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Chief investment officer

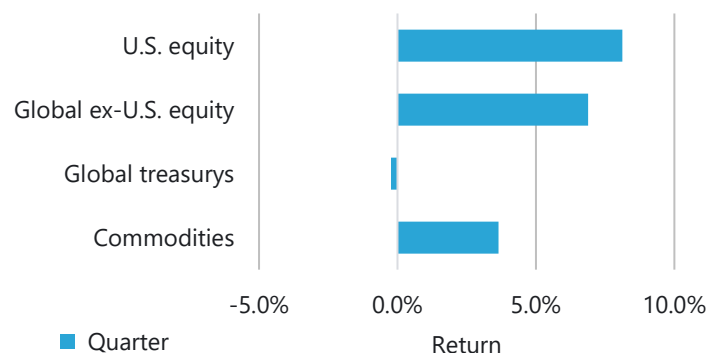
Market review

Risk assets continued their ascent during the third quarter. Solid earnings and accommodative policies—both fiscal and monetary—were enough to overcome the hurdles of several tariff announcements and a deteriorating employment picture in the U.S. While artificial intelligence (AI) was once again a dominant theme, the rally broadened during the quarter to finally include U.S. small-cap stocks, which have lagged since the Liberation Day lows in early April. Emerging markets were boosted by the AI carryover into China, while European stocks failed to keep pace due to political turmoil and a stable U.S. dollar.

The U.S. Federal Reserve (Fed) joined the monetary easing party late in the quarter despite strong economic growth, stubborn inflation, and a stock market at or near all-time highs. Job growth was the final straw for policymakers as a massive downward data revision reset the employment picture and prompted the first 2025 rate cut in the U.S. While yields in the U.S. finished the quarter slightly lower, developed-market yields broadly rose over the past 3 months, particularly in Europe, on continued concerns of ballooning debt and political instability in France.

Geopolitics in general remained a pressure point for markets. Hopes for a resolution in the Russia/Ukraine conflict have been dashed, questions concerning President's Trump's firing of Fed Governor Cook remain unanswered, and the U.S. government inched closer to a shutdown. Gold was a prime beneficiary as these tailwinds, along with consistent demand from investors and central banks, helped the precious metal reach new highs.

Tales of the tape*



Source: Bloomberg, SEI as of 9/30/25.

Past performance does not guarantee future results.

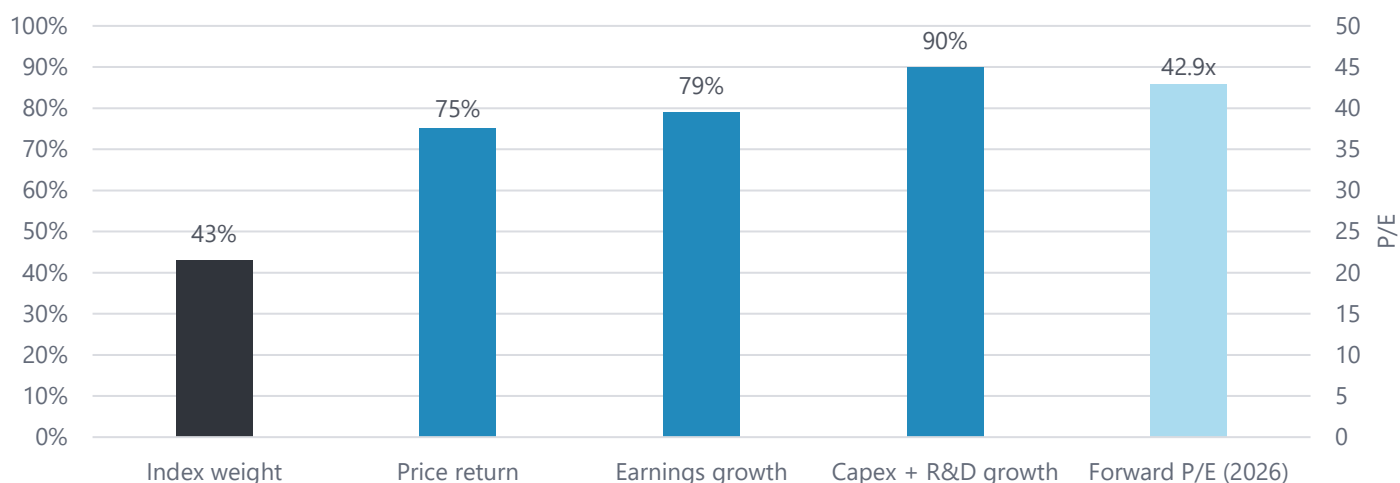
Notables for the quarter

- **FTSE China Technology Index:** +28.6%, AI theme is also boosting Chinese equities
- **Gold:** +16.8%, There appears to be no stopping the barbarous relic
- **Russell 2000 Index:** +12.4%, U.S. small caps are finally catching a bid
- **Oracle:** +28.6%, Massive rally on OpenAI investment
- **U.S. 10-Year Yield:** 4.15%, Up 7 basis points (bps) since latest Fed rate cut

Lower volatility but higher fragility

The Magnificent 7 had another, well, magnificent quarter as earnings broadly delivered and the AI capital spending tsunami continued unabated. While we noted the broadening in equity performance over the quarter, these seven names continue to make up a large percentage (over 34% per Bloomberg) of the U.S. market capitalization, with most sharing the common thread of being large players in AI. Therefore, perhaps it's worth digging a bit deeper into AI and the influence this theme has had on equity market earnings growth and returns over the last several years. Our friends at J.P. Morgan and Empirical Research have identified 29 companies designated as *directly* involved in AI (as opposed to indirectly involved, such as power producers for example).

Exhibit 1: AI theme** within the S&P 500 Index



AI theme contribution since ChatGPT release on November 30, 2022

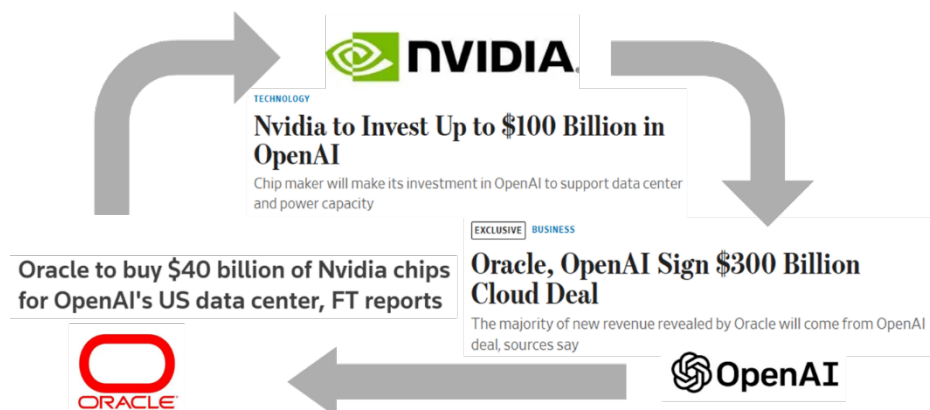
**AI theme is the 29 Stocks (listed by ticker symbol) of the S&P 500 Index assessed to be directly involved in AI: NVDA, MSFT, AAPL, AMZN, META, AVGO, GOOG, TSLA, ORCL, PLTR, AMD, IBM, CRM, UBER, NOW, QCOM, MU, ADBE, ANET, INTC, PANW, CRWD, CDNS, NXPI, DLR, FTNT, DELL, HPQ, SMC

Source: JP Morgan, Empirical Research, Bloomberg, SEI, November 30, 2022 (formal release date of ChatGPT) to September 25, 2025.

Using the release of ChatGPT on November 30, 2022, as the "start date" for the AI theme, we see some startling results in Exhibit 1. While these 29 stocks represent a somewhat staggering 43% of the S&P 500 Index's market capitalization, they are responsible for three-quarters or more of the price return and earnings growth. Nearly all of the growth in capital expenditures and research and development comes from these AI-theme companies. The dominance of the AI theme highlights, at least in part, the resiliency of U.S. equity markets in the face of uncertainties from still raging wars, to the highest tariffs in nearly a century, and still stubborn inflation. This is also directly reflected in equity market volatility. The CBOE Volatility Index, or VIX, measures the expected volatility of the S&P 500 Index over the next 30 days and was extremely well behaved during the third quarter.

However, despite stellar performance and restrained volatility, we see some growing fragility in the AI theme. Exhibit 2 shares recent headlines which have called attention to the circular nature of AI capital flows and apparent, de facto, vendor financing arrangements.

Exhibit 2: Circular AI economy



Sources: WSJ, Reuters, CNBC, articles released between May 23, 2025 and September 22, 2025.

Risk on but diversify. Fade long-end yields. Gold bull has room to run.

Not surprisingly, diversification within equity markets remains our key call for the remainder of 2025. Diversification by geography, by our preferred factors, by sector, by single names, and by theme will help investors reduce their exposure to what we see as heightened market fragility. Active management also appears attractive here, particularly in U.S. large caps given the acute market concentration.

Credit has reflected the elevated valuations in equity markets, as evidenced by low spread level. We remain interested in attractive *risk-adjusted* yields which can be found in securitized sectors, particularly collateralized loan obligations (CLOs).

Our preference for yield curve steepeners in the U.S. and Europe has played out nicely given easy monetary policy's influence on the short end and debt concerns boosting the long end. While yield curves have moved dramatically, we believe conditions remain in place for a further widening between short- and long-term yields. Overall interest-rate sensitivity is broadly neutral and focused on the belly (intermediate section) of the curve.

Finally, in terms of positioning, we remain long inflation via breakeven yields on strength in services and expectations for more significant tariff flow through into prices and future inflation expectations. Gold continues to look attractive despite recent highs due to continued geopolitical concerns and our view that both investors and central banks will continue to be solid sources of demand.

Regarding the U.S. government shutdown to start the fourth quarter, the market impact will clearly be dependent on the length of this latest budget fight while the more immediate effects will include the suspension of government statistics releases, including the monthly employment report. The lack of data combined with the potential for a large number of furloughed federal workers could solidify two more rate cuts in 2025. While predicting politics is at times harder than predicting the market, our expectations are that this will be resolved in a reasonable amount of time with a relatively modest market and economic impact.

As always, we would like to thank our readers for their continued support.

Summary views

Macro/Cross-asset	• Inflation risks remain biased to the upside. Service prices are showing surprising strength, and tariffs are still making their way through the system. • U.S. growth data points are surprising to the upside. While employment has been severely downgraded, there is still no global recession in sight. • Neutral risk assets. Overweight gold on geopolitics and continued demand.
Equity	• Diversity in equities remains—particularly among geographies, market capitalizations, and themes. • Strategic exposures to value, quality, and momentum remain intact, with an emphasis on value. • Active management should benefit/help investors avoid historically high concentration risk in the U.S.
Fixed income	• We remain positioned for a continued steepening in U.S. and European yield curves. • Duration positioning remains broadly neutral. • We continue to favor securitized versus corporate debt; CLOs look particularly attractive on a risk-adjusted yield basis.

Indexes

*Tales of the tape: U.S. equity: S&P 500 Index; Global ex-U.S. equity: MSCI ACWI ex-U.S. Index; Global Treasuries: Bloomberg Global Treasury Index; Commodities: Bloomberg Commodity Index.

Indexes definitions

The **Bloomberg Commodity Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Treasury Index** tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets.

The **Cboe Volatility Index (VIX)** measures the constant 30-day volatility of the U.S. stock market using real-time, mid-quote prices of S&P 500 Index call and put options. A call option gives the holder the right to buy a stock at a specified price; a put option gives the holder the right to sell a stock at a specified price.

The **FTSE China Technology Index** tracks the performance of large and mid-cap technology companies in China's equity market.

The **MSCI ACWI ex USA Index** tracks the performance of both developed-market and emerging market countries, excluding the United States.

The **Russell 2000 Index** tracks the performance of the small-cap segment of the U.S. equity market. The index is a subset of the Russell 3000 Index, which comprises the 3,000 largest U.S. companies, and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

Glossary

A **basis point** equals .01%.

Collateralized loan obligations (CLOs) are securities that have been created by pooling together smaller high-yielding fixed income assets such as bank loans. These pools are then packaged into various tranches (a slice or portion of a structured security) according to credit quality, maturity etc.

Corporate debt is debt that is issued by corporations.

Magnificent 7 refers to the mega cap technology and technology-related U.S. stocks of Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla.

Momentum is a trend-following investment strategy that is based on acquiring assets with recent improvement in their price, earnings, or other relevant fundamentals.

Quality comprises a long-term buy-and-hold strategy that is based on acquiring shares of companies with strong and stable profitability with high barriers of entry (factors that can prevent or impede newcomers into a market or industry sector, thereby limiting competition).

Risk assets, such as equities, commodities, high-yield bonds, real estate, and currencies, carry a degree of risk and generally are subject to significant price volatility.

Risk-adjusted yield refers to the concept of adjusting the yield of a security higher or lower based on the level of risk associated with that security.

Securitized debt refers to bonds that provide interest and principal payments that are backed by the cash flows from another pool of assets.

Value is an investment strategy that is based on acquiring assets at a discount to their fair valuations. Mean reversion is a theory that prices and returns eventually move back towards their historical average.

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Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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