

Q4 2025 Outlook

October 1st, 2025

Economy: Economic growth continued to display great resilience in Q3 despite some uneasiness over the job market and concerns over the return of inflation.

- The Atlanta Federal Reserve's economic model is projecting +3.8% GDP growth in Q3, following -0.6% and +3.8% growth in Q1 and Q2, respectively. The first two quarters of the year were characterized by tariff-driven import-export volatility with a rush of imports in Q1 exporting GDP to suppliers and the resulting imbalance causing a sharp drop in imports in Q2 to boost GDP retained domestically. The expected growth in Q3 has been driven by consumption, equipment investment and continuing resolution of the import-export imbalance created earlier in the year. Consumption has remained strong despite continuing inflation in cost of goods and some uncertainty in the job market, with those factors likely overcome by the continuing surge in asset (stock) prices, furthering the wealth effect that helps holders of those appreciated assets consume more, as well as more stability in the cost of borrowing.
- The labor market's health depends on the lens through which it is being viewed. Those that tend to see the glass as half empty can easily point to swings between positive and negative job growth and high unemployment rates amongst very well-educated recent graduates and entry level workers as causes for serious alarm. This group sees an urgent need for the Fed to intervene with more stimulative policy, in the form of lower Fed Funds rates, to prevent the job market from completely falling apart. So far, the Fed has paid attention as evidenced by their September interest rate cut. Those that exhibit a bit more optimism can point to a still historically low and stable unemployment rate that causes very little alarm when viewed relative to 3.8% quarterly GDP growth. The team at Hollencrest falls more in the latter, more optimistic camp, although the expectation of lower interest rates seems to be supporting stock and real estate market gains.
- Inflation has inched modestly higher, but not at the rate those most concerned about tariff impacts were suggesting earlier in the year. At Hollencrest, we believe that inflation continues to be a risk that must be monitored closely, but that it likely would have continued its descent towards Fed targets if not for tariff impacts. Technology, demographics, and the need to reduce overleverage are long-term drivers of disinflation and should continue to keep it contained. Importantly, the emergence of generative AI, the next step forward in the tech

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revolution, should further boost those long-term disinflationary effects. However, in the short term, investment in AI-related infrastructure (namely data centers and the power generation required to operate them) are boosting asset prices in related categories, likely creating investment opportunities with sustainable trends.

- We continue to monitor for changing trends and abnormalities in financial markets. Action in a number of asset classes deviated from historical trends after April's market volatility. As we expected, gold has been a major beneficiary of this changing market behavior. Our ETF proxy for gold was up a remarkable 16.6% during Q3 with 11.8% of that gain coming in September. We believe gold's significant increase in demand the past few quarters stems from a weaker outlook for the US Dollar and central banks repositioning their reserves. Inflation expectations, geopolitical volatility and selling of US Treasuries help further support gold's price. In times of volatility that involve changing inflation expectations, it appears gold has become a more likely target than government bonds in flight to safety trades. We see this trend as likely to continue after the market digests recent gains.
- The health of private markets has improved meaningfully over the past quarter. Most notably, the IPO window has re-opened widely, which provides much needed liquidity for investors. Unlocked capital can be recycled back into new private investments, while also leading investors to a more rational-feeling expectation that they can eventually harvest that investment. An increase in PE and VC activity, as well as valuation improvements, should follow. We have also anecdotally seen an uptick in dealmaking in the real estate sector after a brief freeze in Q2. We suspect stocks continually hitting all time highs combining with a more stable interest rate environment has helped improve risk appetite.

Stocks: The major indices once again closed the quarter near all-time highs. The S&P 500 rose 7.8% during Q3, leaving it up a total of 13.7% for the year.

- Stocks rose steadily throughout the quarter with only a few very minor hiccups. Breadth continued to improve with most sectors behaving well, although there was a clear bias towards growth in the form of AI and tech related sub-sectors. Importantly, the small cap indices showed similar consistency and strength. Sentiment is generally positive but not at extreme levels that urge defensive posturing. Valuation is the biggest market headwind at this point, warranting some caution, however overvaluation can persist for long periods of time especially when the market gets comfortable that easier monetary policy is forthcoming. Given the Fed's recent reduction in rates the path seems clear for further gains in stocks, although if the move is too sharp concerns over bubble-like valuations could cause a significant pullback and an increase in volatility.
- Hollencrest has continued to increase exposure as the market has confirmed the credibility of the rally after April's lows. Due to the rich valuation of the market, we have elected to position with instruments and funds that will mitigate downside participation in a sharp pullback, which is consistent with our overall investment strategy. For the most aggressive

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accounts, we have begun to implement active stock trading strategies with defined stop-loss levels that, by their nature, are intended to illuminate the strongest companies in the best sectors that will continue to support the market's upward momentum.

Bonds and Rates: Treasury yields were far more stable in Q3 than they were earlier in the year, trending modestly lower throughout the quarter on both ends of the curve.

- After a long pause, the Fed found themselves having to cut the Fed Funds rate in September with jobs data beginning to create uncertainty over the economy's path forward. The futures market's belief that the Fed would cut rates joined with political pressure to create a self-fulfilling scenario where the disruption of not cutting rates could have outweighed the inflationary and over-stimulative risks created by the cut. The cut was certainly pre-emptive, and the irony is that these pre-emptive cuts tend to have an opposite effect on the long end of the curve, pushing longer rates higher as inflation expectations are solidified and concerns over institutional independence grow. It will be interesting to see if the Fed continues easing as we end the year and what effect their decisions have on 10, 20 and 30-year Treasury rates.
- The credit market remains very stable with credit widely available to healthy borrowers at reasonable rates. Historically low spreads have persisted, causing concern that market and business cycles will eventually trigger a quick widening and hurt returns. However, the emergence of private credit and the ability for lenders in that space to provide leniency and work out troubled loans could prevent traditional business cycles from triggering a credit crisis. This dynamic, when paired with what appears to be the most adept Fed we have had at managing business cycles, could cause this credit environment to maintain the status quo for far longer than most investors expect. We are soon likely to begin repositioning from the now lower-yielding T-Bills and cash equivalents that have made up most of our fixed income exposure of late into a more mixed blend of still short-term fixed income investments that may have a little more duration and credit-driven return.

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