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Legendary investor, Sir John Templeton, famously stated the four most dangerous words in investing are “This time is different.” Stock market valuations are at levels historically unprecedented, save for known bubble periods like the late 1990’s. Prudent investing is based on the ability to gauge an investments current and future earning power to determine relative upside, or downside risk. In other words, the price you pay for an investment is ultimately all important.

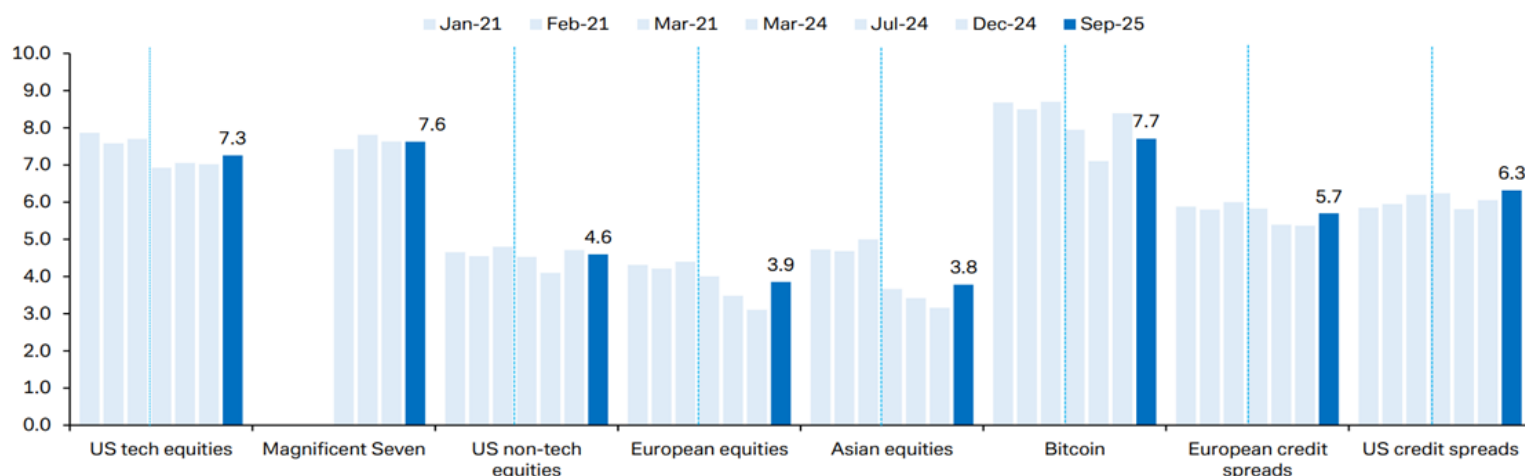
Looking at the data, the Shiller CAPE ratio, a data series going back to 1871, is the 2nd highest in history with only 1999 registering a higher level. The traditional S&P500 trailing twelve month price to earnings ratio is elevated but not quite as high as the CAPE ratio.

it is often a stampede to the exits, particularly for stocks deemed to be the most overvalued like the Magnificent 7 stocks.

A survey done by Deutsche Bank regarding which asset classes are near “bubble” territory reveals interesting opinions. US technology and the Magnificent Seven stocks are viewed as very overvalued while non-tech stocks and European equities are viewed as modestly priced. My guess is that Bitcoin investors do not see the cryptocurrency as anywhere near a bubble, only time will tell.

It is not only stocks that many analysts believe are trading at unsustainable levels. US corporate bond credit spreads, the difference in yield on investment grade corporate bonds compared to Treasury bonds, is at a 27-year low in September. Bond traders,

Figure 1: Preliminary survey results. “Looking at the following assets and using a scale of 0 to 10 where 0 means ‘No Bubble’ and 10 means ‘Extreme Bubble’, please tell us where you think these assets currently are?”



Source : dbDataInsights, Deutsche Bank Research

However, trading at 24 times trailing earnings, it would suggest compounded annual earnings growth of 15% per year for the next 5 years. If the economy were to falter, especially if there is a recession, equity prices would be massively overvalued.

“Markets are at unsustainable valuations, but it is impossible to know if prices will contract or earnings will surge.”

Reversion to the mean for stock prices is seldom time predictable but always present. The mood of investors definitely matters in the short-term for the stock market. When the mood is optimistic, investors often interpret ambiguous data positively and overlook negative data. The opposite is equally true, when sentiment sours,

anticipating a Fed rate cutting cycle, front ran rate cuts and drove yields down. If an uptick in inflation were to occur, a possibility given the ongoing tariff debate, fixed income investors could find themselves facing large losses.

Many are suggesting there is a rationale for higher equity valuations and investors should not be concerned. The rapid acceleration of AI and machine learning, they argue, will transform economies and increase productivity to levels that justify current valuations. There is no doubt that the advancements in quantum computing and AI are seismic for the economies, but I expect there to be as many “losers” as “winners” in the markets.

It is a challenging time for investors. Markets are at unsustainable valuations, but it is impossible to know if prices contract or earnings surge. I would be very cautious taking new positions in the current environment but holding investments that are trending higher, regardless of valuation, feels prudent.

Interpreting Payroll Data

Nonfarm Payrolls Print vs Revision



Source: U.S. Bureau of Labor Statistics

The September payroll report from the Bureau of Labor Statistics shows an alarming trend for the economy and trouble for the Fed. Official estimates were for an increase in payrolls of 75,000 but came in at only 22,000. More concerning, there were downward revisions of the June and July reports totaling 21,000 meaning there have been no net new jobs created since July. The labor force has continued to rise with 436,000 new entrants in the labor force causing the unemployment rate to rise to 4.3%. The slowing in hiring is likely to impact Fed decision making as seen in Fed futures with a rate cut in October going from just 52% before the report to 82% after the release and 60% for a 3rd rate cut from 24% prior.

- While wages have increased for employees, the number of hours worked each week has continued to fall. The average work week fell to 34.2 hours, lowest since 2010.
- Another sign of weakness is the number of people working part-time because they cannot find full-time work rose to 1.3 million, highest since the depths of COVID.
- Manufacturing sector shed jobs for the 4th straight month and construction for 3 straight months while retail, transportation and healthcare were only sectors adding jobs.

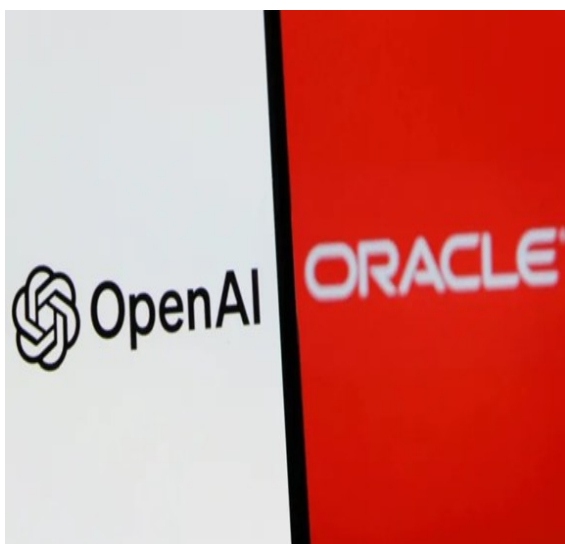
The EFA and a Weak Dollar



Dollar weakness has been a topic of conversation this year, particularly since Trump first imposed the tariffs in April. For investors who are allocated outside the US, dollar weakness has worked in your favor, assuming you are not currency hedged. The chart to the left depicts an investment in the MSCI EAFE Index, both on a hedged and unhedged basis. The performance difference between the two investments represents the year-to-date currency effects for developed markets. A roughly -10% decline in the US dollar this year has helped push the unhedged MSCI EAFE Index higher by roughly 25%. Can this trend continue?

- It has been eight years since the MSCI EAFE Index (unhedged) has outpaced the S&P 500 Index. In 2017, the US dollar weakened by -11%, which is similar to 2025. There are arguably multiple reasons why the US dollar could continue its decline.
- The Fed just cut interest rates, which could be the first of many in a larger cycle. Likewise, the flow through effects from the tariffs could lead to higher prices (i.e. inflation) in the near-term. Foreign demand for US dollars would wane and send the currency even lower. This would be a tailwind for overseas allocations.

America's AI Megaproject

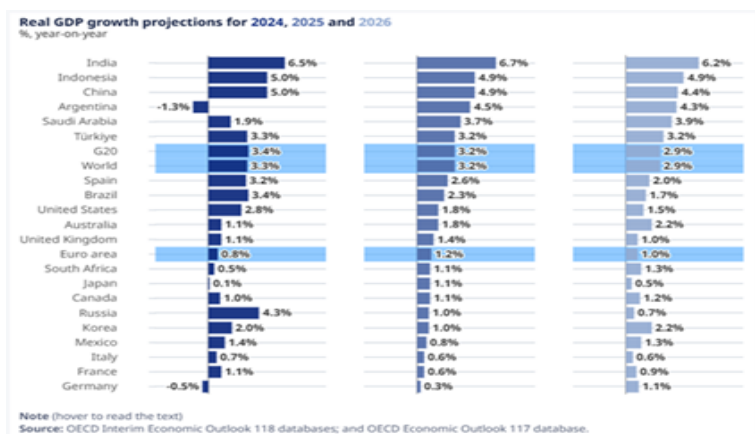


OpenAI and Oracle have launched the \$500 billion Stargate initiative to build out U.S. AI infrastructure, starting with a flagship data-center campus in Abilene, Texas. Equipped with Oracle Cloud and Nvidia GPUs, the site already has one building online and could scale past a gigawatt of power—enough for 750,000 homes. Five additional sites across Texas, New Mexico, Ohio and the Midwest will bring the program to nearly 7 gigawatts and \$400 billion of investment over the next three years. Oracle is financing construction, Nvidia is taking equity, and OpenAI will pay for compute as an operating expense. The project, announced alongside President Trump, is meant to anchor U.S. leadership in AI while reshaping power infrastructure and creating thousands of jobs.

- Stargate represents the largest AI data-center buildout ever attempted in the U.S. One building is already operational, with next-generation Nvidia chips slated to come online in 2026.
- Microsoft, Google, and Amazon are simultaneously expanding hyperscale data centers and developing custom AI chips. These moves reflect a global rush to secure compute capacity, echoing the early internet's infrastructure boom.

Macro View – Growth forecast lifted by OECD

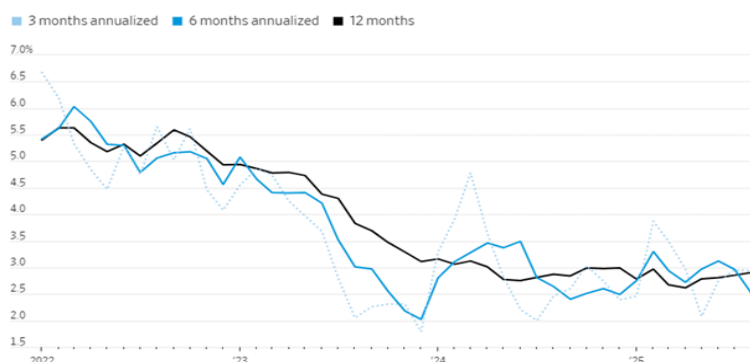
The OECD raised its 2025 global growth forecast to 3.2% (from 2.9%), citing stronger-than-expected resilience in emerging markets, AI-driven investment in the U.S., and Chinese fiscal support offsetting property-sector weakness. U.S. growth is now seen at 1.8% in 2025 (down from 2.8% in 2024) and 1.5% in 2026, while global growth for 2026 stays at 2.9%. However, the OECD warned of “significant risks,” especially from sweeping U.S. tariffs now reaching an estimated 19.5%—the highest since 1933. Many changes are still being phased in, creating inflationary pressures, softer labor markets, and higher costs for firms worldwide. It projects G20 inflation at 3.4% in 2025 (U.S. 2.7%) and flagged potential headwinds from further tariffs, financial repricing, and fiscal strains, while noting upside from easing trade restrictions or faster AI adoption.



Fixed Income – Steady Core Inflation

Core inflation stayed nearly flat in August, reinforcing expectations that the Federal Reserve will continue cutting rates this year. The personal consumption expenditures (PCE) index rose 0.3% for the month, with headline inflation at 2.7% and core PCE at 2.9% annually—matching forecasts. Personal income rose 0.4% and spending 0.6%, both above estimates, while the savings rate increased to 4.6%. Goods prices were up just 0.1% but services rose 0.3%, with food and energy posting stronger gains. Despite President Trump’s tariffs, consumer prices show only limited pass-through effects as companies manage costs. The Fed, which targets 2% inflation and uses PCE as its key gauge, already approved one rate cut and projects two more this year, with markets strongly betting on another in October.

Core PCE inflation, past...



Taking Stock – Bears Valuation Soars

OpenAI has launched a new “study mode” within ChatGPT to support student learning by promoting critical thinking rather than simply giving answers. Aimed at the one-third of college-age users already engaging with ChatGPT, study mode guides students through problems step-by-step using prompts and reflective questions. The feature was co-developed with input from educators, scientists, and student users from ChatGPT Lab. A demo showed how students are asked to explain concepts in their own words after working through multi-step processes. OpenAI’s goal is to shift the tool from an “answer machine” to an educational assistant that enhances academic performance. Study mode is now available to all users, including Free, Plus, Pro, and Team tiers, and will be integrated into ChatGPT Edu soon. The launch follows CEO Sam Altman’s recent comments about AI’s potential to transform education.



Technical – Due for a pullback?

The S&P 500 Index, represented by the SPDR S&P 500 ETF (SPY), has been on strong uptrend from its April lows, with price currently around \$658.05. The 20-day SMA (~\$654.80) is acting as near-term support, with the 50-day SMA (~\$643.70) offering a deeper support level. The 200-day SMA (~\$599.57) underpins the longer-term bullish trend. The purple line drawn across the highs suggests an ascending resistance channel; SPY is testing that upper boundary now, which could cap upside momentum in the short term. If SPY can break and hold above this trendline, it opens room toward the \$670–\$680 area. Conversely, failure to hold the 20-day SMA could see a pullback toward the 50-day SMA (~\$644) or even \$625–\$630 support from August consolidation. Overall, momentum remains positive but slightly extended, making a near-term pause or pullback plausible.



Buy Write Strategies for Income

Clint Pekrul, CFA

In a low yield environment investors are seeking ways to boost their income. Ever since the financial crisis of 2008 central banks around the world have suppressed interest rates through various schemes, such as quantitative easing.

The outlook for savers - that is investors who live primarily on interest income - improved somewhat prior to COVID when the Federal Reserve began raising interest rates. But this changed in 2020 as rates were again taken to zero. The response was inflation and in 2022, interest rates reached levels not seen in nearly 15 years.

Today, the outlook for savers today is better than just a few years ago. A portfolio of investment-grade bonds of intermediate maturity can generate a current yield of roughly 4%, which covers inflation (as measured by CPI). Still, investors who are willing to assume additional risk can be reasonably compensated with additional yield. Examples include high-yield bonds and private credit.

Buy Write

One option that is somewhat overlooked for generating additional income is a buy write portfolio. The strategy essentially holds, or buys, a portfolio of underlying stocks and simultaneously sells, or writes, options on the same underlying securities. The goal is to provide a consistent stream of income with some potential for long-term capital appreciation.

When constructing a buy write portfolio, the first step is to select the underlying basket of publicly traded stocks. This basket can replicate a broad index such as the S&P 500 or represent a portfolio of actively selected stocks based on some criteria.

The securities in the underlying basket are generally larger capitalization stocks with significant trading volume and, obviously, listed options. In general, the largest buy write portfolios in the market today draw from the S&P 500 Index universe of listed equities, with some managers applying pure beta exposure to the index and others applying an active stock selection process.

Once the stock portfolio is established the manager then sells, or writes, call options on the underlying positions to generate premium income for the portfolio's investors. When the manager writes an option they collect a premium, or payment, from the counterparty that buys the option.

From the manager's perspective, the hope is that the option they've written expires out-of-the money and they therefore retain both the premium they've collected and retain the underlying stock position against which the option was written (i.e., the stock does not get called away).

This buy write process creates a compelling strategy for current income. Some of the largest buy write portfolios available today generate distribution yields of 7 to 8% (compared to a current T-bill yield of approximately 4%). Furthermore, buy write strategies are highly liquid. By definition, the underlying stocks in a buy write strategy must have sufficient volume for listed options.

Of course, there is no free lunch. Investors should not expect equity-like returns from a buy write strategy. In other words, investors should not expect all the upside capture of a long-only equity portfolio (e.g., an S&P 500 Index fund) while simultaneously collecting the option premiums. The current income the strategy provides comes at a cost in terms of potential capital appreciation.

In a rising market, the call options that were sold will likely finish in-the-money. Therefore, the manager who sold the options must deliver the underlying stocks to the option buyer and forego the upside capital appreciation. While the buy write manager retains the option premiums, the foregone capital appreciation will likely result in underperformance against an index such as the S&P 500.

Conversely, in a declining market, the option premiums can provide a buffer against capital losses. In this scenario, the options that were sold will likely finish out-of-the money. The manager will retain the option premiums which will somewhat offset the losses on the underlying equity portfolio.

Another consideration of a buy write strategy is how the periodic income it generates is typically not highly correlated with traditional fixed income investments. For example, a buy write strategy could provide a rising or steady income stream when the income from a traditional bond portfolio could be falling (and vice versa).

Historically, there's been a low correlation between buy write income and that generated from rates (Treasuries) and credit (high yield). This suggests potential diversification benefits of incorporating a buy write strategy into an overall income producing portfolio.

Q: How is the US Dollar likely to be impacted by the Fed initiating a rate cut cycle?

All else being equal, a country's currency typically moves inversely with the direction of interest rates. Higher interest rates provide more income for holders of that currency so when rates fall, so does relative income making the currency less attractive to foreigners. When the Fed cuts rates, the typical relationships do not always hold given the US still maintains the reserve currency for the world. The dollar has fallen about 9% against a basket of currencies since the beginning of the year, but much of that is likely an adjustment after a couple of years of strong gains by the greenback. Another consideration is that the Fed is not the only Central Bank cutting rates so any typical impact is offset by what other countries are doing. My last comment would be to consider what policy goals might also be coming into play. Trump has been clear that he believes the dollar is too strong and that is inhibiting economic growth and exports. A weaker US dollar makes US exports more affordable overseas and presumably lifts economic growth and profits in the US. Currency markets are among largest and most liquid of all financial markets and are not easily manipulated by any country or Central Bank. The bully pulpit has little impact on where currencies actually trade so I expect the weakness in the dollar since January to have fully priced in the Fed rate cuts and the dollar remains relatively stable over the next 12 months.



Historically, there has been a positive correlation between interest rates and the relative value of the USD. When the Federal Reserve raises interest rates, it tends to attract foreign investment in dollars if rates in the US are higher than those overseas. Conversely, when the central bank lowers rates, there is less demand for USD relative to other currencies. There are lag effects to this relationship and other factors to consider, such as inflation and fiscal policy. If the expected rate of inflation in the US is above target or expected to rise, foreign investment in US dollars might be weaker than in an otherwise low inflation environment. We still don't fully understand the long-term consequences of Trump's tariffs with respect to inflation, considering the lag effects between when the tariffs are implemented and how they are passed on to consumers via higher prices.

Likewise, the long-term fiscal outlook seems tenuous considering our current deficits and spending. The dollar index is lower by roughly -11% since the beginning of the year and approximately -14% since late 2022. A further decline, or weakening, would not be too surprising considering the Fed's recent cut (perhaps the first of many) and the overall outlook for inflation.

Q: Should investors be concerned about a potential government shutdown?

I do not think so, for several reasons. Most importantly, I think there is a lot of political fatigue, not only for the markets, but for the country as a whole. Gallup tracks approval ratings for virtually all institutions, including Congress, and it is not a pretty picture. As of August 2025, only 26% of Americans claim to approve of the job Congress is doing. There is so much political vitriol, on both sides of the aisle, that the markets largely ignore what happens there. Another reason to not be concerned is what history suggests when there have been government shutdowns. The last several shutdowns have not impacted the economy or the markets with stocks higher both 6 and 12 months following each episode. Government shutdowns have also become far more frequent over the last decade making them less worrisome for everyone except the politicians who cause them. At the end of the day, everyone on both sides know a solution is evidentially reached and no critical services go unmet. If there is any risk with the shutdown, it would likely be bad policy that may come out of any compromise reached to keep the government funded. Investors should be far more concerned with the slowing economy, historically high valuations, souring investor sentiment, and uncertainty about Fed policy going forward. In short, investors have plenty to be concerned about, just not what is happening in Congress.



We have been down this road before with government shutdowns occurring during Trump's first administration in 2018-19, under Barack Obama's second administration in 2013 and during the Clinton administration in the mid-1990s. A government shutdown has never been disruptive to the overall market. In general investors have historically shrugged it off with the assumption that whatever political disagreement that caused the shutdown would ultimately be resolved. Politicians use the shutdown to coerce the other side to get what they want, but it's generally assumed that a shutdown will not be taken to such an extreme as to wreak havoc with the overall economy. Doing so would be committing political suicide.

If we do indeed enter a government shutdown, one consideration is the potential for higher unemployment. President Trump has hinted to considerable layoffs should the government close its doors. The timing and duration of a shutdown will matter, especially if it is drawn out over several weeks or a month (the shutdown of 2018-19 lasted over 30 days). This would impact GDP and potentially the overall market. Ultimately, federal workers would return to their jobs, so the effects would likely be short lived. In the near term, however, there could be flow through effects for investors.



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