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Hollow Brook Quarterly Roundup

3Q 2025

Market Overview

> "The years teach much which the days never know"
>
> ~ Ralph Waldo Emerson

Emerson's quote is a useful lens for today's environment. Markets are setting new highs, artificial intelligence continues to dominate headlines, and policy developments, from trade negotiations to interest rate shifts, are moving quickly. On the surface, the outlook appears strong: stocks ended the quarter at record highs, earnings are solid, innovation is accelerating, and central banks have taken on a more accommodative tone.

But underneath these encouraging signs lies a tension and uncertainty that begs questions that will take time to answer. The most recent example being the sudden reemergence of tariff threats.

This is why we invest leveraging asymmetry in the market. We are not trying to predict what the days will bring. We are building portfolios designed to benefit from favorable outcomes over time while protecting against the unfavorable ones – all in support of a plan. Right now, that philosophy matters more than ever, as we navigate the forthcoming questions and more.

Will the AI boom deliver lasting returns, or prove to be another cycle of overbuilding?

Optimism is widespread and comparisons to the dot-com era are growing louder as market valuations are rich. The S&P 500's price-to-book ratio now sits at 5.3, slightly above the 5.1 level reached during the dot-com peak in 2000. That comparison naturally raises questions about whether we are in similar territory.

The answer is not black and white. Today's market leaders differ fundamentally from those of the late '90s. Back then, 199 internet companies collectively worth $450 billion generated only $21 billion in revenue while incurring $6.2 billion in losses. In contrast, today's market leaders are profitable and generate cash.

Last quarter, S&P 500 earnings rose 11.7%, triple what analysts expected, with the "Magnificent 7" reporting 26.6% earnings growth. The Information Technology sector grew earnings by over 20% year-over-year, with semiconductors earnings rising 45%. So yes, unlike the dot-com era, today's elevated prices rest on real earnings. **But despite these strong earnings, there is still tension.** Since ChatGPT's launch in late 2022, AI-linked companies have driven 75% of S&P 500 returns,

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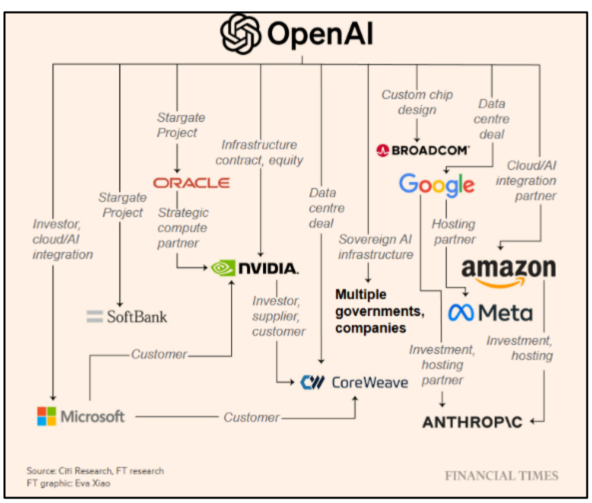
80% of earnings growth, and 90% of capital spending growth. Ten stocks, just 2% of the S&P 500, now make up 40% of the index's value, the highest concentration on record. Nvidia alone is nearly the size of Japan's entire Nikkei 225 index.

This has led to the S&P 500 trading at 22.8x forward earnings, 134% above the 30-year average of 17x. While valuation alone is not a clear predictor of overreach, it raises a key question: Can earnings keep pace to support these elevated prices, or are we entering a stretch where expectations outpace reality? This is especially important to consider given that the large tech firms driving markets higher are shifting from capital-light software models to capital-heavy strategies, investing billions in infrastructure, chips, and compute capacity.

And the AI ecosystem itself shows signs of circularity: Nvidia invests $100 billion into OpenAI, who signs a $300 billion compute deal with Oracle, who turns around and buys Nvidia's chips. Now, OpenAI is said to buy up to 10% equity in AMD, and the list goes on.

This shift prompts a broader reflection: are markets underestimating the risks that come with this capital-heavy transformation? Has market concentration become too unbalanced, leaving returns dependent on too few companies?



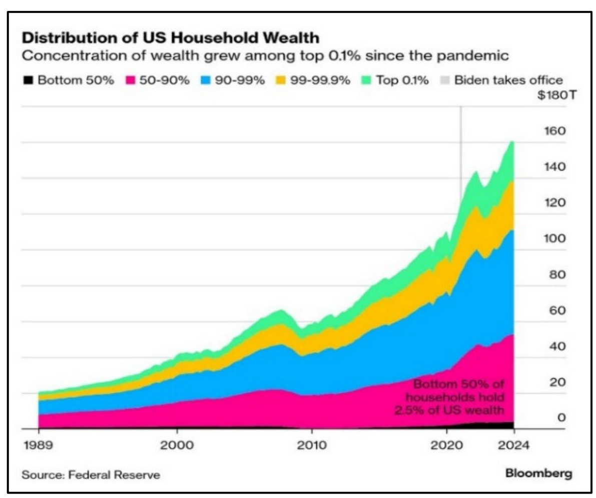
What happens when markets keep rising while the real economy slows?

The stock market continues to reach new heights – with the S&P 500 recently logging its 28th record close this year, yet beneath the surface, a different story has been unfolding. Job growth has slowed.

Recent revisions suggest the U.S. economy likely added nearly a million fewer jobs in 2024 and early 2025 than previously reported. Alongside this, household behavior has shifted: in 2025, 31% of Americans used Buy Now, Pay Later (BNPL) services for groceries. Over 40% of BNPL users are making late payments, and delinquencies have increased 400% over five years.

Credit card balances have climbed $27 billion in the last quarter and are now at over $1.2 trillion, approaching previous record highs. Subprime auto-loan delinquencies, 60 days or more overdue, hit a record of more than 6% this year, according to Fitch Ratings.

As markets continue to climb, household finances stay under pressure. The bottom 50% of U.S. households now hold just 2.5% of total wealth. With those at the top owning most financial assets, and inflation and rising debt costs hitting lower-income families hardest, the question is: how long can this imbalance last?



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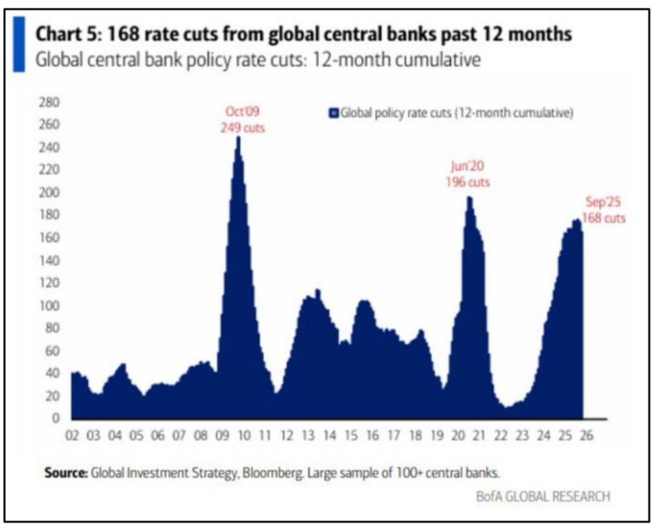
Are rate cuts to be cheered or a warning sign?

Global central banks have cut rates 168 times in the past 12 months, yet financing remains expensive. Why? While the Fed does control the short end of the curve, it's important to remember that long-term rates are primarily driven by market forces, not Fed adjustments. These rates are far more impactful for the overall economy since they affect long-term borrowing costs for companies and individuals.

Therefore, in the face of rate cuts we must ask, will lower rates lead to easier financing costs? We would also note that by comparison, globally, central banks cut 249 times in the 12 months after the 2008 crisis, and 196 times following the 2020 shock. Now that the Federal Reserve has joined the central bank rate cut party, the question looms: is the Fed seeing something markets are not?



What will be the ultimate impact of Washington's expanding grip on markets?

The Trump administration now holds a 10% equity stake in Intel, 15% in MP Materials, 10% in Lithium Americas and 10% in Trilogy Metals. The last time the U.S. government took direct equity stakes in public companies was during the 2008 financial crisis, when it bought controlling positions in firms like General Motors (60.8%), AIG (79.9%), and Citigroup (up to 36%). Those were emergency rescues. What is unfolding now is different.

These seem to be deliberate actions to secure domestic production of semiconductors, rare earths, and clean energy inputs. But by owning stock, the government becomes both shareholder and regulator. Is this a dual role that invites conflicts of interest?

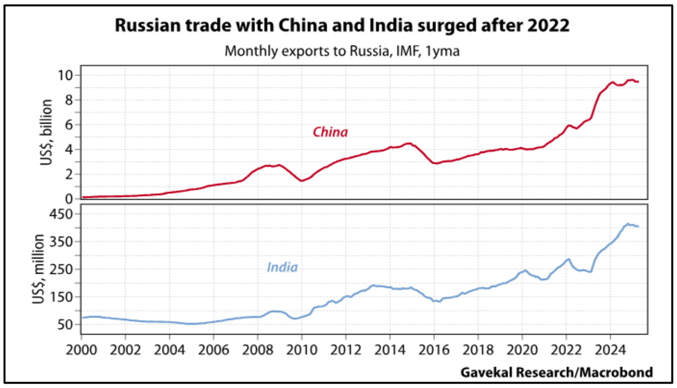
Layered on top of this, after subdued tariff news throughout the third quarter, President Donald Trump has threatened an additional 100% tariff on China and export controls on "any and all critical software" beginning November 1. Deals are the love language of this administration. Therefore, this could be viewed as political conjecture rather than firm policy action. Whether or not the tariffs materialize, the proposals add another layer of uncertainty to the broader outlook.

Signals in the Market Rally:

While the aforementioned questions linger, what has been driving the rally may also be pointing to where markets are headed next. No one has a crystal ball, but these are forces worth understanding.

In the third quarter, central banks held more gold than U.S. Treasuries for the first time since 1996, a reversal that may signal a deeper shift in how nations define "safe." Gold continues to climb higher. Gold has officially crossed above $4,000 per ounce for the first time in history, bringing its total market value to nearly $27 trillion. Prices have now logged eight consecutive quarterly gains, the third-longest winning streak on record, trailing only the nine-quarter surge from 2019–2020 and the record 12-quarter run between 2009 and 2011.

Over the past year, international and emerging markets equities have outperformed the U.S. as investors look beyond America's borders for growth. A weaker dollar may help U.S. exporters, but it may also reflect a slow recalibration of global power, one where trade and capital flows no longer orbit exclusively around Washington. For example, when Russia was cut off from SWIFT in 2022, the move was meant to isolate. Instead, it showed how global commerce could adapt. Moscow's trade with China and India increased, highlighting that alternatives to the dollar may be gaining traction.



Meanwhile, America's expanding deficits continue to flood the system with dollars, many of which are finding new homes in faster-growing foreign markets. As GaveKal Research observed, *"Until recently, US equities in general and tech in particular really felt like the only game in town. But this is now changing. In 2025, markets such as LatAm government debt have gained between 15% and 30% for the year. Equities in South Korea, Hong Kong, Germany and Japan have all outperformed US equities in US dollar terms… suddenly, there are other options in which to deploy capital."*

What is driving this shift to gold and international assets? Is it the lingering of post-pandemic inflation? Is it the mounting unease over U.S. fiscal health, as Washington borrows ever more to finance spending? Perhaps it is the realization, sparked by Russia's reserve freeze in 2022, that assets held in dollars are only as secure as America's geopolitical goodwill allows. Whatever the cause, these respective rallies may be hinting at a broader structural shift worth paying attention to.

Portfolio Positioning

At its core, prudent portfolio construction starts with first principles: diversification to manage risk, and liquidity to support a plan and preserve flexibility.

We are focused on the following themes: the buildout of critical infrastructure, the reshaping of global asset flows, the ripple effects of AI beyond just the technology sector, and investments anchored in reliable, less market-sensitive income. These opportunities span public and private markets when applicable.

We have also maintained elevated levels of cash and gold as part of our drawdown protection.

The environment may be evolving, but our strategy has not shifted, as our long-term outlook still holds:

- **Focus on Quality:** We favor businesses with strong balance sheets, healthy free cash flows, growing dividends, pricing power, and durable models built to weather inflation. We are still cautious when it comes to valuation and believe current growth expectations can be questioned given current global trade frictions.

- **Asset Allocation & Diversification:** Equities remain foundational; however, we believe true diversification means more than owning the index – which has become increasingly concentrated in a few large-cap tech names. We continue to remain largely underweight the Mag 7 names and focus on differentiated high-conviction ideas designed to deliver durable returns over time. For larger portfolios, we complement them with assets like opportunistic credit, farmland, real assets, and unique, asymmetric investments.

- **Focus on Liquidity:** Liquidity in financial markets is a given until it is suddenly nowhere to be seen. We believe that the cornerstone of prudent portfolio management and risk control is to continually monitor liquidity and position portfolios so a client's life is not disrupted should there be a change in market liquidity.

Staying the Course

Much of the wealth gained in recent months may be attributed not just to earnings growth, but to mispricing and euphoria, what Charlie Munger famously referred to as *febezzlement*. This is a natural part of market cycles, and we recognize that parts of our portfolios have benefited from the broader market's rise. However, we remain grounded in fundamentals, focused on quality, and intentional in how we allocate capital.

We continue to invest through the lens of asymmetry: positioning portfolios to participate in long-term innovation and growth, while remaining resilient if the path ahead proves less smooth than expected. Markets are rarely linear. But by staying grounded in process and focused on what endures, we aim to deliver results that last – not just through the days, but through the years ahead.

As we move into the final quarter of the year, now is an opportune time to assess and review your overall financial goals and picture. Your team at Hollow Brook stands at the ready to help you with year-end planning. We can guide you in creating or updating your tax and estate plans as well as facilitate comprehensive budgeting and related services.

Thank you for your continued trust and partnership.

As always, we are here to help you navigate whatever comes next as well as stay focused on what matters most: your long-term financial goals.

Sincerely,

The HBWM Team

Alan Bazaar

Alan Bazaar

CEO & Partner

Philip E. Richter

President & Partner

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Equity Indices	Price	MTD	QTD	YTD
S&P 500	$6,688.46	3.64%	8.23%	14.81%
Nasdaq	$24,679.99	5.47%	9.98%	18.10%
Dow Jones Industrials	$46,397.89	2.00%	4.72%	10.47%
Russell 2000	$2,436.484	3.11%	11.24%	10.38%
Russell 3000	$3,803.092	3.44%	8.23%	14.38%
S&P 500 Sectors				
Utilities	$443.18	4.15%	7.21%	17.69%
Consumer Disc.	$1,917.972	3.22%	9.35%	5.30%
Telco	$422.6	5.60%	13.38%	24.51%
Consumer Staples	$871.1	-1.56%	-3.09%	3.89%
Industrials	$1,306.11	1.84%	4.60%	18.25%
Technology	$5,612	7.25%	14.48%	22.31%
HealthCare	$1,623.95	1.78%	2.33%	2.61%
Materials	$570.71	-2.08%	0.77%	9.32%
Financials	$896.86	0.14%	2.67%	12.70%
Energy	$682.82	-0.43%	5.37%	7.04%
Real Estate	$264.79	0.49%	1.96%	6.19%
US Interest Rates				
3 Month	3.93%	-4.99%	-9.03%	-8.86%
2-Year Note	3.61%	-0.23%	-4.35%	-14.93%
5-Year Note	3.74%	1.22%	-2.41%	-14.63%
10-Year Bond	4.15%	-1.85%	-2.15%	-9.16%
30-Year Bond	4.73%	-3.99%	-0.70%	-1.05%
Commodities				
Crude (WTI)	$62.37	-1.72%	0.00%	-8.95%
Brent	$66.03	-2.21%	1.21%	-8.05%
N. Gas	$3.30	-0.90%	-16.12%	-15.44%
Gold	$3,858.96	11.02%	15.58%	47.04%
Silver	$46.65	14.62%	29.44%	61.39%
Currencies				
DXY	97.78	0.00%	0.99%	-9.87%
EUR	1.17	0.20%	-0.61%	13.31%
CAD	0.72	-1.21%	-1.97%	3.37%
GBP	1.34	-0.73%	-2.18%	7.42%
JPY	0.006	-0.49%	-3.03%	6.31%

Source: Bloomberg as of 9/30/2025

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Quotes of the Quarter

Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek.

Barack Obama

Gold is now the anti-fragile asset to own, rather than Treasuries. High-quality equities and gold are the best hedges.

Mike Wilson

CFOs are thinking beyond any 'crypto hype' and focusing on the practical implications of digital assets.

Steve Gallucci

The big money is not in the buying or the selling, but in the waiting.

Charlie Munger

In the short run, the market is a voting machine, but in the long run, it is a weighing machine.

Benjamin Graham

I'm going to bet on American business, but I want to immunize some of my sovereign exposure to the United States.

Ken Griffin

Many PE funds that raised their most recent vehicle don't realize it's their last.

Jim Zelter

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Headline Highlights

Markets in 3rd Quarter: Calm After the Storm
Global equity markets added about $5 trillion in Q3 amid AI momentum, while gold and silver surged to fresh highs even as government borrowing costs and debt sustainability risks simmered.

Global Debt Hits Record Of Nearly $338 Trillion
Global debt soared to a new high of $337.7 trillion by Q2 2025, led by rising sovereign borrowing in major economies and increased short-term issuance in the U.S.

UK Pays High Price to Sell Record £14 Billion Of Government Debt
Britain sold a record £14 billion in 10-year gilts at yields not seen since 2008, underlining elevated borrowing costs in the face of fiscal pressure.

US Opens First Rare Earth Mine in Over 70 Years in Wyoming
The U.S. inaugurated its first rare earth mine in decades—estimated to hold ~1.7 million tons and a projected 150-year supply—to reduce dependence on China and secure supply chains.

Luigi Mangione: Judge Tosses 2 State Murder Charges Related to Act of Terrorism
During his first Manhattan court appearance in five months, Luigi Mangione had two murder counts tied to terrorism thrown out due to insufficient evidence, while remaining state and federal charges proceed.

Regulators Clear $8B Paramount–Skydance Merger After Months of Turmoil
U.S. regulators approved the Paramount–Skydance deal following intense political controversy and conditions around editorial oversight and investments.

Gold Tops $4,000, Silver Hits Record on Haven Rush
Investors piled into precious metals on macro uncertainty and rate-cut expectations, propelling gold above $4,000/oz and silver to all-time highs.

Intel Agrees to U.S. Taking ~10% Equity Stake
A government investment—leveraging CHIPS funds and a Secure Enclave award—creates a passive ~9.9% stake, with final terms and timing under negotiation.

Trump Signs Budget 'Megabill' Into Law—Here's What It Means For Taxes
The new law makes most 2017 tax cuts permanent, tweaks SALT caps, adds deductions (e.g., tips/overtime), and is projected to significantly lift deficits/debt.

U.S., China Reach TikTok Framework; Trump Signs EO Supporting Deal
A tentative framework would place TikTok under U.S.-led ownership with national-security safeguards, pending final terms and approvals.

Apple Tv+'S 'The Studio' Sets Emmy Record for Most Season-1 Comedy Nominations
The freshman comedy earned 23 nominations, surpassing the mark previously set by 'Ted Lasso.'

'Next Time in Moscow?': Trump and Putin's Alaska Summit Raises More Questions
The BBC reports that Trump's highly publicized Alaska meeting with Putin produced no ceasefire or concrete progress on Ukraine, instead highlighting Putin's symbolic rehabilitation on the world stage and Trump's openness to a follow-up summit in Moscow.

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