg, Moody's Analytics of Federal Reserve Data.

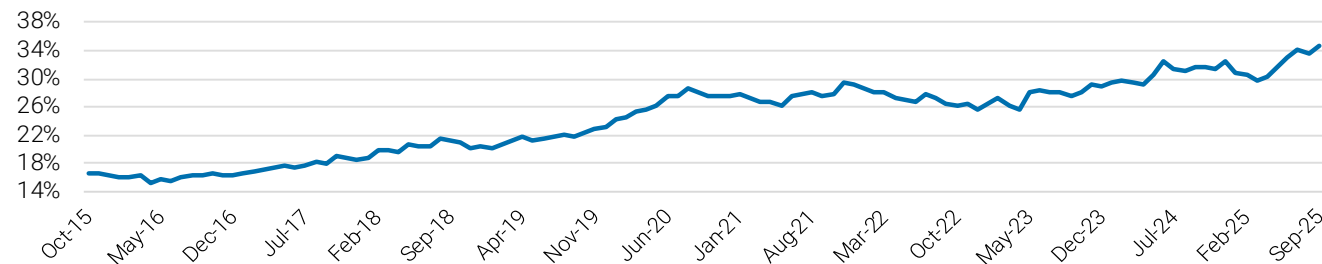
Corporate Fundamentals

Earnings growth has been robust, with S&P 500 companies projecting an 11.8% year-over-year increase for 2025. This performance is disproportionately driven by mega-cap technology firms, bolstered by artificial intelligence-related investments that have supported GDP expansion. In the first half of the year, AI capex contributed more to GDP growth than consumer spending. In contrast, earnings growth for the rest of the index was muted while smaller enterprises continued to face challenges in passing on cost increases.

With so much of this year's GDP growth tied to technology, a potential slowdown in AI spending could ripple through the economy. The AI theme has proliferated across many areas of the market. In addition to technology, select industrials, utilities, and energy stocks have experienced rapid gains. Many of these AI beneficiaries now trade at extremely elevated valuations. An acceleration, or even maintenance, of the current levels of spending requires broad AI adoption and meaningful productivity gains. A pullback in the AI-related excitement could cause a significant rerating of these businesses, igniting a rotation to more reasonably priced asset classes and highlighting the importance of portfolio diversification beyond this innovation theme. Such a rotation was evident earlier this year following the launch of a low-cost Chinese large language model that raised concerns over competition, and value equities meaningfully outperformed.

S&P 500 Technology Sector Weight More Than Doubled

IT Sector Weight in S&P 500 Index (10 Years Through September 2025)



Source: Morningstar Direct.

Market Dynamics

Equity markets sustained momentum through Q3 2025. Large cap indices that are at historically high levels of concentration in their top holdings continued to be propelled by mega-cap technology stocks that remain very richly valued. Amid AI enthusiasm and expectations of interest rate relief, it was lower-quality and unprofitable growth stocks that most benefited from the tailwinds. Elevated valuations and index concentration pose significant risks, and a portfolio emphasis on quality and diversification should help to mitigate volatility if the market turns.

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Perplexing U.S. Labor Market

The labor market serves as a foundational indicator of economic health, influencing consumer confidence and spending patterns. U.S. consumers have historically been the engine of domestic growth, displaying a willingness and propensity to spend as long as they are employed. A deterioration of the labor market often coincides with recessions, a key reason why it is a focal point in the Fed's mandate.

Recent data points indicate a deceleration in employment growth, though the extent of the softness remains subject to interpretation due to conflicting signals. Labor market momentum has waned, with payroll growth averaging 29,000 jobs per month in the three months through August 2025, compared to the initially reported 118,000 in the prior year's corresponding period. In addition, the Bureau of Labor Statistics' Quarterly Census of Employment and Wages ("QCEW") released in September revealed that 911,000 fewer jobs were created than initially reported for the year ending March 2025, underscoring muted expansion rather than initially perceived robust growth.

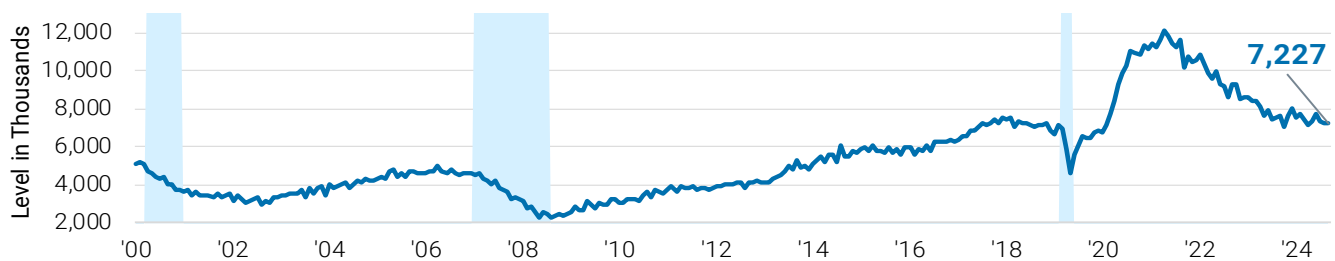
This slowdown is attributable not solely to demand weakness, however, but also to supply disruptions from immigration trends. This administration's crackdown on illegal immigration and the concurrent reduction in legal immigration has significantly reduced the supply of labor. Net migration trends coupled with an aging population means that breakeven employment growth, or the number of jobs needed to keep the unemployment rate steady, is likely much lower than it was in the past.

The unemployment rate has risen modestly to 4.3% but remains well within what has been considered full employment, typically sub-5%. Continuing unemployment claims increased earlier in 2025 but have since plateaued, while initial claims experienced intermittent spikes without sustained elevation. Mass layoffs have been limited, primarily confined to government-related reductions earlier in the year. Surveys point to muted hiring plans, while consumers remain worried about future employment prospects, which may foreshadow weakness on the horizon.

The Fed aims to minimize the rise in unemployment by cutting interest rates, and if successful then the equity rally may continue. However, if the Fed is behind the curve on shifting policy or if sticky inflation forces them to pause rate cuts once again, then equity markets could witness more turbulence ahead.

U.S. Job Openings Have Declined

US JOLTS Job Openings (In Thousands)



Source: U.S. Bureau of Labor Statistics via FRED, Shaded areas indicate U.S. recessions. Monthly data from December 2000 to August 2025.

Given elevated valuations in many areas of the market, investors should seek exposure to asset classes that adequately compensate for elevated risks. Within equities, value stocks and international markets sport more attractive entry points. High quality fixed income can provide diversification benefits in the event of a material economic slowdown, while real assets and other diversifying strategies can offer protection if inflation remains sticky and interest rates remain elevated.

Asset Class Detail

This chart outlines OAM Research's macroeconomic and asset class views.

Asset class views reflect a medium-term outlook by OAM Research based on macroeconomic trends, valuations, and technical indications and are intended to advise allocation tilts relative to an appropriate strategic asset allocation.

 Underweight
  Slightly Underweight
  Neutral
  Slightly Overweight
  Overweight

Global Equity



U.S. Large Cap

Large cap fundamentals remain healthy and earnings growth has been strong, but higher tariffs may weigh on growth prospects. Growth stocks continue to be fueled by optimism around AI, but valuations and expectations of future growth are high. Higher-quality companies with pricing power should be more resilient, and investors may benefit from allocating to strategies focused on quality and downside protection. Value stocks remain attractive given relative undervaluation, more defensive business models, and more reasonable growth expectations.



U.S. Small-Mid Cap

Small and mid-cap growth valuations are also stretched following a rally driven by thematic tailwinds and prospects for rate cuts. Higher quality stocks lagged behind but should prove more durable if the AI-related momentum fades or if lower rates don't come to fruition.



International Developed

2025 outperformance has been driven by positive economic surprises, fiscal and monetary tailwinds, U.S. dollar weakness, and mean reversion. Relative valuations remain attractive and fiscal spending in Europe could provide meaningful stimulus, but expectations are tempered by a tepid growth rebound and pauses in rate-cutting cycles. Risk reward in international equities appears better than in the U.S. given more supportive policies, lower valuations, and greater dividend returns, which can provide a ballast to portfolios.



Emerging Markets

Valuations remain reasonable and look attractive relative to developed equities. Countries like China, Mexico, and Brazil have appreciated meaningfully despite heightened trade concerns, but significant macro and geopolitical headwinds remain. Active managers can take advantage of bifurcated performance by allocating to countries with more promising growth prospects.

Global Equity - Alternatives

Long/Short Equity is considered part of the strategic asset allocation for equities based on each fund's underlying investments.



Long/Short Equity

Long/short strategies can benefit from higher volatility and dispersion to add long and short alpha. Managers focused on AI and technology have benefited this year, and effective exposure management can provide downside protection if momentum fades. Finally, non-U.S. investments are expected to increase within portfolios given attractive fundamentals.

Global Fixed Income



U.S. Core Fixed Income

Treasuries and investment-grade credit benefited from the prospect of lower interest rates. Current yield levels remain attractive, and prices will appreciate should rates continue their downward trajectory. Investment-grade credit spreads are still tight, but corporate balance sheets remain healthy. Yields on high-quality securitized products remain compelling.



High Yield Credit

High yield credits continue to trade at historically tight spreads. Defaults remain muted and leverage is not excessive, though private credit markets are starting to show signs of stress. Absolute yields today remain attractive, but the asset class may be subject to a material drawdown if growth stalls or an unforeseen credit event arises.



International Fixed Income

International bonds continue to provide above-average yield and have benefited from dollar weakness this year. Emerging market debt looks more attractive within the non-U.S. market, both from a yield perspective and as a portfolio diversifier, though the asset class may suffer if global growth slows meaningfully or dollar strength resurfaces.

Diversifying Strategies



Real Assets

Inflation concerns persist, highlighting the important role of real assets in portfolios. Midstream energy infrastructure fundamentals remain healthy despite commodity weakness, and yields remain attractive. Utilities and Infrastructure can continue to benefit from thematic tailwinds as well as their defensive characteristics. REITs could benefit from stable or falling interest rates as long as growth doesn't decelerate meaningfully.



Event Driven/Uncorrelated

Event-driven strategies are seeing lower levels of deal flows in 2025, though activity has picked up recently as trade-related volatility subsided. Deal activity may continue to recover as policy clarity emerges if growth remains resilient. Credit investments continue to offer opportunistic return opportunities across corporate, investment grade and high yield.

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Adopting a fee-based account program may not be suitable for all investors; anticipated annual commission costs should be compared to anticipated annual fees.

S&P Equal Weighted is the equal-weight version of the S&P 500. The index is comprised of the same stocks of the S&P 500, but each company is allocated a fixed percentage (.2%) of the total index.

MSCI AC World ex-USA Index captures large- and mid- cap representation across 22 of 23 developed-market countries (excluding the U.S.) and 24 emerging-market countries.

MSCI EAFE is an index in U.S. dollars based on the share price of companies listed on stock exchanges in 21 developed countries outside of North America. This Index is created by aggregating the 21 different country Indices, all of which are created separately. It is considered to be generally representative of overseas stock markets.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index. Frank Russell Co. ranks the U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period. The Russell 2000 Index represents a very small percentage of the total market capitalization of the Russell 3000 Index. It is considered to be generally representative of U.S. Equity Small and Mid Cap performance.

Russell 1000 Value Index measures the performance of the Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

MSCI Emerging Markets Index is a market capitalization weighted Index in U.S. dollars representing 26 emerging markets in the world. The Index is created by aggregating the 26 different country Indices, all of which are created separately. It is considered to be generally representative of overseas stock markets.

Russell 1000 Growth Index measures the performance of the Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500 Sector/Information Technology TR Index consists of stocks chosen for their representation in the Info Tech industry. Companies considered are involved in technology software and technology hardware and equipment. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

LTM PE Ratio is the last 12-month price-to-earnings ratio.

Indices are unmanaged, do not reflect the costs associated with buying and selling securities and are not available for direct investment. Investors cannot invest directly in an index.

Risk Factors

The success of an investment program may be affected by general economic and market conditions, such as interest rates, the availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a portfolio's investments. Unexpected volatility or illiquidity could result in losses. Investing in securities is speculative and entails risk. There can be no assurance that the investment objectives will be achieved or that an investment strategy will be successful.

Special Risks of Foreign Securities

Investments in foreign securities are affected by risk factors generally not thought to be present in the United States. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Special Risks of Small- and Mid-Capitalization Companies

Investments in companies with smaller market capitalization are generally riskier than investments in larger, well established companies. Smaller companies often are more recently formed than larger companies and may have limited product lines, distribution channels and financial and managerial resources. These companies may not be well known to the investing public, may not have significant institutional ownership and may have cyclical, static or moderate growth prospects. There is often less publicly available information about these companies than there is for larger,

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more established issuers, making it more difficult for the Investment Manager to analyze that value of the company. The equity securities of small- and mid-capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volume typical for securities that are traded on a national securities exchange. Consequently, the investment manager may be required to sell these securities over a longer period of time (and potentially at less favorable prices) than would be the case for securities of larger companies. In addition, the prices of the securities of small- and mid- capitalization companies may be more volatile than those of larger companies.

Special Risks of Fixed Income Securities

For fixed income securities, there is a risk that the price of these securities will go down as interest rates rise. Another risk of fixed income securities is credit risk, which is the risk that an issuer of a bond will not be able to make principal and interest payments on time. Liquidity risk is the risk that you might not be able to buy or sell investments quickly for a price that is close to the true underlying value of the asset. When a bond is said to be liquid, there's generally an active market of investors buying and selling that type of bond. Fixed income securities markets are subject to many factors, including economic conditions, government regulations, market sentiment, and local and international political events. Further, the market value of fixed-income securities will fluctuate depending on changes in interest rates, currency values and the creditworthiness of the issuer.

High Yield Fixed Income Risk

High yield fixed income securities are considered to be speculative and involve a substantial risk of default. Adverse changes in economic conditions or developments regarding the issuer are more likely to cause price volatility for issuers of high yield debt than would be the case for issuers of higher-grade debt securities. In addition, the market for high yield debt may be less attractive than that of higher-grade debt securities.

Special Risks of Event-Driven Strategies

Investing in event or disruption driven strategies carries the risk of the unforeseen nature of events, such as corporate transactions falling through or changes in the economic or political environment. A reduction in money market liquidity or pricing inefficiency, as well as other market factors, can potentially reduce the scope for these investment strategies. Such funds may be adversely affected by unforeseen events, including forced redemptions of securities or acquisition proposals, break-up of planned mergers, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment.

Special Risks of Long/Short Equity

Long/short equity strategies utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. While strategies, techniques and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. Hedging and selling securities short entails losing an amount greater than proceeds received or possible default by the other party to the transaction.

Special Risks of Uncorrelated Strategies

Strategies such as multi-strategy, macro and CTA utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. Hedge funds, commodity pools and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. In addition, they may be subject to commodity risk, derivatives risk, foreign investment risk, foreign currency risk, and credit risk. Many hedge funds employ a single investment strategy. Thus, a hedge fund or even multi-strategy hedge funds may be subject to strategy risk, associated with the failure or deterioration of an entire sub-strategy. Strategy specific losses can result from excessive concentration by multiple hedge fund managers in the same investment or broad events that adversely affect particular strategies.

Special Risks of Alternative Investments

Alternative investments are not appropriate for all investors and only may be offered to certain qualified investors. Investors must be able to bear the economic risk of such an investment for an indefinite period and can afford to suffer the complete loss of investment. An Investor's ability to redeem from such investments is limited to specific time periods (e.g. monthly, quarterly, semi-annually, annually) with certain notice requirements. Investing in securities is speculative and involves substantial risk. There can be no assurance that any investment strategy will be successful. This information is provided for informational purposes only and should not be construed as an endorsement of or a solicitation to invest in any specific program. There is a substantial risk of loss when investing in alternative investments and, for each specific fund, the risk of underperforming the general markets or other funds.

Special Risks of Real Assets

Master limited partnerships are publicly listed securities that trade much like a stock, but they are taxed as partnerships. MLPs are typically concentrated investments in assets such as oil, timber, gold and real estate. The risks of MLPs include concentration risk, illiquidity, and exposure to potential volatility, tax reporting complexity, fiscal policy and market risk. MLPs are not suitable for all investors. Common risks associated with an investment in a REIT include, but are not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), general economic risk, market and liquidity risk, interest rate risk, sector diversification and geographic concentration risk, leverage risk, distribution risk, capital markets risk, growth risk, counterparty risk, conflicts of interest risk, key personnel risk, and structural and regulatory risk.

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