

Chris Hyzy:

This is Chris Hyzy, Chief Investment Officer, for the October Viewpoint titled "A Thematic Torque Environment." I would also add to that that we are in what we call a flywheel economy and markets type of environment in which a thematic torque type of twisting uptrend continues, at least in our opinion.

In the coming months, we expect asset price reflation to continue. The broader macro backdrop favors a turn-up in growth as reflationary forces gather momentum. The combination of easier financial conditions, a subtle fade in the U.S. dollar, a boom in capital investment, and better than expected corporate profits, despite premium valuation, and the watchful eye on various concerns all point to a solid twisting uptrend in asset prices in the intermediate term, in our view.

If you take a look at base metals, namely copper, precious metals such as gold, emerging market debt, fiat currency hedges, rate-sensitive sectors in the overall markets, oil refiners, China technology shares, and power producers and small capitalization shares overall, all led the way in the third quarter. This is why we call it asset price reflation. This suggests to us an extension to this reflationary uptrend in the coming months, particularly as the Federal Reserve pushes down interest rates subtly. If you also take a look at this stage in the bull market, we believe investors should maintain their exposure to large growth areas that have gathered momentum recently, particularly those that are in relationship to the artificial intelligence buildout more on that in just a moment, but we believe the capital investment boom is approximately mid-cycle.

In addition, investors should consider diversifying their portfolio with more value-oriented areas and sub-asset classes or themes that

complement the exposure to the high-growth investments. What's the reasoning behind this? It's simple. For us, a diversified allocation across sectors and geographies in the coming business cycle allows a more horizontal way to take advantage of the growth pockets that we see building around the world, not just in one section of the U.S. Some of these complement their areas include non-U.S. equities, including emerging markets, non-traditional hedge strategies and private market investments for qualified investors, dividend strategies which have been basically underperforming for quite some time with less volatility, and potentially gold on a pullback, however, particularly if one has concerns over currency debasement.

One thing that we mentioned before with this flywheel economy in markets, they continue to build momentum and feed on each other. This is due to the fact that capital investment across what we call the digital economy, not just artificial intelligence, but capital investment to continue to build out the digital economy, and also power generation and supercomputing. This has a little bit more of a stable outtake. It also has a little bit more of a longer duration capital investment cycle than what we have seen in the past. Let's explain on that just a second here.

As it relates to this buildout of the digital economy, it's not just about the cloud, it's not just about overall securing data, it's not overall just about the transfer of data, it's also about data processing in and of itself. Most of the CapEx that we have recently read about is in terms of the artificial, intelligent buildout. But the way we see this is, these are more pockets of revenue growth that are being enhanced by the buildout, not just one area in terms of semiconductors. Why is this the case? Well, a lot of it has to do with demographics, a lot of it has to do with the structural changes going on in the labor markets, a lot of it has to do with the fact that the restricted

borders right now are limiting the number of foreign-born citizens coming in and adding to the labor market. This is likely to advance robotics and automation further. But most importantly, in the years ahead, we expected digital economy to go from second gear to third gear, which is why we expect this buildout to be right now in the middle innings.

A lot has been written about the boom to bust cycle in artificial intelligence and when is it going to come, we point to two very important factors. The previous buildout of the internet was financed in a large way by debt. It was also financed by lower quality debt in many cases, where the balance sheets of the companies that were going to benefit from the buildout of the internet were very poor balance sheets in their own right. Today, we point to the fact that this buildout is sitting on top of very solid balance sheets, companies that are generating extraordinary free cash flow, and a good portion of this build is on the basis of an equity build out and a cash build out through solid free cash flows. It's very different in terms of the previous cycle.

Another area that is different is the Federal Reserve was actually raising rates just ahead of the boom bust cycle in the internet days of '99 and 2000. Today, the Federal Reserve is more than likely to do the opposite slowly cut rates in the coming years. So, that's two very important reasons why we believe this cycle is in a large way different than the boom-bust cycle of the past. Burn cash versus build on top of cash is how we look at it this way. Burn cash, that's what the business models did some 30 years ago or 26 years ago. Today, they're building cash and funding investment that way. The second area is raising rates which choked off the investment versus subtly lowering rates, which could continue this momentum on the buildout. We'll talk more about this in the coming months.

Let's take a look at the economic growth and market outlook quickly. The private sector is the engine here, not the public or government sector. The CapEx boom is leading the way. Consumer spending has slowed down and it's off its peak, but it's simply in a normalization or consolidation phase, not in decline. Private sector balance sheets are very healthy, not overloaded with debt. Government debt is the drag. However, the public sector debt may weigh on headline growth overall, but private sector momentum is still strong.

Finally, the government shutdown showdown is also a drag in the very, very short term on growth to the tune of some 0.1% week over week as long as the so-called showdown shutdown continues. A lot of that can be made up in the proceeding weeks.

The market outlook, we still believe this is an owl-bull market where it symbolizes a market that is watchful, balanced and forward looking, able to peer around 360 degrees to assess risks and opportunities equally. It's not a traditional bull but rather a bold phase where fundamentals are improving, expectations are still guarded and surprises are skewed to the upside with the potential for a melt-up phase to close out this year. Despite solid performance year-to-date, in equities investors still point to so many concerns. Therefore, we believe this wall of worry is one in which investors do climb it over time. Finally, rate cuts are tailwinds for markets. We expect that to occur at least one more time this year, and potentially three times next year.

What do markets look to follow as we close out the final quarter of 2025? They're pointing to the profit cycle. We'll get more news on that in the coming weeks as earnings announcements do pull through. We expect solid earnings announcements and revenue announcements. Financial

conditions, they also point to loosening conditions relative to tightening conditions. They also point to valuation. It's a useful cross check as far as we're concerned, but not the primary indicator of market health.

And finally, they do look at the consumer with a watchful eye. This is a balancing agent right now, not necessarily a powerful agent or a declining agent. It is simply in consolidation and normalization mode. Bottom line, we expect higher highs and equities in the intermediate term. We remain overweight equities relative to fixed income. The fundamentals are strong, the rotation is real, and the private sector is powering ahead.

That'll do it for today. Thanks for listening.

Operator:

Please see important information provided in this report.

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