

THE BIG PICTURE: ECONOMIC THEMES & MARKET IMPACTS



QUARTERLY CIO COMMENTARY

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"The third quarter proved to be a robust quarter for risk assets as excitement for easing monetary conditions took center stage despite growing concerns about weakness in labor markets. Small-cap equities and emerging markets even found a bid, while hardly leaving out U.S. mega-cap and the familiar fare of "big tech/ Mag-7/AI capex" names. By quarter-end it was hard to find an asset class or equity

sector that had not participated in the rally. A substantive decline in interest rates brought the rally to bond markets, too, even as profit optimism bid up equities. This "sweet spot" (bad enough for declining rates but good enough for growing profits) seems unlikely to last, but it has created an enjoyable backdrop for investors thus far.

The vulnerability of labor markets will be put to the test in Q4. Two more rate cuts are likely from the Fed before year end, and the overall earnings growth for the year is likely to hit expectations. The questions before us in terms of the macro economy is whether or not tariff impact is weighing on capital investment and hiring decisions. The supply-side benefits of the tax bill passed earlier in the year are in a tug-of-war with the cost of tariffs. These things are unlikely to be resolved in Q4 entirely, but it does serve as the major economic question before us while valuations and sentiment both give contrarians pause."

– David Bahnsen

THIRD QUARTER 2025

EQUITIES

Equity markets continued their rebound in the third quarter of 2025, with the S&P 500 climbing 7.9% since the end of Q2 and reaching a new record closing price high of \$6,693.75 on Sept. 22. From April 8th's Liberation Day trough, the index climbed 34.3% to its late Sept. record (see figure below), both marking a full recovery and highlighting the resilience of investor sentiment amid easing macro headwinds. Nonetheless, the Magnificent Seven (Mag7) mega-cap tech stocks continued to dominate the rally, making up a disproportionate amount of the index's performance. Selectivity is still crucial in this divided market as a result of their dominance, which has increased dispersion across sectors.

Growth stocks performed better than value stocks in the overall equity landscape because of strong thematic tailwinds, the expectation (and material progress) of monetary easing, and strong earnings momentum. As mega-cap leaders in digital advertising and streaming surprised to the upside, communication services surged ahead. Consumer resilience propelled discretionary names, and rekindled demand expectations supported energy sales. Utilities gained on the structural growth story tied to AI-driven power needs. Tech stocks, meanwhile, produced a range of outcomes. While interest in the AI theme kept some names afloat, others were hurt by high valuations and rate sensitivity. Overall, the quarter demonstrated the value of disciplined positioning and sector-level nuance.



EQUITY MARKET RETURNS

GLOBAL	QTD	1YR	3YR	5YR
MSCI All Country All World (AWCI)	7.55	17.56	23.23	13.54
DOMESTIC	QTD	1YR	3YR	5YR
S&P 500 (SPY)	8.15	17.53	24.79	16.38
Large Cap Value (IWD)	4.32	9.25	16.71	13.68
Small Cap Growth (IWO)	12.34	13.52	16.56	8.32
INTERNATIONAL	QTD	1YR	3YR	5YR
MSCI EAFE (EFA)	4.63	15.13	21.89	11.21
MSCI Emerging Markets (EEM)	10.49	19.56	18.17	6.29

1. U.S. Bureau of Labor Statistics: "Consumer Price Index Summary" (September 11, 2025)
2. S&P Global: "U.S. Equities Market Attributes, August 2025" (September 3, 2025)
3. Morgan Stanley: "Three Risks Hiding Behind U.S. Stocks' Performance" (August 13, 2025)
4. Morningstar: "Has the Storm Passed, or Are We in the Eye of a Hurricane?" (July 16, 2025)
5. Returns with time periods greater than 1 year are annualized
6. Returns in chart sourced from FactSet with data as of September 30, 2025
7. Basis points can be summarized as 0.01% or 100th of a percent, also referenced to as "bps"

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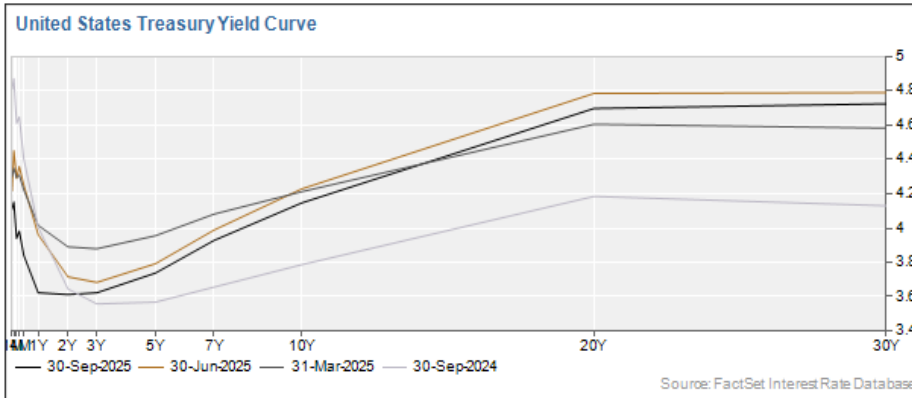
- **Sector Rotation & Style Performance:**
Growth outperformed value amid a Fed rate cut. Communication services and tech led. Energy and utilities showed moderate growth.
- **Volatility & Tariffs:**
The VIX declined 3.3% since the end of Q2, signaling reduced investor anxiety. While peak uncertainty has passed, tariffs still pose risks to growth, with signs of weaker consumer spending and a softening labor market presenting themselves in macroeconomic data.
- **Corporate Earnings Dispersion:**
Q2 earnings beat 80% of estimates, yet only two S&P sectors posted double-digit gains, highlighting continued sector-level divergence and Mag7 dominance.
- **Inflation & Fed Policy:**
The Fed decided to cut interest rates by 25bps on Sept. 17, following easing headline inflation. Core inflation remains sticky due to shelter and services, keeping overall inflation above the 2% target.
- **Market Breadth & Concentration Risk:**
Index gains masked narrowing breadth as mega-cap techs led performance. Heavy concentration amplified sensitivity to sentiment shifts around a few dominant names.
- **Global Growth Divergence & Currency Dynamics:**
U.S. growth stayed firm, but Europe and Asia softened amid weaker trade. Though the quarter presented forex rate gaps, continued long-term relative confidence in the dollar persisted.

THIRD QUARTER 2025

FIXED INCOME

All eyes on Jerome Powell and the Fed this quarter. Expectedly, the paramount news in the fixed income market was the reduction in Fed Funds rates by 25bps in September's FOMC meeting. In line with analyst's expectations given the sup-optimal labor data reports, this decision could be the start of additional rate cuts in the coming months. According to JP Morgan Fixed Income Research, there are predictions the Fed Funds may drop to 3.375% by the beginning of 2026. Over the next quarter, they are also predicting an 85% chance of GDP growth above inflation, with a 20% chance of "Above-Trend" global GDP growth (up from 10% the previous quarter). Spreads, although tightening in Q3, are still hovering around YTD highs at 54bps. That is, when comparing between the 10yr and 2yr on the runs which peaked at 65bps on April 21st. Spreads widened at that time due to escalated tariff/trade uncertainty, which was a central theme in the second quarter across markets. Short-term Treasuries (2yr-10yr) on the yield curve have generally come down about 40-70bps in 2025 alone, whereas longer-dated Treasuries (like the 30-yr) have only seen a slight decrease of 5bps on the year.

Among Bloomberg corporate sectors, Banks & Capital Goods led performance YTD in comparison to excess returns. On the high-yield side, Healthcare & Telecom have been leading the way YTD, whereas Chemical & Paper were the largest detractors. Healthcare led the pack also in 2024 and in 2023, notably. Throughout Investment Grade bonds, U.S Credit has slightly outpaced others YTD. It also was the leader in September with 144bps of excess returns against US Treasury securities of similar duration.



Above represents the Yield Curve at different points in time over this past year (current quarter end, one quarter ago, two quarters ago, and 1 year ago).

FIXED INCOME MARKET RETURNS

GLOBAL	QTD	1YR	3YR	5YR
Total World Bond (BNDW)	1.26	2.75	4.98	-0.27
Emerging Markets Bonds (FEMB)	2.82	7.49	12.39	2.68
DOMESTIC	QTD	1YR	3YR	5YR
T-Bills 1-3 Month (BIL)	1.04	4.35	4.71	2.89
TIPS 7 Year (TIP)	2.11	3.60	4.74	1.22
US Treasury 20+ Year (TLT)	2.17	-4.90	-0.79	-8.73
Mortgage-Backed (MBB)	2.53	3.52	5.10	-0.18
Municipal Bond (MUB)	2.66	1.15	4.20	0.78

1. United States Treasury Curve data sourced from FactSet (September 30, 2025)
2. JP Morgan: "Global Fixed Income View 4Q 2025" (September 23, 2025)
3. Fidelity Investments: "U.S. Fixed Income" (October 2025)
4. CME Group: FedWatch (September 29, 2025)
5. Returns with time periods greater than 1 year are annualized
6. Returns in chart sourced from FactSet with data as of September 30, 2025
7. Basis points can be summarized as 0.01% or 100th of a percent, also referenced to as "bps"
8. JPMorgan defines "Above Trend" Global GDP growth of > 3.5%.

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- **The Fed Cuts Rates:**
Jerome Powell & the FOMC voted to cut federal funds rate target by 25 bps to 4.00% (from 4.25%) in their September meeting.
- **Will They (The Fed) Cut Again in October?:**
According to CME Group's FedWatch predictor, there is a 96.2% probability of the Fed's Target Rate to 375-400bps in the October FOMC meeting (as of September 30th).
- **Performance by Maturity:**
Shorter term bonds have performed strong YTD whereas longer dated bonds of 20 & 30+ yr have seen negative performance in the same period.
- **Tricolor Files for Chapter 7 Bankruptcy:**
The sub-prime auto lender files for bankruptcy on September 10th. Although what could turn out to be a company-specific bankruptcy & not industry trend, regulators will likely begin to look deeper into current underwriting procedures among other companies.
- **Yield Curve Flattened in September:**
The U.S Treasury yield curve flattened this past month due to long term rates falling at a steeper pace than that of short terms.

THIRD QUARTER 2025

REAL ASSETS

We stay constructive on Real Estate, across both equity & debt perspective. With the Fed's decision to lower interest rates by 25 basis points in September 2025 bringing the target federal funds rate to a range of 4.00%–4.25%, cost of capital considerations lessen making more equity deals pencil with base rates still being attractive on the other side of the ledger. The Fed emphasized that future rate decisions will be data-dependent, so we're not expecting the generationally low-rate deal making environment of the COVID era any time soon.

Diving into multifamily and commercial real estate sectors, lower interest rates present both opportunities and challenges. Reduced borrowing costs and increased liquidity can enhance deal flow and improve cash flow coverage, allowing managers to lower loan loss reserves and reinvest capital. Additionally, we believe individuals with relatively younger mortgages could soon possibly benefit from refinancing properties at more favorable rates, receiving relative relief from lower monthly payments should rates continue to lower. Moreover, with nearly \$2.05 trillion in commercial real estate debt maturing between 2025 and 2027—far exceeding historical averages—there is a significant opportunity for attractive refinancing & even possibly distressed/rescue financing opportunities. As interest rates decline, cap rates tend to compress, potentially boosting property valuations and reshaping investment strategies across the sector.

In addition to monetary policy developments, recent real estate data provides important context for investors. The Green Street Commercial Property Price Index has shown modest recovery, rising approximately 6% since the November 30, 2023 trough, despite broader market volatility. This rebound reflects improving sentiment and selective capital deployment across asset classes. However, new construction activity remains constrained. Multifamily and industrial construction starts have declined sharply, with multifamily starts falling 66% and industrial starts dropping 68% from their respective peaks in 2022 to Q2 2025. These supply-side limitations could support pricing for existing assets, especially as liquidity improves and borrowing costs decline. We are closely watching these trends to identify opportunities in markets where demand remains strong but new supply is limited.

REAL ESTATE MARKET RETURNS

PUBLIC REAL ESTATE	QTD	1YR	3YR	5YR
Dow Jones US Real Estate Index (IYR)	2.36	-2.43	8.90	6.69
S&P US REIT Index (RWR)	4.44	-2.22	10.12	9.13
PRIVATE REAL ESTATE	QTD	1YR	3YR	5YR
Blackstone Real Estate Income Trust	1.14	4.80	1.80	9.50
YieldStreet Alt. Income Fund	1.60	7.60	7.90	6.60

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- Property Insurance Trends:**
 Property insurance costs rose 4.9% in early 2025, pushing the average annual payment for mortgaged single-family homes to nearly \$2,370. Though slower than last year's pace, costs are up 11.3% year-over-year, now making up a record 9.6% of total mortgage-related expenses. This trend continues to strain affordability, especially in high-risk areas.
- Housing Affordability in Tokyo:**
 Tokyo's inflation-adjusted home prices have risen about 35% over the past five years, far outpacing modest gains in rents and incomes. International migration is driving population growth and increasing offshore investment demand, further straining affordability. Despite rising female labor force participation, demographic pressures from a shrinking working-age population weigh on the city's long-term housing outlook.
- Mortgage vs. HELOC Rate Trends:**
 If the Federal Funds rate declines to the 3–3.25% range as currently priced into bond and futures markets, and existing rate spreads hold, second-lien HELOC offerings could fall to the low 6% range by late 2026—reducing monthly payments on a \$50K equity withdrawal by roughly \$50, or 17%. Additionally, current rate dynamics suggest the gap between 30-year fixed mortgage rates and HELOCs may narrow through 2026, potentially leading to more competitive offerings between the two products.

- Returns with time periods greater than 1 year are annualized
- Public Real Estate returns in chart sourced from FactSet with data as of September 30, 2025.
- Blackstone (BREIT): "Where You Invest Matters" (August 31, 2025)
- JPMorgan: "How interest rate cuts could impact commercial real estate" (September 19, 2025)
- Buchanan Street: "Navigating the CRE Loan Maturity Wall: Challenges and Opportunities" (Sept. 12, 2025)
- Yieldstreet's performance sourced from fund website: <https://yieldstreetalternativeincomefund.com/> which is as of June 30, 2025 (most recent)
- BREIT returns sourced from fund website: <https://www.breit.com/performance/> as of September 30, 2025 (most recent)

THIRD QUARTER 2025

PRIVATE CREDIT

As the credit cycle turns, opportunity is quietly building beneath the surface. With more possible rate cuts on the horizon and liquidity poised to improve, private credit markets are entering a phase of renewed momentum. Most loans are tied to floating benchmarks like the 3-month SOFR, meaning any reduction in rates will ease borrowers' debt servicing costs. Though the impact hasn't yet materialized, it could be swift and significant—unlocking cash flow, reducing default risk, and reversing the recent rise in payment-in-kind (PIK) structures. As companies redirect savings toward growth initiatives, the stage is set for a rebound in M&A activity and a surge in direct lending transactions.

We stay constructive on the asset class in light of recent and projected rate movements, while working towards identifying continued sources of attractive risk adjusted return. Within Private Equity, linked corporate direct lending spreads are still attractive, and most portfolio distributions are not expected to immediately move in lockstep with Fed rate movements. Given the average life of the loans that have been locked-in these portfolios over the past 18 to 24 months should extend over the next couple of years, investors will still experience relatively attractive yields.

As interest rates rose, leverage ratios in U.S. transactions declined, reflecting more conservative capital structures. However, with borrowing costs poised to fall, we anticipate a reversion to higher lending activity. This shift would allow companies to finance a greater share of their operations with debt, increasing transaction supply and deepening the private credit pipeline. Importantly, this comes at a time when high yield (HY) spreads have tightened. HY spreads remained below 360 basis points for extended durations, ranging from 4 to 24 months. Average spreads during these periods hovered between 299 and 352 bps.

This context suggests that tight HY spreads can persist even in volatile environments, reinforcing the attractiveness of credit markets. While base rates may decline, the expected increase in transaction volume and leverage could prompt modest spread widening.

CREDIT MARKET RETURNS

PUBLIC CREDIT	MTD	QTD	YTD	1 YR
LSTA US Leveraged Loan Index (BKLN)	1.77	7.19	9.80	5.64
Bloomberg US Aggregate Index (AGG)	2.15	2.90	4.91	-0.44
iShares High Yield Corporate Bond (HYG)	2.27	7.16	10.70	4.76
PRIVATE CREDIT	MTD	QTD	YTD	1 YR
Ares Strategic Fund	0.60	2.65	5.99	10.13
Blackstone Private Credit Fund	0.60	1.40	5.80	9.00
Cliffwater Corporate Lending (CCLFX)	2.09	9.58	11.35	10.46

- Returns with time periods greater than 1 year are annualized.
- Public Credit returns in chart sourced from FactSet with data as of September 30, 2025.
- Ares Strategic Fund performance as of August 31, 2025 (most recent), sourced from <https://www.areswms.com/solutions/asif/performance> from Class I shares.
- Blackstone Private Credit Fund performance also as of August 31, 2025 (most recent), sourced from <https://www.bcred.com/performance/>
- Partners Group: "Private Markets Spotlight: Rate Cuts Boost Outlook for Private Markets" (September 16, 2025)
- Goldentree Asset Management: "Credit Market Highlights" (September 12, 2025)
- Goldentree: "Credit Market Update" (July 2025)
- U.S. Bureau of Labor Statistics: "12-month percentage change, CPI index: (September 11, 2025)
- Yahoo Finance: "Meta Lands Record \$29B AI Data Center Deal -- Private Credit's Biggest Bet Yet" (August 11, 2025)
- EA: "EA Announces Agreement to be Acquired by PIF, Silver Lake, and Affinity Partners for \$55 Billion" (September 29, 2025)

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- EA \$55B Deal:**
Electronic Arts is being acquired for \$55 billion by Saudi Arabia's Public Investment Fund, Silver Lake, and Affinity Partners in the largest leveraged buyout in history. The deal includes \$36 billion in equity—funded entirely by the investors and including PIF's existing stake—and \$20 billion in debt financing from JPMorgan Chase. EA will remain headquartered in Redwood City, California, with Andrew Wilson continuing as CEO.
- META AI Advancement:**
Meta is considering a \$29 billion financing package—\$3 billion in equity and up to \$26 billion in debt—to support its strategic shift toward AI. The company is working with Morgan Stanley to explore structures that enhance debt tradeability. The capital will be funded by Meta's investors, with \$18 billion of the debt expected to be funded at close and the equity portion fully backed by capital under their control. The funding will support infrastructure expansion, including a \$15 billion investment in ScaleAI, key AI talent hires, and a nuclear energy agreement to power its growing AI operations.
- US vs EU Private Credit:**
Over the past 20 years, the US and European public sub-investment grade debt markets have grown significantly but unevenly reaching \$2.8 trillion in the US versus \$800 billion in Europe and the UK. This gap stems from Europe's bank-centric model, regulatory barriers to capital markets, and limited non-bank lending. While US companies rely heavily on diverse funding sources, European firms remain dependent on banks. However, private credit—especially direct lending—has gained traction in Europe, now surpassing its high yield and leveraged loan markets. Given Europe's less liquid public markets and longer disruptions during volatility, private credit is emerging as a key alternative financing source.

THIRD QUARTER 2025

PRIVATE EQUITY

Global trade agreement stability (assuming post-'liberation' clarity domestically) heading into the second half of 2025 combined with expected rate cuts from the Fed this year can both have a significant and multifaceted impact on private markets. Lower interest rates reduce the cost of financing, which enhances the economics of leveraged buyouts and improves the financial profiles of portfolio companies. With floating-rate debt instruments becoming cheaper, private equity-backed firms can redirect improved cash flows toward growth initiatives, capital expenditures, or investor returns. Additionally, lower rates support higher valuations by reducing discount rates and boosting expected earnings, making both acquisitions and exits more attractive. This would provide much desired relief from an asset class that has seen large amount of funds unable to realize transaction-led liquidity for their investors over the last couple of years.

Transaction activity in private equity is already showing signs of acceleration. U.S. buyout volumes rose 17% year-over-year in the first half of 2025, and this momentum is expected to continue as sellers gain confidence in achieving higher valuations and buyers benefit from more favorable financing conditions. Moreover, the broader economic stimulus from rate cuts, such as increased consumer spending and corporate investment, can translate into stronger revenue and EBITDA growth for portfolio companies, reinforcing the investment thesis and exit potential.

Exit activity is also poised to benefit from the current environment. Global M&A volumes are up 25% year-over-year, and IPO activity has surged 27%, with public listings becoming an increasingly important exit route for private equity sponsors. If the robust pace of Q3 continues into Q4, fiscal year 2025 could mark the strongest year for IPO volumes since 2021. This would imply an approach towards pre-pandemic levels. Rate cuts are helping stabilize valuations in public markets, while improving clarity on trade and economic policy is reducing uncertainty—both of which are critical for successful exits.

Looking ahead, the Fed's support for the labor market and broader economy is expected to reinforce private market performance through 2026. Assuming the rate cuts are delivered as anticipated, private equity stands to gain from enhanced deal flow, improved financing conditions, and stronger exit opportunities. These tailwinds should benefit a wide range of asset classes including private credit, infrastructure, and real estate, but private equity remains particularly well-positioned to capitalize on the current macroeconomic shift.

1. Partners Group: "Private Markets Spotlight: Rate Cuts Boost Outlook for Private Markets" (September 16, 2025)
2. Partners Group: "Private Markets Chartbook – Q3 2025" (August 20, 2025)
3. Stepstone: "Private Equity Market Update" (May 2025)

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