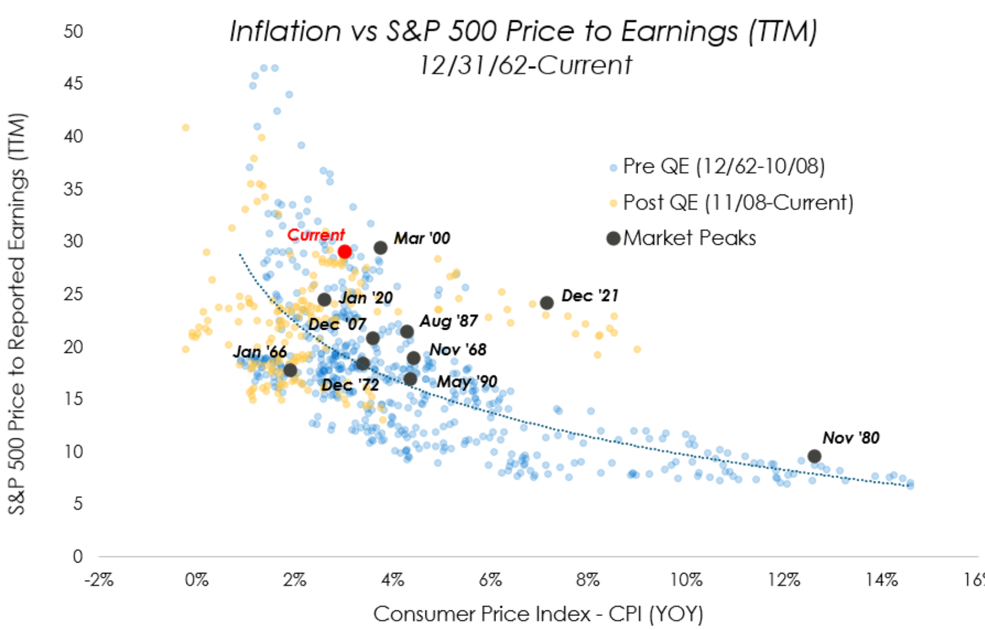
Party Like It's 1999…98…97?

"2000, zero-zero, party over, oops, out of time…so tonight, I'm gonna party like it's 1999."

– Prince (1982)

If you're a late Generation X or an early Millennial, you probably remember growing up in the '90's and the pop culture that went along with it. The Grunge and Alternative Rock genre emerged from Seattle with the likes of Pearl Jam, Nirvana and Soundgarden hitting the radio waves. Meanwhile, the adoption of the internet along with the wider distribution of the "PC", the release of Microsoft Office along with email providers like AOL, Hotmail and Yahoo were all new phenomena. This new search function called "Google" also launched and was well recognized for its clean aesthetic. Through much of the '90's investors became increasingly excited about the transformational changes that were happening both at home and at work along with the impact they would have for decades to come.

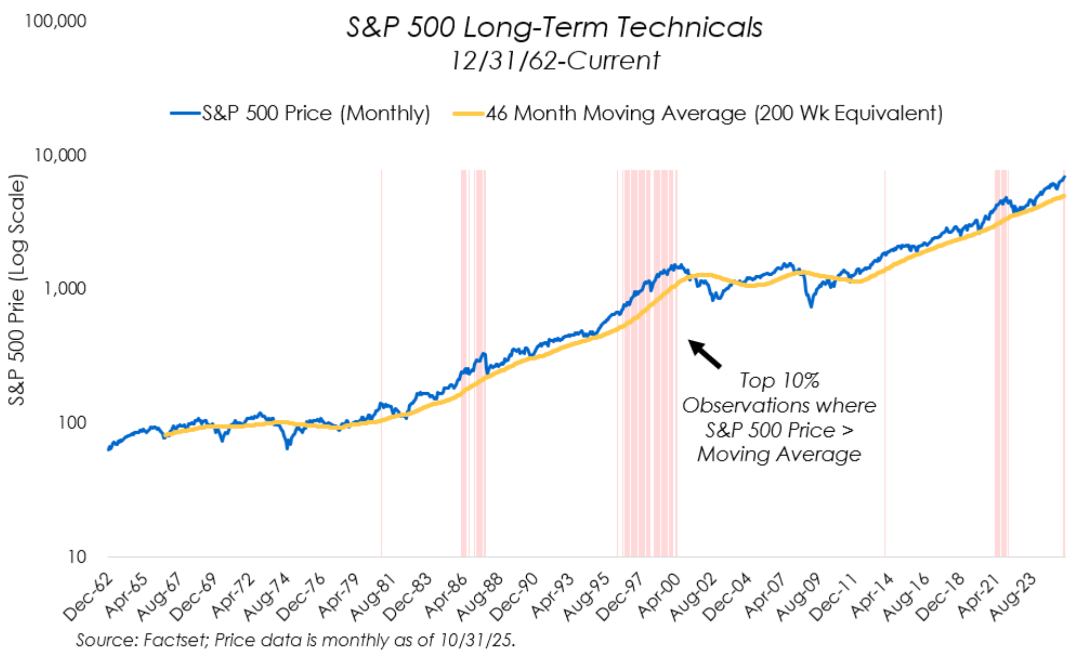


Source: Richard Bernstein Advisors; Factset used for month end S&P 500 price data. Robert Shiller used for S&P 500 reported earnings 12/62-11/88. S&P Global used for reported earnings 12/88-Current. Earnings are reported based on trailing four quarters and smoothed monthly. P/E scale is truncated at 50X and excludes readings from 12/08-9/09. Current readings for CPI are as of 9/30/25 and for S&P 500 P/E are as of 10/31/25.

There are plenty of reasons to argue that today is not a replay of the '90's – at the top of most people's lists are structurally higher profitability levels and the self-funding CAPEX dynamic (at least so far). However, as can be seen in the chart on the right, we do find it curious that when looking at the combination of both inflation and stock valuation there seems to be a close connection. Let's explain by making several observations regarding the chart above:

- Historically, there's an indirect relationship between the S&P 500 price to (reported) earnings multiple and the change in inflation (as measured by CPI) – in part – due to the higher discount rate associated with higher inflation periods that has the effect of pulling down valuation multiples.
- Valuations tended to be structurally higher and inflation structurally lower in the post QE period when the Fed used exceptional measures in order to support financial assets (in response to the Great Financial Crisis). However, that pattern started to break down following COVID when inflation rose materially without a similar reduction in valuations. Today's level still looks disconnected but has gravitated back toward this historical relationship as inflation levels have receded.
- Of the major market tops over the last sixty years, today's current levels for valuation and inflation look most comparable to the late '90's / early '00's episode. Yes, there've been moments when multiples have been higher but that generally comes after a market peak following an earnings collapse.

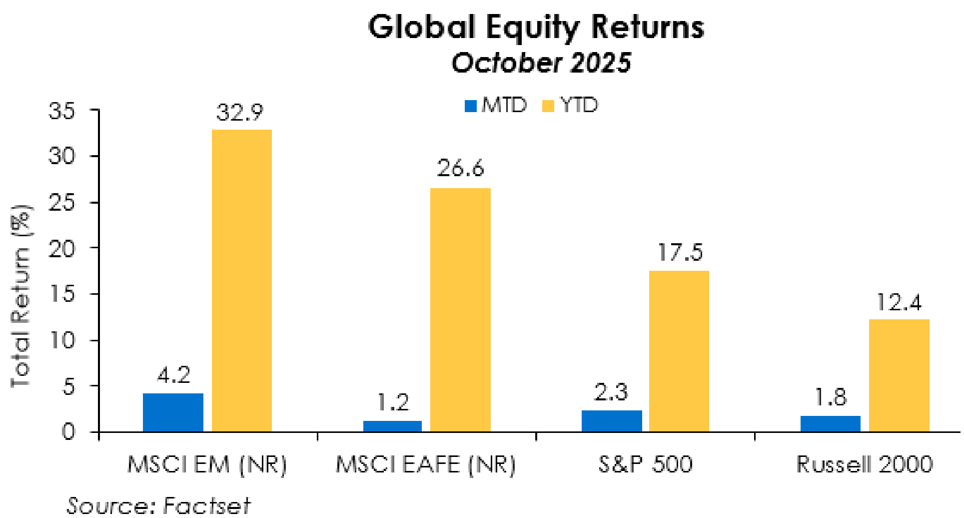
Using the premise that sometimes history may rhyme, the more challenging question to answer might be where exactly are we in comparison to the '90's Tech rally? While the market peaked in March of 2000, valuations peaked in early 1999 (34X) as earnings continued to climb until mid to late 2000 before collapsing the next year with the onset of recession. Using that as a guide, today's price to reported earnings ratio (29X) looks most comparable to mid-1998.



Source: Factset; Price data is monthly as of 10/31/25.

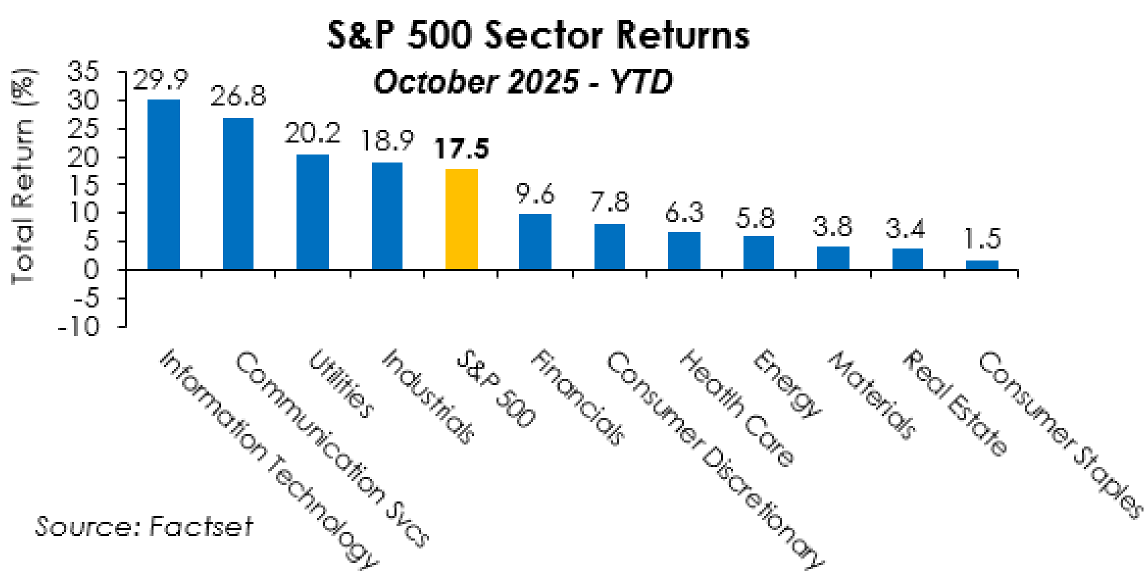
The above technical analysis approach yields a slightly different result. As can be seen in the chart above, using the equivalent of a 200-week moving average (46 months), the top 10% of observations where the S&P 500 price has exceeded that measure corresponds with three of the ten major market peaks since the 1960's. Today is just starting to trip that threshold making it most comparable to early '86, early '97 or early '21. Of course, your guess is as good as ours, though we think the above analysis may help provide a decent starting point. Perhaps the most important takeaway for us is that it feels more like the late '90's than somewhere earlier in the decade.

October's returns were generally positive for Stocks, Bonds, and Commodities while REITs experienced some weakness. Emerging Market stocks led equities higher for the month as global central banks continued to cut interest rates. Commodities continued to perform well with the rally broadening out (to Ag and Industrial Metals) in October. Bonds generally posted solid returns led by Emerging Market Debt while REITs lagged as Fed Chair Powell was less definitive on another rate cut in December.



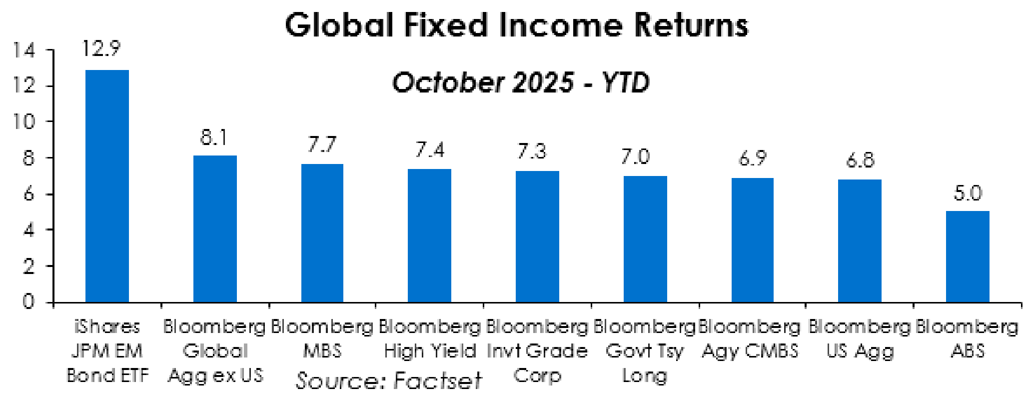
Stocks

International markets (MSCI EM and EAFE) led stocks higher for the month and year-to-date due to fiscal stimulus, central bank rate cuts and a weaker dollar. US Large Caps (S&P 500) continued to perform well on the back of strong corporate earnings and AI optimism. Meanwhile, US Small Caps (Russell 2000) posted solid returns in October as the Fed cut interest rates by an additional 25 basis points – though have lagged for the year amid higher overall rates and elevated inflation. From a sector perspective, outperformance has been driven by AI influenced areas including Information Technology, Communication Services, Utilities, and Industrials – though all sectors have delivered positive returns for the year.



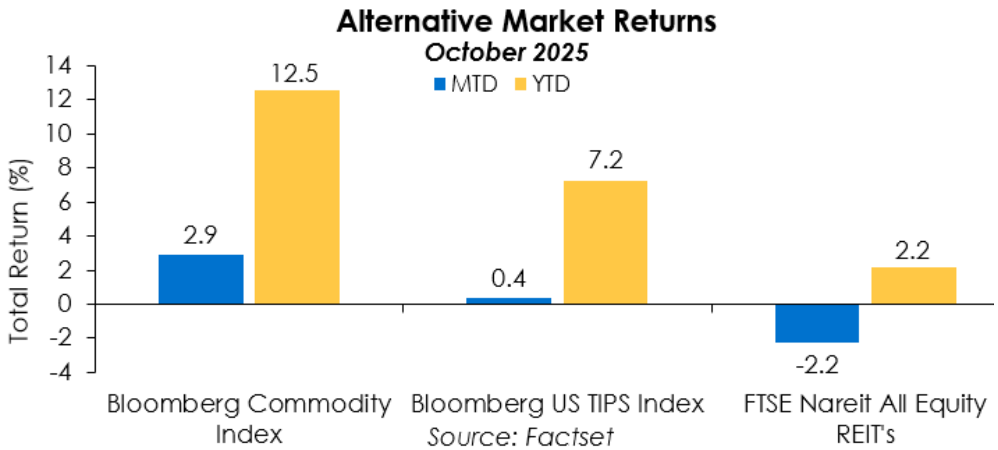
Bonds

After pivoting to an easing bias in the back half of last year and then leaving rates unchanged for the first half of 2025 (including meetings in January, March, May, June, and July), policymakers resumed their easing stance with a 25 basis point interest rate cut in both September and October. However, softening labor market readings juxtaposed against strong consumption data, sticky inflation, and a government shutdown have created uncertainty regarding the path of future rate cuts. The Fed's "dot plot" continues to imply two additional cuts (25 bps per) while the Rates market has closed the gap with an expected three cuts by the end of next year. Bonds have performed well with returns generally up mid to high single digits – helped by lower rates and tighter credit spreads. Emerging Markets (iShares JPM EM Bond ETF) and International Debt (Bloomberg Global Agg ex US) have been the standouts for the year due to dollar weakness while Asset Backed Securities (Bloomberg ABS) have lagged.



Alternatives

Commodities have delivered solid year-to-date returns helped by significant performance in Precious Metals though returns have recently broadened to include good performance in Ag and Industrial Metals. Meanwhile, publicly traded Real Estate (REITs) gave back some of their recent gains as the outlook for additional rate cuts became cloudier following the FOMC meeting this past month. Finally, year-to-date returns on Treasury Inflation-Protected Securities (TIPS) have performed better than nominal Treasuries as inflation expectations rose in Q1 though have moderated and moved sideways since.



Market Outlook

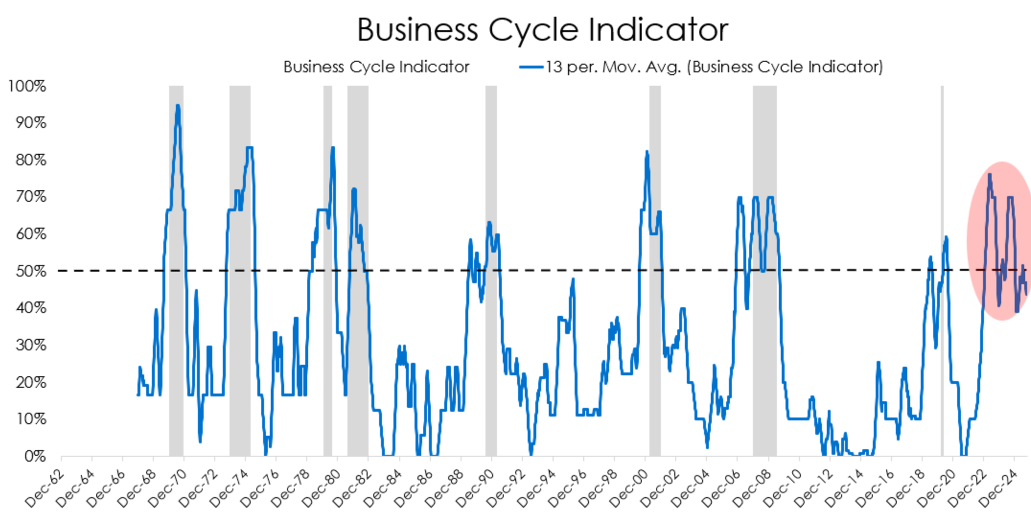
"It's Tricky to rock a rhyme, to rock a rhyme that's right on time. It's Tricky."
– Run DMC, *It's Tricky* (1986)

As the page turns further into 2025, <u>we remain focused on the ever evolving Tricky "Tri-Cycle" – the "three cycle" framework we're using to assess the landscape. An ever fluctuating (and late) Economic Cycle, gradually maturing Profit Cycle and wildly reversing Policy Cycle – makes for the continuation of a Tricky backdrop that requires investors to keep their proverbial eyes up and "Head on a Swivel".</u> Let's explain.

Tricky "Tri-Cycle"

Cycle	Stage
Economic Cycle	*Fluctuating (and Late)*
Profit Cycle	*Maturing*
Policy Cycle	*Reversing*

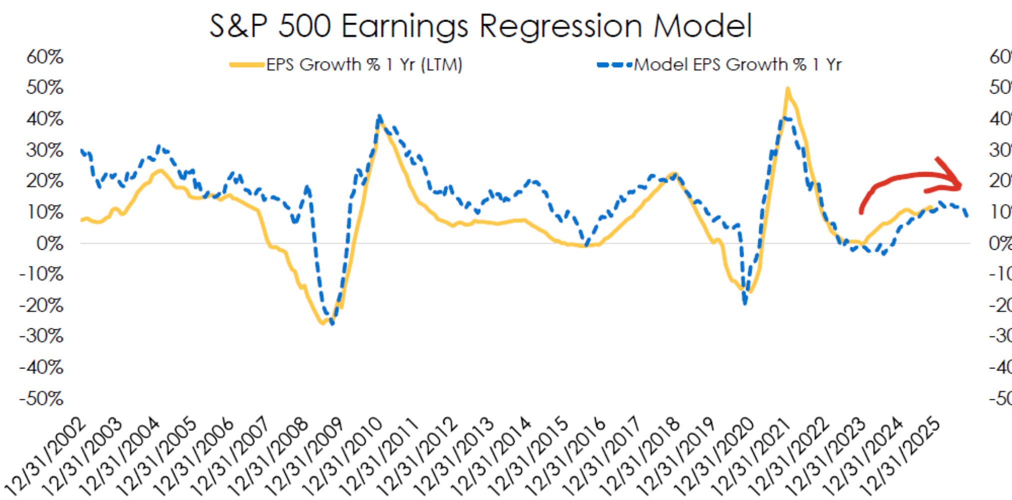
<u>Economic growth remains in flux, in part, due to trade and fiscal policy</u>. In isolation, the sizeable increase in the deficit would have made the budget bill virtually impassable earlier this year. However, when viewed within the context of tariff revenue as an offset, the GOP was able to successfully pass the fiscal measure which included sizeable stimulus heading into next year in the form of lower corporate tax rates (100% expensing) and targeted consumer aid (increased SALT deductions and child tax credit measures). Meanwhile, tariffs raised the question of stagflation for the Fed which kept them on the sidelines until more recently. The last two FOMC meetings, policymakers have cut rates twice (25 basis points per) and are preparing to end their balance sheet reduction (QT) come December 1. Still, Fed Chair Powell made it known that future rate cuts were anything but a done deal as policymakers are somewhat divided on the degree to which the softening labor market and sticky inflation backdrop gives them room to adjust policy further. Stepping back a bit further, we still believe there's



Source: Factset and Yellow Cardinal Research; the Business Cycle Indicator is a proprietary dashboard of financial conditions that historically have provided some context of business cycle duration and lead time on recessionary events. When more than half of the weighted average signals were triggered, this often preceded a recession. The Business Cycle Indicator is a weekly signal with the 13 week moving average smoothing the volatility. Some data has been subject to delay due to the government shutdown.

fundamental evidence – including yield curve dynamics, leading economic indicator composites, certain survey relationships and especially labor market measures – that point to being on the later side of the economic cycle. As can be seen in our business cycle indicator on the prior page, an increased percentage of measures being triggered is a good illustration that we remain at comparable late cycle levels in the economy (with recessions designated by shaded regions – chart on prior page). One cautionary note – similar to the Fed referencing their attempts at "driving in fog", our analysis has also become cloudier given that some of the economic inputs that go into our fundamental measures have been delayed due to the government shutdown.

Meanwhile, the profit cycle doesn't look as late as the economic cycle but the fundamental trends suggest a gradually maturing backdrop. As can be seen in the chart on the right, our proprietary top-down earnings regression model suggests a healthy but gradual leveling off of earnings growth ahead. This is corroborated by bottom-up earnings growth expectations (over the next twelve months) that have generally leveled off to a degree. Still, recent earnings revision trends remain positive – perhaps helped by the earnings benefit of a weaker dollar, the expected limited fallout from tariffs and assistance from the previously cited budget stimulus. The AI CAPEX spend is also a tailwind for growth though with one caveat. Should its current pace be sustained for a prolonged period, we've found it would be comparable to some of the other most signficant examples of overbuilds in history (Railway Boom – mid 1800's, Internet – late 1990's, Housing – mid 2000's). Recently, we've also noted that the Tech sector has gone from an asset light to an asset heavy group resulting in a spend down of free cash flow with debt now likely needed to continue to finance this spend boom. As leverage magnifies outcomes, markets will become more sensitive to anticipated results. For now, we see a solidly positive – albeit leveling off – earnings growth trajectory denoting a gradually maturing profit cycle. The bottom line is that we think its important to monitor the late economic cycle and maturing profit cycle in such a fluid fundamental backdrop.



Source: Factset; S&P Dow Jones; Yellow Cardinal Research. EPS Growth Model uses multiple proprietary regression models based on economic inputs that are found to be good predictors of the S&P 500 profit cycle with a 6-12 month lead time. EPS Growth LTM actual earnings is based on iShares S&P 500 ETF (IVV) from Factset. Some data has been subject to delay due to the government shutdown.

The Certainty of Uncertainty

Past Policy	Future Policy
Looser Fiscal	***(Relatively) Tighter Fiscal*** *- Less government spending / More government revenue*
Tighter Monetary	***(Relatively) Looser Monetary*** *- Higher tariff rates likely lead to lower interest rates though not initially.*

Add to that, the third leg of the stool – a policy cycle that's abruptly reversing from looser fiscal and tighter monetary to one that suggests the opposite – (relatively) tighter fiscal and (relatively) looser monetary. We say relatively because, while the deficit remains unchanged in aggregate, the recognition of its unhealthy status is leading to some reductions in government spending and the need to find more government revenue (tighter fiscal). As referenced above, the Fed has recently cut interest rates with additional easing up for debate. This reversal in policy is causing investors, consumers and companies to re-think the backdrop resulting in persistently elevated uncertainty. The good news is that the sharp rally in risk assets since mid April (from backing off of the worst case tariff rates) was a constructive move that flipped the technical script from bearish to bullish (albeit now perhaps overbought). This suggests that the market hasn't deemed anything a foregone conclusion. The bottom line is that we continue to live in an environment that suggests an increasingly large number of potential scenarios still on the table. It's no wonder that the only certainty might be a high degree of uncertainty.

So what are the implications and key takeaways for portfolios?

From a portfolio positioning perspective, we continue to emphasize the importance of diversification and balance as a way to mitigate the high uncertainty as referenced above. While diversification has previously been an uncontroversial concept, the concentration present in passive indices today – by virtue of the price action over the last couple of years – suggests this notion remains a relic of the past. We respectfully disagree and think today represents a unique – though not unprecedented – opportunity in that diversification offers a "twofer" or two for one benefit – risk reduction and upside optionality. Most of us understand the concept of diversification as singularly beneficial in reducing risk and not putting all one's eggs in that proverbial basket. In short, uncertainty is what compels diversification. But today's concentration in the largest companies has now made the S&P 500 quite top heavy with the top 10 holdings representing about twice the exposure it averaged during the period from 1990-2010. For investors, this mean reversion potential offers upside which is likely to come when investors have deemed that the pendulum has swung too far. The timing of such an episode is a notoriously difficult question to answer with any kind of certainty. But perhaps investors should take comfort knowing that they generally don't need to. That's because staying diversified still allows one to participate in the solid absolute returns that help one achieve plan success. And at the same time, not overly exposing one to the extreme risks that may ultimately come in the form of exceedingly depressed returns when the bill comes due. In our opinion, that's what prudent investing is all about.

We continue to look for opportunities to rebalance portfolios to maintain that degree of balance – and have done so a few times this year as recently as earlier this past month. As a result, we've remained UW the most expensive and concentrated areas where we've viewed the long-term risk reward less favorably.

Within equities, our positioning incorporates balance geographically (tilt toward International) and within our US Large Cap exposure especially (away from the top of the market). Our bias has generally been to have more exposure to less expensive areas (down market cap). As such, we've maintained a larger OW in Cyclical Value and Defensive sectors combined with a smaller sized cap bias. We remain UW the most concentrated and expensive Cyclical Growth areas and think that if AI is as transformative as advertised its benefits will need to accrue to more than just the select few.

Within fixed income, we remain biased toward the higher quality US Core Fixed Income segment – where we're slightly longer in duration for diversification purposes. We've also previously added to International Fixed Income (EW), where the end of negative interest rate conditions has led to more attractive opportunities. Maintaining a higher quality bias means that we still remain UW the most expensive part of the bond market (High Yield) where extremely tight spreads have made this unattractive in our view.

Within alternatives, we remain fairly balanced across the board with neutral positions in Diversified Alternatives, Real Estate and Commodities. Earlier this year, we adjusted our mix of Diversified Alternative managers in order to provide greater insurance against market volatility by emphasizing income and short exposure – areas that can benefit from choppy market conditions, thus, enhancing diversification.

From a broader perspective, we also think that investors should keep in mind the following:

- Stay focused on the things you can control like ensuring you have adequate 6-12 month liquidity needs which should allow your long-term investment monies to stay invested.
- Has the structural integrity of your plan changed (purpose of money, time horizon, liquidity needs, risk tolerance)? If the answer is no, then recognize that the economy and the market run in cycles that diversified portfolios are there to help mitigate.
- Short term volatility is often the price one pays for the benefit of higher long-term returns.

Thanks for giving this a read.