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No one can argue that AI is a generational transformation for the global economy and markets. Billions have already been spent on AI infrastructure to date and estimates from consulting firm Gartner suggest spending by 2030 could reach a staggering \$1.4 trillion. This raises legitimate questions of whether that much spending can ever be monetized in terms of future earnings.

Earnings will always be heavily influenced by the macroeconomic environment in which growth is either accelerating or declining. The rapid adoption of AI models in the corporate world is impacting the economy in ways that are very different from past technological innovations. For example, Capacity Utilization has dramatically fallen in the US, EU, and China over the last 3 years as seen in the chart. Falling Capacity Utilization historically results in low productivity growth that presumably would create a drag on future earnings. When capacity is low, employment is weak and capital expenditures tend to fall off a cliff as companies do not need new equipment when not operating anywhere near capacity, particularly for factories, refineries and mining operations. At the same time, there is contraction in construction spending with residential, multi-family, and commercial weakening employment.

AI is very different than past innovations which led to increased demand for labor, capital and natural resources. The spending on AI is skyrocketing but benefits a very narrow segment of the economy. Entire industries are becoming obsolete such as call centers, data entry and analytical positions. Entry level analytic and underwriting roles in finance and insurance industries are disappearing en masse and recent college graduates are struggling to find expected opportunities. The business model of AI, using machine automation in lieu of human labor, will lift profitability for companies who benefit and increasingly shift income from households to corporations. This will have implications on everything from monetary and fiscal policy decisions to inflation and programs like Social Security that will likely see inflows reduced.

The actual lift in productivity associated with AI is a hotly debated subject. Groups like Gartner and McKinsey expect as high as 40% of global jobs to be impacted by AI and generate nearly \$20 trillion of GDP annually worldwide. More conservative estimates are being made by Goldman and MIT Sloan School professor, Daron Acemoglu, who predict only 5% of jobs around the world will be replaced by AI over 10 years. There is equally a wide range of

expected benefit AI will provide for waste and fraud prevention. The environment is growing eerily similar to what was experienced in the late 1990's with the dot com bubble.

It was universally agreed that the internet was going to change the world and it did. Companies involved in the early stages of the internet saw their stock prices skyrocket as valuations were based on expected land grabs more than actual earnings potential. However, when the dot com bubble burst, it left carnage everywhere. The suppositions about the impact the internet would have on the future were accurate but it was anything but a smooth ride for investors who speculated on who would win and who would lose.

We know Amazon as one of the most dominant companies in the world today and in the late 1990's they were a market darling. When the bubble burst, Amazon lost 95% of its value and only regained its 1999 market cap more than 10 years later. Many investors found it difficult, if not impossible, to stay with a company through a 95% stock crash. Many other companies, like CMGI or JDS Uniphase, were among the 10 largest companies traded on the Nasdaq and never recovered after the tech bubble burst. Yahoo dominated the search engine business until a small startup named Google entered

the fray. Picking which companies will survive and win in the AI era is likely to be just as difficult as during the onset of the internet.

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AI has massive investment implications for investors. It may be as transformative as the internet, but likely will be just as uncertain which companies are rewarded in the future. So much is being spent on AI infrastructure and I assume much of it will ultimately be wealth destruction rather than wealth creation. The impact of the internet on the economy was modest until the smart phone was developed, and everyone could carry a computer in their pocket. There would be no Uber and hundreds of other companies without the onset of the smart phone. If you choose to invest in the AI revolution, my advice is to learn from the past and wear your seatbelt low and tight.

U.S. and Global Capacity Utilization				
		Peak	Latest	% Change
		1.	2.	3.
1.	U.S.	81.1	77.4	-4.6%
2.	Euro Area	82.9	77.8	-6.2%
3.	China	77.9	74.0	-5.0%
4.	Global Aggregate	79.1	74.8	-5.4%

Source: Federal Reserve, European Commission, Haver Analytics, Ministry of Economy, Trade & Industry, Piper Sandler. Global aggregate includes Japan and U.K.

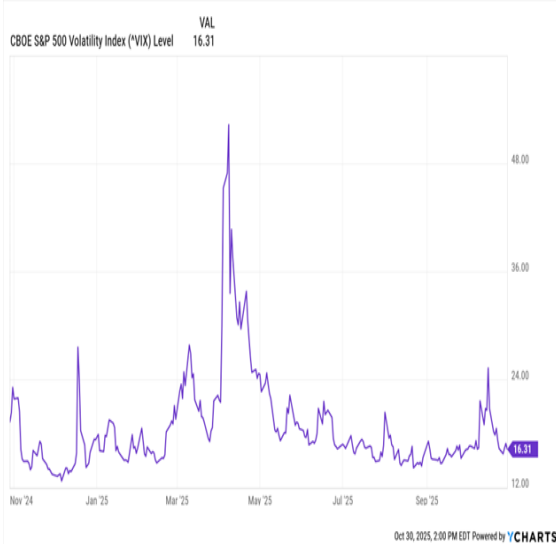
Is Gold losing its Luster?



It was not long ago when “goldbugs” were curmudgeonly old men who bought the yellow metal as a safe haven because the world was going to end as we know it. You did not own gold to necessarily make money, you owned it because when the Fed finally succeeded in destroying the value of the US dollar, you had an alternative currency. Those days are long gone. Even after a sharp reversal from the October highs, gold has still outperformed Nvidia, Bitcoin and the S&P 500 on a YTD basis. At its peak, gold was up more than 60% in 2025, hardly resembling a safe haven asset. Taming geopolitical issues and war along with some optimism about US-China trade relations have seen gold fall but bullishness remains at elevated levels.

- After rising almost 30% in just 2 months, gold was very overbought at \$4,356 but many analysts see \$3,970 as an attractive entry level given global uncertainty.
- The UBS precious metal analyst has a target for gold at \$4,700 by the end of 1Q2026 based on strong macroeconomic, fundamental and momentum factors.
- A Bank of America gold analyst last week reiterated their “long gold” recommendation to clients forecasting a peak of \$6,000 for the metal middle of 2026.

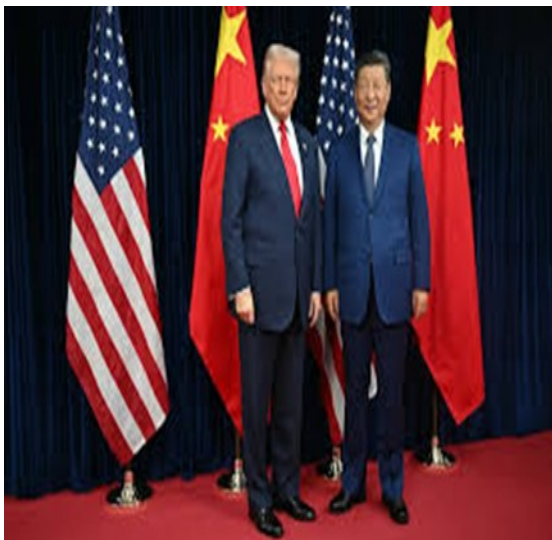
Where’s the Volatility?



Considering we are in the midst of a government shutdown and what appears to be a reset in the housing market, it is quite remarkable how subdued market volatility has become. According to the CBOE VIX Index, which measures implied volatility for the S&P 500 Index based on listed options contracts, stock market volatility is below historical levels. After a spike in April amid the tariff talks, the VIX has been relatively tame for much of the year. A current VIX reading of roughly 16 is modestly below the long-run average. Investors have enjoyed a peaceful rally to new highs for the S&P 500 Index.

- Perhaps investors have grown too complacent. It’s not uncommon for stocks to experience prolonged stretches of relatively low volatility, only to be followed by a “shock” event that will send the VIX soaring higher, much like we saw in April. For now, investors are discounting the government shutdown and its potential effects on the economy.
- The future for the VIX, at least in the near term, will likely hinge on how the AI trade materializes. Considering the capital investment companies have made in developing AI models and infrastructure, any disappointing return on investment could have cascading effects, particularly considering how concentrated the indexes have become.

US-China Trade Tensions



President Donald Trump and Chinese President Xi Jinping reached a one-year trade truce in South Korea, easing tensions over China’s rare earth export controls that had threatened to escalate into a broader trade war. China agreed to pause its export restrictions for a year, while the U.S. will cut tariffs on Chinese goods and delay blacklisting certain Chinese firms. Both sides also agreed to suspend port fees for one year. Trump described the rare earths deal as one likely to be “routinely extended.” Analysts noted that China leveraged its dominance in rare earths to gain concessions, with some suggesting Beijing came out ahead. While the truce reduces immediate risks, experts warn it is not a comprehensive resolution, leaving key issues—like agriculture, energy trade, and fentanyl cooperation—unclear amid ongoing strategic rivalry.

- Higher tariffs have increased costs for American manufacturers reliant on Chinese components, squeezing profit margins and raising consumer prices on goods such as electronics and vehicles.
- Tariffs have weighed on China’s export sector, contributing to slower industrial output and weakening business confidence, particularly among firms tied to global supply chains.
- After the meeting with Xi, Trump said the U.S. would cut fentanyl-related tariffs in half, to 10%, and overall duties on Chinese goods to around 47%, while China would drop planned restrictions on rare earth minerals for a year, likely with routine extensions.

Quinn VandeKoppel

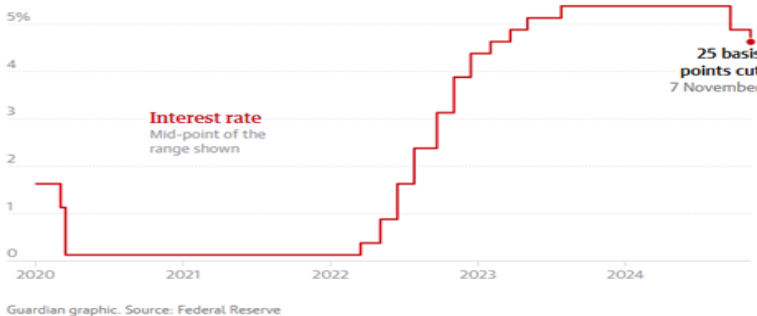
Macro View – Ongoing Shutdown

The U.S. federal government shutdown, now in its fourth week, could cost the economy up to \$14 billion, according to the Congressional Budget Office (CBO). In a letter to House Budget Chair Jodey Arrington (R-TX), CBO Director Phillip Swagel estimated GDP losses of \$7 billion if the shutdown ended now, \$11 billion for six weeks, and \$14 billion if it continues for eight weeks. The CBO attributed the damage to federal furloughs and reduced productivity, warning that some losses may be permanent. Meanwhile, lawmakers remain at an impasse. Sen. Thom Tillis (R-NC) said no progress has been made, while Sen. Ron Wyden (D-OR) accused the White House of halting talks. The U.S. Department of Agriculture has also warned it will suspend SNAP food benefits on Nov. 1 if the shutdown persists. At the center of the standoff are Democratic demands to extend ACA health subsidies, which Republicans oppose.



Fixed Income – Fed Cuts Rates Again

The Federal Reserve cut interest rates for the second consecutive time, lowering its benchmark rate to 3.75%-4%, but Chair Jerome Powell signaled uncertainty about another cut in December. The 10-2 decision reflected growing divisions within the committee, with some officials pushing for a larger cut and others preferring no change. The Fed also announced it would end its quantitative tightening program on December 1, halting reductions to its \$6.6 trillion balance sheet. Powell cautioned that another rate cut “is not a foregone conclusion,” citing mixed views among policymakers. The move came amid limited economic data availability due to a government shutdown, leaving the Fed with incomplete visibility into employment and inflation trends. Despite inflation remaining above target at 3%, markets initially rose but turned lower following Powell’s remarks. Investors now see a 67% chance of another rate cut in December, down from 90% before the meeting.



Taking Stock – Different this Time Around

Federal Reserve Chair Jerome Powell said Wednesday that the current artificial intelligence (AI) boom differs significantly from the dot-com bubble of the late 1990s. Speaking after the Fed’s policy meeting, Powell noted that today’s leading AI companies “actually have earnings,” unlike many dot-com firms that collapsed after years of losses. He added that AI-related investments in data centers and semiconductor chips are major drivers of economic growth. While Powell didn’t name specific firms, Nvidia—now the world’s most valuable company with a \$5 trillion market cap—has fueled much of the rally through its dominant position in AI hardware. However, not all AI players are profitable: OpenAI and Anthropic continue to burn cash despite enormous valuations and revenue growth. OpenAI has secured \$1 trillion in AI deals while generating \$13 billion in revenue, and Anthropic, at a \$7 billion run rate, recently announced a \$50 billion cloud partnership with Google.



Technical – Double Top

Microsoft (MSFT) is showing signs of a potential short-term reversal following the formation of a double top near the \$560 level, a bearish pattern that often signals weakening momentum after repeated failures to break resistance. The stock is currently hovering around key support near \$520–\$525, which aligns with the 20-day SMA, while the 50-day SMA (~\$513) offers secondary support. A decisive break below these levels could confirm the double top and signal downside potential toward the \$490–\$500 range. Despite this short-term bearish setup, the broader trend remains bullish, supported by the ongoing uptrend and the 50-day SMA trading above the 200-day SMA (a golden cross). Volume has also increased during the recent pullback, suggesting elevated selling pressure at resistance. Overall, MSFT faces near-term consolidation risks but retains longer-term structural strength.



Asset Class Performance

Clint Pekrul, CFA

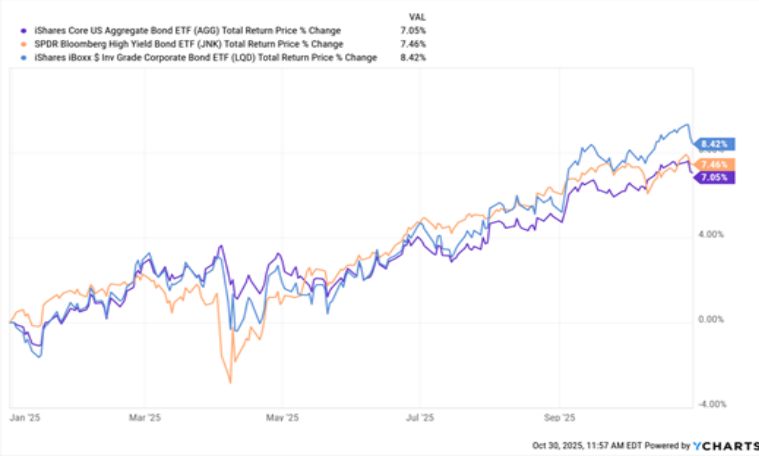
Most indexes are higher for the year after tumbling in early April amid the tariff talks. Markets overall have proven resilient despite concerns over the prospect of higher inflation and a prolonged government shutdown. At this point it appears likely that the Federal Reserve will implement at least one additional interest rate cut given the most recent CPI print. A rate cut could boost asset values further for the year.

Domestic Equities



For the year, the benchmark S&P 500 is higher by roughly 18%, including dividends. The index is on pace to deliver double digit returns for the year with below average volatility since the tariff tantrum in April. The index is higher on the backs of mega-cap growth-oriented stocks and the continuing capex surrounding AI and data centers. The NASDAQ (QQQ) is higher for the year by roughly 24%, surpassing the broader S&P 500 Index. Meanwhile, small-cap stocks as measured by the S&P 600 Index are higher for the year by roughly 4%. The underperformance relative to large-cap stocks is not too surprising given the prospects of a potential recession. Historically, small-cap stocks are more sensitive to the business cycle.

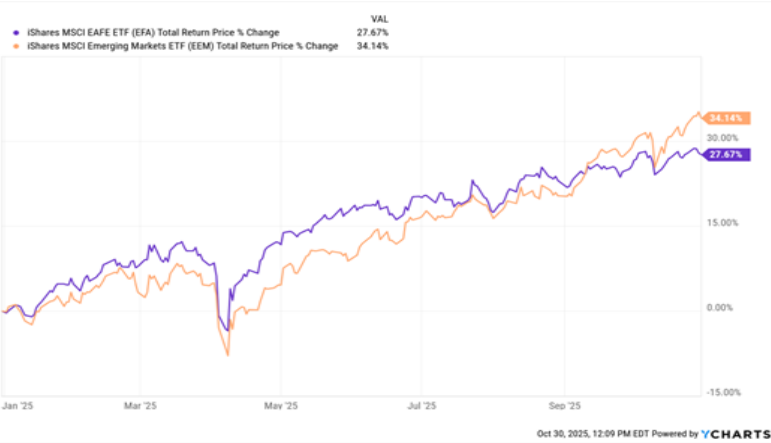
Fixed Income



Investment-grade fixed income is higher by roughly 7% for the year, as measured by the Bloomberg Aggregate Bond Index. Prices are higher against a backdrop of lower interest rates.

Meanwhile, high-yield bonds are higher for the year as credit conditions remain favorable overall. The rally in below-investment-grade bonds could spark concerns about frothy valuations as credit spreads remain at historically tight levels. Investors might not be adequately compensated for the credit risk they assume in the asset class.

International Equities



International equities continue to shine. For the year, the MSCI EAFE Index, which measures the returns of developed market equities outside the U.S., is higher by roughly 28%. Much of the gain in developed markets for U.S. investors has been driven by a weaker dollar. Indeed, the ICE U.S. dollar index is lower by approximately -10% for 2025 as investors have priced in the deterioration in the nation’s fiscal outlook.

Meanwhile, the MSCI Emerging Markets Index is higher by roughly 34% for the year, marking the index’s best year-to-date return in over a decade.

Turning to commodities, gold has rallied by approximately 50% year-to-date, although the precious metal recently has experienced a pullback. The rally in gold goes together with recent dollar weakness. The rise in gold is perhaps a reflection of investor sentiment about the sustainability of our current fiscal condition. Record deficits and government shutdowns could continue to fuel the rise in gold.

Overall, markets have proven resilient this year with below average volatility. However, conditions can change quickly. We remind investors to remain diversified and maintain a long-term time horizon.

Q: What is the housing market telling us about the economy?

Housing in general is closely tied to the overall economy because it measures both the confidence and ability of consumers to buy the homes they want to live in. Recent data published by Moody's using their latest AI modeling, suggests the correlation between housing permits as a leading economic indicator and recessions is stronger than any other factor. If true, the economy could be headed for a rough patch as the data is not pretty. Housing permits have fallen off a cliff with single family home starts down 7% from August 2025 and total housing permits down more than 11% from August 2024 figures. The last time housing permits fell this low was during the pandemic lockdowns. Housing affordability is a real concern in most markets with mortgage rates remaining high and lending standards tightening. Housing makes up more than 5% of the non-farm payrolls in the US so a slowdown is meaningful to the economy.

The outlook for housing remains muted with the Fed likely to pause rate cuts after the expected cut at the end of October. Job cuts and layoffs in the corporate world are growing as evidenced by Amazon announcing they are reducing headcount by 14,000 corporate workers. Lender initiated foreclosures are 16% higher today than October 2024 and repossessions are up 33% over the same period according to property data firm ATTOM. I know there are many who have been calling for a recession for more than 2 years but housing may just be the data point that suggests the economy will stall and experience a mild recession by early 2026.



If you recall five years ago during the onset of the COVID pandemic, the Federal Reserve took interest rates to essentially zero and the 10-year Treasury rate sunk to below 1%. Consequently, housing prices soared and would be buyers could get affordable mortgages. The effect of ultra-low interest rates might have helped us avert a financial catastrophe, but in hindsight the easy money policy caused dislocations in the housing market. As prices soared against a backdrop of limited inventory, many potential buyers were ultimately pushed to the sidelines. Ultimately, the monetary and fiscal policies unleashed in 2020 proved to be inflationary. Fast forward to 2022 and the Federal Reserve was forced to tighten interest rates. Suddenly the affordable mortgages became much more expensive. It appears that the housing market has shifted somewhat from a seller's market to a buyer's market after favoring sellers for some time. I'd expect prices to come down somewhat as more of a general reset post COVID. However, we're nowhere near as leveraged as we were in 2008. In fact, owners are sitting on trillions in equity. The housing reset we are going through now doesn't seem like a looming crisis or threat to the overall economy.

Q: Who are the biggest winners and losers with the Government shutdown?

Let's be honest, there are no winners in this imbecilic game that Washington politicians are playing, only losers. Trying to leave politics aside, the commonsense approach which has been employed on numerous prior shutdowns, is to pass a clean Continuing Resolution that keeps funding at existing levels until a new budget is passed. It is in the new budget process that the give and take between parties and competing interests occurs. The political right wants their projects and priorities funded and the political left has their agenda. Historically, when time runs out on a fiscal year, the sides agree to keep funding constant until the new budget is agreed upon. It is speculated that because Senator Schumer was viewed as having capitulated during the last government shutdown, he is taking a hard line this time and demanding concessions from Republicans to keep the government funded. Both sides do daily press conferences accusing the other side of being unreasonable, but I think the general public will lay blame equally on both sides. The only reason not to fund the government, the Democrat stance, is because you do not think your arguments or priorities will prevail in the budget process. The biggest losers may be incumbents who are in competitive districts or States. This type of "all or none" politics should result in a groundswell of support for term limits and voting people who have been in Congress for decades out.



The obvious losers in the shutdown are all the furloughed workers who are not currently receiving a paycheck. While it's true that they will likely receive back pay once the shutdown ends, in the meantime these furloughed workers are feeling the brunt of the pain. Likewise, there are several government programs that people depend on for daily necessities that will likely face a funding shortfall. Likewise, businesses that rely on government contracts for revenue will feel the pain. Small businesses in particular are susceptible to the shutdown. As for winners, or those least affected by the shutdown, are businesses and workers who are not employed or affiliated with the government. Of course, politicians will try to play the blame game and take credit for "fixing" the shutdown they ultimately helped create. Ultimately, it could be all of us who feel the effects of the shutdown to some degree, particularly if our GDP takes a hit. Some of the economic losses associated with the shutdown might never be fully recovered. Lost productivity, delays in federal spending and reduced consumer demand could be felt throughout the economy. However, it's unlikely that the shutdown will derail the economy.



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