

3RD QUARTER 2025 MARKET OVERVIEW

THE STOCK MARKET MARCHES HIGHER BUT FOR HOW MUCH LONGER?

Investors have a lot to be happy about, particularly considering the swoon that happened earlier this year. Stocks have been sailing higher, since then. For the third quarter, the S&P 500 notched an 8.1% gain and is now up 13% for 2025.

Still, there are reasons to fret. Have the gains gone too far? Many people feel the market is overvalued by calculable metrics. Historical measures would even suggest it is not sustainable.

Skeptics also lean on the usual dynamic. Inflation. It is an inescapable threat. The pending further Fed rate cuts might have the undesirable affects of increasing inflation and driving long term interest rates higher.

Concurrently, the economy is signaling softness. from an uptick in unemployment. Payrolls actually declined in their most recent report. This usually portends a slowing economy. The combination of inflation and a slowing economy is stagflation, the worst condition for the economy and the ultimate menace to Wall Street.

So far though, none of these concerns has weighed on stocks, as they calmly set record levels. Noted investment analyst, Bob Doll, conceded the paradox that "We are in a high-risk bull market." (WSJ 10/1/2025)

Here are the most troubling concerns for investors, today.

IS THERE A BUBBLE IN AI?

Bubbles pop. That is what history shows. Many liken the huge investment in AI facilities and software to the internet fiber buildout of the late 1990s. Back then, telecom companies spent over \$100 billion for fiber optic cables. This year's commitment alone to AI, by contrast, is estimated to be over \$1.40 trillion.

Nvidia and Broadcom are the flagship AI providers. Recently, Oracle revealed noteworthy developments for AI support. The other high tech behemoths are also heavily involved.

The hard issue is whether these investments will pay off. Morgan Stanley estimates total AI revenue was \$45 billion last year from subscription fees. This is far short of the \$2 trillion annual revenue consultants say the current AI spending boom will require by 2030. Can this gap be closed?

While it seems certain that shake outs to AI stocks will happen, who can afford to miss out on the most transformational investment theme of our lifetime?

While concern over a bubble is warranted, we generally subscribe to the Wall Street adage of "Don't fight the tape" and continue to hold an appropriate amount of investments in AI.

WHAT IS GOING TO HAPPEN TO MY MONEY MARKET FUND?

Last year, money market securities yielded 5.5%. Today, they have fallen to around 3.5%. With further Fed cuts on the horizon, it is likely money markets rates will dip below 3%, in the near future.

Money markets have been an attractive place to park cash. They offer a viable, risk free return. They are a buffer to a stock market drop. They also provide dry powder to buy on the dip. Now that money market rates are falling, the attractiveness of this haven is diminished.

Alternatives to money markets are dicey. Investing in bonds can secure a higher rate, but elevated inflation worries are detrimental to those securities. Alternatively, a bolder allocation to equities would make accounts more vulnerable if the stock market fell.

Deft investment management will be needed to preserve a high yield from non stock market investments.

HOW CAN MY ACCOUNT KEEP UP WITH THE S&P 500?

Individual equities are the “mother’s milk” of investing. They are the nutritional foundation for the stock market as a whole. A single optimum stock holds vastly more potential than an index. These prospects are the incentive to build portfolios of individual names for clients.

We intend for our chosen basket of stocks to outperform the market. It is not always the case, of course. Segments of the market perform unevenly. Specific holdings in client accounts are projected to eclipse the performance of the broad market, but there are apt to be disappointing periods. When individual holdings for clients are suboptimal, it is expected that it will be temporary.

Another contributing factor to lagging returns during a pronounced market advance are due to non invested cash. We typically hold cash as a protective measure against market downturns but this can be a drag to growth. An example: if the market rose 20% in a year but an investor only had 50% of their assets in equities, they would only receive one half of the gain, which would be 10%.

We would stress our expectation is to keep pace with the S&P 500 in bull markets with corresponding resilience during downturns. We can regulate our cash level and reduce it if the market continues to act favorably. A bull market will naturally result in a greater weighting to equities.

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