ARPG
INTELLIGENT INVESTMENT

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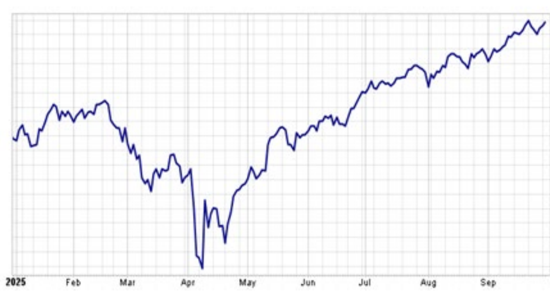
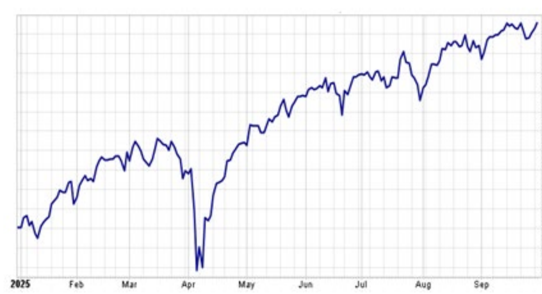
Third Quarter 2025

S&P 500 - YTD 13.72%[3] *MSCI INTERNATIONAL - YTD 23.40%*[3]





"Goin Off The Rails On The Crazy Train "[1]…

The third quarter was nothing… if not a little crazy. From tariff-driven inflation that has yet to materialize, to a rapidly cooling labor market, the independence of the Federal Reserve being brought into question, and a looming government shutdown to close out the quarter. As bullish as I have been, some would even say "I'm a Dreamer"[1]; however, with the S&P closing the third quarter within five points of its all-time high amidst these many potential pitfalls, the markets never "Went Off the Rails"[1]. Too bad Ozzy wasn't here to see it, the original "Iron Man"[1], you will be missed!

What caused markets to press onward and upward during the "Changes" over these last three months that ignited the S&P 500 to a 7.79% gain for the quarter?[4] The AI trade continues to remain the standout with no signs of slowing. Moreover, we have seen some AI beneficiaries in other sectors of the economy join the party, as we witnessed a broadening of market performance beyond just the largest tech stocks. Coupled with the anticipation of lower interest rates stemming from likely two more rate cuts this year from the Fed. Maybe the third quarter's expansion wasn't just a "Shot in the Dark"[1] and the market will continue to "Bark at the Moon"[1] despite a mixed economic picture and signs of a cooling labor scene.

Several areas of economic uncertainty are causing concern though, from new trade policies, including tariffs, low consumer confidence, and weakness in manufacturing. These headwinds have made businesses hesitant to hire. Companies' unwillingness to fill positions is causing the labor market to flash a few problematic signals. The U.S. job market has shown signs of cooling over the past twelve months, but particularly in the last six months. The Bureau of Labor & Statistics' preliminary annual benchmark revisions suggest 911,000 fewer jobs were added in the twelve months through March 2025 than initially reported[2], indicating a far cooler labor picture beneath the surface. This made the perceived rosy economic picture buoyed by the labor market a far murkier one. In addition, we've seen a material slowdown in job creation with the economy adding just 22,000 jobs in August, significantly below expectations. Monthly average job gains in the four months leading up to September plummeted to 27,000, a sharp decrease from the 168,000 monthly average in 2024. June saw a job loss of 13,000, the first decline since December 2020. Along with decreased job openings that have declined by more than 300,000 in the two months leading up to September, reaching their lowest level in a year[2]. However, we are hopeful the labor market will stabilize soon, and there will be "No More Tears"[1].

Could this slowdown in labor have been avoided? It's hard to say, ARPG believes the Fed has been late to enact its first rate cut since December of last year. The old adage to "fix the roof when the sun is shining" does not seem to resonate at the Federal Reserve. Although the clouds may be forming, we don't see an imminent downpour. There are rays of sunshine fighting through the clouds. It wasn't only the strong enthusiasm for artificial intelligence that continued to fuel equity market gains, particularly among the largest mega-cap tech giants, but there was also a significant broadening of participation, and market growth became more widespread across several other sectors during the third quarter. This is in contrast to the first half of 2025, which was heavily concentrated in the performance of the aforementioned tech sector.

The AI-driven juggernaut, strong earnings growth with even stronger earnings revisions, along with a likely lower interest rate environment, has sustained this nearly six-month-long V-shaped rally. Market participants appear confident that, although the Fed may have been a little late to the dance, they're out there cutting a rug now and not a moment too soon. The tug of war between cooling labor and strong corporate earnings growth will have a victor. ARPG believes it will be the latter, and this bull market that is enjoying early-cycle economic expansion is just getting started. Bank of America agrees; they just bumped their twelve-month S&P 500 target to 7,200, calling for those gains to be anchored more by profits than by multiple expansion. B of A's analyst team argues that the current market structure supports elevated but defensible valuations[5]. In addition, the anticipation of policy rate reductions throughout the quarter and likely into 2026 has further boosted market confidence and helped to lift asset prices. This has been especially positive for our domestic smaller-cap companies, whose index was the best-performing of the major benchmarks. ARPG expects small and mid-cap companies to continue their expansion well into next year and possibly beyond. "Mama, I'm Coming Home"[1]

The market has as much to be thankful for as it has to be watchful of. Kinda sounds like most years now that I think about it. As we come into the cooler months with the holidays just around the corner, 2025 will be coming to a close. Enjoy the season, spend time with your families, and we will "See You On The Other Side"[1] in 2026.. In any season or market, the best investors always focus on the long term, and ARPG will continue to practice our approach to value investing, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what we believe sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

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Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Ozzy Ozborne
2. BLS
3. ARPG / Stockcharts.com
4. Factset
5. Bank of America / CNBC