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2025 Q3
Quarterly Market Review

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EASTBAY INVESTMENT SOLUTIONS

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Glass Half-Full

- Global stock markets continued their upward climb in Q3
- Near-term recession risks continue to fade in the U.S.
- U.S. GDP for Q2 was 3.8% and is expected to show similar growth in Q3
- The Fed lowered interest rates for the first time in 2025

Glass Half-Empty

- Labor markets show signs of softening
- Fed's preferred inflation measure, Core PCE, continues to be stubborn at 2.9%, higher than the preferred level of 2%
- AI-related spending is robust, but future revenue streams are not clear
- Q3 ended with a shutdown of the U.S. Federal Government

Q3 2025 by the numbers

- 4.00% - 4.25% represents the current policy target range for the Federal Funds rate set by the Federal Reserve. As the Fed lowers rates, it has mixed implications for longer-term rates and financing costs for consumers.
- $211 billion is the cumulative amount of capital estimated to have been spent on artificial-intelligence projects by the end of last year by major technology companies. So far markets have rewarded this behavior but eventually profits will need to follow.
- +0.11% is the average S&P 500 Index performance during prior federal government shutdowns.
- +12.6% is the YTD return of a portfolio comprised of 60% MSCI ACWI and 40% Bloomberg Global Aggregate (hedged USD). In other words, despite the unnerving headlines so far this year, a globally balanced portfolio comprised of both stocks and bonds is now trailing the S&P 500 by 2.2% YTD.

Resilience in economic growth

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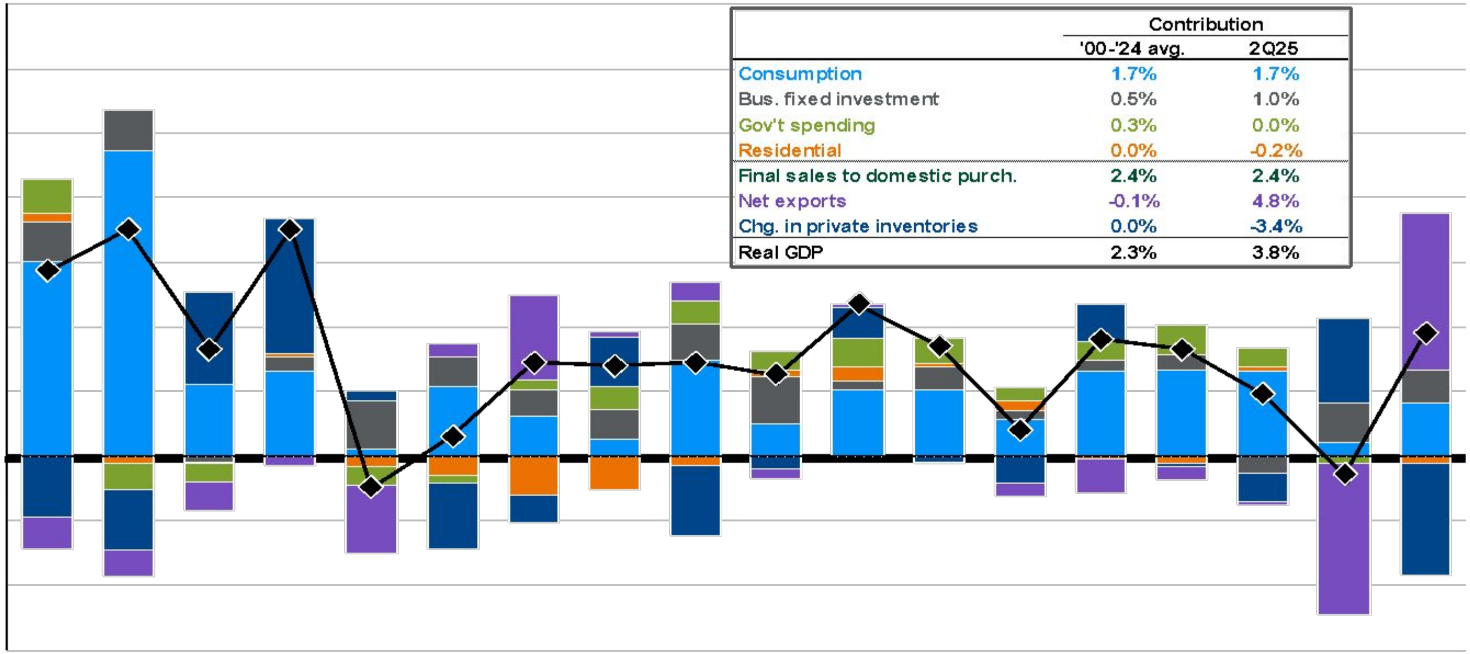
Contributors to real GDP growth
Quarter-over-quarter, seasonally adjusted annualized rate



	Contribution '00-'24 avg.	Contribution 2Q25
Consumption	1.7%	1.7%
Bus. fixed investment	0.5%	1.0%
Gov't spending	0.3%	0.0%
Residential	0.0%	-0.2%
Final sales to domestic purch.	2.4%	2.4%
Net exports	-0.1%	4.8%
Chg. in private inventories	0.0%	-3.4%
Real GDP	2.3%	3.8%

Source: BEA, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of September 30, 2025.

Mag-7 Total CapEX Trend

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Total Capital Expenditures Annually

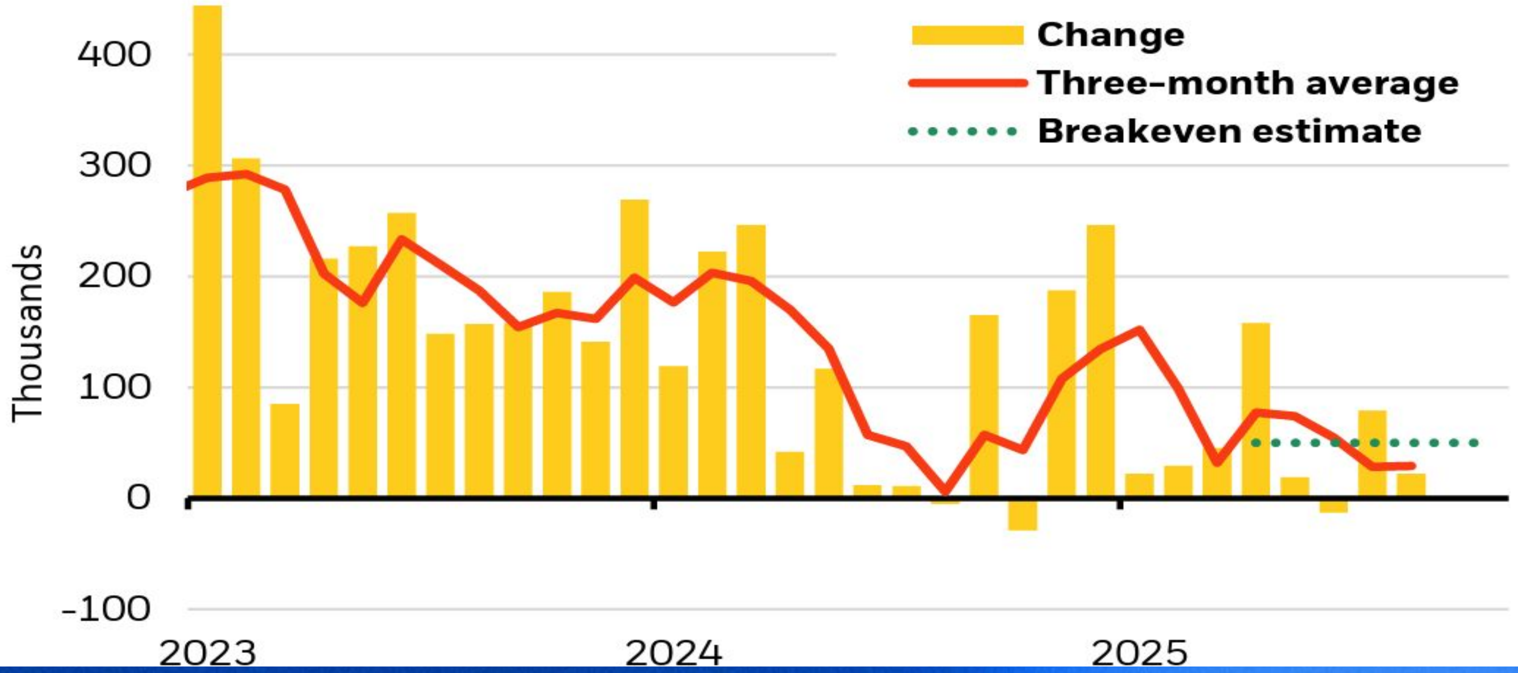
Symbol	Metric	2025 EST	12/31/24	12/31/23	12/31/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17
AAPL	CapEX	12,381	9,447	10,959	10,708	11,085	7,309	10,495	13,313	12,795
AMZN	CapEX	107,656	82,999	52,729	63,645	61,053	40,140	16,861	13,427	11,955
GOOG	CapEX	66,980	52,535	32,251	31,485	24,640	22,281	23,548	25,139	13,184
META	CapEX	52,162	37,256	27,266	31,431	18,567	15,115	15,102	13,915	6,733
MSFT	CapEX	64,551	44,477	28,107	23,886	20,622	15,441	13,925	11,632	8,129
NVDA	CapEX	5,012	1,069	1,833	976	1,128	489	600	593	176
TSLA	CapEX	10,179	11,342	8,899	7,172	8,014	3,242	1,437	2,320	4,081
Total Mag7 CapEX		*318,921*	*239,125*	*162,044*	*169,303*	*145,109*	*104,017*	*81,968*	*80,339*	*57,053*
YoY % Increase		*33%*	*48%*	*-4%*	*17%*	*40%*	*27%*	*2%*	*41%*	

Capital Expenditures as a % of Operating Cash Flow

Symbol	Metric	2025 EST	12/31/24	12/31/23	12/31/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17
AAPL	CapEx/OCF	11%	8%	10%	9%	11%	9%	15%	17%	20%
AMZN	CapEx/OCF	89%	72%	62%	136%	132%	61%	44%	44%	65%
GOOG	CapEx/OCF	50%	42%	32%	34%	27%	34%	43%	52%	36%
META	CapEx/OCF	51%	41%	38%	62%	32%	39%	42%	48%	28%
MSFT	CapEx/OCF	47%	38%	32%	27%	27%	25%	27%	27%	21%
NVDA	CapEx/OCF	7%	4%	32%	11%	19%	10%	16%	17%	11%
TSLA	CapEx/OCF	65%	76%	67%	49%	70%	55%	60%	111%	n/a

A softening labor market

Monthly change in U.S. payrolls and breakeven estimate, 2022-2025



Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, September 2025.

Can the Fed Maintain Balance?

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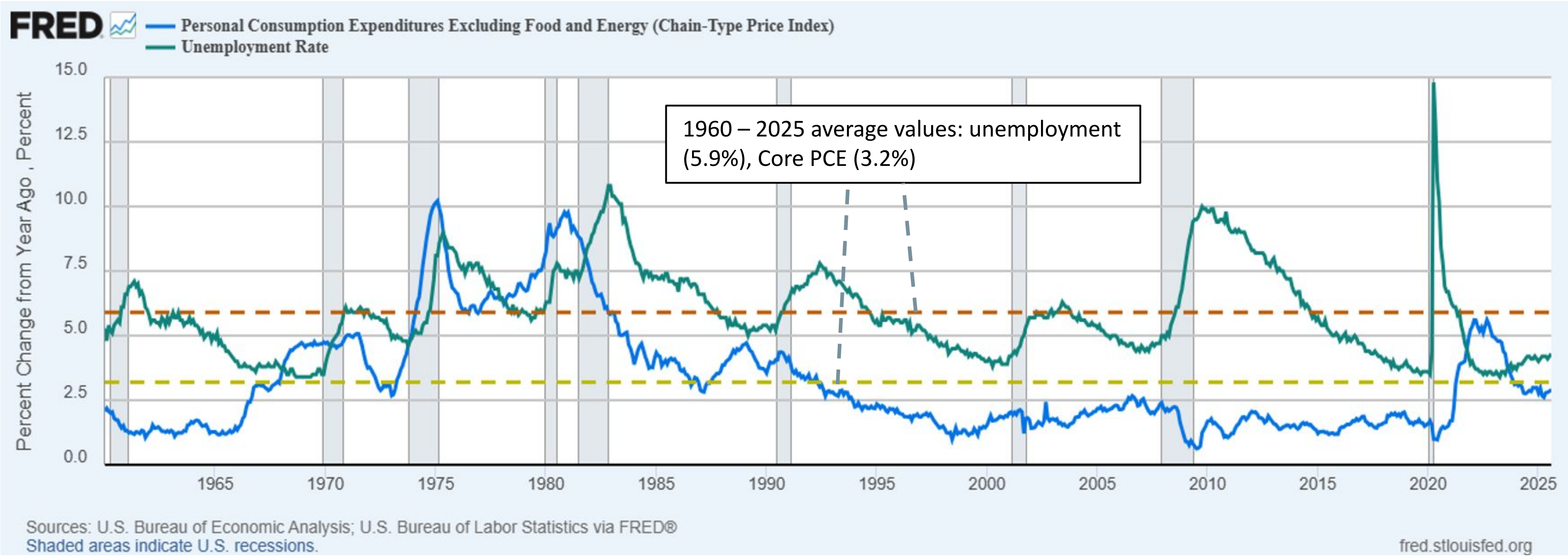
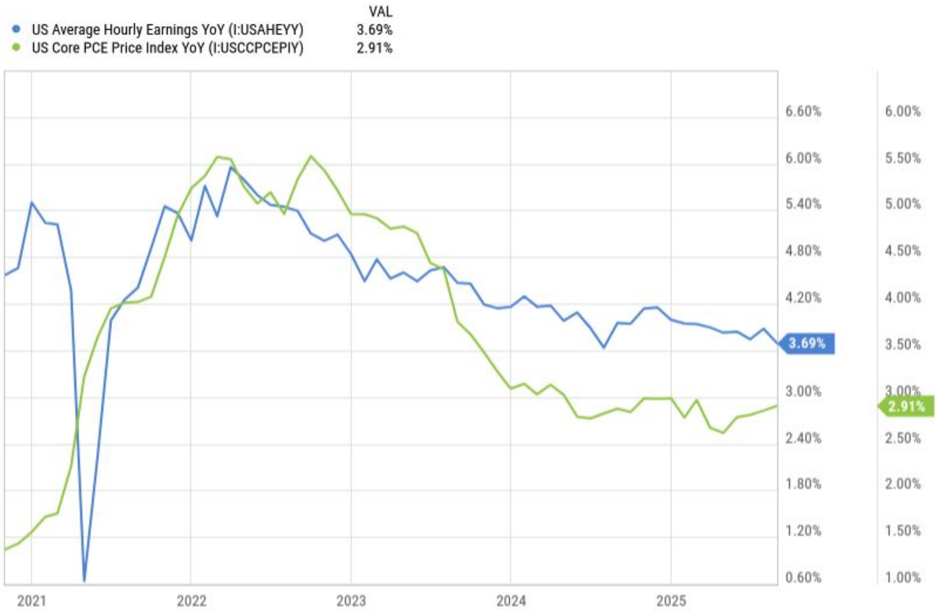
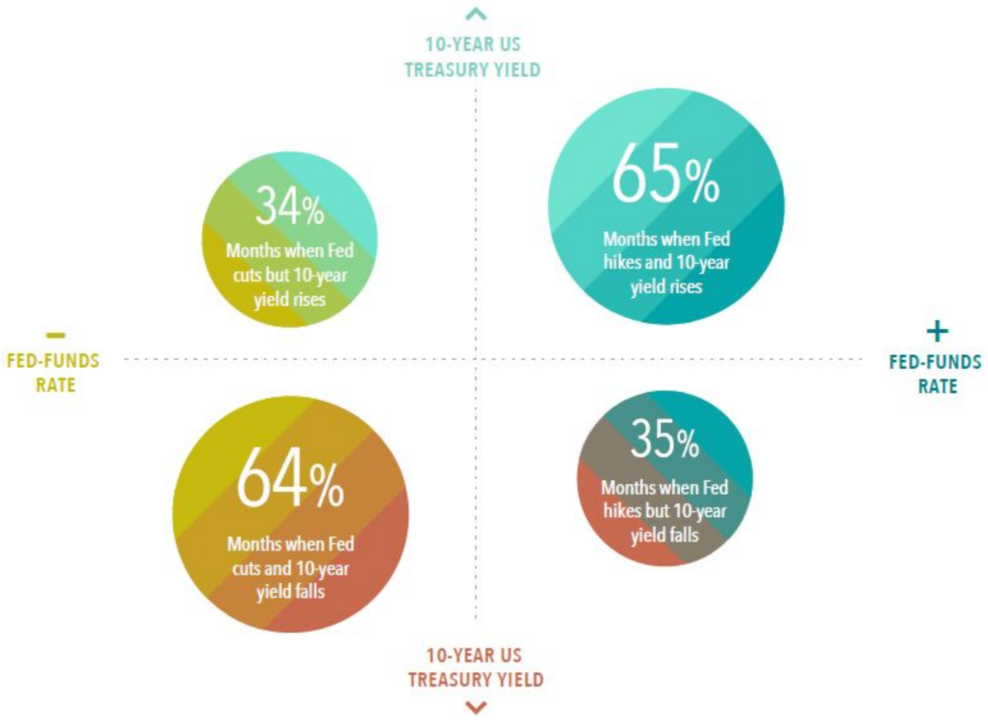


Average Hourly Earnings vs Inflation

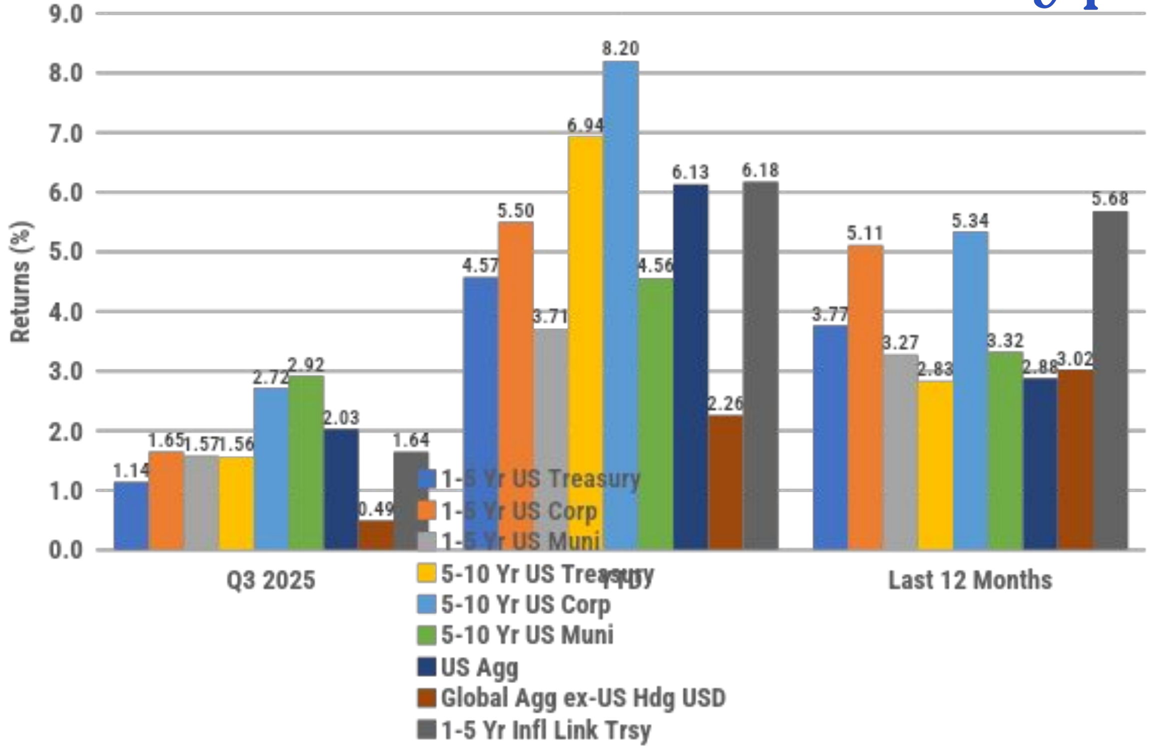


Fed moves and the 10-year (Jan 83' - Dec 24')



Source: Dimensional Fund Advisors, Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis. Data series used: Market Yield on US Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Percent, Daily, Not Seasonally Adjusted (DGS10); Federal Funds Target Rate (DISCONTINUED), Percent, Daily, Not Seasonally Adjusted (DFEDTAR); and Federal Funds Target Range - Upper Limit, Percent, Daily, Not Seasonally Adjusted (DFEDTARU). Circles corresponding to a rate cut do not sum to 100% due to monthly periods of no yield change for the 10-Year US Treasury note.

Global bond returns



Source: Morningstar, Bloomberg and ICE BofA ML benchmarks shown. Past performance is not indicative of future results.

Yield curve changes

Source: Avantis Investors, Bloomberg, data as of 9/30/2025

Credit Risk


VAL
US High Yield Master II Option-Adjusted Spread (I:USHYMIIO)
3.04%
4.20%
3.60%
3.04%
2.40%
Jan '25
Apr '25
Jul '25
Oct '25

US stock returns by size and style

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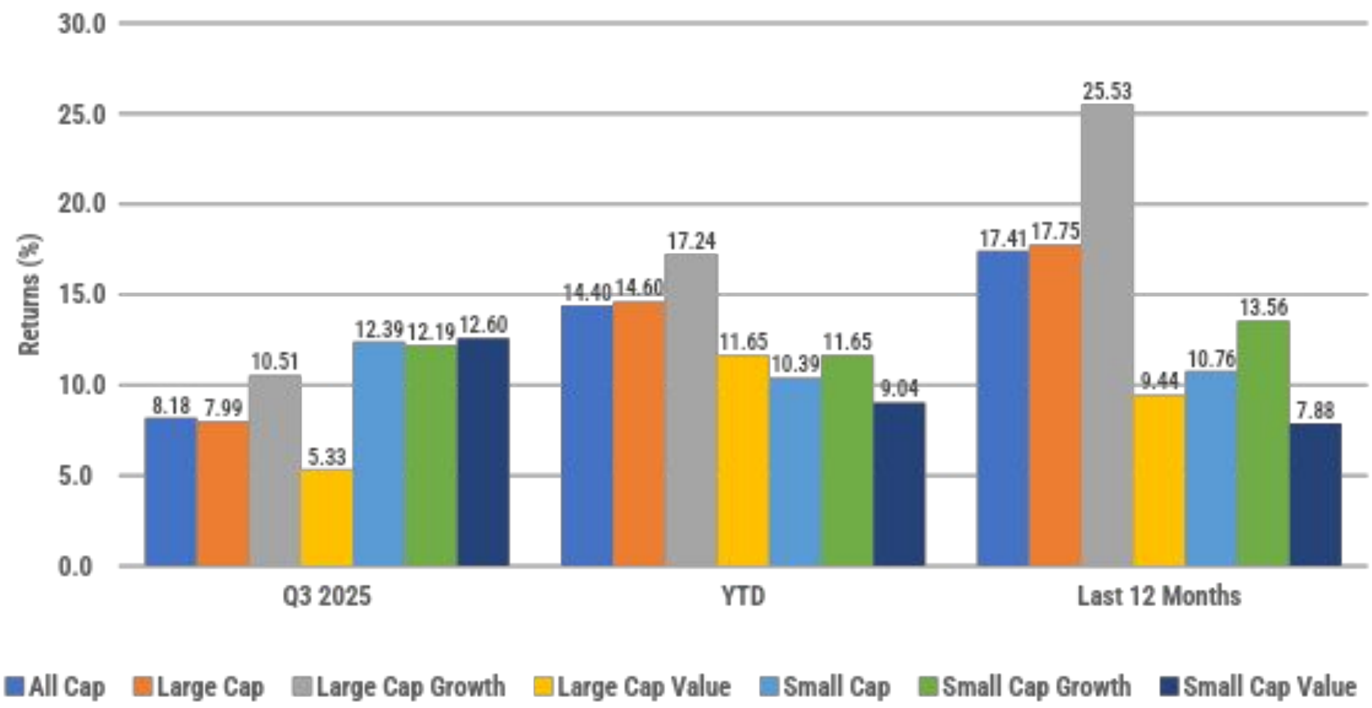

Source: Morningstar, Russell benchmarks shown. Past performance is not indicative of future results.

Artificial Intelligence requires real spending

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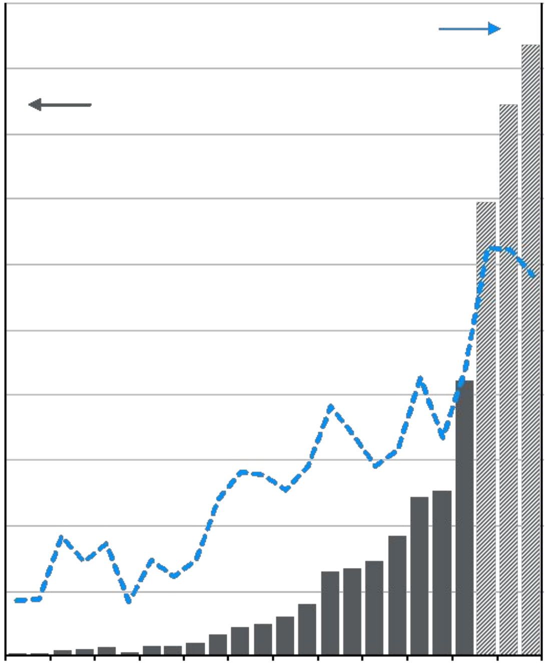
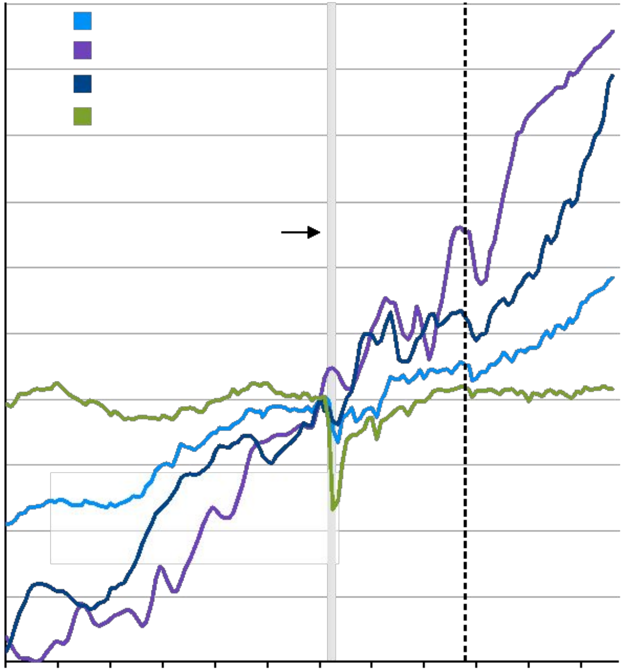
Capex from the major AI hyperscalers*
USD billions; Alphabet, Amazon (AWS), Meta, Microsoft, Oracle

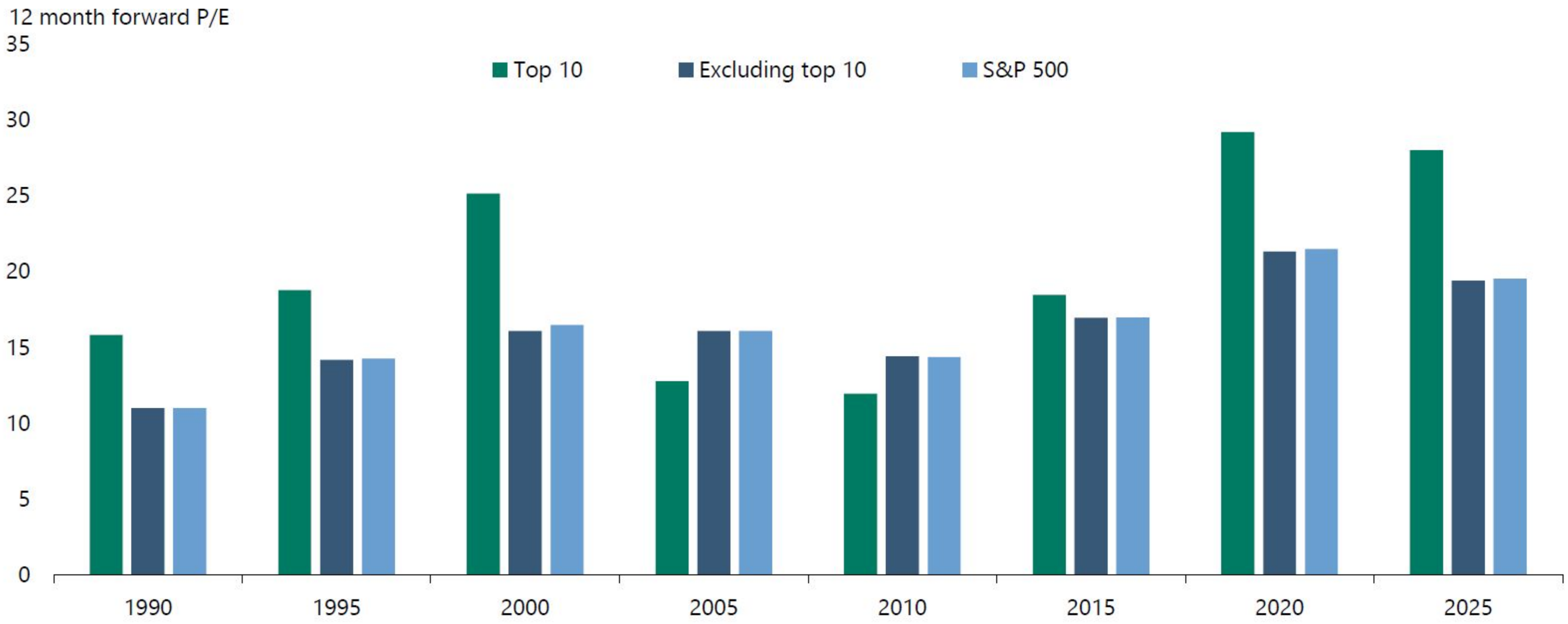


U.S. industrial production of high tech industries
Indexed to 100 in Jan 2020



Source: J.P. Morgan Asset Management; (Left) Bloomberg; (Right) Federal Reserve Board. Data for 2025, 2026 and 2027 reflect consensus estimates. Capex shown is company total, except for Amazon, which reflects an estimate for AWS spend (2004 to 2012 are J.P. Morgan Asset Management estimates and 2012 to current are Bloomberg consensus estimates). *Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads. **Reflects cash flow before capital expenditures in contrast to free cash flow, which subtracts out capital expenditures. Guide to the Markets – U.S. Data are as of September 30, 2025.

S&P 500 Valuations



Note: Data as of July 2025. Top 10 companies are by market cap. Sources: Bloomberg, Apollo Chief Economist

What do declining interest rates mean for stock returns?

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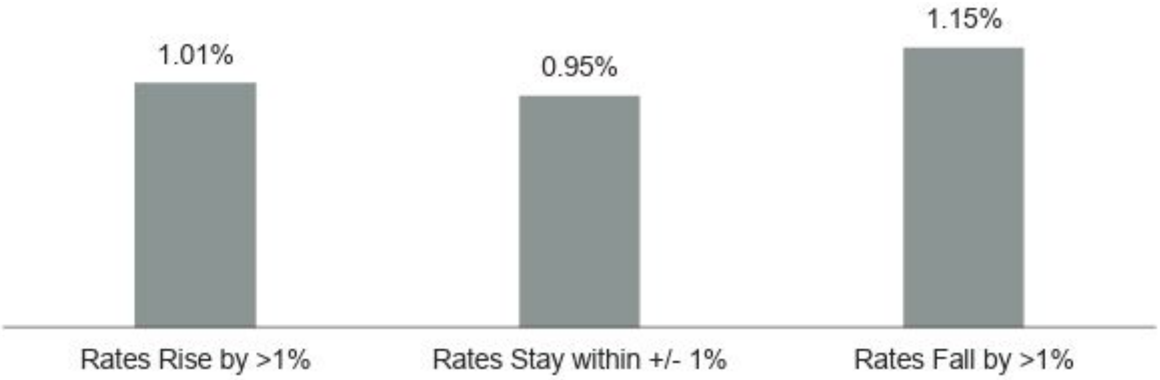
Average monthly return for the U.S. stock market



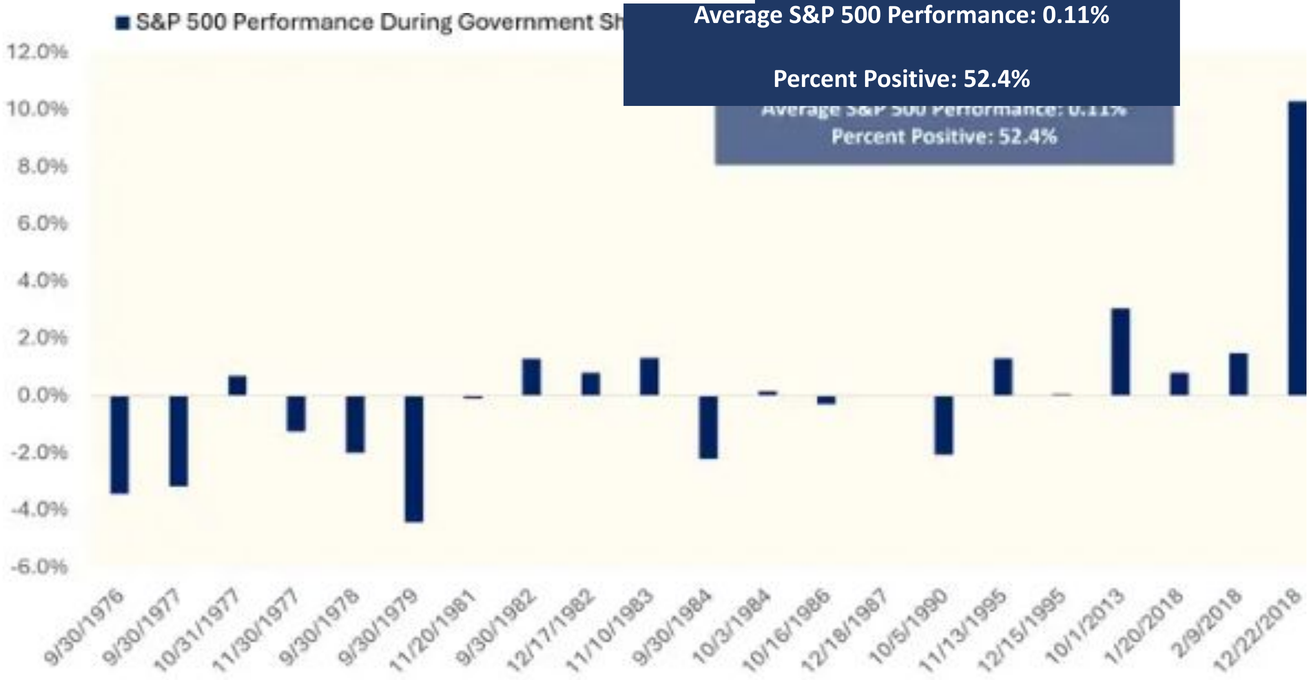
Source: Avantis. Data from 1973 - 2024. U.S. stocks are represented by the Market Portfolio from Ken French's Data Library. The total rolling one-year periods in the analysis are 613. Total rolling 1-year periods when rates rise by >1% are 93, periods when rates fall by >1% are 93, and periods when rates stay within +/- 1% are 410.

Government shutdowns and market performance

S&P 500 Performance During Government Shutdowns (%)

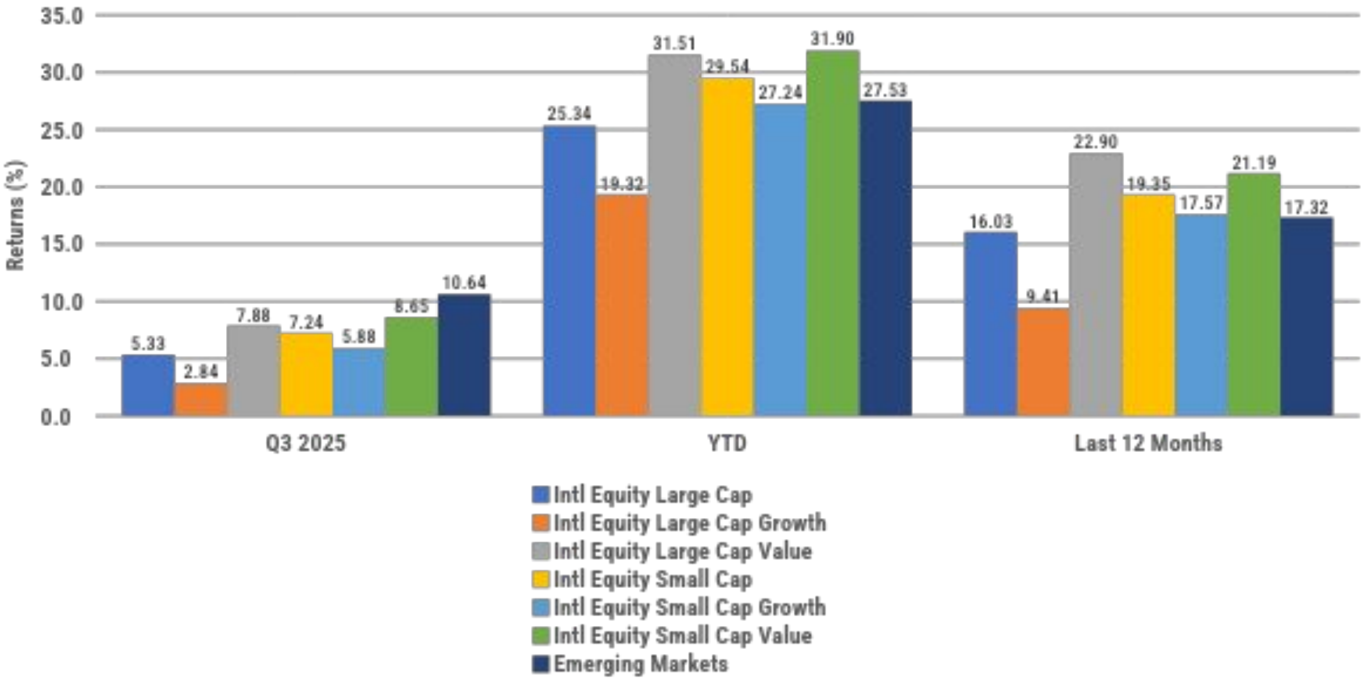
Average S&P 500 Performance: 0.11%

Percent Positive: 52.4%



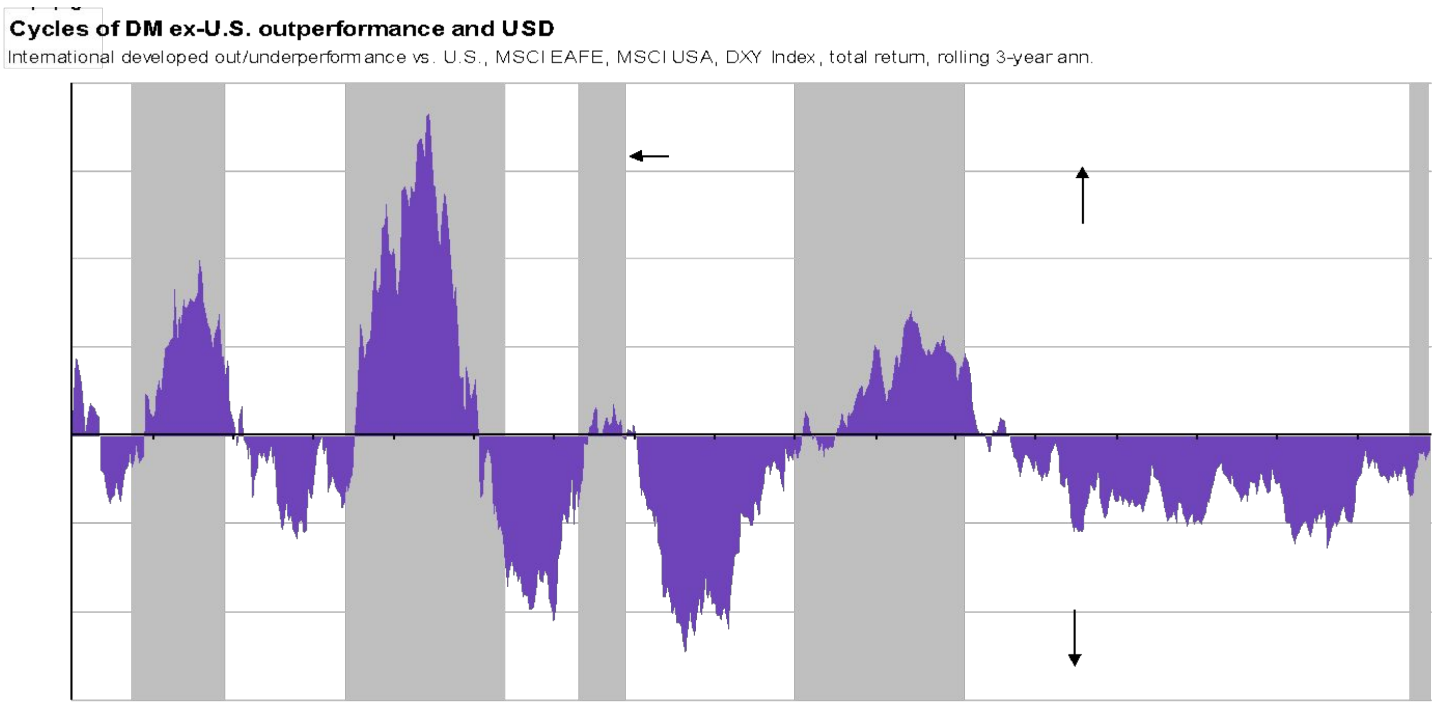
Source: LPL Research, Bloomberg, Strategas Research 9/30/25. All indexes are unmanaged and cannot be invested in directly. Past Performance is no guarantee of future results.

International developed and emerging market stock returns



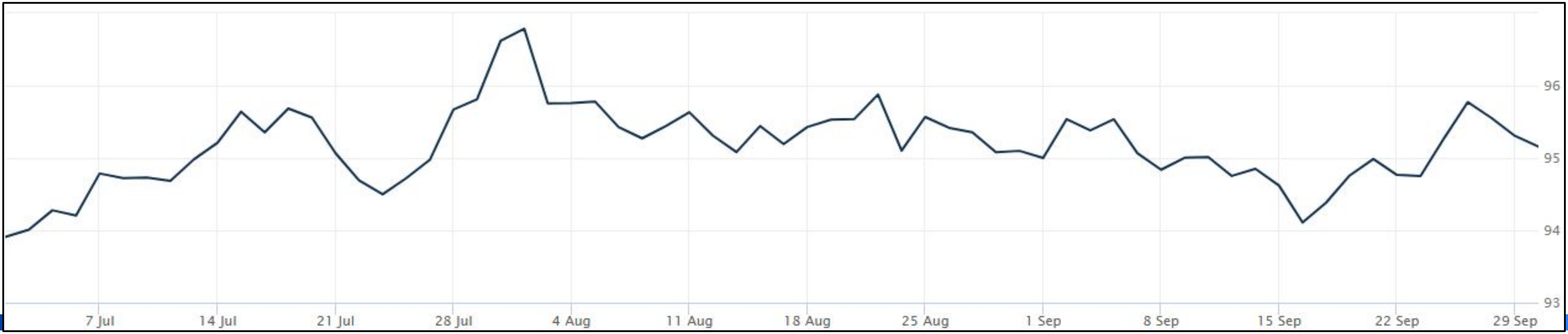
Source: Morningstar, MSCI benchmark shown. Past performance is not indicative of future results.

International stocks and the dollar



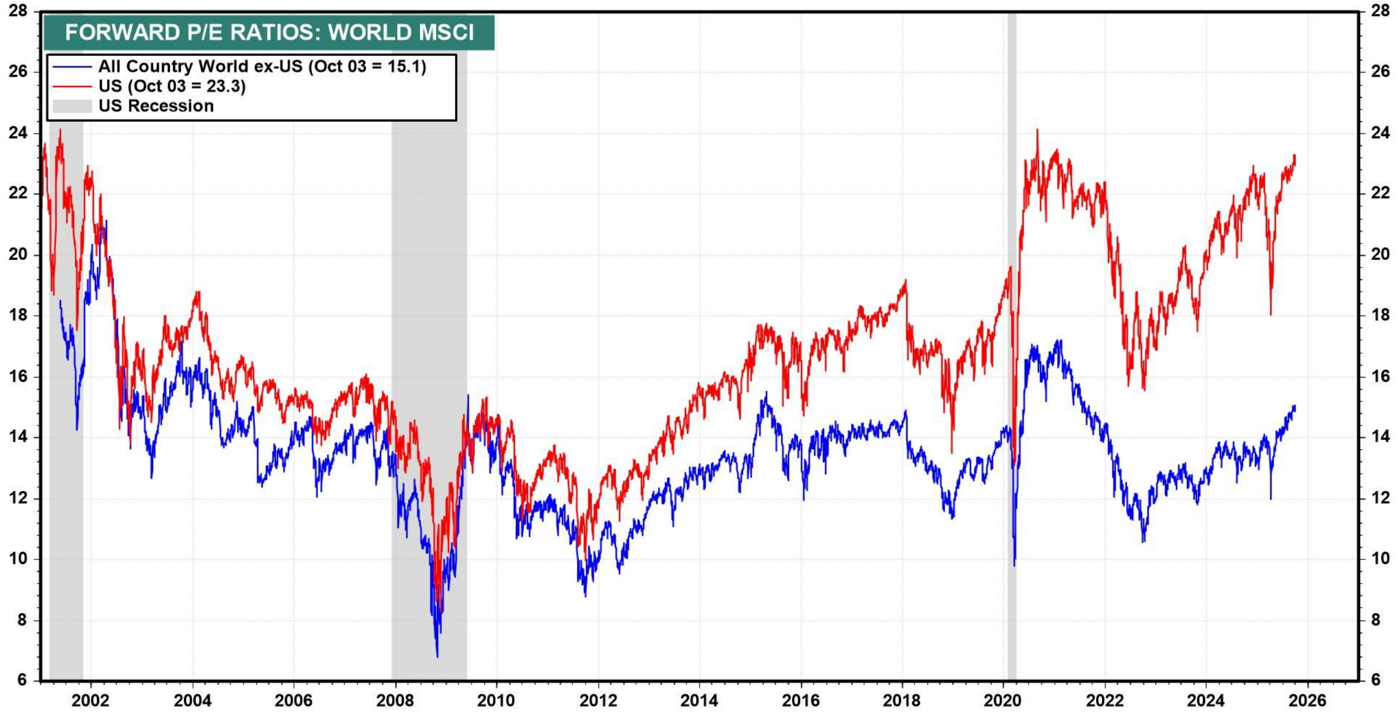
Source: FactSet, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. MSCI EAFE Index: A benchmark tracking large- and mid-cap stocks in developed markets across Europe, Australasia, and the Far East, excluding the U.S. and Canada. Guide to the Markets – U.S. Data are as of September 30, 2025.

Dollar strength is good for US consumers but bad for owners of non-US investments



Source: Wall Street Journal as September 30, 2025. Past performance is not indicative of future results.

Global Stock Valuations



Source: LSEG Datastream and © Yardeni Research.

* Price divided by 12-month forward consensus expected operating earnings per share.

Maintain your focus on what really matters

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- Financial planning is a process, not an endpoint
- Concentrate on long-term goals and objectives
- Focus on reaching goals, not on beating benchmarks
- Maintain a disciplined approach, in good and bad markets
- Invest broadly and globally; asset allocation is key
- Reduce investment and tax costs where possible
- Rebalance as necessary

Questions?

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