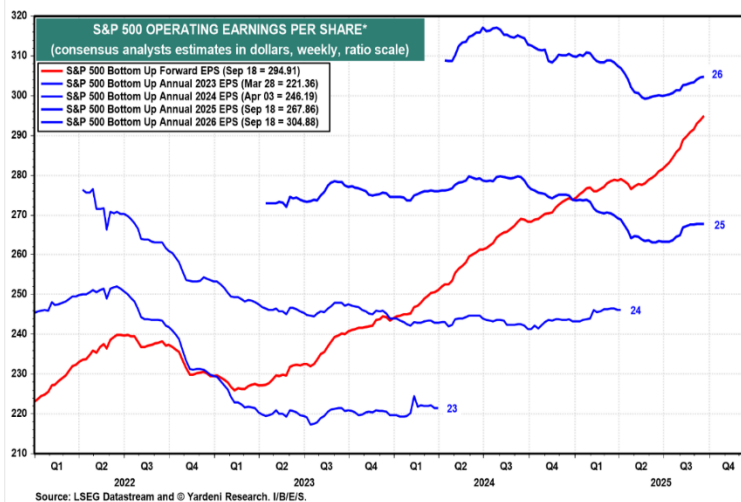


LAURELHURST ASSET MANAGEMENT

John's Market Outlook – September 29, 2025

Last Outlook, I said *“with strong momentum exiting 2024, the US economy is still not near recession.”* A new rate-cutting cycle has started and the near-term outlook has improved.

Consensus estimates for 2025/26 recently turned up, as did 2Q GDP, forecast 3Q GDP^{1/}, business surveys, and consumer spending. The Federal Reserve cut the Fed Funds rate and more cuts are coming; investors expect 150-200bp in the coming year. The start of a rate-cutting cycle typically stimulates stock prices.



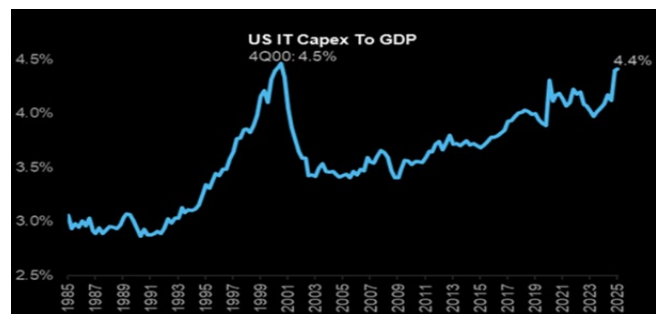
Lower rates also tend to weaken the US dollar, adding currency gain to the return on ex-US assets for US investors.

After falling for two years, inflation stopped declining at 3% and may be rising again^{2/}. Rate cuts, if the economy does not “need” them, risk eventually raising inflation and long-term rates higher; these are usually negative for the economy and markets^{3/}.

Employment is weak. Job creation is slow. Overall job losses are low but big company layoffs are rising and jobless duration rising.

US consumers and businesses are cautious amid softer demand and tariff uncertainty. However, AI-driven tech capex spend is at 2000-era highs. S&P 500 forward P/E is at post-Covid highs, in sight of 2000 highs, with record market concentration.

Seasonality is a year-end consideration. September and October are historically higher-risk months. Risk tends to decline in November and December^{4/}.



^{1/} 2Q GDP estimate +3.8%, Atlanta Fed 3Q “GDPNow” forecast raised to 3.3%.

^{2/} August CPI headline 2.9%, core 3.1%, PCE headline 2.6%, core 2.9%, all rising.

^{3/} Mortgages, business and commercial real estate loans are all more tied to long rates than to short rates.

^{4/} Reasons for seasonality include revisions to full-year estimates, shift to next-year estimates, and liquidity.

My opinions and judgment on date written. Not investment recommendations or guarantees.

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Our sector and stock outlook are adjusting to the rate cutting cycle, rising inflation risk, and ex-US opportunity.

- I continue to hold duration short. Falling short rates and rising inflation risk means diversifying short-duration T-bills into short-duration TIPS^{5/}. Gold (GLD) is a hedge on inflation and US dollar weakness.
- Ex-US names are near 35% of most portfolios' equity weight, with diverse names like Fincantieri (FCT-MIL), Siemens (IEGY), Lonza (LON-SWX), Danone (DANOY), BAE Systems (BAESY), Rheinmetall (RNMBY), Wal-Mart de Mexico (WMMVY), Lynas Rare Earths (LYSDY), Coca-Cola Europacific (CCEP), Deutsche Telekom (DEG), Tokyo Marine (TKOMY), and MercadoLibre (MELI). I added Dassault Aviation (AMPAR) for global re-arming sales of its *Rafale* fighter, and trimmed Leonardo (FINMF) on valuation.
- After a steep fall in commercial real estate (CRE) prices, increased investor activity is lifting transaction volume. I added CRE services/broking exposure through Newmark (NMRK) and Marcus & Millichap (MMI). The property insurance market is softening. The so-far mild 2025 hurricane season may draw in more capital and lower rates reduce insurers' investment income^{6/}. I trimmed insurance names like Chubb (CB). Less regulation should drive bank profits and industry consolidation. A steeper yield curve helps bank models^{7/}. I added to Bank of America (BAC) and Fifth Third (FITB).
- Construction-related names have been very weak. After exiting Knife River (KNF) and trimming others, I am holding remaining positions as rate cuts could stimulate investor interest in this industry.
- I am exiting Ulta Beauty (ULTA) after its stock price rebound. We still hold Columbia (COLM), Dow (DOW), and VF Corp (VFC), similarly bought at near Covid-low prices.
- Google's (GOOG) recent win does not end the government's effort to break it up. Meta (META) and Amazon (AMZN) have less antitrust risk. Oracle (ORCL) and Broadcom (AVGO) have joined the ranks of "primary" AI names, with the ORCL story higher risk in my view. AVGO's main customer GOOG is very profitable, while ORCL's main customer OpenAI expects to lose \$115BN through 2029.
- Data centers have risen from 2% of total US electricity consumption to 4-5% and are expected to be 7-12% by 2028. Federal policy has shifted against renewables, new nuclear plants are a decade away, and coal is uneconomic, so US demand for natural gas ("NG") will increase. More US LNG capacity and tariff pressure on other countries to "buy American" will also drive demand. I added gas pipeline company Kinder Morgan (KMI). Gas turbine and transmission capacity are also in shortage. I added Baker Hughes (BKR), a reasonably-valued maker of industrial-size gas turbines.
- Rare earth name MP Materials (MP) benefits from the US imperative of domestic REE free of Chinese control. Europe/Japan may want REE free of Chinese *and* US control; Lynas (LYSDY) may benefit.
- I started positions in Novo Nordisk (NVO) after this year's -65% price drop. Lilly (LLY) is #1 in the obesity market but NVO will be a stronger #2 after launching its oral GLP-1 ahead of LLY's oral.

I would be happy to go deeper into this outlook and other investment topics than was possible in this brief summary. Please email johnliu@laurelhurstasset.com or call 510 847 0070. Thank you!

^{5/} Treasury Inflation Protected Securities ("TIPS") are adjusted up in value by inflation each year. TIPS are bought individually or in ETFs like VTIP or SCHP.

^{6/} Insurance companies typically invest premiums in short-duration fixed income, whose yields are falling.

^{7/} Lower short rates/higher long rates make the yield curve steeper and improve net interest margin for banks, who borrow short (-term, via deposits) and lend long (-term, via loans on property, business, etc).

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APPENDIX TO SEPTEMBER 2025 OUTLOOK – SELECTED CHARTS AND TABLES

Starting August, current-year and out-year EPS estimates turned up. Only one quarter but bears watching.

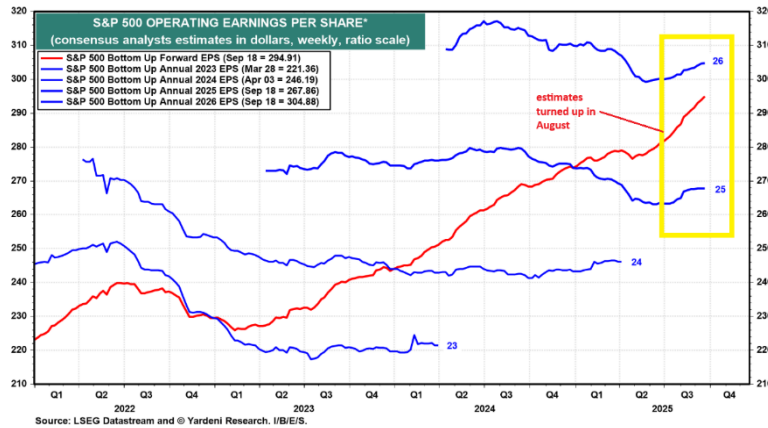


Chart from Yardeni Research

This reflects a similarly recent pop in profit margin expectations.

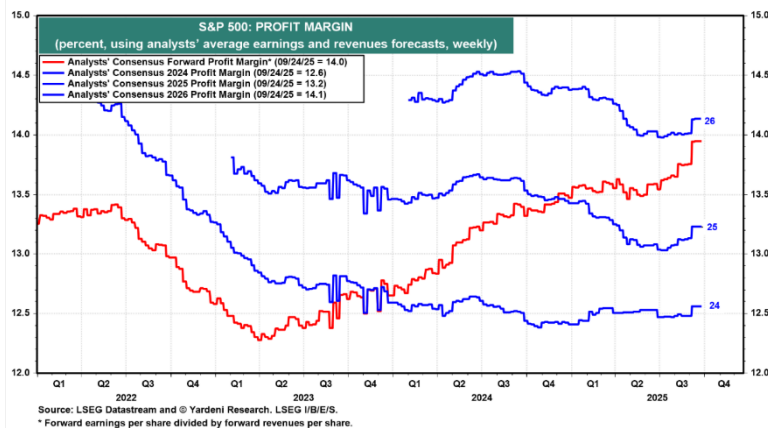


Chart from Yardeni Research

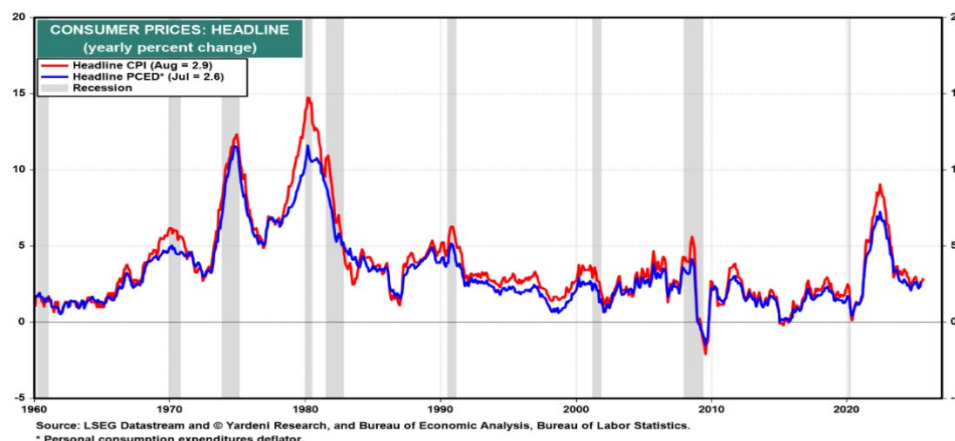
As Federal Reserve Chair Powell and board members leave, replacements will push the Fed to bigger rate cuts. The (inferred) “dot plot” votes of one new member (Miran) show the likely path of short term interest rates.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

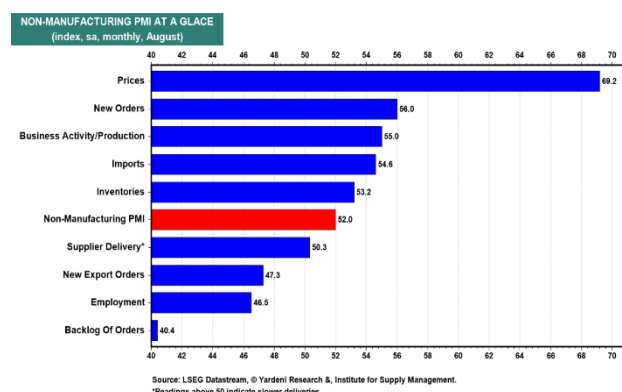
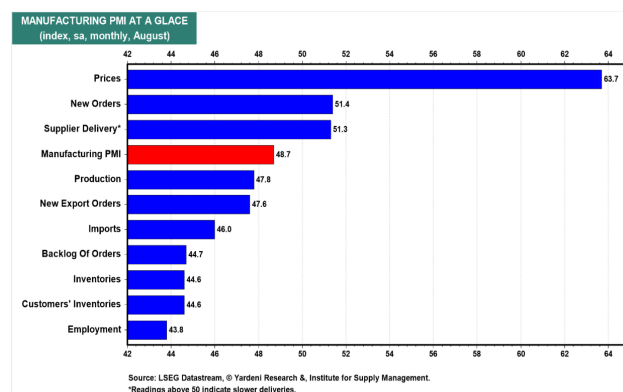


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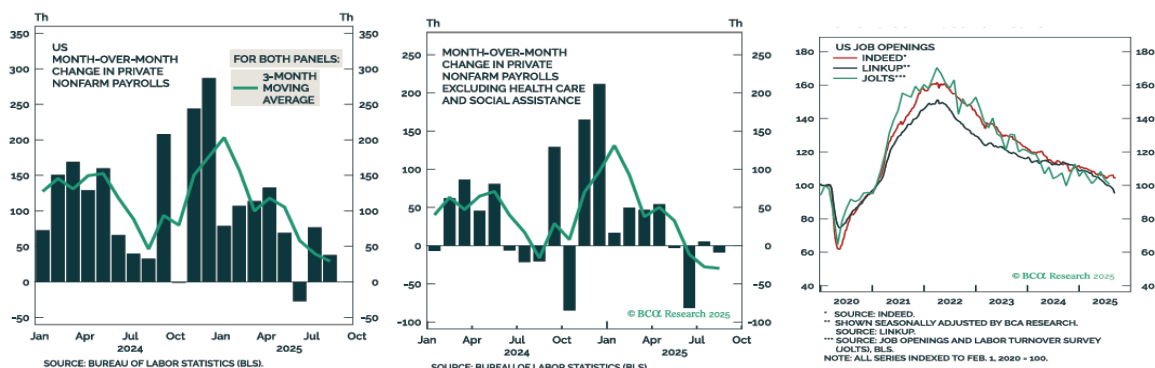
Inflation peaked in 2021/22 then declined rapidly in 2023/24. The decline has stalled with inflation still at 3%, about 100bp⁸/ above the Federal Reserve's 2% target. Watch coming months; inflation *may* be climbing again.



Hinting at the future inflation trend, the “strongest” part of business surveys, for both goods (manufacturing) and services (non-manufacturing) has been “prices”.⁹



Total job growth has stalled in 2025. Ex- healthcare and social services, jobs growth has been negative in recent months. Job openings are falling. The weakest part of business surveys (above) has been “employment”.



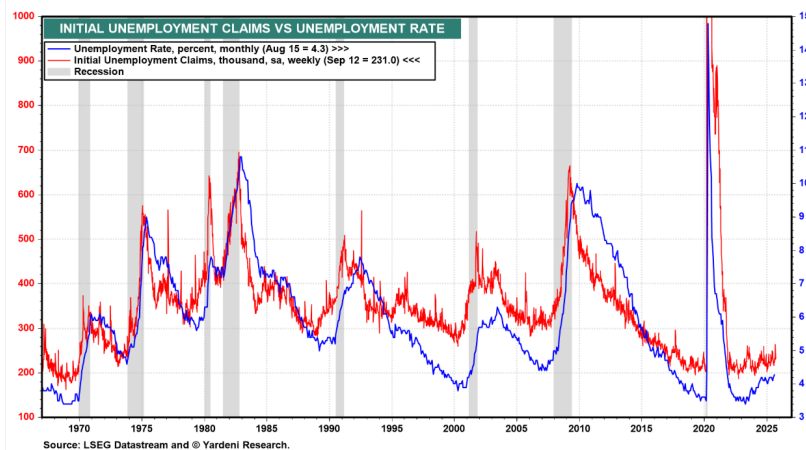
Charts from BCA Research

⁸/ One bp or “basis point” is 1/100th of one percentage point. Thus 100 bp is one percent.

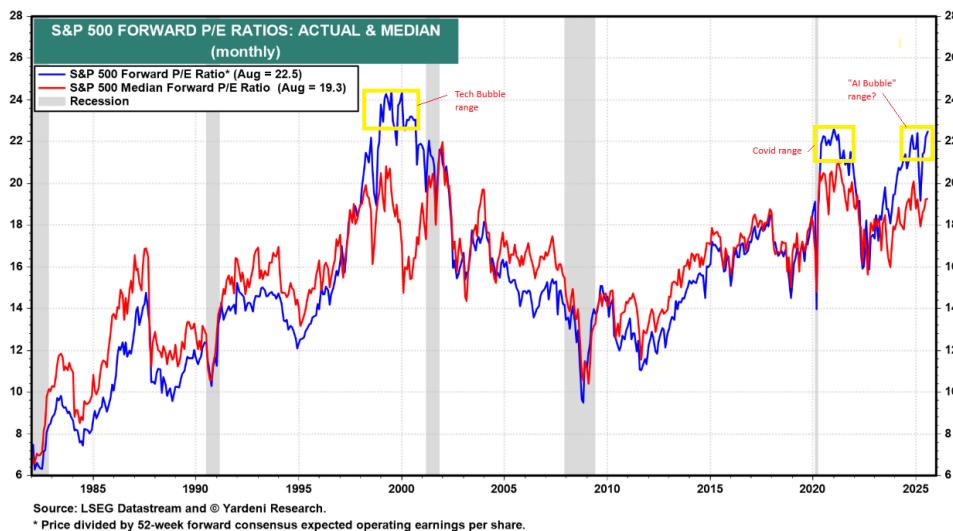
⁹/ Inflation in housing services, however, continues to decline.

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The unemployment rate is still low, but starting to rise. Initial unemployment claims are low but continuing claims (not shown) are rising as job-seekers confront weaker hiring.



The S&P 500's valuation has reached the Covid highs and is approaching the 2000 Tech Bubble range.



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