

# The Capital Markets

Uncertainty has always been part of the investing journey—but for many, it feels especially pronounced today. Familiar economic patterns are being tested, global and political dynamics continue to shift, and inflation remains persistently elevated. Even as markets show resilience, the range of possible outcomes has widened, leaving many investors understandably cautious about what lies ahead.

History reminds us that risk is an inherent part of progress. Markets are designed to evolve, and durable portfolios aren't built in reaction to the latest headlines. They're built through steady discipline, thoughtful diversification, and a clear focus on long-term goals. By maintaining perspective and staying committed to a well-designed strategy, investors can position themselves to navigate uncertainty and uncover opportunity over time.

Since reaching their lows in April, equity markets have delivered an impressive rebound, with the S&P 500 climbing more than 30% to new record highs. This strength has been fueled by several key drivers: growing optimism around artificial intelligence, stronger-than-expected corporate earnings, and a resilient consumer base that continues to spend despite ongoing challenges.

While this performance has renewed confidence and lifted valuations, it's important to remember that market momentum does not erase risk. Investor sentiment can shift quickly, and the same enthusiasm fueling today's rally can just as easily give way to caution. Staying grounded in a disciplined, long-term investment approach remains the most effective way to weather volatility and capture opportunity as markets evolve.

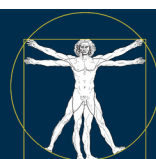
## Newsletter Highlights:

**Markets have rebounded strongly since April, driven by AI optimism, solid corporate earnings, and resilient consumer spending. Yet uncertainty remains high, and risk persists—underscoring the importance of disciplined, diversified, long-term investing.**

**Today's rally is tech-driven, but broad diversification is key to capturing future growth and managing risk.**

**Bonds and alternative investments are quietly supporting portfolios, offering income, diversification, and resilience—key components for navigating volatility and achieving long-term goals.**

**The Fed's Tightrope Walk**



# The Illusion of Market Leadership

A defining feature of the current market rally has been its unusually narrow focus, driven largely by a handful of Big Tech companies at the center of the artificial intelligence boom. Years of outsized performance have propelled the ten largest companies in the S&P 500 to now represent nearly 40% of the index. Most of these firms are valued above \$1 trillion, and together they accounted for roughly 57% of the index’s 14% return in the first nine months of 2025. Yet beneath this dominance lies a more nuanced reality: only one—Broadcom—ranked among the year’s top 50 performers, while most of the others didn’t break into the top 100.

There’s no question that the largest technology companies are high-quality businesses, and their success has been well earned. But they are not the only sources of opportunity. Other sectors—such as healthcare, industrials, and financials—continue to show strong potential for long-term growth. Even utilities, often viewed as one of the market’s more stable and unremarkable areas, merit renewed attention as they play an increasingly vital role in supporting the infrastructure behind the AI revolution.

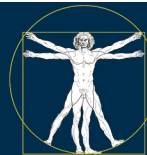
History reminds us that market leadership rarely remains concentrated in the same hands forever. While focusing on a small group of high-performing stocks may feel rewarding in the short term, it can also increase exposure to sudden shifts in sentiment. A well-diversified approach allows investors to benefit from today’s leaders while remaining positioned to capture tomorrow’s opportunities as the market continues to evolve.

As market leadership continues to narrow, it’s important to remember that true opportunity often lies beyond the most familiar names. Periods of concentrated performance have occurred many times throughout history, and they rarely last indefinitely. By maintaining a well-diversified portfolio and focusing on long-term fundamentals rather than short-term trends, investors can better balance risk and reward—positioning themselves to participate not only in today’s leaders, but also in the next wave of market growth.

Top 10 Stocks in S&P 500:  
Contribution to Year-to-Date Price Return

| Company                    | Market Cap | % Contribution | YTD Rank |
|----------------------------|------------|----------------|----------|
| Nvidia (NVDA)              | \$4.5T     | 17.6%          | 51       |
| Microsoft (MSFT)           | \$3.9T     | 10.8%          | 112      |
| Apple (AAPL)               | \$3.8T     | 0.9%           | 298      |
| Alphabet (GOOGL)           | \$2.9T     | 4.9%           | 84       |
| Amazon (AMZN)              | \$2.3T     | 0.4%           | 311      |
| Facebook (META)            | \$1.8T     | 5.3%           | 103      |
| Broadcom (AVGO)            | \$1.6T     | 7.0%           | 39       |
| Tesla (TSLA)               | \$1.5T     | 1.7%           | 213      |
| Berkshire Hathaway (BRK.B) | \$1.1T     | 1.3%           | 205      |
| JPMorgan Chase (JPM)       | \$867.4mm  | 3.4%           | 72       |
| TOTAL                      |            | 57.0%          |          |

Source: Strategas Research Partners, Bloomberg



# Beyond Equities: Bonds and Alternatives

While equities continue to capture most of the headlines, bonds have quietly delivered strong results this year—returning roughly 6% year-to-date. High-quality fixed income remains a stabilizing force within balanced portfolios, providing steady income and acting as a buffer during periods of market volatility. Shorter-term bonds, particularly those maturing within the next five years, continue to offer attractive yields while helping to mitigate the risk of price fluctuations should long-term interest rates move higher.

Municipal bonds, which came under pressure earlier in the year amid heavy issuance and uncertainty around tax treatment, are once again showing renewed appeal—especially for investors in higher tax brackets seeking tax-advantaged income.

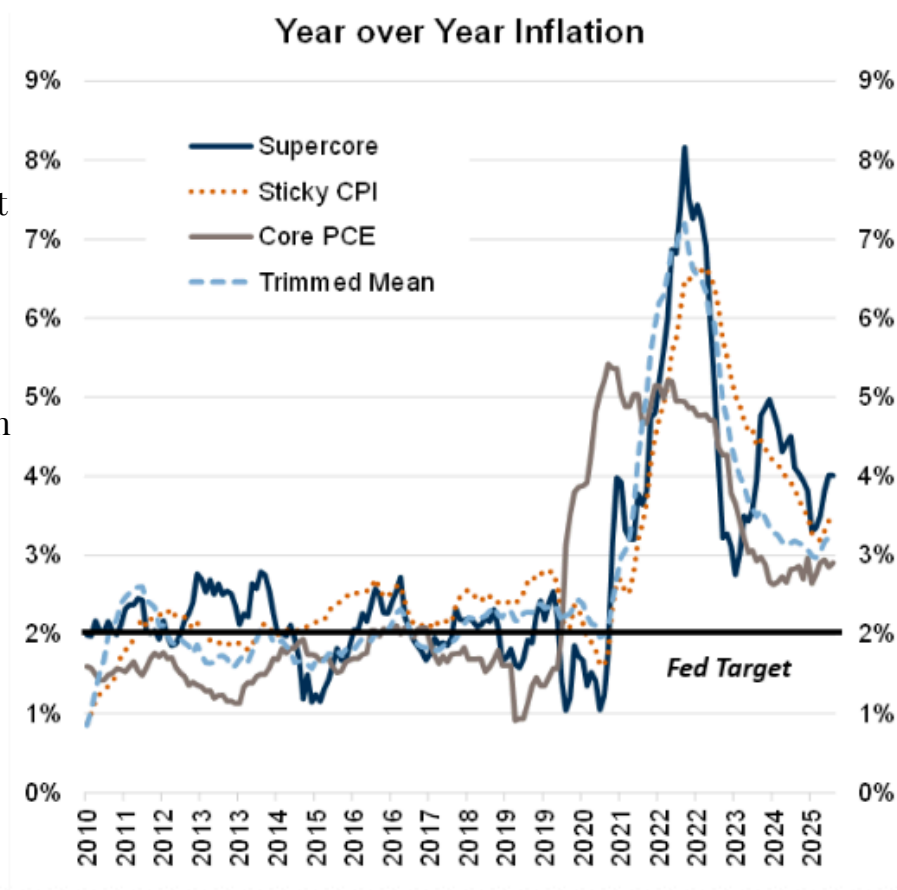
In addition, alternative investments deserve consideration as part of a well-rounded portfolio. While not appropriate for every investor, certain alternative strategies can enhance income potential or provide differentiated sources of return for those with the right time horizon and risk tolerance. Though they carry unique risks and often less liquidity, when thoughtfully incorporated, alternatives can add meaningful diversification and help protect portfolios in more volatile markets.

A well-constructed portfolio benefits from more than just equity exposure. High-quality bonds provide stability and income, municipal bonds offer tax-advantaged opportunities, and alternatives can deliver additional diversification and potential returns. By thoughtfully combining these asset classes, investors can better manage risk, enhance resilience during market volatility, and position themselves for long-term success.

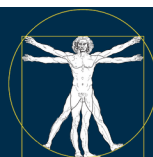
## The Fed's Tightrope Walk

As we look toward the fourth quarter, the Federal Reserve continues to be a focal point for investors. Policymakers are carefully navigating their dual mandate—aimed at promoting price stability while supporting full employment. Following a 25-basis-point rate cut in September, debate persists within the Fed about the path ahead, leaving the future direction of monetary policy a key consideration for markets.

Although recent inflation data have been more favorable than many anticipated earlier this year, caution remains warranted. Companies that built up inventories ahead of tariffs were temporarily shielded from rising costs, but questions persist about what may happen when those inventories are depleted.



Source: Bureau of Labor Statistics as of 7/2025



Davinci Capital Partners



If restocking occurs at higher prices, inflationary pressures could reemerge rather than subside. The labor market adds another layer of complexity. While layoffs are not accelerating, demand for new hires has clearly slowed, creating a “no hire, no fire” environment. Job seekers face fewer opportunities, even as companies remain hesitant to reduce staff.

This combination of factors presents a challenge for monetary policy. Moving too aggressively could unsettle inflation expectations, while standing pat might place additional strain on the labor market. Fed Chair Jerome Powell has emphasized that no path is without risk. With political pressures mounting—including speculation regarding Powell’s successor when his term concludes next May—the Fed’s independence and credibility are likely to remain key considerations for investors in the months ahead.

## Economic Resilience and Consumer Health

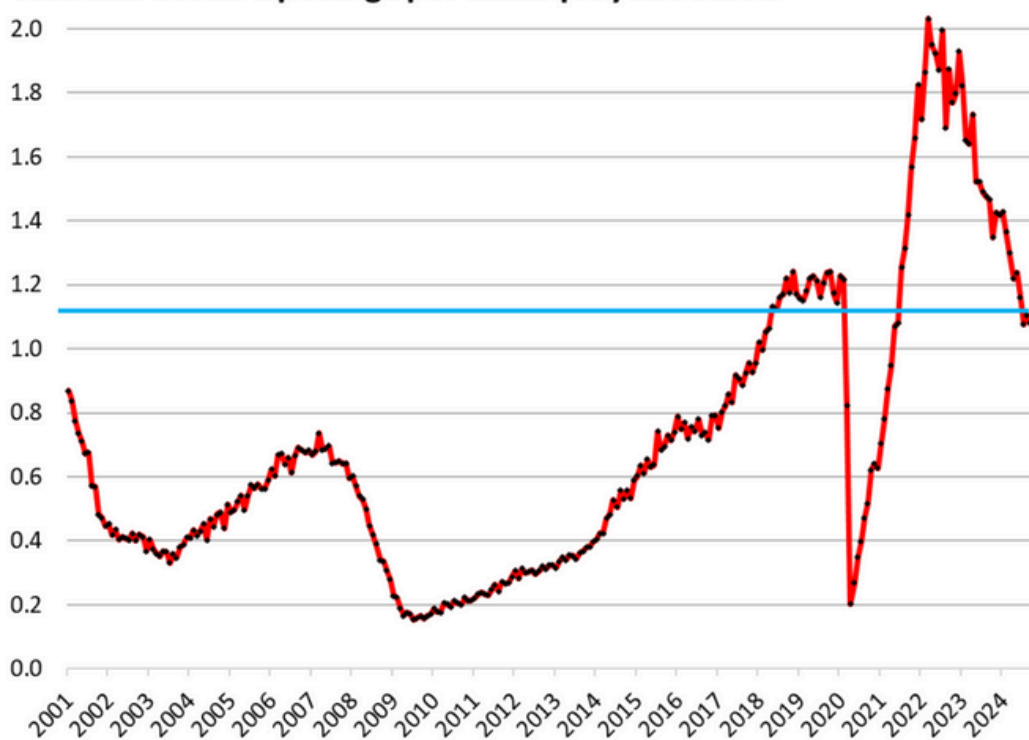
Despite ongoing policy uncertainty, consumer spending has remained notably resilient, helping to support economic growth and alleviate fears of a recession. However, signs of strain are beginning to appear. Persistent inflation and a slowing labor market are putting pressure on households, while rising delinquency rates suggest some families are stretching their finances to maintain consumption. If these trends continue, consumer confidence could weaken, posing a risk to one of the economy’s key drivers.

On the corporate side, earnings have so far held up better than many anticipated, as companies

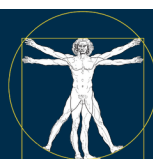
demonstrate adaptability in managing costs and navigating uncertainty. Fiscal policy has also provided a supportive backdrop, helping to sustain confidence during periods of volatility. Still, this earnings resilience is not guaranteed—higher input costs could squeeze profit margins, making corporate results more vulnerable in the months ahead.

Given the mixed signals from consumers and corporations, maintaining a balanced, diversified portfolio remains essential. While resilient spending and adaptive corporate performance provide support for growth, emerging pressures underscore the importance of risk management. By staying disciplined, focusing on high-quality investments, and keeping a long-term perspective, investors can navigate uncertainty while positioning their portfolios to benefit from opportunities as they arise.

**Number of Job Openings per Unemployed Person**



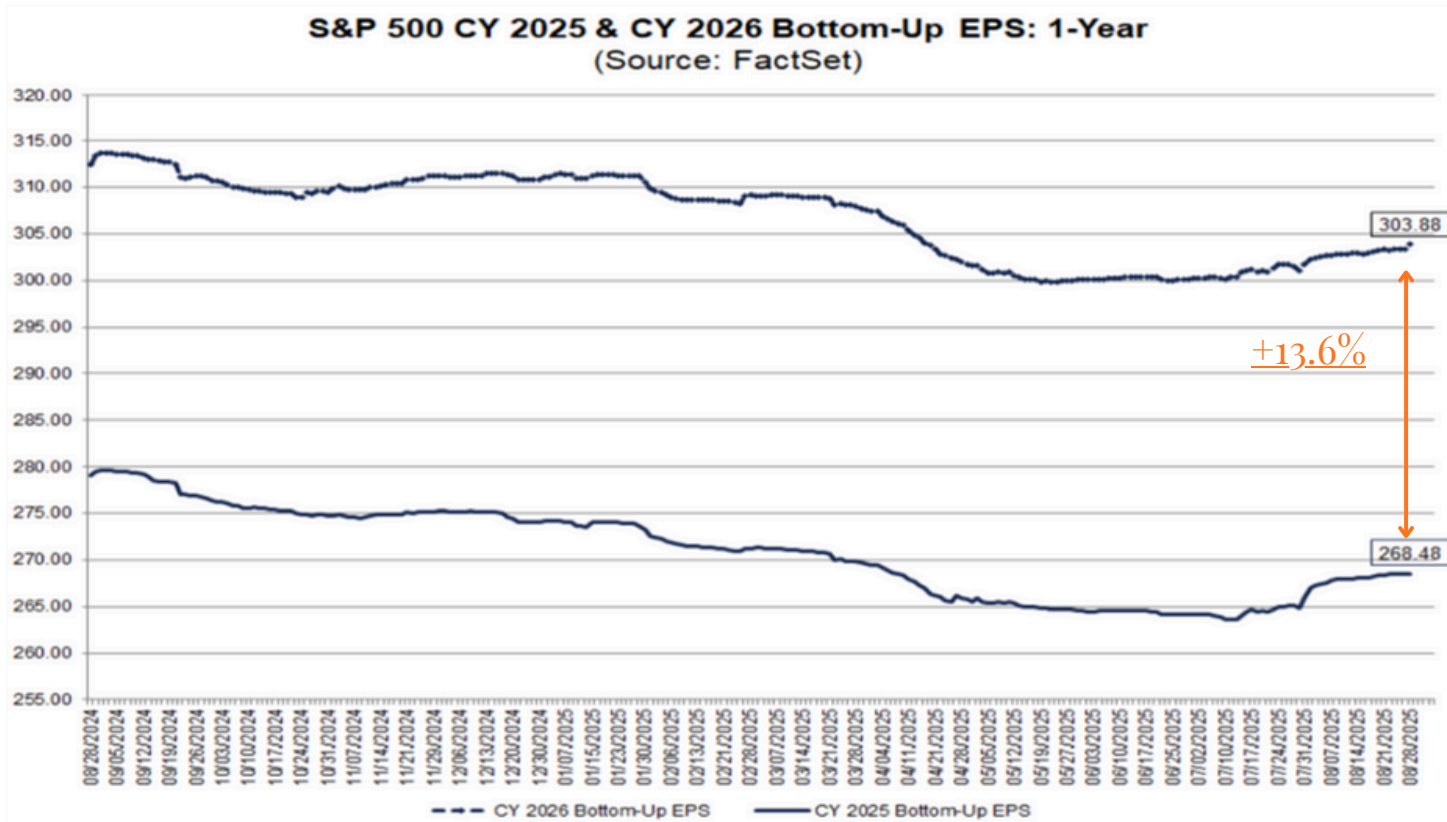
Source: WolfStreet.



# Staying the Course

The past several months have highlighted just how quickly market conditions can change. From sharp declines in April to record highs by late summer, investor sentiment has swung dramatically in a short period. Through these shifts, one lesson remains clear: uncertainty and risk are ever-present, but so too are the benefits of diversification and a disciplined investment approach.

There are reasons for optimism, including enthusiasm around artificial intelligence, robust corporate earnings, and steady—if cautious—consumer spending. At the same time, persistent inflation, an uneven labor market, and a Federal Reserve navigating complex pressures serve as reminders that challenges remain and careful planning is essential.



Source: Independent-market-observer

For investors, the most reliable approach remains the one that has proven effective over time: maintaining diversification, managing risk thoughtfully, and keeping a long-term perspective. Chasing short-term market trends or letting fear drive decisions can often be costly. By remaining disciplined, investors can navigate market volatility while staying well-positioned to seize opportunities as they emerge. If you have questions about how your portfolio is currently positioned or how recent market developments may impact your financial goals, we encourage you to reach out—we're here to provide guidance and support every step of the way. As always please contact me if you have any questions or would like to review your financial plan.

