

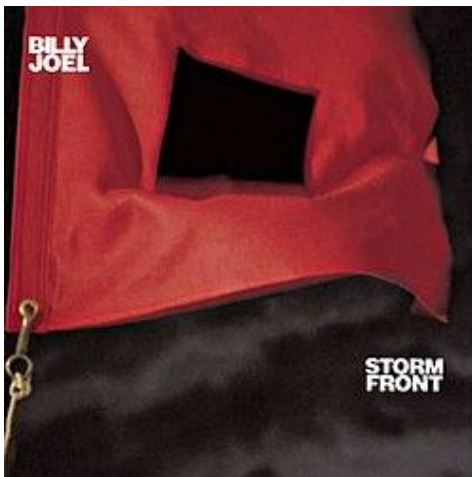


Quarterly Investment Commentary

THIRD QUARTER, SEPTEMBER 2025

Extremes

In 1989, Billy Joel released his eleventh studio album, *Storm Front*. Although the reviews were mixed, the album was considered a commercial success with a few chart-topping hits. One of the tracks, *I Go to Extremes*, was a self-reflective look at his personality during that period of his life. “*Darling, I don’t know why I go to extremes, too high or too low, there ain’t no in-betweens*” (feel free to sing along if you know the tune).



Though written about living through his own emotional swings, the tone seems to resonate with today’s financial markets. Much like the song, investors have been experiencing their own swings of sentiment this year. Following April’s sharp sell-off triggered by the Liberation Day tariff news, stock prices rebounded and have continued to push higher through much of the quarter, extending the bull market into its third year.

The rebound in sentiment from the April lows has been driven primarily by clearer trade policy, the extension of the Tax Cuts and Jobs Acts, corporate earnings growth, and the prospects for lower interest rates. What began in the spring as fears of a tariff-induced recession quickly shifted into a fear of missing out (FOMO) on stock market gains by the summer—talk about extremes.

The third quarter also brought a few market milestones, including:

- Broad U.S. stock market indexes—including the S&P 500, Dow Jones Industrial, Nasdaq, and the Russell 2000—all reached new all-time highs.
- Gold prices touched an inflation-adjusted all-time high.
- The cryptocurrency Bitcoin hit an all-time high.
- Single family home prices, as measured by the S&P/Case-Shiller National Home Price index, reached record price levels. While home price growth has cooled, price levels remain high.
- The ten largest companies¹ in the S&P 500 now account for 40% of index—the highest concentration since the “Nifty Fifty” era of the early 1970s.

Interest Rate Drama

Even with assets prices at record levels, an economy that is humming along, and unemployment running well below the 50-year average, the Federal Reserve (Fed) lowered short-term interest rates by a quarter point (.25) at its September meeting.

¹As of 9/30 the top ten holdings include: Nvidia, Microsoft, Apple, Amazon, Meta (Facebook), Broadcom, Alphabet (Google), Tesla, Berkshire Hathaway, JP Morgan

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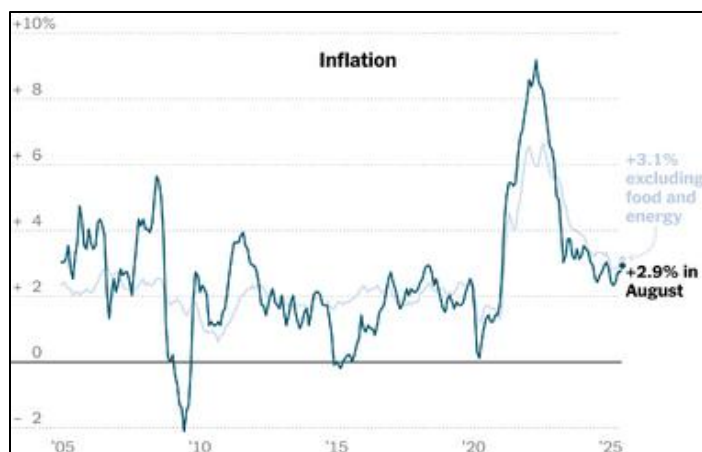


The move was widely anticipated, but the attention and drama leading up to the decision speaks to its ongoing dilemma.

Fed officials have spent months weighing the two opposing risks hanging over the economy:

- The potential of higher tariff induced inflation—which argues for leaving rates unchanged or possibly raising rates if inflation accelerates.
- The onset of a weakening job market—which argues for lowering rates.

Anyone who has recently bought a sandwich, chips, and soda might question the official figures, but the modest rise in inflation over the past several months factored into the Fed's rate cut verdict, ultimately leaning in favor of supporting the job market. Policymakers described the cut as a "risk-management" measure, rather than a response to a clear economic downturn, and signaled two more cuts are likely by year-end. Beyond that, views diverge widely. It's a delicate balancing act—supporting the labor market while trying to keep inflation in check—and one that carries meaningful risks.



Source: NY Times

Adding to the drama, the White House has pressed aggressively, both verbally and legally, for faster rate cuts—a common stance shared by virtually every administration to help boost the economy. While the ultimate outcome is uncertain, we appear to be on a path to lower short-term rates, which carries implications for bond investors.

Over the past year, short-term interest rates have moved from above 5% to around 4%, and now appear headed toward the 3% range. Although markets may have priced in more cuts than may ultimately occur, investors who remain concentrated in ultra-short maturities (one year or less) face reinvestment risk as yields drift lower. In this environment, monitoring and making adjustments to fixed income portfolios will become increasingly important as the Fed moves forward with its easing campaign. Our focus remains on high quality bond exposure, avoiding excessive yield chasing, and balancing maturities between ultra-short and longer-term time frames.

Playing with Fire

Although Billy Joel has called it one of his least favorite melodies, the biggest hit from the *Storm Front* album was *We Didn't Start the Fire*. Its rapid-fire lyrics captured political events, global conflicts, and cultural icons from the first 40 years of Joel's life. The underlying message was the "fire" of conflict and change is always burning—it didn't start with us, and it won't end with us.

In today's financial markets, the "fire" takes the form of lofty valuations and the rising risk of external shocks. One of the brightest flames continues to be the artificial intelligence (AI) sector, a theme that's been well publicized. The handful of mega-cap technology companies tied to AI have seen extraordinary gains, pushing valuations higher and leaving little room for disappointment. As we've noted in past commentary, AI innovation is exciting and will likely help shape the economy for years to come. However, investor enthusiasm has at times crossed into pure speculation for some of these companies. We continue to believe in maintaining some exposure to proven, high quality companies in this growth segment, but not to the point of overinvestment or at the expense of prudence.



Source: Visual Capitalist July 2025

As we enter the final stretch of the year, it's natural to ask—can stock prices climb higher from here? The two key drivers of equity prices, earnings and interest rates, still appear supportive and may provide some further runway. In addition, the Tech giants' immense spending on AI infrastructure is boosting demand across other areas of the economy, particularly the industrial buildout and energy needed to power the growing number of data centers. That said, Big Tech's sheer size and influence on the market presents challenges of its own—size becomes an enemy of growth and sustaining outsized returns eventually becomes more difficult. With that perspective, we move ahead with caution. Staying mindful of the downside risks and being patient stewards of capital remain our guiding principles in an environment that, at times, can feel more like a casino. In short, we'd rather preserve and compound wealth steadily than chase every flame and risk getting burned.

AMI Updates

AMI would like to thank our intern, Grant Fetter, for his valuable contributions on a number of different projects over the summer. Although he's back at Indiana University—no doubt cheering on the Hoosier football team—we hope Grant can draw on some of his experience here as he heads into classes. We wish him continued success both in the classroom and beyond.

We're proud to share that Victoria Kugler has successfully passed the Series 65 exam and earned her license. This achievement reflects her hard work and dedication, while also strengthening our team's depth and expertise. Please join us in congratulating Victoria on this important professional milestone.

Last but not least, we'd like to congratulate Shelby Carmichael on her recent marriage to Zach Holsinger. We wish all the best to the newlyweds and are grateful to celebrate this joyous occasion with her.

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