

Bob Doll, CFA PM/CIO/CEO

4Q25 Investment Update



Bob is a financial services industry veteran with over 40 years of experience managing large cap equity strategies as well as long and long-short equity strategies. His weekly, quarterly, and annual investment commentaries focus on key themes and risks driving equity markets, monetary policy, and the global economy. Bob is a regular guest and contributor to multiple media outlets such as CNBC, Bloomberg TV, Moneywise, and Fox Business News.

2025 Returns



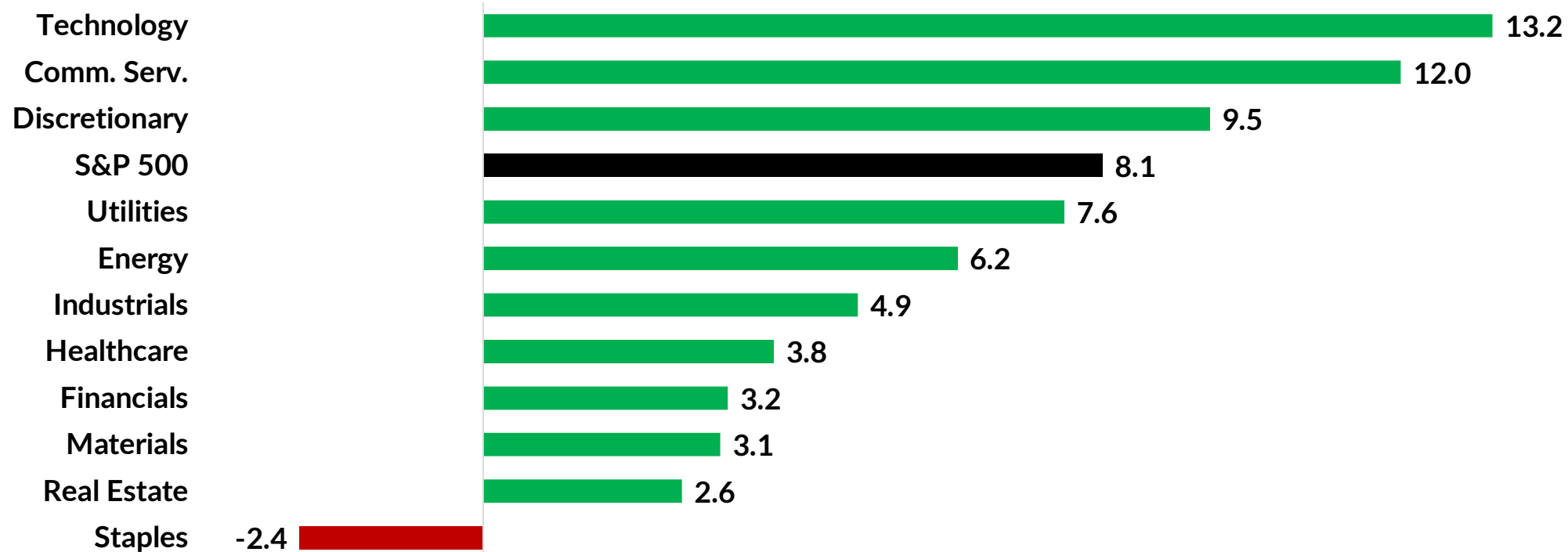
Index	3Q25 (%)	9 mos. 2025 (%)
90-Day Treasury Bills (Bloomberg U.S. Treasury Bill 1-3 Month TR)	1.1	3.2
10-Year U.S. Treasury (Bloomberg U.S. Treasury 10+ Yr TR)	1.9	7.0
U.S. Bonds (Bloomberg U.S. Agg Bond TR)	2.0	6.1
High-Yield Corporate Bonds (Bloomberg U.S. Corp High Yield TR)	2.5	7.2
S&P 500 TR Index	8.1	14.8
S&P 500 Equally Weighted	4.8	9.9
MSCI World Ex. U.S. (MSCI World Ex USA NR)	5.3	25.3
MSCI Emerging Markets (MSCI EM NR)	10.6	27.5
Commodities (DJ Commodity TR)	3.6	9.4
Gold	16.8	47.0
Bitcoin	6.3	22.4

Source: Bloomberg as of Sept. 30, 2025

A good quarter, with technology leading (again) and defensives lagging

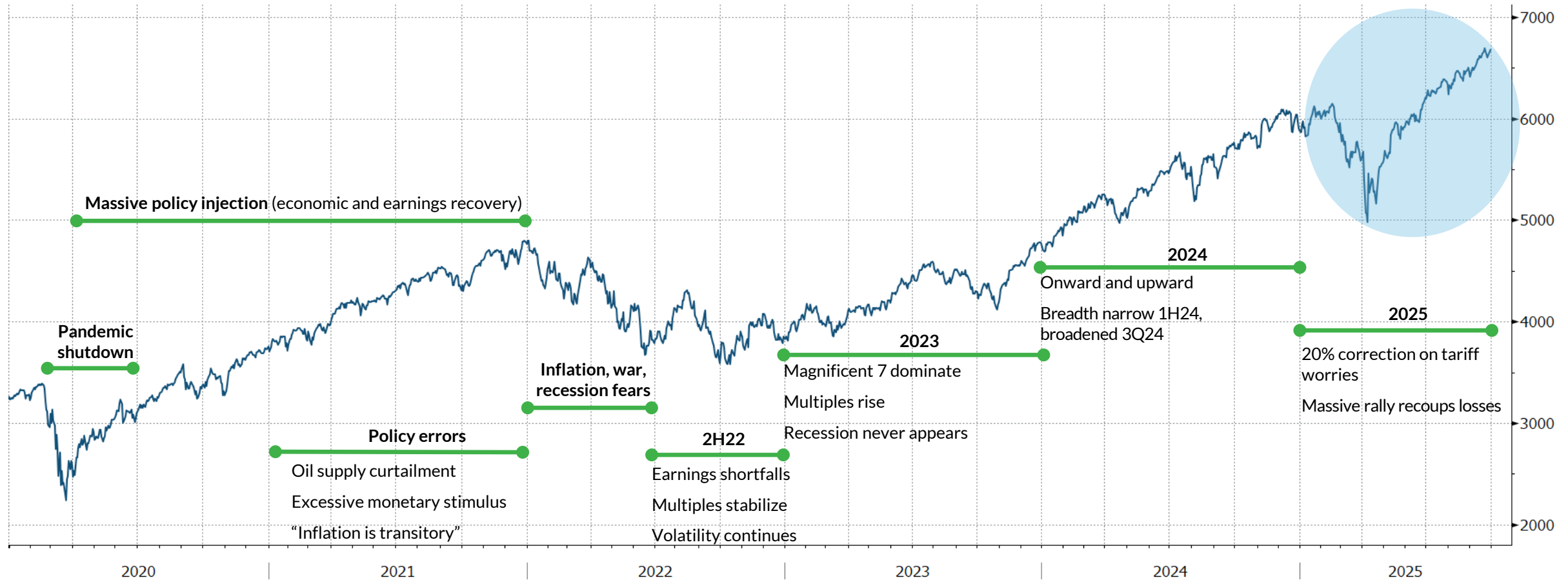


S&P 500 sectors 3Q25 total return (%)



Source: Bloomberg as of Sept. 30, 2025

S&P 500 5³/₄-year history



Source: Bloomberg as of Sept. 30, 2025



HIGH-RISK BULL MARKET

- **Bull Market** = Path of least resistance is up, so one has to be invested.
- **High Risk** = But there are signs of overvaluation and speculation, so one has to be careful what is owned.

High-Risk Bull Market



Positives

1. Earnings are very good.
2. The Fed has begun lowering rates.
3. AI and other productivity factors are boosting profit margins.
4. Sentiment is neutral at worst.
5. Credit markets are signaling a strong economy.
6. There is more clarity around tariffs.
7. Cash flow and dividend growth are improving.

Negatives

1. Valuations are elevated.
2. Inflation remains sticky.
3. The tariff impact on growth and inflation is concerning.
4. Job growth has slowed noticeably.
5. Consumer spending has weakened noticeably down income cohorts.
6. Speculation has increased (margin debt, IPO activity, return of SPACs).
7. Tensions are escalating between Russia and the U.S./NATO, the U.S. and China, etc.

The Positives

Consensus 2026 EPS Estimate

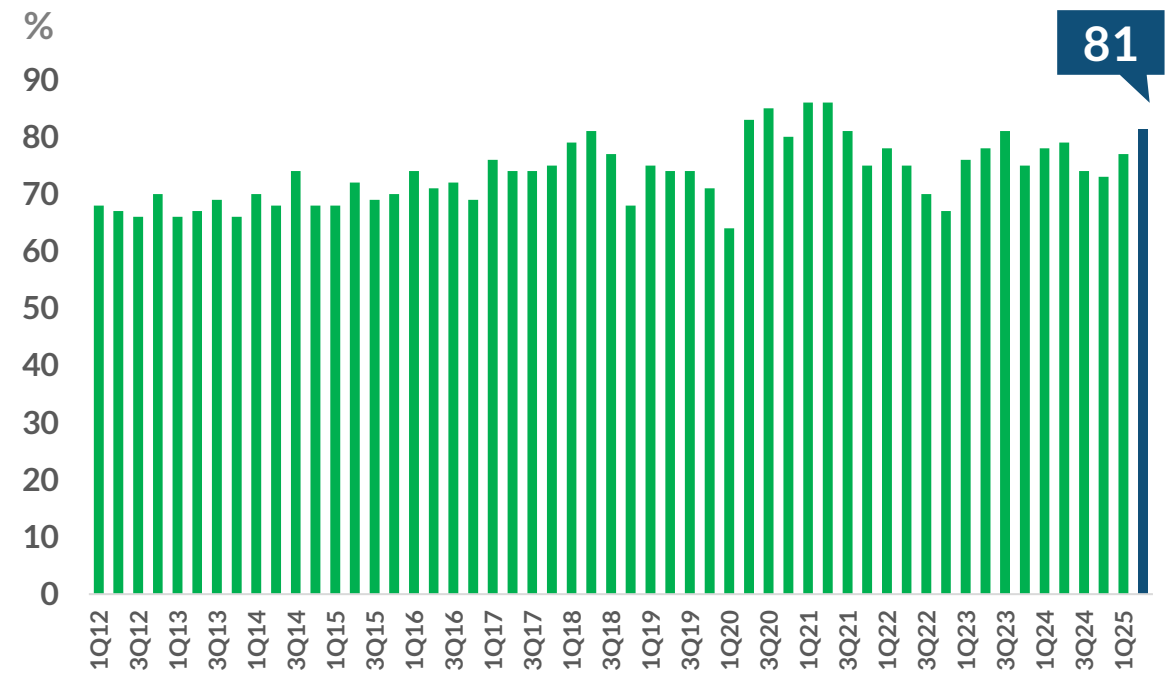
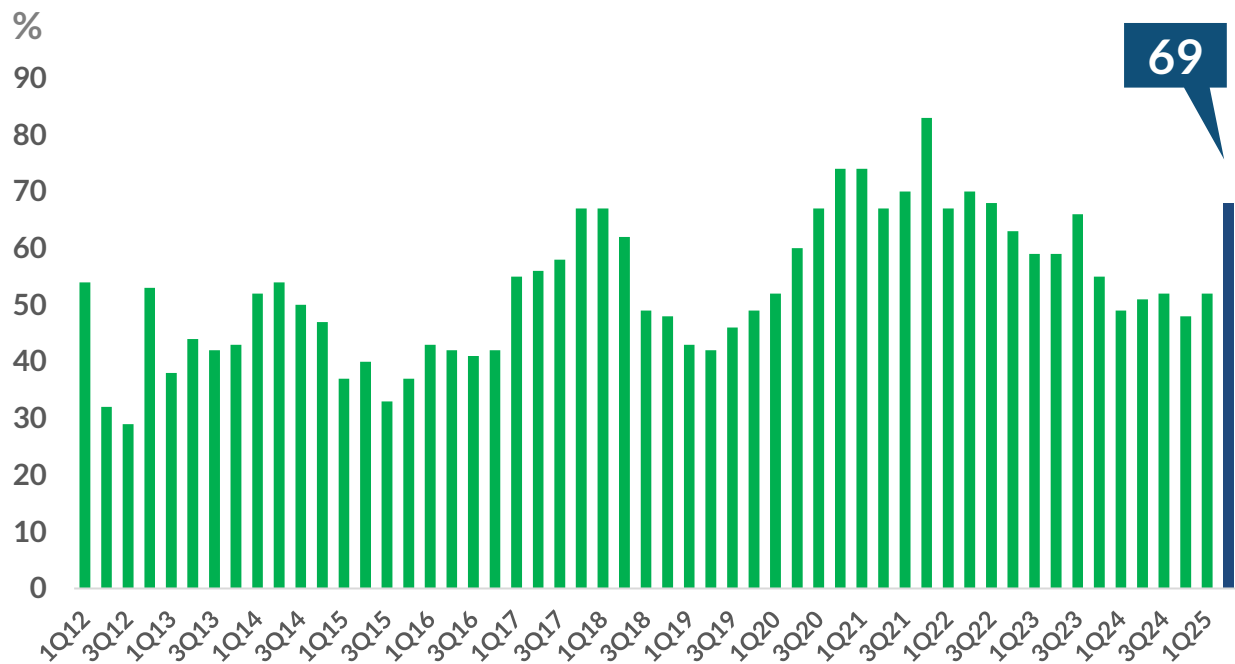


The Positives

2Q25 Earnings reports – earnings surprises



S&P 500: % of companies with revenue beats



Sources: Wolfe Research Portfolio Strategy, Standard & Poor's, Factset

The Positives

Fastest return in history to a new high following a 15% drawdown – just 55 trading days back to the highs ...

Number of trading days to make it back to the highs following -15% drawdown in S&P 500

Date of low	Date of new high	Number of trading days
10/22/1957	9/24/1958	233
6/26/1962	9/3/1963	299
10/7/1966	5/4/1967	143
5/26/1970	3/6/1972	451
10/3/1974	7/17/1980	1,462
8/12/1982	11/3/1982	58
12/4/1987	7/26/1989	414
10/11/1990	2/13/1991	86
8/31/1998	11/23/1998	59
10/9/2002	5/30/2007	1,166
3/9/2009	3/28/2013	1,021
7/2/2010	11/4/2010	87
10/3/2011	2/24/2012	99
12/24/2018	4/23/2019	81
3/23/2020	8/18/2020	103
10/12/2022	1/19/2024	318
4/8/2025	6/27/2025	55
		Average: 361
		Median: 143

Source: Strategas as of June 30, 2025



The Positives



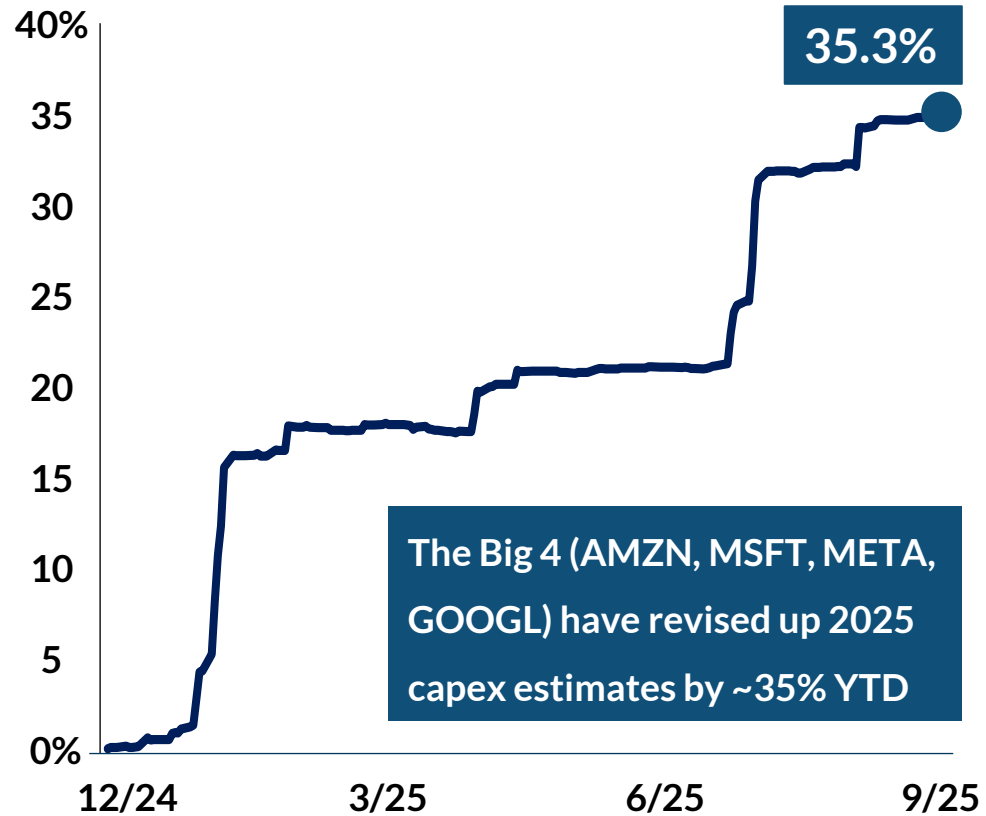
Approaching 6 months (10/8) from the April low; historically, there is more upside ...

S&P 500 performance off the low following a -15% correction					
High	Low	Drawdown	+125 days off low	Next 65 days	Next 125 days
2/19/2020	3/23/2020	-34%	48%	11%	18%
10/9/2007	3/9/2009	-57%	48%	10%	14%
11/28/1980	8/12/1982	-27%	42%	13%	9%
2/19/2025	4/8/2025	-19%	33%	?	?
1/11/1973	10/3/1974	-48%	31%	15%	3%
4/29/2011	10/3/2011	-19%	29%	-4%	2%
7/17/1998	8/31/1998	-19%	28%	6%	10%
7/16/1990	10/11/1990	-20%	28%	1%	1%
9/20/2018	12/24/2018	-20%	24%	2%	10%
4/23/2010	7/2/2010	-16%	23%	6%	4%
2/9/1966	10/7/1966	-22%	21%	5%	10%
12/12/1961	6/26/1962	-28%	20%	6%	12%
11/29/1968	5/26/1970	-36%	20%	17%	22%
8/25/1987	12/4/1987	-34%	19%	0%	3%
1/3/2022	10/12/2022	-25%	16%	10%	6%
3/24/2000	10/9/2002	-49%	11%	16%	20%
8/2/1956	10/22/1957	-22%	10%	9%	20%
		Average	27%	8%	10%
		Median	24%	8%	10%

The Positives

'Big 4' 2025 capex estimates

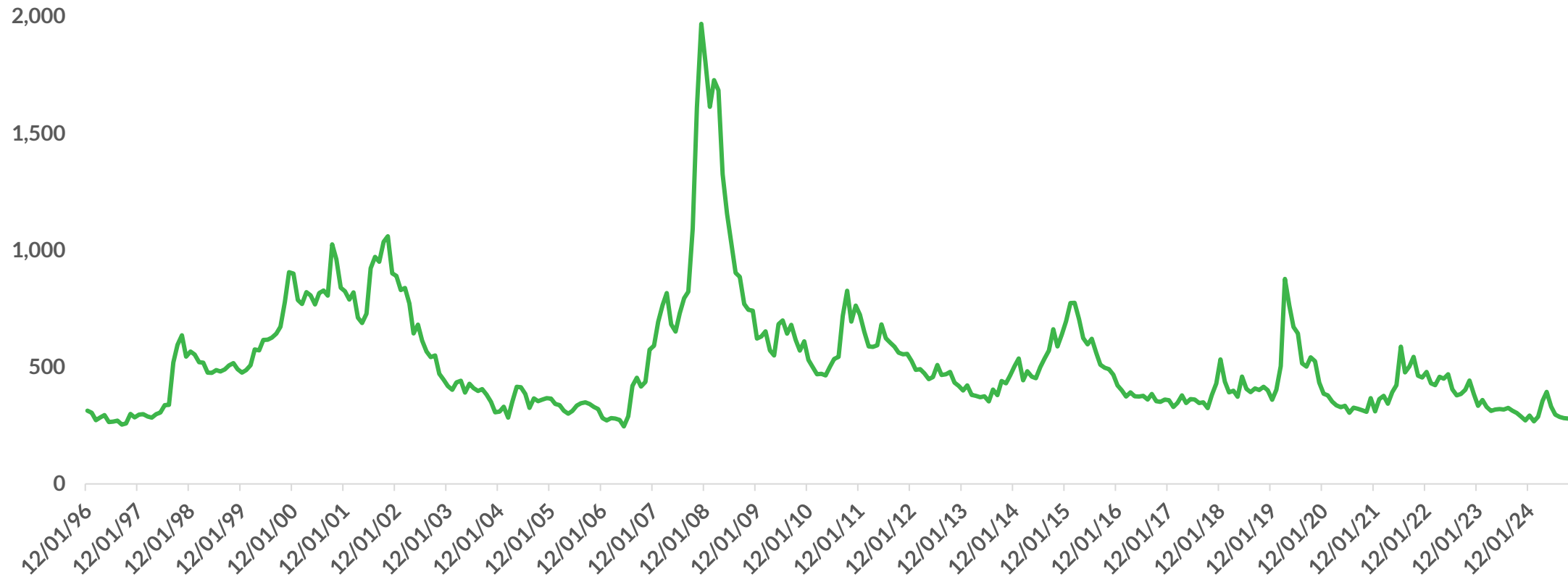
Indexed to 12/31/24



Sources: Wolfe Research Portfolio Strategy, Stand and Poor's, CapilQ, Bloomberg

The Positives

High-yield spread



Source: Factset as of 9/30/25

The Negatives

Stocks are expensive



Current percentile ranking relative to history



Source: Strategas, FactSet, Bloomberg, Robert Shiller as of 8/31/25

The Negatives

S&P 500 Multiple elevated relative to history

S&P 500 Index NTM blended P/E ratio



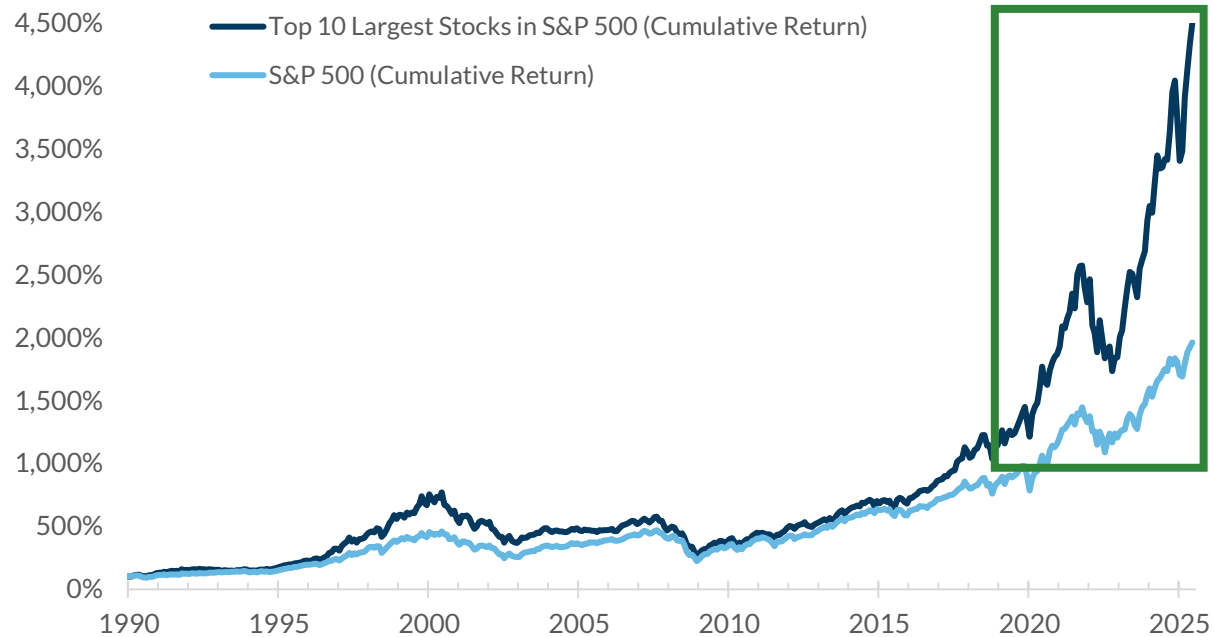
Source: Bloomberg as of Sept. 27, 2025

The Negatives

Unprecedented concentration



Return of top 10 largest stocks (S&P 500) ($T_0=100$)



Weight of top 10 largest stocks (S&P 500)

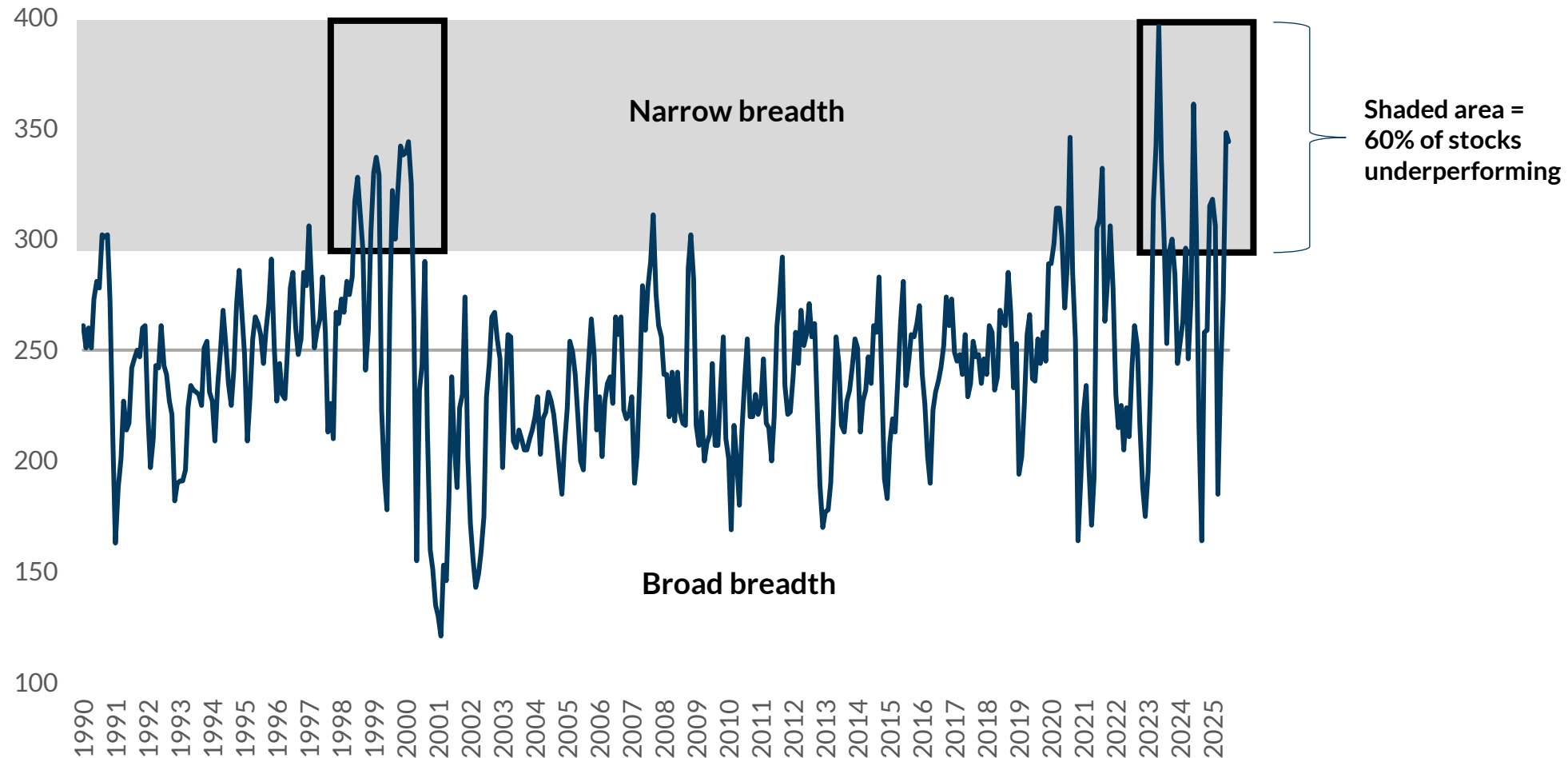


Source: FactSet AlphaTesting as of Sept. 27, 2025

The Negatives

Narrow market for 3 years

Stocks underperforming the S&P 500 (on a trailing 3-month total return basis)



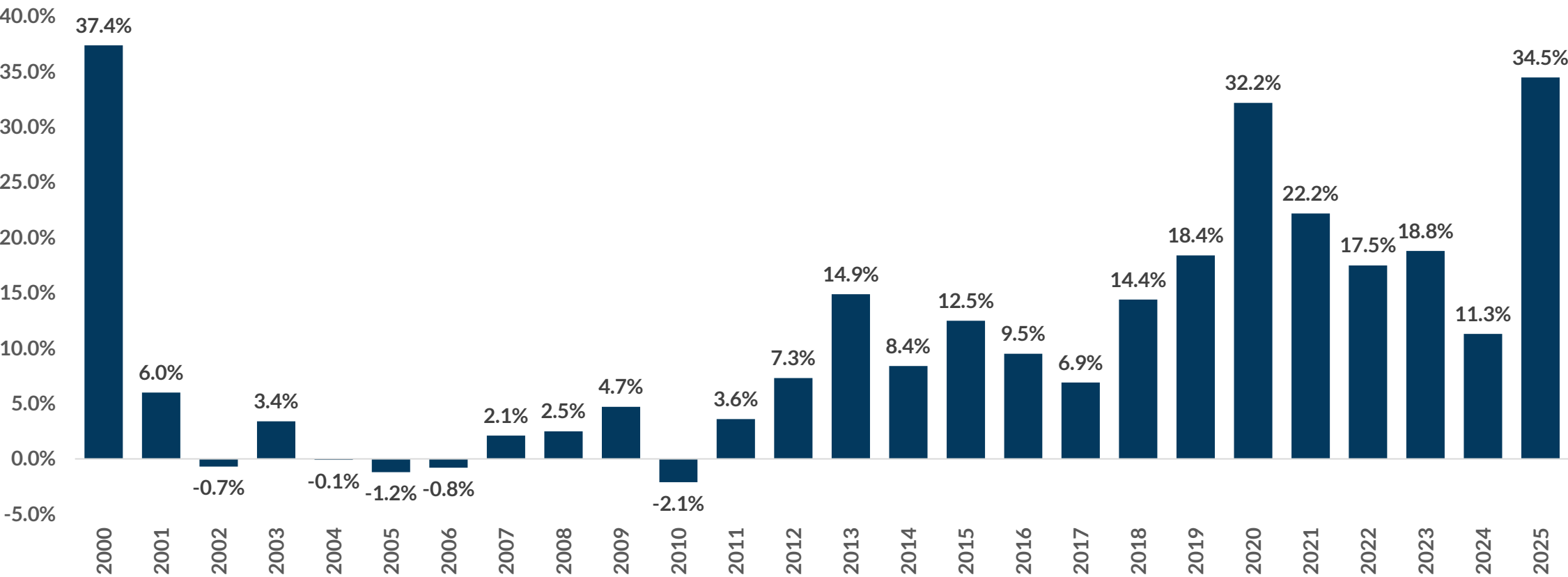
Source: FactSet AlphaTesting as of Sept. 27, 2025

The Negatives

The best IPO reception in decades



Average first-day return for newly public U.S. stocks



Source: Callie Cox Media, LLC; Bloomberg

High-Risk Bull Market



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SO, WHAT TO DO?

We are focusing on companies with below-benchmark price-to-free-cash-flow and above benchmark return on equity.

Conclusion

The upside case for stocks is getting increasingly difficult to make. But downside risk is rarely realized when earnings are advancing and the Fed is easing.

Three stock market scenarios



1. Economy remains robust, earnings are strong, but inflation remains sticky (perhaps creeps higher). Fed is hamstrung.
➡ Not good for P/E multiples
2. Economy weakens (labor stats pointing in this direction).
➡ Not good for earnings
- *3. Fine line, thread the needle. Growth strong enough for earnings to be good. But not so strong as to create inflation problem.
➡ Stocks continue to rise

Remember, stocks rarely decline when earnings are good and the Fed is easing.

Consensus thinking



1. Economy sails through just fine and Fed eases.

Risk: Core GDP/final sales slow noticeably making the Fed too late.

2. Inflation is mostly tariffs and will fade early 2026.

Risk: Inflation remains 3%-ish, not slowing to 2% without a recession.

3. Tech/AI create a sustainable secular story.

Risk: Tech suffers cyclically, bringing valuation down.

What is fair value on Sept. 30, 2025?



	2025 EPS (Consensus = \$264)	2026 EPS (Consensus = \$303)		P/E		Probability
Bear Case	\$262	\$285	+8.8%	18x	5100	30%
Base Case	\$264	\$295	+11.2%	21x	6200	50%
Bull Case	\$266	\$305	+14.7%	24x	7300	20%
				Weighted Average		6100

2025 premises (as of Jan. 1, 2025)



1. The U.S. to remain the global growth engine.
2. The business cycle, while advanced, continues to expand.
3. The Fed and other central banks are poised to lower rates further, but sticky inflation prevents that.
4. AI is driving a CapEx boom.
5. A more favorable regulatory backdrop should aid business growth.
6. More oil supply will likely lower energy prices, with Iran-Israel conflict the wild card.
7. Earnings growth should broaden.
8. Possible policy actions and executive orders create considerable uncertainties.
9. Equity valuation levels are very high.
10. Continued equity volatility and dispersion are likely.
11. A large renovation of federal government is being attempted.
12. Foreign policy will be “America first.”

Prediction 1: Economic growth slows as the unemployment rate rises past 4.5%



Consensus GDP estimates

Quarterly real GDP	%
1Q24	2.9
2Q24	3.0
3Q24	2.7
4Q24	2.4
1Q25	2.0
2Q25	2.1
3Q25E	1.7
4Q25E	0.4

Full-year real GDP	%
2023	2.9
2024	2.8
2025E	1.7
2026E	1.8

Consensus unemployment estimates

Quarterly unemployment rate	%
1Q24	3.8
2Q24	4.0
3Q24	4.2
4Q24	4.1
1Q25	4.1
2Q25	4.2
3Q25E	4.3
4Q25E	4.4

Full-year unemployment rate	%
2023	3.6
2024	4.0
2025E	4.3
2026E	4.4

Source: Bloomberg as of Sept. 27, 2025

Prediction 1: Economic growth slows as the unemployment rate rises past 4.5%



U.S. unemployment rate total in labor force (seasonally adjusted)



Source: Bloomberg as of Sept. 27, 2025

Prediction 2: Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again



Inflation history/consensus forecast

Year	CPI (%)
2017	2.1
2018	2.5
2019	1.8
2020	1.2
2021	4.7
2022	8.0
2023	4.1
2024	3.0
2025E	3.8
2026E	2.9

Quarter	CPI (%)
4Q23	3.4
1Q24	3.5
2Q24	3.0
3Q24	2.6
4Q24	2.7
1Q25	2.7
2Q25	2.5
3Q25E	3.9
4Q25E	3.1
1Q26E	2.9

Source: Bloomberg as of Sept. 27, 2025

Prediction 2: Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again



Implied # of 25-basis-point Fed cuts by YE2025



Source: Bloomberg as of September 27, 2025

Prediction 3: Treasury 10-year yields trade primarily between 4% and 5% as credit spreads widen



Fixed income strategy

1. Roughly neutral in duration.
2. Become more aggressive above 4.5%; become more cautious at 4%.
3. Keep quality high.
4. Lock in some income at these “high” rates (expect short-term yields to fall).
5. Munis relatively attractive where tax considerations merit.

Prediction 4: Earnings fail to achieve consensus a) 14% growth and b) every sector has up earnings



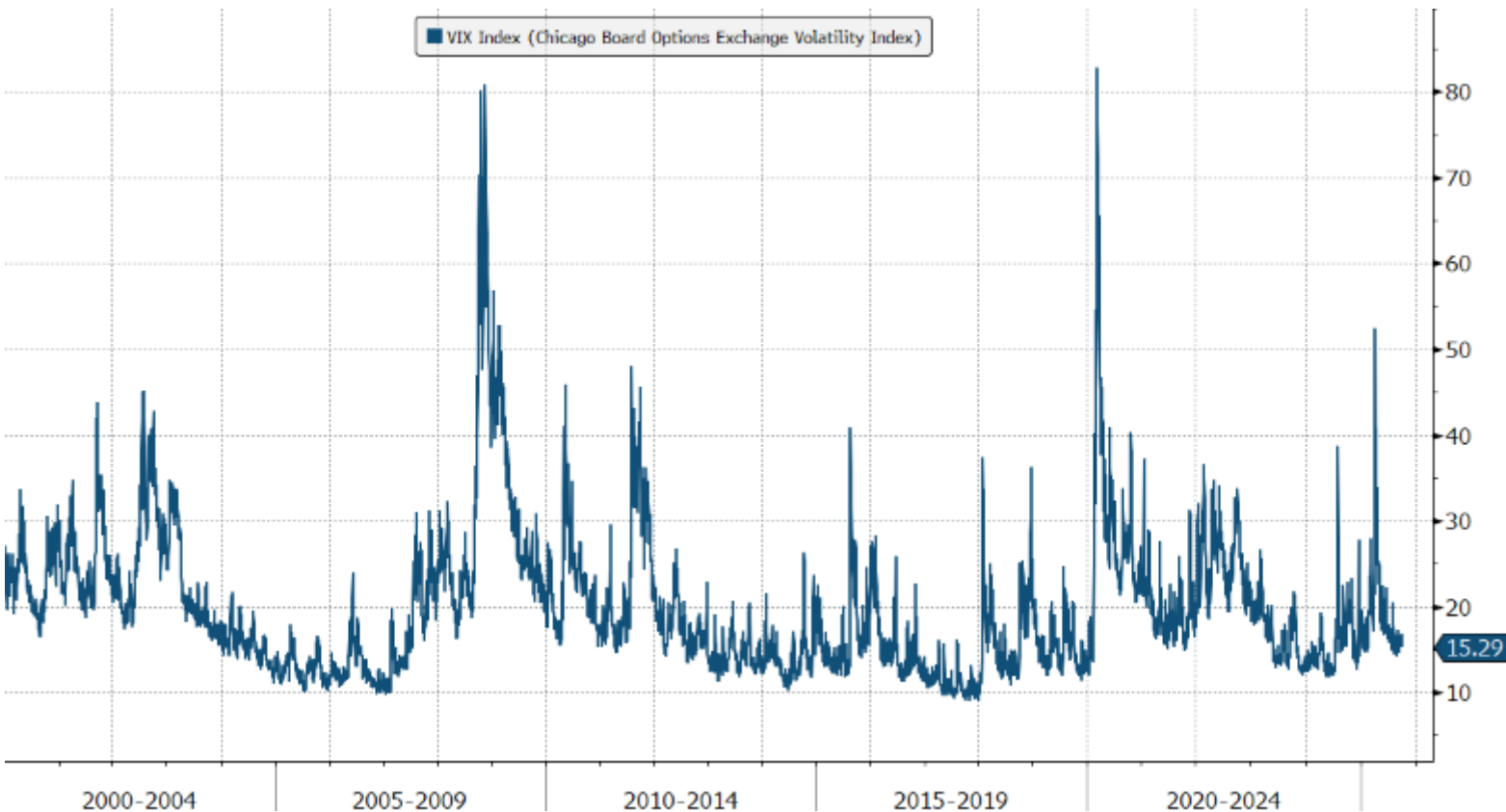
Consensus sector YoY EPS growth estimates	2024 (%) Actual	2025 (%) As of 12/31/24	2025 (%) As of 9/27/2025
Communication services	+22	+13%	+20
Consumer discretionary	+14	+10	+3
Consumer staples	+3	+4	+0
Energy	-19	+2	-10
Financials	+7	+6	+10
Healthcare	+3	+18	+12
Industrials	+1	+15	+7
Information technology	+20	+21	+21
Materials	-9	+22	+6
Real estate	+6	+5	+2
Utilities	+13	+10	+8
S&P 500	+13%	+15%	+11%

Source: FactSet as of Sept. 27, 2025

Prediction 5: Equity volatility rises (VIX average approaches 20 for only the third year in 14)



VIX since 2000 (and average VIX each year since 2000)



Average VIX

2020	29.3
2021	19.7
2022	25.6
2023	16.8
2024	15.5
1Q25	18.5
2Q25E	24.4
2025 (9 mos.)	19.4

Source: Bloomberg as of Sept. 27, 2025

Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)



Strategas bull market top checklist	2000	2007	Current
Blow-off top	✓	✓	
Heavy inflows in equities	✓	✓	
Big pickup in M&A	✓	✓	
IPO activity	✓	✓	
Rising real interest rates	✓	✓	✓
Weakening earnings revisions	✓	✓	
Erosion in new high list	✓	✓	
Shift toward defensive leadership	✓	✓	
Widening credit spreads	✓	✓	

Source: Strategas as of July 8, 2025

Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)



Valuation metric	S&P 500 Index			Historical percentile (%)		
	12/31/24	6/30/25	9/27/25	12/31/24	6/30/25	9/27/25
Forward P/E	22.2x	22.1x	22.7x	93	92	95
EV/EBITDA	16.5x	16.6x	17.7x	96	96	98
EV/sales	3.3x	3.4x	3.7x	98	99	100
Free cash flow yield	2.8x	2.8x	2.6x	84	84	88
Price/book	5.1x	5.2x	5.4x	99	99	100
U.S. market cap/GDP	209%	212%	228%	96	96	100

Source: Bloomberg as of Sept. 27, 2025

Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)

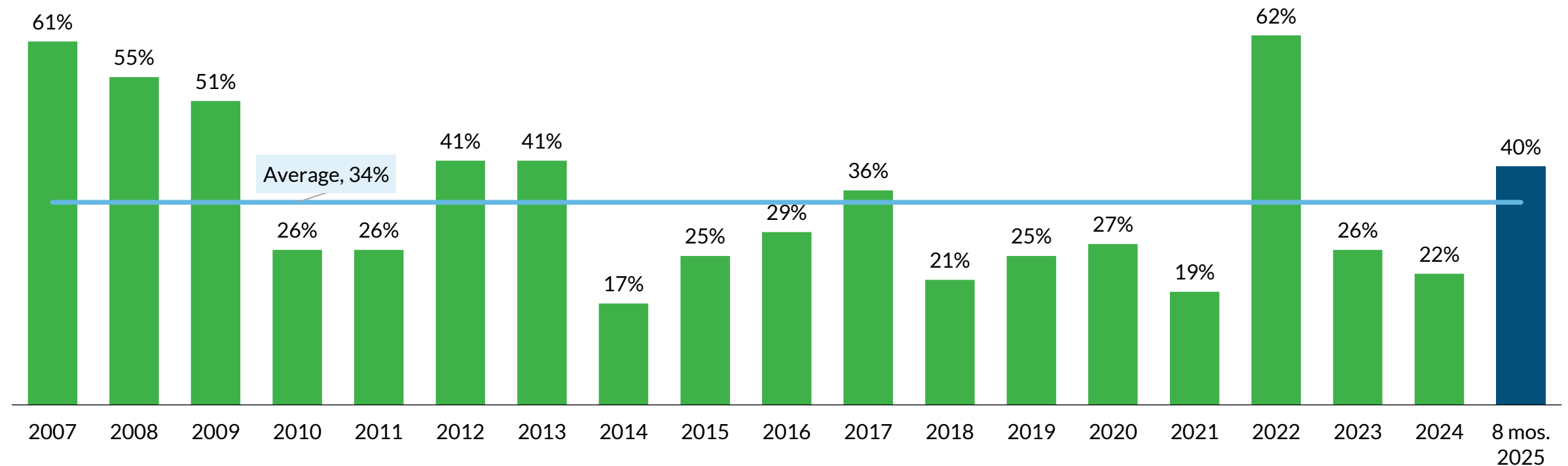


Starting P/E	S&P 500 average forward returns (%)			
	1-year	3-year	5-year	10-year
< 10x	13.4	11.2	12.3	11.5
10-12	14.9	13.0	10.4	10.5
12-14	10.5	9.1	8.5	9.6
14-16	12.4	10.9	9.8	9.3
16-18	6.4	6.3	5.4	5.7
18-20	7.7	6.0	5.9	4.4
>20	5.2	4.8	5.5	3.0

Prediction 7: Equal-weighted portfolios beat cap-weighted portfolios (average manager beats index), and value beats growth

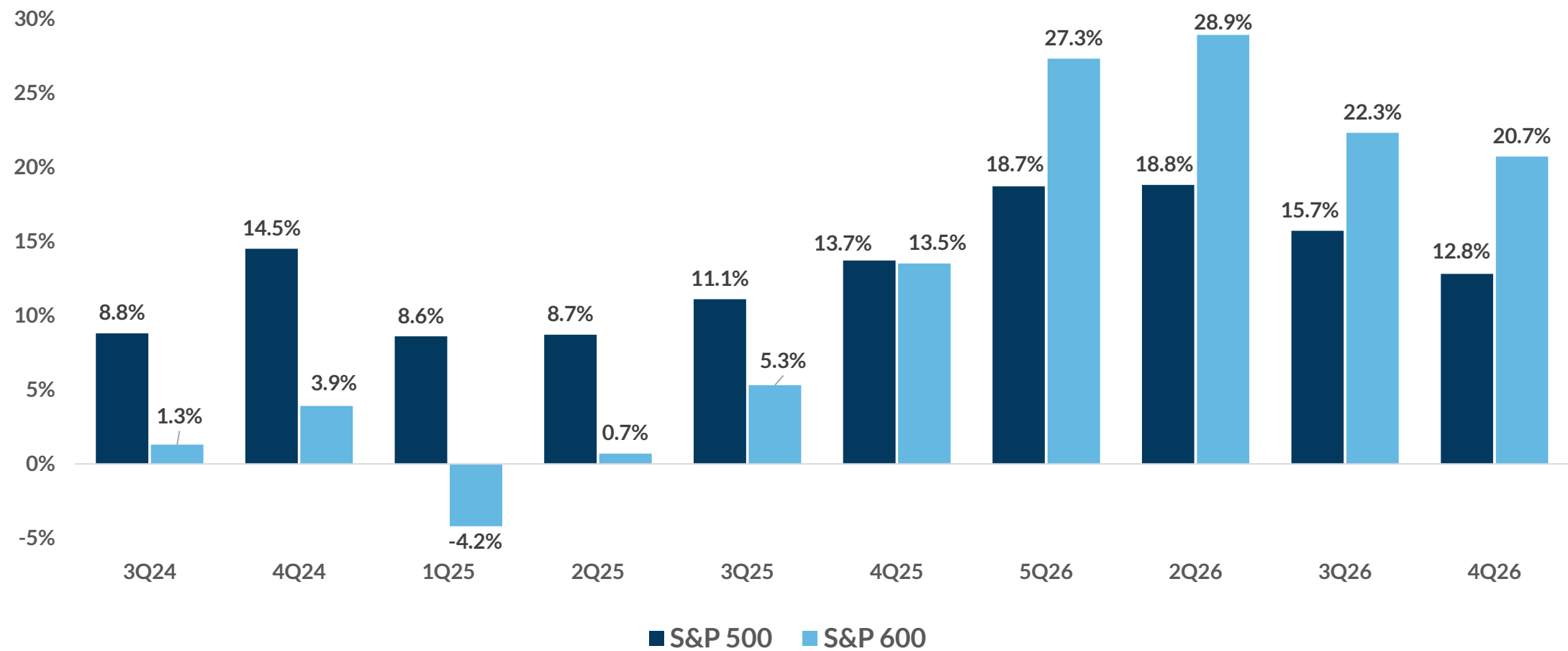


Percent of large cap mutual funds outperforming the S&P 500



Source: Strategas as of Aug. 31, 2025

S&P 500 vs. S&P 600 Quarterly YoY EPS Growth



Source: Strategas, Bloomberg

Big tech stocks bigger than some entire sectors



GICS sector (defensive sectors)	S&P 500 weight (%)
Healthcare	8.68
NVDA	7.67
MSFT	6.71
AAPL	6.69
Consumer staples	4.92
Energy	3.00
Utilities	2.35

Source: MSCI Barra as of Sept. 27, 2025

Prediction 8: Financials, energy, and consumer staples outperform healthcare, technology, and industrials



Overweights	9 mos. 25 (%)	Underweights	9 mos. 25 (%)
Financials • Winner of deregulation • Upward topline and bottom revisions • Relatively good balance sheets Risk: Overbought	+11.5	Healthcare • Policy risk • Patient expirations/pipeline weak • Overvalued (despite underperformance) Risk: Lagged miserably; are they due?	-1.5
Energy • Decent yields and cash flow • Non-OPEC production slowing • Contrarian bet; underowned Risk: Low oil prices	+7.5	Technology • Expensive • Peak globalization (sector very multinational) • Regulatory overhang Risk: Good sector growth story	+20.0
Consumer staples • Stable/defensive • Cheap, generally good cash flow • Neglected, underowned Risk: Little pricing power, consumers trade down	+1.7	Industrials • PMIs weak • Trade/tariff risks • Highly owned/mixed valuation Risk: Manufacturing recovering	+15.8
Average	+6.9	Average	+11.4

Source for sector returns: FactSet as of Sept. 27, 2025

Prediction 9: Congress passes Trump tax-cut extension, reduces regulation, but tariffs and deportation are less than expected



Trump upside risks

- Extend tax cuts + additional
- Deregulation
- Rising productivity
- Small-business upside

vs.

Trump downside risks

- Protectionist trade policies
- Anti-immigration policies
- Higher deficits
- A spike in interest rates

Trump agenda: Positives outweigh the negatives

Musk's horrifying warning



\$37,000,000,000,000 debt

- Musk says America's ballooning deficit is the "biggest issue by far."
- Warren Buffet calls it a "looming fiscal cliff."
- Ray Dalio warns it's the same debt spiral that destroyed past empires.

The facts:

- U.S. debt has smashed through \$37 trillion.
- On track to hit \$52 trillion within 10 years.
- And more than \$100 trillion by 2055.

"That's not a forecast; that's a nightmare."

Prediction 10: DOGE efforts make progress but fall woefully short of \$2T per year of savings



Conclusion: If Social Security, Medicare, Veterans Affairs, Defense, and net interest are off the table, 'ONLY' \$800B remains.

- Shuttering significant numbers of government bureaucracies is unlikely.
- Mass firings of federal employees won't happen.
- The **ONLY** way to fix the problem is to tackle entitlement programs.

10 predictions for 2025

Theme: Fewer tailwinds, more tail risks



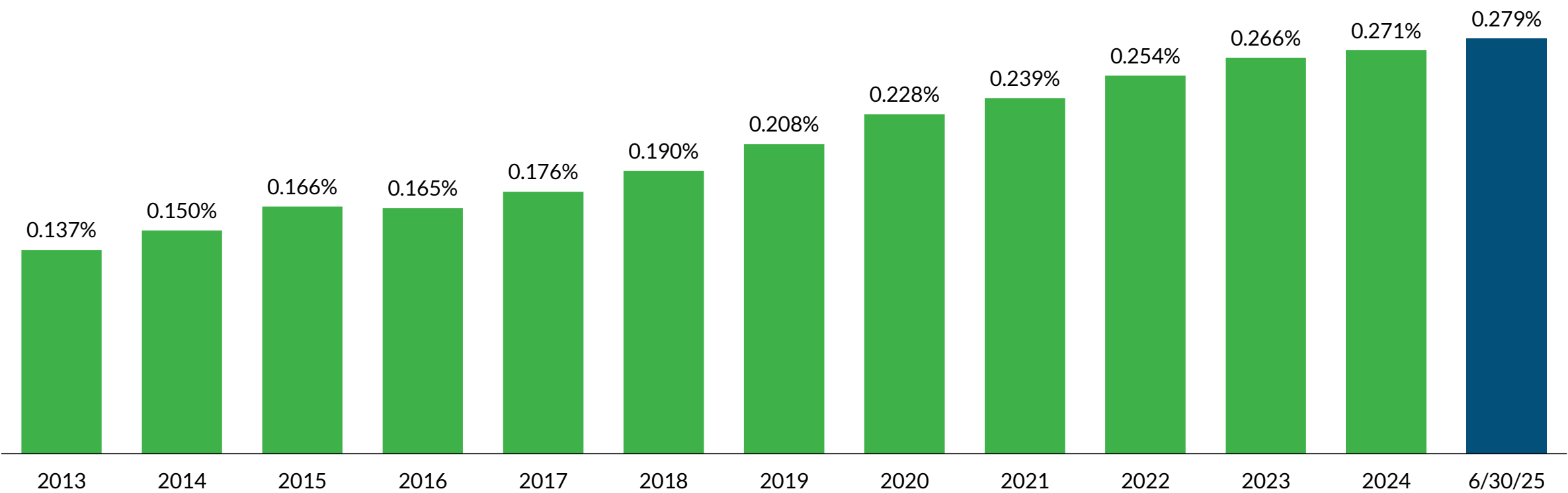
Key:  Heading in the right direction  Heading in the wrong direction  Too soon or too close to call

-  1. Economic growth slows as the unemployment rate rises past 4.5%.
-  2. Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again.
-  3. Treasury 10-year yields trade primarily between 4% and 5% as credit spreads widen.
-  4. Earnings fail to achieve consensus a) 14% growth and b) every sector has up earnings.
-  5. Equity volatility rises (VIX average approaches 20 for only the third year in 14).
-  6. Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract).
-  7. Equal-weighted portfolios beat cap-weighted portfolios (average manager beats index), and value beats growth.
-  8. Financials, energy, and consumer staples outperform healthcare, technology, and industrials.
-  9. Congress passes the Trump tax-cut extension, reduces regulation, but tariffs and deportation are less than expected.
-  10. DOGE efforts make progress but fall woefully short of \$2 trillion per year of savings.

Faith-based share of industry AUM rises for eighth year in a row



Faith-based market share (percentage of total industry AUM)

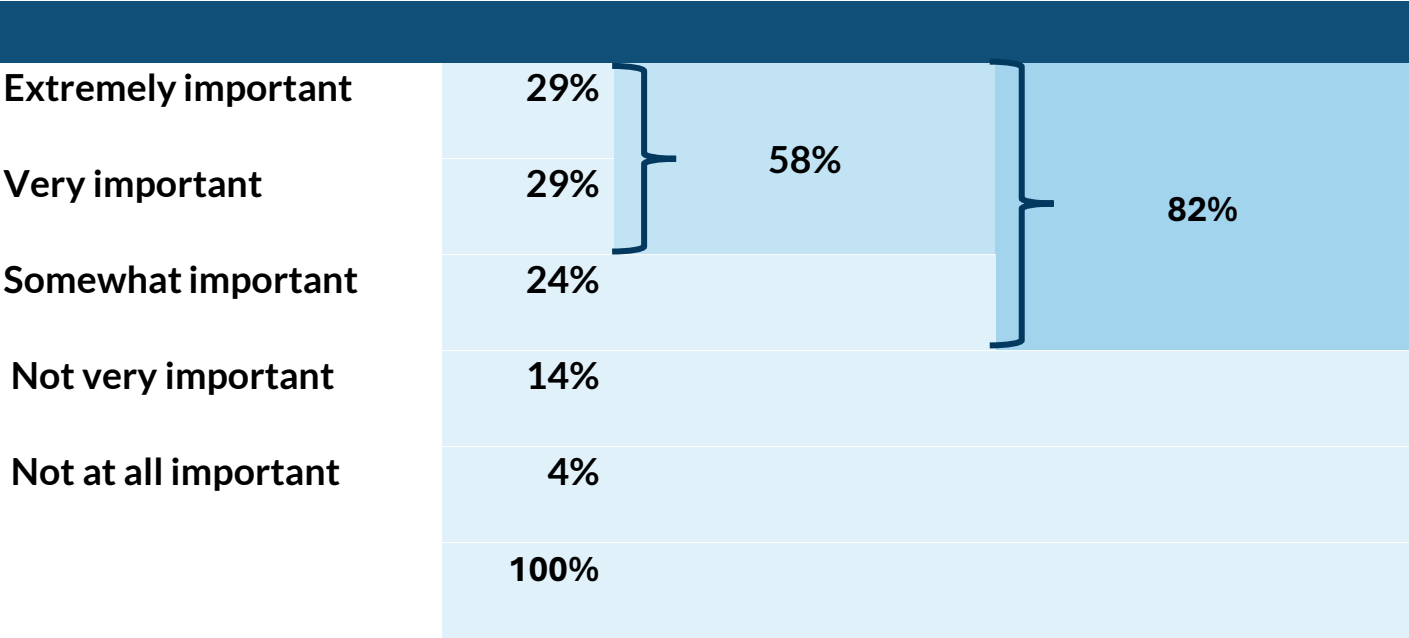


Sources: Morningstar, Crossmark as of June 30, 2025

Values-based investing



Importance of companies in investment portfolios aligning with personal values



Source: Crossmark, “Decoding Investor Values,” values-based survey conducted on behalf of Crossmark by Pinkston Research in June 2025. Respondents included more than 1,500 U.S. adult investors.

Strategy summary



		Revision
The Fed	0–2 cuts in 2025	2 cuts likely, not 3
Inflation	Remains sticky; stays closer to 3% than 2%	Or higher
Economic growth	2–2.5%	
Employment	Labor market weakens	
Earnings	Good, but not great	
Valuation	Expensive	
Style	Value > Growth, broader participation	
Best sectors	Financials, energy, consumer staples	
Policy	Extension of expiring tax cuts and some small further cuts Selected tariffs	Major tariffs

Conclusions



- 1 GDP growth remains reasonably robust.
- 2 Inflation sticky 3% (maybe lower in 2026).
- 3 Monthly job growth to fall to stay anemic.
- 4 Unemployment rises (4.5% est.) to less than normal due to curtailed immigration.
- 5 Fed: Probably one more, not two more cuts.
- 6 Tariffs: A slow fade, but a modest drag on GDP.
- 7 Big Beautiful Bill: To stimulate growth in 2026.
- 8 Earnings estimates to fall modestly.
- 9 Valuation levels to restrain stocks.
- 10 Geopolitical noise to continue (hopefully not worse).

What to do?



- 1 Expect choppy (choppier) markets (buy dips/trim rallies).
- 2 Expect lower returns.
- 3 Focus on earnings growth and free cash flow (not P/E expansion).
- 4 Diversify across asset classes, styles, and geographies.
- 5 Own high-quality value and less expensive growth.
- 6 Consider an absolute return strategy (and alternatives in general) to complement market exposure.
- 7 Step up to significant weakness.

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All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.

Equity investments generally involve two principal risks – market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Fixed income investments generally involve three principal risks – interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

Many municipal bonds also include call features that allow the issuer to call the bonds – repaying the principal before maturity – usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

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Q&A



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