ALTMAN
INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

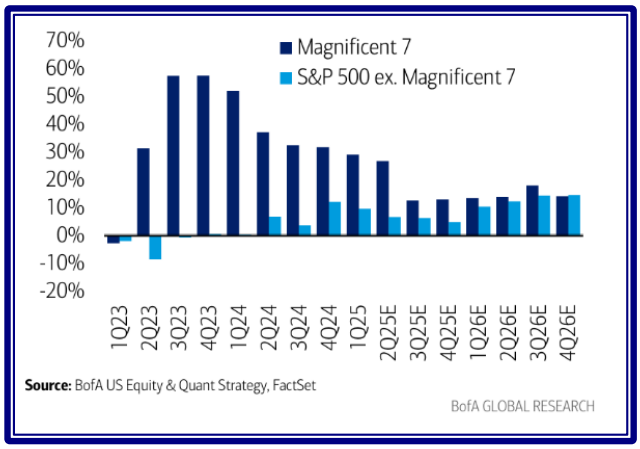
AUGUST 2025

IN VIEW:

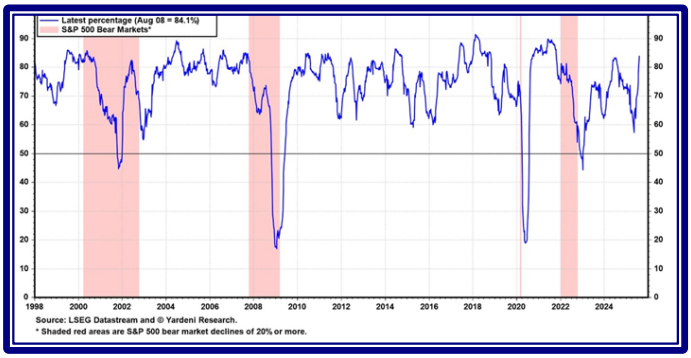
2nd quarter earnings season has been quite strong, with 330 of S&P 500 companies reporting thus far. 75% of results have beat on eps and 77% beat on top line sales. Strong revenue growth, AI investment spending, margin resilience, and positive guidance all contributed to the strong earnings in 2Q25. Communication Services, Technology, and Financials saw double digit earnings growth on a year over year basis, while Energy and Materials reported declining growth rates. Downward estimate revisions following initial tariff announcements appear to have stabilized and are beginning to trend higher. Consensus estimates are calling for 9% earnings growth in the second quarter, a good solid number but running below 13% growth the prior quarter.

Market breadth since the second half of 2024 provides optimism, as the earnings growth gap between the Mega 7 stocks against the other 493 stocks in the S&P 500 converges. Earnings growth amongst the Mega 7 stocks has been normalizing, versus an upward trend in the remainder of the S&P 500 universe.

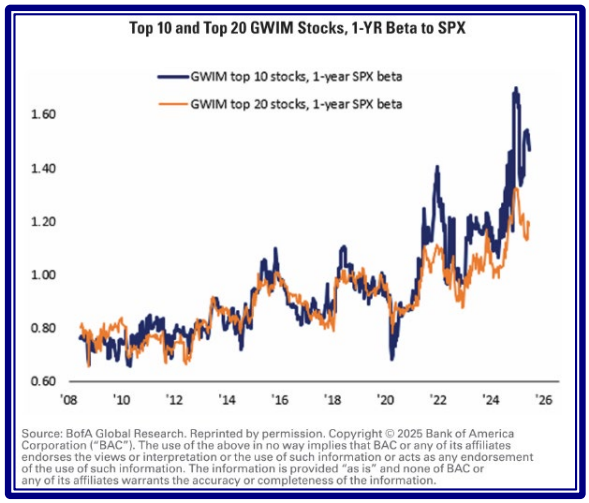
Earnings Growth Gap Between Mega 7 Stocks & the S&P 500 is Converging



% of S&P 500 Companies with Positive 3 Month % changes in Forward Earnings



Richard Bernstein Advisors compiled evidence of rising speculation in the marketplace that further supports a continuing broadening of the markets. Global fund manager surveys indicate the appetite for risk has spiked the most in history over the past three months. A disproportionate amount of capital is funneling into meme stocks and cryptocurrencies, whose values are based more upon supply and demand or market sentiment as opposed to holding actual economic value. Corporate spreads are at 20-year lows, as investors are willing to accept lower relative yields for owning corporate debt. Merrill Lynch's private client equity beta, as represented by the top 10 stocks in its Global Wealth & Investment Management product, is at 1.5x. This is just slightly off its high reached in early 2025.

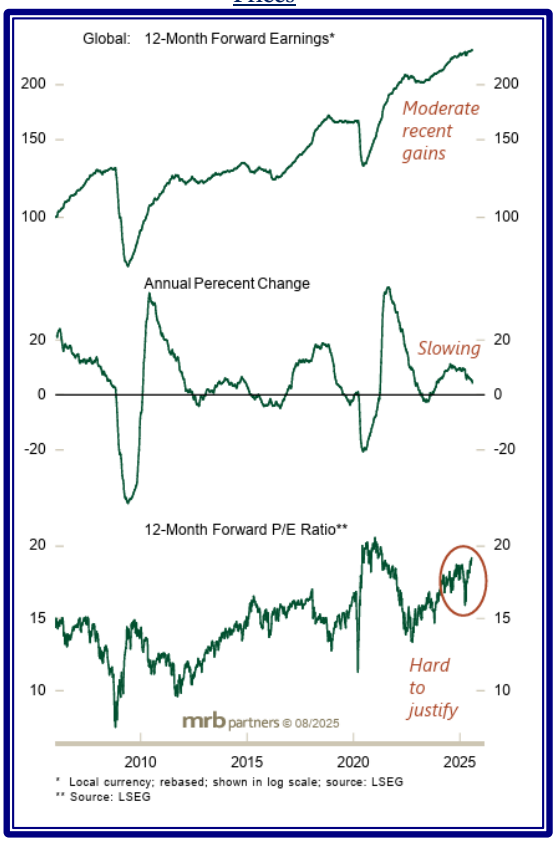


CLOSE-UP: Equity Sector Overview

AI is reshaping every industry by creating new revenue streams and helping build scalable products and services. Innovation and enhanced operational performance through AI is unlocking new growth opportunities and will help solidify key competitive advantages. Strong demand for greater computing power is driving infrastructure buildouts. AI chip development is geared towards supporting greater workloads and faster processing times. Enhanced capacity capabilities is enabling big tech to build recurring revenues through AIaaS (AI as a service). In tune with the optimistic outlook for AI initiatives and overall operational improvements, big tech reiterated its commitment for substantial capital expenditure growth in 2026.

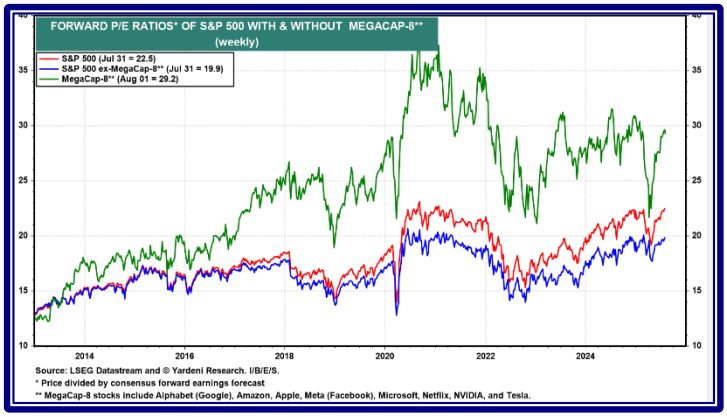
Non-tech companies are also actively investing in AI technologies, hiring internal AI teams as well as partnering with AI firms to leverage their capabilities. Initiatives not only help businesses with overall strategic planning but influence decisions and processes throughout an entire corporate ecosystem. Initiatives include customer experience improvement, operational optimization, supply chain management, fraud detection, energy savings, building out research capabilities, and expanding cloud computing and support. Businesses also offer AI training and certification opportunities for employees.

Elevated Valuations are Driving Stock Prices



There is a tremendous amount of expectation surrounding AI and its ability to boost productivity and corporate profits. Extended valuations of the Mega 7 stocks illustrate a level of exuberance that is vulnerable to a correction. Multiples are driving stock prices higher - whereas the forward earnings growth rate is slowing. Should inflation prove to be more of a headwind than anticipated, we could see a back-up in yields which in turn pulls the rug out from under valuations.

Investing indirectly in AI as opposed to directly in AI developers provides broader opportunities across multiple industries for a more balanced approach. Here are some examples of how some of our composite holdings are benefiting from the boom in AI. Microsoft is partnering with Walmart to improve supply chain management and customer experience. Bank of America's AI assistant, Erica, helps customers navigate and manage their finances. AI enables companies like Johnson Controls (JCI) to optimize energy efficiencies. JCI also uses AI driven diagnostics to improve its heating ventilation and air conditioning systems. Disney (DIS) is using AI technology in its content creation to provide personalized customer engagement and increase retention. DIS also employs AI in its theme parks for crowd management, and uses AI predictive analysis tools for merchandising.



Source: Yardeni Research

Drilling down a bit deeper, the table below highlights a general investment rationale for each of the market sectors represented in the AIM composite.

Sector	Over weight (OW) Under weight (UW) Market weight (MW)	Investment Rationale
Energy	OW	Beneficiary of AI through drilling and exploration optimization, reserve management, emission reduction efforts, and supply management. Overweight on notable pickup in global growth momentum next year should spur oil demand and price levels. Forward eps improving.
Materials	MW	Using AI technologies to accelerate product discovery/development, manufacturing and logistics. A market weight is appropriate for this sector. A more upbeat stance requires an easing of global trade tensions and evidence of better execution on the corporate level.
Industrials	OW	Overweight on favorable fundamentals, tax cut stimuli, technological innovations, and long-term reshoring initiatives. Capitalizing on AI through predictive maintenance, quality control, and process optimization.
Consumer Discretionary	UW	Vulnerable with high exposure to tariffs and Fed "wait and see" approach to lowering interest rates. AI spend aids in demand forecasting, personalized marketing, and pricing dynamics.
Communication Services	UW	Underweight due to underlying earnings growth slowdown in the coming quarters on regulatory pressures and declining add revenues. Tough year over year comparisons and U.S. China relations are headwinds to the sector. Lofty valuations.
Consumer Staples	MW	Relatively high valuations limiting buying opportunities.
Healthcare	OW	Leveraging AI in drug discovery, clinical trials, diagnostics, patient data analysis, and overall healthcare solutions. Valuations below historical levels. Some policy uncertainty ahead, but appears to be already priced in.
Financials	OW	Overweight due to anticipated de-regulation, economic resilience, increasing capital market activity and higher premiums. Leveraging AI for enhanced customer engagement, AI powered automation, fraud detection, risk assessment and sentiment analysis, and cross selling opportunities. Valuations below historical levels.
Technology	UW	Underweight due to elevated valuations. Investment focus on direct and indirect AI beneficiaries through global consulting, digital transformation projects, networking and IT infrastructure, iCloud services and development, software solutions.
Real Estate	UW	Underweight due to weakening underlying relative cash flow.
Utilities	UW	Underweight on relative earning weakness

SUMMARY:

Diversification into high quality stocks with strong fundamentals is key as markets remain speculative with heightened valuations. Over the next few months, the markets may experience some volatility as economic data releases provide clarity on inflation and the jobs market. September is traditionally a weak month for stocks and October is historically volatile. We will be watching for any shifts in policy, developments in trade negotiations and/or geopolitical tensions as these will all play a significant part in molding the economic path ahead. In our opinion, it is likely that expectations for the Fed to lower its key rate will be dialed back with persistent inflation alongside moderate growth.

We believe a longer-term outlook is biased towards the upside favoring stocks over bonds. A recession is not in our forecast; however, a prudent investment strategy focused on long term fundamentals as opposed to chasing speculation is advised. The broadening market bodes well for a diversified portfolio across multiple market sectors and industries.

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Any performance reference represents a hypothetical composite compiled from actual equity, fixed income or balanced client portfolios and includes cash. These three composites reflect aggregated returns that address differing objectives. As such, the performance of each composite does not reflect the actual total portfolio returns earned by our clients. The investment performance records are compiled from a capital weighted average of the equity, bond and cash components of a broadly representative group of discretionary accounts that meet certain minimum size thresholds.

No gross performance returns that are referenced that are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001 and the inception dates start on August 17th, 2001.The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization nor does it warrant the accuracy of the content herein.

Investing entails inherent risks and results may be altered by material market or economic conditions. Investment returns and principal values may fluctuate, and losses are possible. Past results are not a guarantee of future comparable results or trends. Our process benchmark is the S&P 500 Index with dividend reinvestment, and our performance benchmark is the Russell 1000 Value Index with dividends reinvestment.