

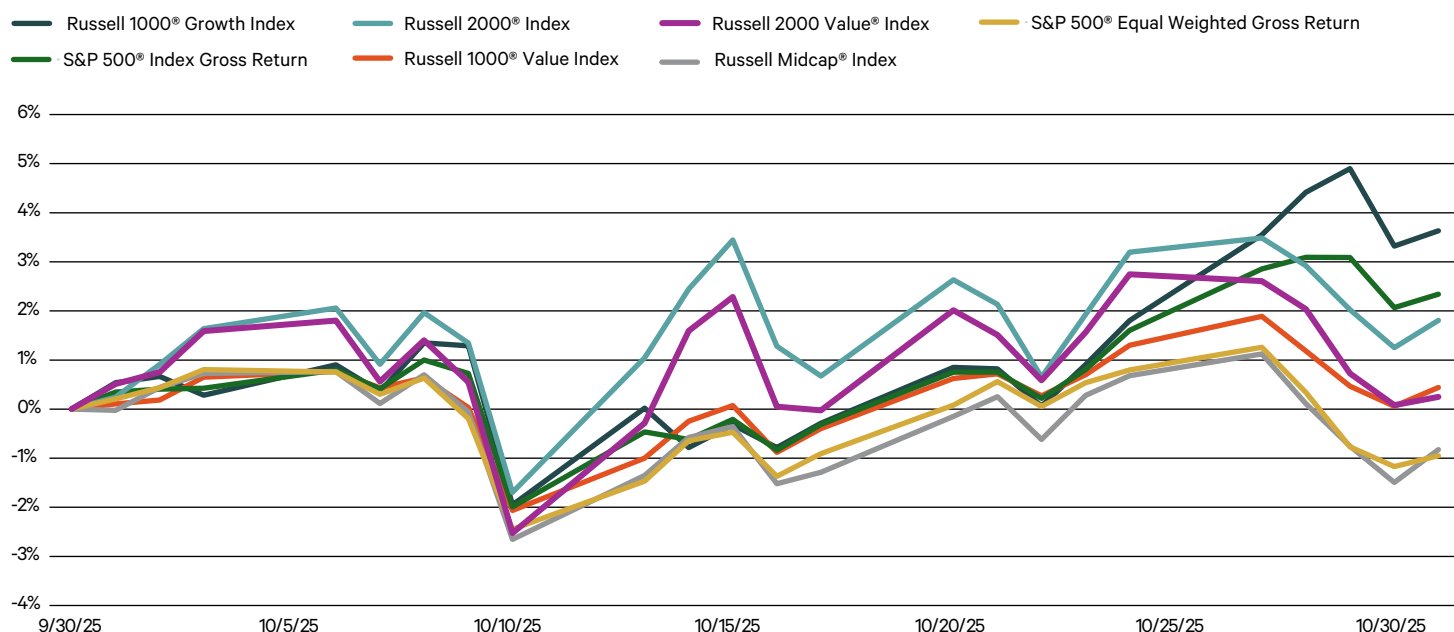
Market Review Commentary

OCT
2025

As October began, the U.S. government shut down. Of course, we didn't know at the time that this would become the longest shutdown in U.S. history. Not only does this have a very real impact on government employees who are not being paid and small businesses that rely on government contracts for much of their revenue, it also means investors do not have the macroeconomic data we typically use. Sure, we can find fault with that data but we would much rather have it than not. As the song goes, "you don't know what you've got 'til it's gone."

So far, the third quarter 2025 earnings season has been strong, particularly for the technology sector. A high percentage of companies beat EPS estimates (not unusual, but reassuring), and many expect M&A and IPO activity to be solid now that the government has reopened. Still, we would be remiss if we did not mention that many economists believe the impact of high tariffs will continue to filter through the U.S. economy, nudging inflation higher and deepening the rift between high income consumers, who continue to spend, and mid- to low-income households that are increasingly stressed.

FIGURE 1: CUMULATIVE RETURNS – SELECTED MARKET INDICES



Data presented is as of October 31, 2025, is obtained from FactSet and is assumed to be reliable. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indices. **Past performance is no guarantee of future results.**

Here's what markets delivered to investors over the month of October:

- Large cap growth stocks once again led the U.S. equity market higher, with AI optimism high and the Mag 7 surging.
- Small cap stocks also did well, at least partly because the Fed delivered another 25 basis point rate cut. This lowers borrowing costs for small companies almost immediately, as most small companies finance with floating-rate debt.
- Mid-cap stocks underperformed. We believe this not only reflects investors' preference for technology stocks—the mid-cap segment's tech exposure is roughly 12% compared to 36% for large caps—but also the market's current pursuit of more speculative companies over the higher quality, stronger balance sheets often found in mid-caps.
- The equally-weighted version of the S&P 500 index, in which a mega-cap tech stock has just as much impact as any other large cap stock, closely tracked the mid-cap segment during October, both delivering negative returns for the month.

Demand for high beta stocks

Post-Halloween seems an appropriate time to remember the dangers of choosing candy and other junk food over sensible meals with actual nutritional value, which we also believe can apply to investing. For the past month or so it seems the market has been gorging on junk—in other words, we seem to be in a “low quality” rally, as companies with weak fundamentals are outperforming those with strong balance sheets, solid ROEs, and healthy cash flow.

The Financial Times is calling it a “garbage rally,” saying that a junk rally describes a situation where stocks that had sold off heavily bounce back. This typically happens after the market has been declining, which is not the situation today. Thus, the FT labels this a “garbage rally”, as the least profitable stocks with the lowest earnings quality are outperforming profitable stocks.¹

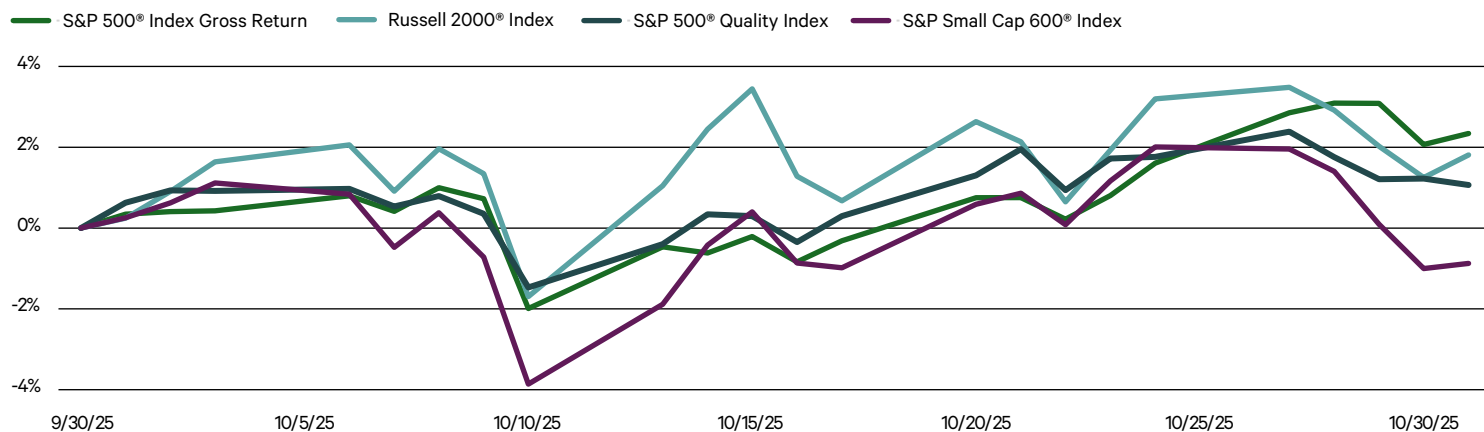
Junk rallies tend to be characterized by:

- **Enthusiasm for speculative stocks:** Companies with high debt, low or negative profitability, unstable earnings, and weak balance sheets are popular in junk rallies.
- **Retail investor-driven phenomena:** Price increases are often fueled by social media hype (“meme stocks”) and short covering, rather than the outlook for a company's earnings growth.
- **Narrow market breadth:** Often, only a small segment of the market or a few large stocks are performing well, while the broader market may not be participating to the same extent, indicating a lack of widespread economic strength.
- **Interest in high beta stocks:** These stocks are typically more volatile (have a higher beta) than high-quality stocks. Rallies in these names suggest increased risk-taking in the overall market.
- **A disconnect from economic reality:** A rally in poor quality stocks can happen even if macroeconomic indicators, such as the labor market or consumer spending, are showing signs of weakness. This disconnect cannot last forever—stock prices and earnings are ultimately tethered together.

¹<https://www.ft.com/content/67fbf464-497b-4a79-9d45-fc64046f6c7d>

In October, the S&P 500 Quality Index underperformed the S&P 500 and the small cap S&P 600, which includes only companies with positive earnings, underperformed the Russell 2000 Index (42% of the latter's constituents have negative earnings).

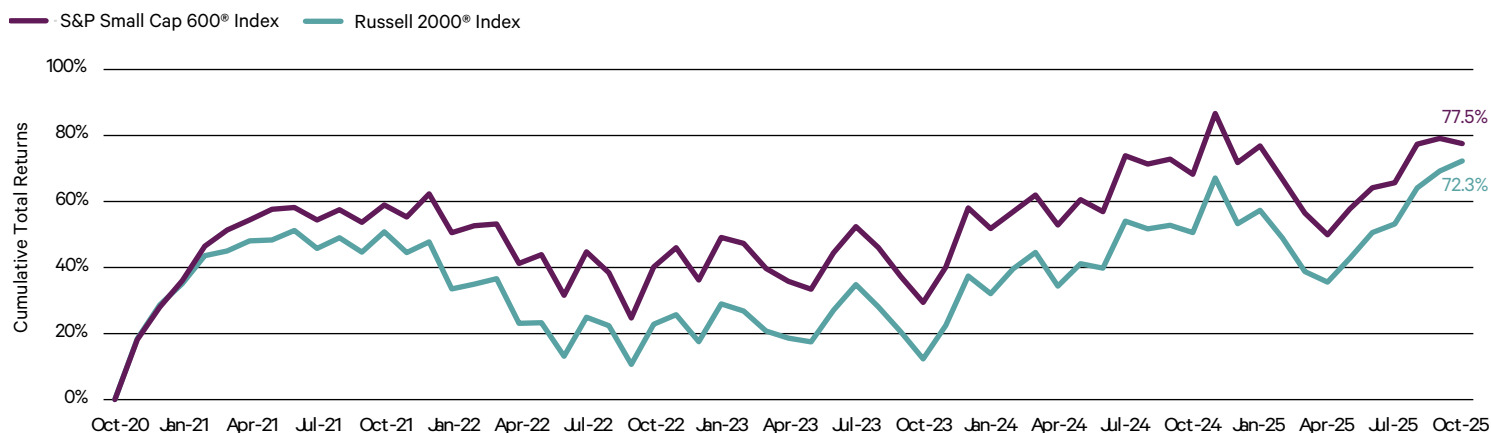
FIGURE 2: IN A JUNK RALLY, QUALITY UNDERPERFORMS



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But over the past five years, we can see that quality matters:

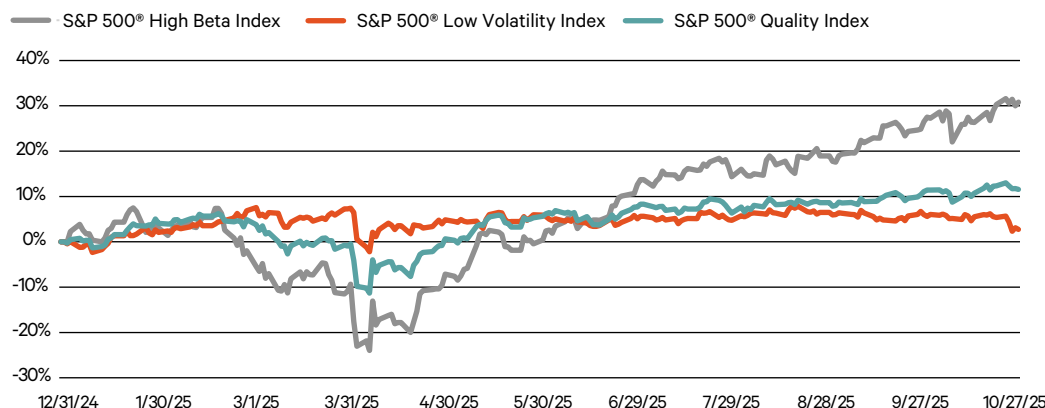
FIGURE 3: OVER THE LONG-TERM, QUALITY OUTPERFORMS



Data presented is for the trailing 5 years ending October 31, 2025, is obtained from FactSet and is assumed to be reliable. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indices. **Past performance is no guarantee of future results.**

High-beta stocks appeal to some investors due to the “lottery ticket” effect. In a rising market, chasing high-beta stocks leads buyers to overpay for the chance to win big. Such gambles paid off during much of the retail investor-driven boom in meme stocks and other high-flyers that began during the pandemic. Recently, high-beta stocks have outperformed low-beta stocks, contradicting the well-known, persistent low volatility anomaly. Here we compare the S&P 500 High Beta Index versus the S&P 500 Low Volatility Index and the S&P 500 Quality index:

FIGURE 4: S&P 500® HIGH BETA INDEX VS. S&P 500® LOW VOLATILITY INDEX & S&P 500® QUALITY INDEX



Data presented is for the period year-to-date ending October 31, 2025, is obtained from FactSet and is assumed to be reliable. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indices. **Past performance is no guarantee of future results.**

We believe junk rallies are inherently short-term, and that loading up on risky, high beta stocks is unwise. Subsisting on sugary candy can give you bursts of energy, but ultimately leads to a bad stomach ache and regret. Low-quality stocks can have strong short-term runs, as they in theory offer “to the moon” potential, but history shows they tend to underperform quality companies over the long term.

For investors who are concerned about market froth and focus on investing for the long-term, this may be a time to step away from the Halloween candy of garbage stocks and remember that quality has a better long-term track record.



Julie Biel, CFA
Chief Market Strategist

Julie Biel, CFA is Chief Market Strategist, Portfolio Manager, and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization information technology and health-care sectors. Ms. Biel began her equity research career in 2004.

The Russell 2000® Index is a free float-adjusted market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 1000® Growth Index is a free float-adjusted market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell 1000® Value Index is a free float-adjusted market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell 2000® Value Index is a free float-adjusted market capitalization-weighted index of value-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell Midcap® Index is a free float-adjusted market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The S&P 500 Quality Index is designed to measure the performance of high-quality companies within the S&P 500. The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The S&P 500 High Quality Index is designed to measure the performance of high-quality companies within the S&P 500. The S&P 500 Low Volatility Index is designed to measure the performance of stocks within the S&P 500 that exhibit lower volatility compared to the broader market. The S&P 500 High Beta Index measures the performance of stocks within the S&P 500 that have higher volatility compared to the overall market. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of S&P 500 Index and includes the same constituents, but each company in the EWI is allocated a fixed weight—or 0.2%—of the index total at each quarterly rebalance. The indices are calculated on a total return basis with dividends reinvested. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. **Past performance is no guarantee of future results.**