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WEALTH MANAGEMENT

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After a strong 2nd quarter, global stock markets continued their momentum into the 3rd with the technology sector and, more-specifically, artificial intelligence (AI) trade showing no signs of slowing. The 3rd quarter brought positive returns across all major US stock market indices with 10 of the S&P 500 index's 11 sectors posting gains quarter-over-quarter. The market's run has resulted in the S&P 500 being pushed to 27 record highs since June[i]. The Federal Reserve opted to trim interest rates in September – its first cut since last December – by a quarter-point (i.e., 0.25% or 25bps) citing a slowing labor market and signs of moderating inflation. Since then, the Fed has cut rates again by another 25bps in late-October. All eyes are now on the Fed's move during their next scheduled meeting in December. Expectations are still high that rates will be cut again, although the certainty of an additional cut has diminished with Fed Chair Jerome Powell indicating a year-end cut is not a foregone conclusion. The record-long government shutdown has also not helped matters by impacting key economic data releases.

With technology stocks leading the market's charge higher, it's not at all shocking to see the benchmarks with the greatest weightings to these investments having the strongest performance during the 3rd quarter. The S&P 500 climbed +8.1% during the quarter while the tech-heaviest Nasdaq index surged +11.4%. This brings their year-to-date (YTD) gains to +14.8% and +17.9%, respectively[ii].

Stocks outside of the US remained strong during the 3rd quarter, helped by a continued weak US dollar. Stock markets in more-mature and developed economies are now up +25.1% for the year after a gain of +4.7% during the most recent quarter, as measured by the MSCI EAFE Index. Stocks in smaller and still-developing economies, as measured by the MSCI Emerging Markets Index, are now up +27.5% YTD after their markets surged +10.6% in the 3rd quarter[iii].

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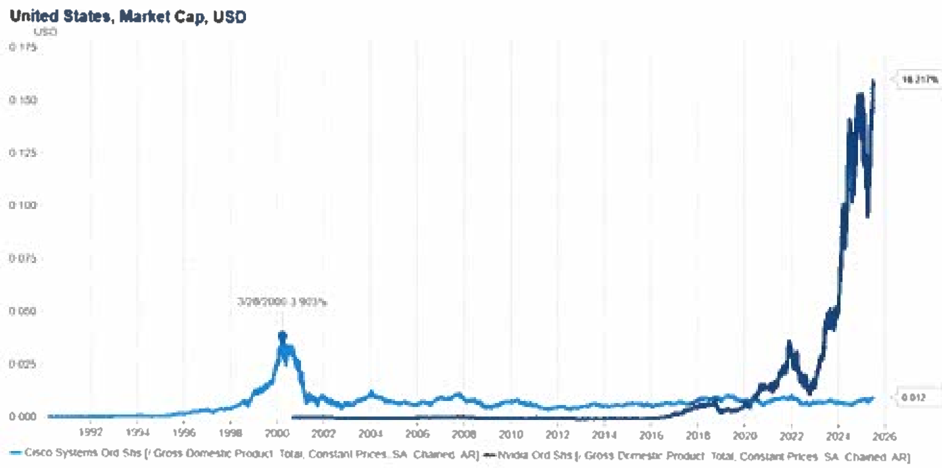
Bonds and fixed income continued to reward investors with positive returns during the quarter, while still serving their primary roles of a level of stability and predictability within diversified portfolios. Taxable bonds, as measured by the Bloomberg US Aggregate Index, gained +2.0% and are now up +6.1% YTD[iv]. The interest rate on the closely-watched US Treasury 10-year maturity bond fell to 4.16%, down from 4.58% at the beginning of the year[v].

Outside of traditional stock and bond markets, the Bloomberg Commodity Index, a broad measurement of commodity prices such as energy, industrial and precious metals, grains and livestock, gained +3.7% during the 3rd quarter, bringing its YTD gain up to +9.4%[vi]. The price of oil finished the quarter at about $62/bbl, down about -13% from almost $72/bbl at the beginning of the year. Gold continued to sparkle, climbing to $3858/oz, a gain of nearly +17% during the quarter and +53% since the start of the year[vii]. Despite gold pulling back a bit since more recent highs of around $4300/oz set in mid-October, the shiny metal has more than doubled in price since December 2023.

The US stock market now appears to be well into a historical mania phase, focused on AI, quantum computing, and cryptocurrencies. This mania has many similarities to the "dot-com" bubble, which peaked in the year 2000. While that bubble bursting caused the S&P 500 to fall nearly -50% (and took about *12 years* to fully recover) and the Nasdaq to plummet nearly -80% (with about *15 years* to fully recover), today's bubble seems to have *exceeded* the dot-com bubble's peak in many quantitative measurements. Much as the seemingly unlimited potential of the internet fueled unsustainable and financially impossible levitation in stocks of companies involved with the internet during the dot-com bubble, stocks of many companies involved with AI and quantum computing have now ascended to extraordinary and unprecedented market values. The dot-com bubble was highlighted by some great, dominant, and world-leading tech companies that led us into the internet-revolution, helping us transform our daily lives, but many of those companies still ended up with their stock prices dropping as much as -90%. Even the best companies can falter when valuations are stretched and expectations are exuberant. During the ensuing dot-com crash, Microsoft and Cisco saw their stocks lose 1/3 of their value in a matter of a single week. And Amazon saw its stock shed nearly -80% of its value over 12 months[viii]. Our team is afraid that today's leading AI tech companies, as solid as their *businesses* may be, their *stock prices* may not end up benefitting from the AI-revolution as much as currently expected. This brings to mind the view of famed-strategist Howard Marks of Oaktree Capital that there are no bad assets, only bad prices. Today feels like a time where bad prices are rampant.

Even if you don't listen to us, take it from Sam Altman, CEO of OpenAI (creator of ChatGPT) and AI poster child. Mr. Altman made the candid comment: "*When bubbles happen, smart people get overexcited about a kernel of truth. Are we in a phase where investors as a whole are overexcited about AI? My opinion is yes.*[ix]"

Currently, the most highly-valued (and perhaps the most universally-admired) stock is now by itself valued larger than all but five of the world's entire stock markets[x]. It is now valued at about 16% of US GDP (the annualized output of the entire US economy). This compares to the leading-stock during the dot-com bubble (Cisco Systems) which attained a market valuation of *only* 4% of US GDP at its peak[xi].



Source: Mott Capital Management, Macrobond

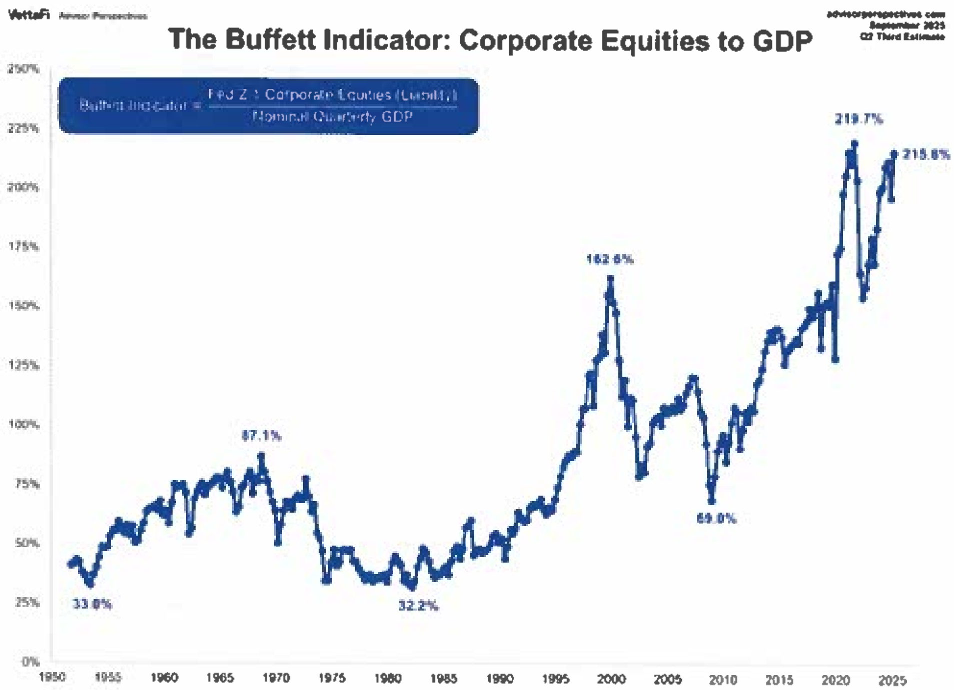
More broadly, the domestic US stock market is ultraconcentrated. The 10 largest US companies are now valued at about 22% of the entire global stock market (vs. 14% at the dot-com bubble peak) and comprise 42% of the entire S&P 500 index. This compares to the top-10 largest stocks only reaching about 27% of the index at the dot-com peak[xii]. This unprecedented concentration can – and has – turbocharged returns with the majority of the index returns coming from just 10 of the index's 500 stocks.

Exhibit 26: Concentration of S&P 500 market cap and earnings in the 10 largest index constituents

Earnings reflect consensus forward 12-month estimates.

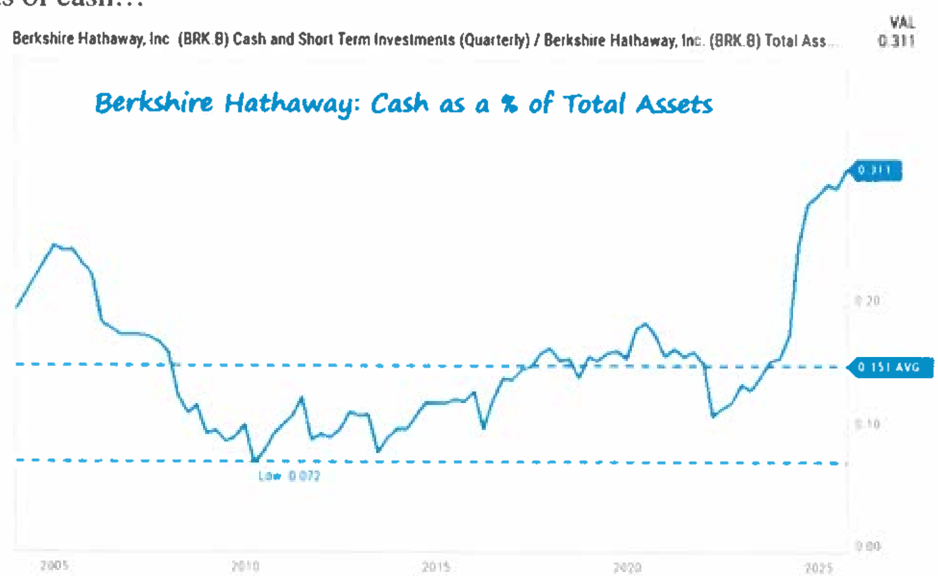
Source: Compustat, IBES, FactSet, Goldman Sachs Global Investment Research

The "Buffett Indicator" (the total value of the US stock market relative to US GDP, made famous by Warren Buffett, who was quoted in the past as believing the ratio was "the best single measure of where valuations stand at any given moment.") stood at 2.16x as of the end of September and has since reached 2.29x - the highest ever recorded in US history[xiii].



Source: Advisor Perspectives

Maybe this is the reason why Buffett has kept his Berkshire Hathaway company's holdings in record amounts of cash…



Source: Creative Planning, YCharts

The louder the alarm bells blare about the stock market getting excessive, the more investors seem to be tuning them out. In a market that goes from one record to the next, Wall Street seems too busy chasing performance to worry about risks like a government shutdown and off-the-charts valuations. US households now have 52% of their financial assets allocated to stocks, and margin debt now exceeds $1 trillion – both the highest levels in history[xiv]. Sentiment gauges that reflect how willing investors are to take on additional risk suggest markets are back to a manic zone.

Given the current US stock market valuation and disproportionately large weighting and index influence by a small number of popular AI/technology stocks, our team continues to caution our clients to make sure they are not overly dependent on the mania continuing to reach or maintain their financial goals. The market's ultraconcentration comes with ultraconcentrated risks as well. If the market tone shifts and technology stocks start to lag, many investors will experience an outsized downturn as well. Our team suspects that most investors aren't fully aware of how concentrated some of the most popular investments are right now, in particular passive index funds, and don't fully appreciate the associated risk.

Please do not hesitate to reach out to us with any questions about any of these topics, or how they may pertain to your portfolio and financial plan. We are always available to help address any concerns you may have. And as always, our team appreciates and highly values the trust you have placed in us.

All the best,

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i "Stock Bulls Can't Get Enough of S&P Rally" by Natalia Kniazhevich of Bloomberg News, October 3, 2025
ii All domestic equity index returns courtesy of Morgan Stanley Capital Markets Research
iii All international equity index returns courtesy of Morgan Stanley Capital Markets Research
iv All fixed income index returns courtesy of Morgan Stanley Capital Markets Research
v JP Morgan Guide to the Markets 4Q2025
vi Commodity index returns courtesy of Morgan Stanley Capital Markets Research
vii JP Morgan Guide to the Markets 4Q2025
viii "Dotcom on Steroids" by GQG Partners, September 11, 2025
ix "OpenAI's Sam Altman sees AI Bubble" by Dylan Butts of CNBC, August 18, 2025
x "Why Nvidia is Now Worth More than $5 Trillion" by Ryan Vlastelica of LA Times, October 29, 2025
xi "NVDA Values Surges to 16% of US GDP" by Escandre Mordi of The Tradable
xii "S&P 500 Now a 10-Stock Show, Smashing Dot-Com Peak" by Piyush Shukla of The Economic Times
xiii "Warning Signs Flashing: Market in Rarified Territory" by financialcontent.com
xiv www.finra.org

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Equity securities may fluctuate in response to news on companies, industries, markets conditions and general economic environment.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive to it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

A basis point is defined as one hundredth of one percent (1%), used chiefly in expressing differences of interest rates.

An investment cannot be made directly in a market index. For index and indicator definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-defnitions

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