

Investment Strategy

OCTOBER 2025

2025 4th Quarter Investment Strategy Outlook

MARKET OVERVIEW

U.S. equities continue to reach new highs, powered by technological innovation and resilient economic growth. Improved visibility into cash flows and a steady economic backdrop have expanded valuations, though selectivity remains critical as prices appear stretched in certain sectors.

Drivers of the US Market Rally

Despite a landscape filled with uncertainties, the US equity market continues to reach new highs. This resilience can be attributed to an ongoing battle between potential policy errors, which act as a headwind, and the robust demand for new technologies, serving as a tailwind. In the near term, the secular trend of technological innovation appears to be the dominant force, fueling market optimism and upward momentum.

Factors Influencing Market Sentiment

A fundamental principle in valuing companies is their relationship to cash flows, and what valuation multiple should be applied. When investors perceive greater visibility into future cash flows, valuations tend to expand. Conversely, when visibility is clouded, multiples contract. While the country is divided from a political and social perspective, at present, there is a perception that economic visibility has improved, contributing to an environment that favors equities. Favorable developments include:

- Entering 2025, spending for AI for the year was estimated to reach approximately \$1.5 trillion globally; currently we are on pace to exceed this lofty projection.
- GDP was estimated to have risen at a rate of 3.8% for the 3rd quarter vs consensus expectations of 3.3%.
- Established tariff rates with some trading partners have provided some clarity and stability.
- Negotiations with China are showing signs of progress, highlighted by collaborative efforts between the Trump administration and President Xi, particularly regarding the TikTok transaction.
- Supply chain concerns, initially feared to be disruptive, have not materialized to the extent anticipated.
- Inflation remains persistent but has not surged dramatically, alleviating some investor concerns.



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Overall, these factors have contributed to a more favorable environment for equities. However, it is important to note that valuations in many sectors remain stretched, indicating that caution is still warranted.

THE AI TRADE: IS THE MAGNIFICENT SEVEN ERA ENDING?

Historical Context of Market Leadership

The dominance of the Mag Seven is a recurring theme on Wall Street. From the Nifty Fifty of the 1960s, to the Four Horsemen of the Nasdaq during the dot-com era, and the FAANGs that defined the period between the rise of smartphones and the advent of AI, each group has led the market for a time before eventually giving way to new leaders. The Magnificent Seven—Nvidia, Microsoft, Apple, Alphabet, Amazon, Meta, and Tesla—are currently at the forefront, but as with past market leaders, change seems inevitable. Notably, some members, such as Apple, are beginning to lag in innovation.

AI's Impact on Equity Markets

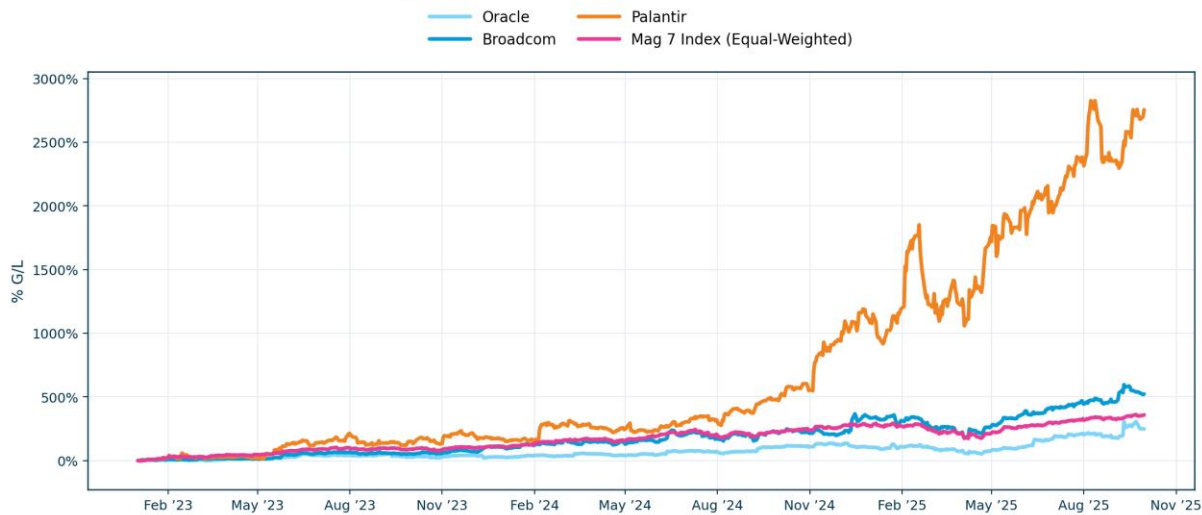
Since the release of OpenAI's ChatGPT three years ago, artificial intelligence has become central to the global economy. This shift has fueled the outsized performance of the Magnificent Seven, resulting in one of the most concentrated equity markets in history. According to Bloomberg (as of September 28, 2025), these seven companies have driven more than half of the S&P 500's 70%+ rise since early 2023. However, the question remains whether these companies will continue to capture future spending trends, especially as AI opens new, unconstrained markets.

Emerging Winners and Market Shifts

Looking ahead, future leaders are likely to be those companies addressing large markets through AI and those who are beneficiaries of increasing secular spending to support AI. Various examples of current standouts in 2026 include Broadcom (up ~50% year-to-date), Oracle (up ~75% year-to-date), and Palantir (up ~135% year-to-date).

The New Magnificent?

AI momentum broadens beyond the original leaders



Source: CAM, Yahoo Finance. Split/dividend-adjusted prices. Normalized to first trading day on/after stated dates. Data as of: September 30, 2025

Major technology firms like Microsoft, Amazon, Google, and Meta are intensifying the AI arms race, collectively projected to spend \$320 billion in 2025 on AI technologies and infrastructure. Nvidia has invested well over \$100 billion in AI partnerships, including a \$100 billion infrastructure deal with OpenAI, a \$5 billion strategic investment in Intel, and over 50 venture capital investments. It is projected it will eventually spend \$12.9 billion in research and development. So who are the beneficiaries and who becomes the market leaders of the future?

AI Spending Trends

Worldwide expenditure on artificial intelligence is expected to reach nearly \$1.5 trillion in 2025, up almost 50% from \$987.9 billion in 2024 (Enterprise AI). The integration of AI into consumer products such as smartphones and personal computers, along with infrastructure investments, is expected to push spending beyond \$2 trillion by 2026. The spending dollars are massive and very different than those of the early 2000s. AI spending is driven by massive companies, with strong balance sheets, who are profitable, contrasting with more speculative and dispersed investments of past tech cycles, such as during the dot-com boom of the late 1990s/early 2000s. During the early 2000s, spending was fueled by venture capital and public market enthusiasm, with many companies generating little to no revenue. Below is a breakdown of the projected spending:

- Generative AI integration in smartphones: \$298.2 billion (largest share of projected 2025 spending)
- AI services: \$282.6 billion
- AI-optimized servers: \$267.5 billion
- AI processing semiconductors: \$209.2 billion
- AI application software: \$172 billion
- AI infrastructure software: \$126.2 billion

For further comparison, during 2025, AI data center capital expenditure is projected to surpass the economic impact of total US consumer spending (which is part of the reason GDP growth is beating expectations).

Speed of Change in Technology Adoption

The pace of technological change is faster than many realize. It is quickly impacting our daily lives. For instance, Major League Baseball's 11-man competition committee just approved the use of the Automated Ball/Strike System for the 2026 season. While human plate umpires will still call balls and strikes, teams will be allowed to challenge two calls per game (with additional appeals in extra innings). Challenges must be signaled by the pitcher, catcher, or batter, and successful challenges are retained. Digital reviews will be displayed on outfield videoboards. The adoption of robot umpires is expected to reduce ejections, as a significant proportion of ejections have been related to disputes over balls and strikes.

Waymo, once a novelty, has now completed more than 10 million paid rides and over 100 million autonomous miles on public roads across just five markets.

Anthropic just announced its Claude Sonnet 4.5, which is able to code autonomously for more than 30 hours, removing "grunt work" and allowing human software developers to work through big ideas.

The world is changing and evolving quickly; this level of change involves substantial (and long-term) investments. A bigger question is what is the societal impact? While we do not know, the World Economic Forum released a report in January 2025. They estimate that AI will displace 92 million jobs but create 170 million new ones. If you get a chance, take a look at the referenced paper for further insights on future projected employment trends.

OUTLOOK FOR THE MAGNIFICENT SEVEN

Despite questions about their future impact, the Magnificent Seven will remain relevant as they now represent 35% of the S&P 500. Earnings for these companies are projected to rise more than 15% in 2026, on the back of 13% revenue growth (Bloomberg Intelligence). However, some of their valuations may be stretched relative to their slowing growth rates, as growth investors are usually less sensitive to valuations and prioritize revenue acceleration over valuations. In comparison, the remainder of the S&P 500 are expected to report 13% earnings growth and a 5.5% revenue increase next year. The growth rate variance has narrowed considerably. Also, the relatively small index weight of emerging future leaders could increase the importance of active management in portfolio strategies.

While public equity market valuations, especially in AI, seem high, they are not as high as those seen in private markets. At some point a leadership change will occur; the risk of a concentrated market is that



leadership could shift abruptly—whether through a benign market rotation or a disruptive downturn. Currently, it is unclear how the Magnificent Seven era will end.

AREAS LIKELY TO ATTRACT FUTURE CAPITAL FLOWS

Continued Acceleration in AI Investments

Investments in artificial intelligence are expected to persist and are likely to accelerate in certain areas. U.S. companies remain direct beneficiaries of this trend, with the United States investing \$68 billion in AI through 2023, compared to \$8 billion for Europe. The U.S. has been a clear leader in this area. According to the 2025 Stanford AI Index Report, U.S. AI investments exceeded \$109 billion in 2024, and U.S. generative AI alone surpassed the combined total of China, the EU, and the UK by \$25.4 billion. This robust investment landscape suggests U.S. growth stocks will continue to perform well, although elevated valuations could act as a headwind for future gains.

Emerging Markets: Potential for Leapfrogging and Societal Impact

Emerging markets stand to benefit significantly from advancements in AI, as these technologies offer opportunities to leapfrog traditional development stages and address societal and economic challenges. The African banking sector serves as a historical example, where branch banking was largely absent due to social unrest and infrastructure limitations. The widespread adoption of mobile phones revolutionized the industry, enabling millions to access financial services without visiting traditional bank branches. Today, Africa leads in mobile money and digital finance, accounting for approximately 74% of global mobile money transaction volume and about two-thirds of the total value, as reported by Our World in Data. The adoption of AI could prove a similar catalyst for growth for emerging markets, paving the way for outsized returns versus the developed markets.

China's Strategic Push in AI

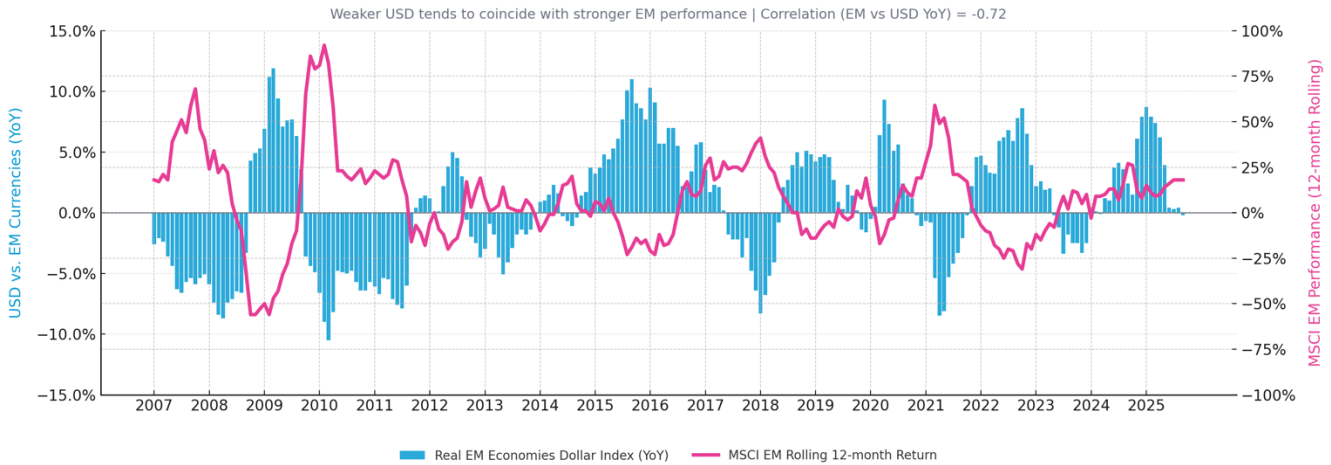
China is actively working to increase its AI investments, aiming to narrow the gap with the United States. Morgan Stanley estimates China will spend a staggering \$1.4 trillion in AI and related technologies over the next 3 ½ years. This effort is supported by both government funding and private sector capital, driven by a national strategy to achieve AI leadership by 2030. The focus is on fostering self-reliance and developing infrastructure, particularly in the context of U.S. technology restrictions. Notably, China constitutes nearly 30% of the MSCI Emerging Market Index.

Valuation Considerations and Currency Dynamics

Emerging markets are also positioned to benefit over the long-term from a weaker U.S. dollar. The U.S. dollar has declined versus a broad benchmark of currencies since the start of the year. This weakness can be attributed to three primary factors: rising U.S. deficits, a global loss of confidence in the U.S., and the Trump administration's stated preference for a weaker currency. In April, President Trump remarked, "If you are a multinational business, you love a weaker dollar...Not only does it help you compete globally, but you also get this immediate sugar rush from translating foreign earnings back into your income statement."

Historically, emerging market equities have shown a strong inverse correlation with the U.S. dollar; when the dollar weakens, financial conditions in many emerging economies often improve. In 2025, emerging markets have performed very well and may continue to enjoy a favorable environment moving forward. They benefit from being long-term economic beneficiaries of AI, from a weaker U.S. dollar, and from much lower valuations relative to the U.S. Additionally, emerging markets are under-owned by institutional investors; on average, institutions are at least 5% underweight emerging markets compared to their benchmarks.

EM Returns vs. Dollar Strength (2007-2025)

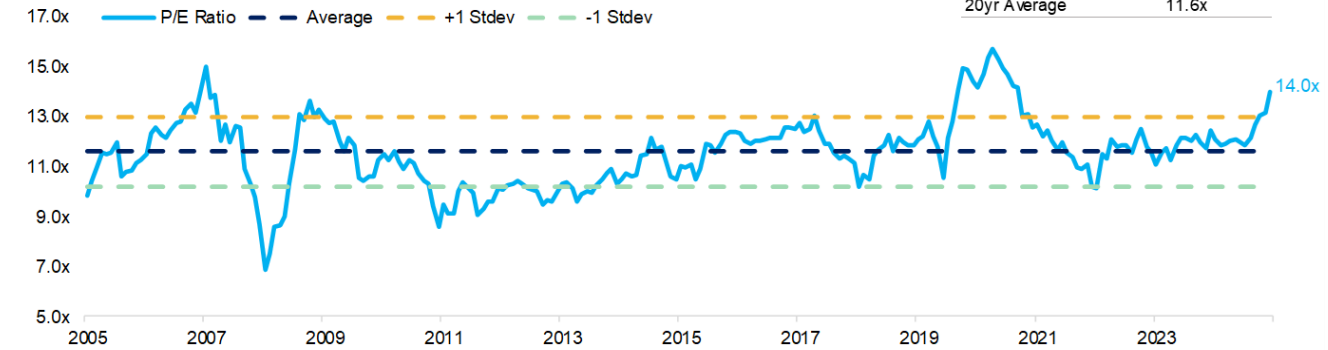


Source: FRED (Dollar Index YoY), MSCI EM; CAM Analysis. Data through Sep 2025.

VALUATIONS REMAIN ATTRACTIVE

Despite the impressive performance of the MSCI Emerging Market Index, which posted a 19.6% return during the first nine months of 2025, valuations across emerging markets continue to be highly compelling when compared to other major indices. This is especially evident in comparison to the United States, where stocks have generally traded at much higher multiples. The relative value offered by emerging market equities suggests ongoing opportunities for investors seeking growth at reasonable prices.

MSCIEM - P/E Ratio



THE BOND MARKET: INCREASING RELEVANCE FOR THE U.S.

The bond market has taken on greater importance as a factor supporting the equity market's resilience. Demand for U.S. Treasuries has increased compared to April, when tariffs were initially announced. As a result, the yield on the 30-year Treasury bond has fallen to 4.7%, down from peaks above 5% just a few months ago.

Yield Curve Dynamics and Investor Sentiment

Despite this improvement, the yield differential between 30-year Treasury bonds and 5-year Treasury notes remains notably steep. This spread can signal investor expectations about future economic growth, inflation, and the direction of interest rate changes. Higher yield spreads may indicate increased uncertainty about long-term risks associated with debt, such as persistent inflation, fiscal pressures, or

elevated interest rates. In these situations, investors typically demand more compensation for committing funds over longer horizons. Conversely, a low spread—or even a scenario in which 5-year yields surpass 30-year yields—often occurs during a “flight to safety,” such as during a recession or economic crisis.

After declining from its peak in 2020, the spread between 5-year and 30-year Treasury yields has begun to widen again throughout much of 2025. This trend reflects mounting concerns about long-term inflation and the sustainability of U.S. government borrowing.

The shape of the yield curve will remain relevant to investors. If economic conditions deteriorate, the Fed has the ability to cut the Federal Funds rate (thus impacting overnight rates), but longer-term rates might remain “sticky”. It is prudent to understand the “callability” of bonds in bond portfolios and reduce interest rate risk as much as possible.

Budget Deficits and Market Structure Changes

Growing federal budget deficits and higher refinancing costs are placing renewed focus on the U.S. Treasury market. Over the next decade, annual net issuance is projected to reach approximately \$2 trillion. Unlike the 2010s, when price-insensitive buyers like the Federal Reserve and foreign central banks drove demand, today’s market is characterized by diminished quantitative easing and reduced foreign reserve accumulation. As a result, price-sensitive buyers—such as U.S. households and corporations—are expected to make up a larger share of Treasury investors.

Tariffs and Federal Revenue

As of July 2025, the implementation of new and increased tariffs has boosted federal customs duties, with \$122 billion collected by the government this year. Preliminary indications suggest that some of these funds are being redirected to address the deficit. However, it is too early to evaluate the ultimate impact of this approach. Historically, tariffs have contributed only a small portion of total federal revenue—about 1.6%, according to USAFacts.

Structural Challenges to Reduce Federal Spending

Federal expenditures remain dominated by several structural drivers: Medicare accounts for 23% of outlays, Social Security for 21%, Defense for 12%, and interest payments for 11%. Collectively, these four categories represent 70% of total federal spending. Notably, interest expenses are now nearly equivalent to defense spending, underscoring the growing burden of servicing the national debt.

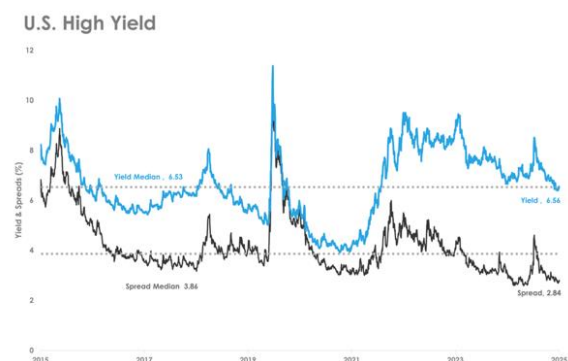
Going forward, close attention will be paid to both the bond market and the U.S. dollar. Weakness in either could jeopardize the ongoing rally in AI-fueled equities.

HIGH YIELD MARKET OVERVIEW

Credit spreads are a critical metric when analyzing the bond market, particularly within the high yield segment. While valuations across most asset classes are elevated, high yield bonds stand out for their exceptionally high valuations. Currently, high-yield credit spreads are at or near historical lows, reflecting robust demand for riskier corporate debt. This demand has been especially notable as investors position themselves in anticipation of a potential lower interest rate environment.

Despite this strong appetite for high yield bonds, the compensation offered for taking on credit risk is minimal. Presently, spreads are much tighter

than their long-term averages, which makes the high-yield market appear expensive compared to historical standards. Investors should be aware that these conditions suggest limited reward for assuming additional risk in the high yield space.



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Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that actual returns or volatility will be similar to the indices. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees or expenses. Market returns shown in text are as of the publish date and source from Morningstar or FactSet unless otherwise listed.

- **The S&P 500** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg U.S. Aggregate Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg U.S. Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **FTSE NAREIT Equity REITs Index** contains all Equity REITs not designed as Timber REITs or Infrastructure REITs.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.

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- **Fixed Income** securities are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.
- **Cash** may be subject to the loss of principal and over longer periods of time may lose purchasing power due to inflation.
- **Domestic Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.
- **International Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry impacts, or other macro events. These may happen quickly and unpredictably. International equity allocations may also be impacted by currency and/or country specific risks which may result in lower liquidity in some markets.
- **Real Assets** can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.
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- All investing involves risk including the potential loss of principal. Market volatility may significantly impact the value of your investments. Recent tariff announcements may add to this volatility, creating additional economic uncertainty and potentially affecting the value of certain investments. Tariffs can impact various sectors differently, leading to changes in market dynamics and investment performance. You should consider these factors when making investment decisions. We recommend consulting with a qualified financial adviser to understand how these risks may affect your portfolio and to develop a strategy that aligns with your financial goals and risk tolerance

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