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MARKET PERSPECTIVE

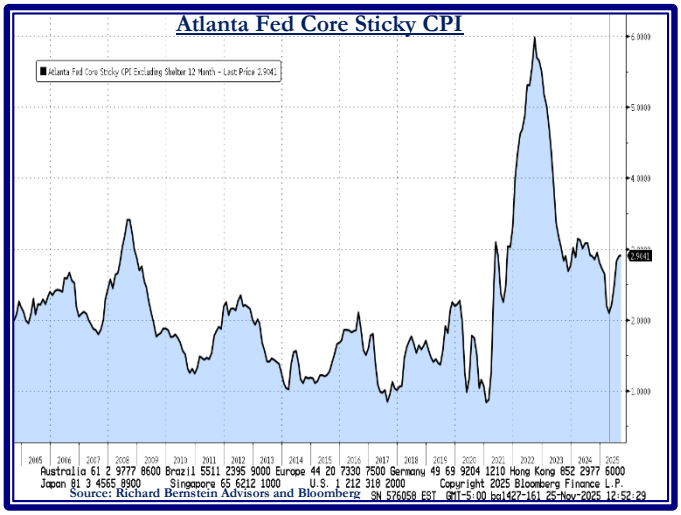
NOVEMBER, 2025

IN FOCUS:

It's been 7 months since sweeping tariffs were announced by the Trump Administration that include baseline tariff rates on virtually all countries, plus additional tariffs on some countries perceived as being unfair trading partners or on others as an incentive to crack down on the flow of fentanyl. While Congress has traditionally held explicit authority to tariff, over time limited powers have been granted to the President. Three lower courts have already rejected the tariffs but have allowed the duties to stay in place until the case is brought before the Supreme Court. According to the Wall Street Journal and Customs and Border Protection data, the government has so far collected over $90 billion from tariffs. Should the Supreme Court decide tariffs are illegal, the biggest questions would be how and if companies would be refunded. Not only would a refund of this size and scale be unprecedented, but its potential impact on the Treasury Department and the economy is concerning.

To date, corporate tariff mitigation efforts have tempered the overall impact on inflationary pressures from what was initially anticipated. However, more recently, large banks like JP Morgan, Goldman Sachs and Bank of America have come out and acknowledged tariffs have indeed led to higher consumer pricing. Bank of America went as far as to suggest inflation is likely to trend higher, as U.S. consumers have only covered approximately 50-70% of the cost of levies since they were first handed down in April. With tariff pressures likely to persist in the months ahead, firms will walk a fine line between protecting profit margins and market share. Research from S&P Global determined that tariffs will cost businesses $1.2 trillion this year, with shoppers ultimately shouldering the burden.

Tariffs Are Impacting Inflation

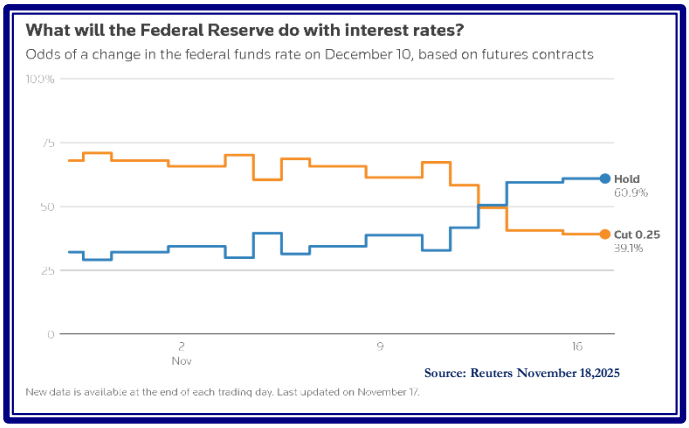


The current tariff policy is predicated on the premise that foreign countries will flip the bill in efforts to maintain market share in the world's largest consumer market. To date, U.S. corporations have done their best to mitigate tariff pressures, diverging supply chains and working towards bringing production back onto U.S. soil. Rather than resorting to pass along all higher costs to consumers, companies have done their best to absorb tariffs, shielding end consumers from sharp price hikes, at least initially. Also to consider is that many input costs were front-end loaded in Q1 through an uptick in imports, in order to get ahead of tariffs. This was reflected in the increase in Gross Domestic Product (GDP) for Q2. However, there has not been an update on GDP for Q3, due to the government shutdown. Anther caveat is that foreign exporters are raising the dollar prices of their goods sold to the U.S., because the weaker dollar reduces the value of what they earn. As a result, some of the cost of the dollar's depreciation is being pushed onto American importers.



Relying on alternative data sources during government shutdown, Intuit Quick Books Small Business Index came out showing weakening job growth in October, despite average revenue increases. This report also marked the worst October for job losses in over 20 years according to global outplacement firm Challenger, Gray and Christmas. The number of layoffs announced during the first 10 months of this year surpassed the entirety of last year by 44%. This is due to a variety of reasonings including AI adoption, weak corporate spending, and rising overall costs. American Airlines, Amazon, Verizon, UPS, Target, Meta, Alphabet and Intel are just some of the companies that announced sizeable layoffs this quarter. The delayed Employment Situation Report for September showed non-farm payrolls ticked up more than expected, but the number of unemployed remains higher than the year prior. Unemployment meanwhile edged up to 4.4%. The number of people filing new unemployment claims fell during the week of November 10th while continuing claims rose, telling us the unemployed are finding it more difficult to secure jobs. Continuing claims coupled with weak overall hiring initiatives suggest that an unemployment rate for October would be elevated. The Bureau of Labor Statistics has said it will not publish an October Employment situation report, but that the establishment survey data will be published with the November data.

Susan Spense, chair of ISM Manufacturing PMI, confirms that efforts to reshore are facing challenges. Despite the intent of the new tariff policy to drive demand toward U.S. manufacturers, customers appear to be delaying orders in hopes of lower prices later. And as reported in Reuters this month, some computer and electronics manufacturers noted that often it is still cheaper to import than trying to source domestically. ISM Manufacturing PMI continued to show weakness in October. It remains primarily a tariff story in which corporate leadership is postponing decision making in response to increasing uncertainty surrounding trade policy. Demand indicators have been in contraction since initial tariffs set in April, with some temporary improvements in new orders and production before falling again in the latest report. Demand sentiment is softening as well. Industry respondents say inflation is still a concern as they await further tariff impacts on costs and pricing. The Consumer Confidence Index just reported at 88.7 was significantly below consensus expectations of 93.3. Employment sentiment is also waning, as evidenced by layoffs and the reluctance to backfill positions. The pace of manufacturing price increases is slowing, but factories continue to pay higher input costs. Despite elevated levels, a moderating survey of prices paid supports the view that the impact from tariffs on inflation could be a one-time adjustment. On the other hand, ISM Services PMI came in strong beating estimates, with support from business activity and new orders. However, weakness in employment and supplier deliveries persists. Additionally, an elevated price index tells us prices paid by service sector businesses increased significantly signaling accelerated cost pressures ahead.



It is unclear at this point as to whether the risks to higher inflation are enough to hold rates steady, or if the weakening jobs market requires a more accommodative policy. In recent weeks, there has been growing favor amongst Fed members to keep rates on hold at its December meeting. However, the divide in opinions has remained and the lack of new economic data from the shutdown only muddies the waters. Some Fed officials such as Boston Fed President Susan Collins cited a "highly uncertain environment" and the need to "balance the inflation and employment risks" before proceeding with future rate cuts. Others focus on the need for lower interest rates to reduce the costs of borrowing and prop up a weakening jobs market. The Fed may hold rates steady at its next meeting or announce a one-and-done cut (citing that the easing cycle is on pause until uncertainty subsides). Either way, according to CNBC, traders are pricing in about a 50/50 chance of a December cut.

Despite the aforementioned crosscurrents, as we head into year-end, Wall Street economists have been revising GDP forecasts for 2026 upward, following the Q3 earnings results. This suggests we will see further productivity growth as the new year unfolds. Much of the productivity growth comes from innovation produced by the IT industry across many industry sectors, and should be reflected over time in further broadening out of overall market valuations in the year ahead.

Normalized GDP is expected to accelerate in 2026 with aggregate corporate profits hitting record highs, pushing stock market valuations to record levels. Although market participants are somewhat skeptical, bond spreads appear to confirm that an imminent recession in the near term is less likely. Despite the shock of tariffs slowing payroll employment, the U.S. economy appears surprisingly resilient. We believe GDP could rebound in 2026, approaching 3% despite unemployment approaching an estimated 4.5% - given the adoption of AI effecting new entrances into the work force. We expect productivity could continue to support real GDP growth of the U.S., avoiding a recession next year. S&P 500 operating earnings could approach a 13% growth rate over the next several years. This bullish forecast could sustain an above average price-earnings ratio at the high end of the historic range of 18-22x. This robust forecast will most likely result in a neutral FOMC, despite a new Chairman next year. We would expect that the Fed funds rate will remain below 5% in this scenario in 2026.

With regards to market broadening, we have begun to see some movement out of the Mega 7 that account for more than 40% of the market capitalization of the S&P 500. We continue to emphasize other sectors - such as Financials, Industrials and Healthcare - as we enter 2026. We are also looking for investment opportunities abroad, given a potential headwind for the U.S. dollar and valuation spreads at historic highs.

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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.

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