The recently concluded third quarter ended much like the second quarter that preceded it, with a market rebound continuing almost unabated following the trade war volatility of March and April. Major equity indices posted strong gains as investor confidence has been bolstered by solid economic reports and continued enthusiasm for artificial intelligence (AI). GDP growth in the second quarter came in at 3.8%, a very robust figure given the uncertainty that characterized the beginning of the quarter, and the Federal Reserve GDP Now tracker projects growth again coming in at 3.8% for the third quarter. Corporate earnings, while not uniformly spectacular, have broadly exceeded analyst expectations, demonstrating the ability of well-managed companies to protect profit margins during times of trade dispute and geopolitical strife. As we enter the Q3 earnings season, expectations for S&P 500 earnings growth are at 7.9% year-over-year, which would mark the ninth consecutive quarter of year-over-year earnings growth.

Despite the consistently strong stock market, not all is well in every area of the economy. One of the core themes within both the corporate and consumer sectors over the past few years has been the notion of a "K-shaped" economy, in which some people and companies are thriving, and some people and companies are struggling. This phenomenon has continued in 2025, with the impact of tariffs, inflation, and high interest rates having an uneven impact across the economy. On the corporate side, AI-related stocks have accounted for 75% of S&P 500 returns, 80% of earnings growth, and 90% of capital spending growth since the launch of ChatGPT in November 2022, according to JP Morgan analysts. The Magnificent 7 mega cap technology stocks have driven over half of the S&P 500 gains in 2025, but these companies combined only employ approximately 1.6 million Americans. On the flip side, the logistics, construction, manufacturing, auto, and energy sectors employ closer to 40 million Americans and have been essentially in a recession for the past few years. On the consumer side, the top 10% of earners in the U.S. now account for nearly 50% of all consumer spending, hitting a new all-time high according to Moody's Analytics data going back to 1989. Wealthy consumers, who have seen years of strong gains in the value of their stock portfolios and homes, continue to grow their spending robustly. Many other consumers have seen their spending struggle to keep up with inflation under the weight of rising borrowing costs and a stagnating labor market. The aforementioned labor market has cooled considerably this year, with recent reports showing weak jobs and wage growth despite continued low unemployment. These "K-shaped" dynamics help to answer questions of why public opinion remains so downbeat on the state of the economy despite strong stock market returns and GDP growth.

The key question for investors looking forward is always "how much is priced in", and that feels especially relevant at the moment. The S&P 500 has now traded for 109 days above its 50-day moving average, a widely used technical indicator showing the average price of the last 50 days. This is its fifth longest streak in 30 years and shows that the market has moved higher without any meaningful selloff for an extremely extended period of time. Historically, rallies of this extent have often led to sudden corrections. Valuations of the U.S. stock market look very rich on almost every measure, especially so for many of the largest companies. As we have written in the past, valuation is not particularly useful in the short term, but full valuations can often leave less room for error should a company

disappoint. Speculative fervor has been apparent in many areas of the market such as quantum computing in recent months, suggesting growing investor complacency. Finally, investors have been grappling with the limits to AI spending, which has shown no signs of slowing down, but has been approaching almost unbelievable numbers in recent announcements from companies such as Oracle and OpenAI. Bain & Company, a large global consulting firm, estimated that the wave of AI infrastructure spending will require $2 trillion in annual AI revenue by 2030. This amount would be more than five times the size of the entire current global subscription software market, evidence of sky-high expectations for the nascent technology. These are all headwinds that make us cautious in the short and intermediate term on the stock market, but long-term economic fundamentals remain supportive. While the speculative fervor may need to cool down at least temporarily, AI infrastructure spending is a truly generational tailwind for the U.S. economy and the companies at the heart of it. Economic policy uncertainty from the Trump Administration is improving, with trade wars slowing and benefits from the summer tax bill due to help the economy over the coming years. Monetary policy is in easing mode, with the Federal Reserve cutting interest rates in September for the first time this year and signaling more cuts to come. The U.S. economy remains remarkably resilient, and it is becoming increasingly difficult for stock market "bears" to claim that the negative impacts from Liberation Day chaos will ever arrive in such a large way as to cause a recession. We remain responsibly bullish but acknowledge growing risks as the market pushes higher.

Shifting gears to a different topic, we feel that our commitment to your financial well-being extends to education and information regarding cybersecurity. Cybercrime has been on the rise for years as our lives become increasingly digital, and we feel it is appropriate to periodically review best practices in our client communications.

Cybercriminals often use sophisticated tactics to gain access to sensitive financial information. Please remember to be vigilant regarding the following tactics:

- Phishing Emails and Texts – When cybercriminals send fraudulent messages designed to look like they are from a legitimate source such as a bank, brokerage firm, or the Federal government. The communication will often contain an urgent message requiring quick action, along with a link or attachment for you to click that is malicious.
- Social Engineering – When cybercriminals call or email you pretending to be someone trusted that they are not, often asking for sensitive personal or financial information.
- Malware – Malicious software that is installed on your computer without your knowledge, often through phishing, that is then used to capture keystokes and steal passwords in order to access financial accounts.

As technology evolves, so do the methods used by those seeking to commit fraud, but there are simple and effective steps that can be taken to enhance your own security. It is vitally important that anyone that conducts their financial affairs online take steps to protect themselves. We encourage you to implement the following best practices:

- Freeze your credit – Freezing your credit with the major credit bureaus (Equifax, Experian, TransUnion) will help prevent criminals from opening new financial accounts or taking out credit cards or loans in your name using stolen information. Please note that you will need to unfreeze your credit when you wish to utilize credit such as applying for a mortgage, car loan, or new credit card. The major credit bureaus are Equifax, Experian, and TransUnion, and freezing and unfreezing can be done online or via their customer service phone lines.
    - Equifax – 1-888-378-4329 – www.equifax.com
    - Experian – 1-888-397-3742 – www.experian.com
    - TransUnion – 1-800-916-8800 – www.transunion.com
- Enable 2 factor authentication – When available, 2FA adds an additional layer of security by requiring a second piece of information (often a code sent to your phone) in addition to your password in order to log-in to financial websites or applications. 2FA can be set up with Fidelity, Charles Schwab, and most major banks, and we encourage you to reach out to us if you need help setting this up.
- Avoid clicking links in emails – Do not click any links in emails or texts from unknown sources or in unusual messages. Only click links when you are 100% certain that you know and trust the sender.
- Account Transfer Authority – We encourage all clients to setup pre-authorized bank links and recurring transfers between their bank and brokerage accounts as the most secure options for moving funds.
- Use strong passwords – Avoid common words or personal information. Use a mix of upper- and lower-case letters, number, and symbols, and have passwords of at least 10 characters.

As a reminder, Graybill Wealth Management and our custodians Fidelity Investments and Charles Schwab have robust security policies and technologies in place to protect your information. Whether it is in the management of your investment accounts or in the handling of your confidential personal and financial information, we thank you for your continued trust and partnership. If you ever notice suspicious activity, have any questions about the security of your accounts, or want to discuss investment strategy, please do not hesitate to contact our office.

If we do not have the chance to speak over the coming months, on behalf of all of us at Graybill Wealth Management, we wish you happy upcoming fall and holiday seasons.