ACCESS FINANCIAL SERVICES, INC.

Quarterly Review and Outlook

October 13, 2025

Third Quarter, 2025

Index Returns as of Sept. 30, 2025	3 Mo.	6 Mo.	12 Mo.
US STOCKS			
S&P 500 Index TR (large-cap stocks)	8.12	19.96	17.60
S&P 500 Equal Weight TR	4.84	10.57	7.85
Dow Jones Select Dividend Index TR	8.09	7.99	9.44
NASDAQ 100 Index TR	8.95	28.34	23.65
Russell 2000 Index TR (small-cap stocks)	12.39	21.95	10.76
FOREIGN STOCKS			
MSCI EAFE Net Total Return Index (US$)	4.77	17.10	14.99
S&P Europe 350 Index Net TR Index (US$)	3.47	15.33	15.29
MSCI Japan Net Total Return Index (US$)	8.02	20.29	16.36
MSCI Emerging Markets Net TR Index (US$)	10.64	23.91	17.32
COMMODITIES & CURRENCIES			
US Dollar	0.93	(6.18)	(2.98)
Euro	(0.45)	8.49	5.38
Gold	16.83	23.54	46.47
Oil (West Texas Intermediate)	(0.23)	(6.39)	1.30
CME CF Bitcoin Reference Rate	6.14	37.48	79.91
BONDS			
Bloomberg US Aggregate Bond (inv. grade)	2.03	3.26	2.88
Bloomberg US Treasury 20+ Year	2.45	0.48	(4.80)
Bloomberg US Treasury Inflation Notes	1.97	3.02	5.27
Bloomberg Municipal Bond	3.00	2.87	1.39
Bloomberg US Corporate	2.57	4.43	3.65
Bloomberg US Corp. High Yield Bond	2.54	6.15	7.41
S&P International Sov Ex-US Bond TR USD	(0.98)	7.22	1.03

Source: Bloomberg & Morningstar

Shortly after the turn of every quarter, it is good to both pause to reflect on last quarter's market moving events and to filter through the noise to try to identify signals that are likely to affect the current quarter.

Following the disruptive "Liberation Day," stock and bond volatility has come down consistently. This, along with solid liquidity and Federal Reserve (the Fed) easing has paved the way for stock and bond prices to rise simultaneously.

It looks like President Trump opted to toss the kitchen sink at the beginning of his second term to deal with as many of his unpopular policies as possible early on even at the expense of his approval rating (Chart 1). As markets digested the bad news almost all at once, the administration walked back some measures and pushed uncertainty down (Chart 2).

Following the passing of the One Big Beautiful Bill Act (OBBBA), the financial markets' assumption is that the cutting of red tape, deregulation, lower taxes and higher spending will pave the way for strong economic growth sustaining output above trend. The expectation is that these relief measures will start to pay dividends in time for the midterms in November 2026, with the hope that the GOP maintains its trifecta.

Chart 1: S&P 500 and Trump Job Approval Rating

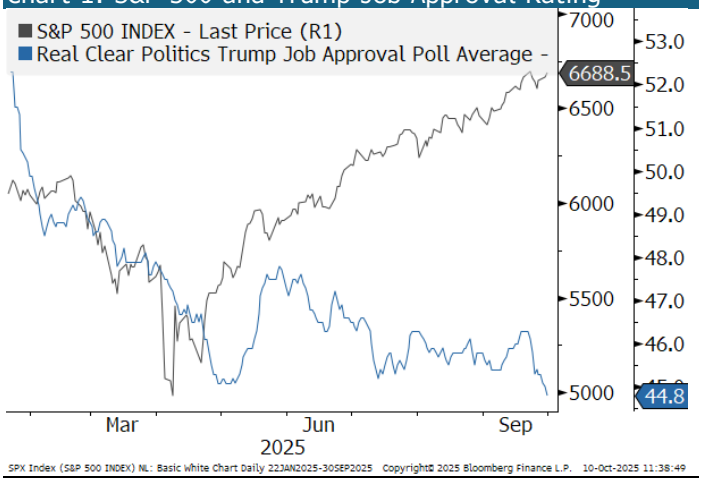


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 2: S&P 500 and Trade Policy Uncertainty

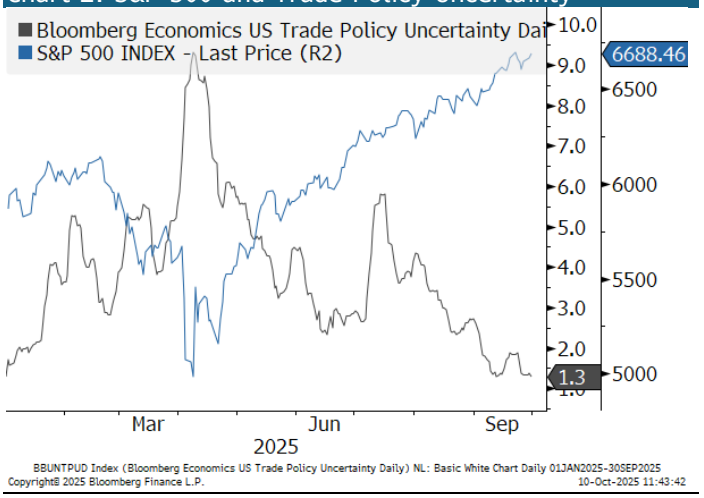


Chart source: Access Financial Services using Bloomberg Software & Data

The administration is also counting on the change in leadership at the Fed in May 2026 to ensure that the economy is firing on all cylinders.

After a nine month pause, the Federal Open Market Committee (FOMC) resumed its easing cycle and cut the fed funds rate (FFR) last month. The FOMC median Summary of Economic Projections (SEP) forecast is for two additional interest rate cuts for the remainder of this year – one on October 29 and another on December 10. Were the SEP median expectations to materialize, going into 2026 will see the FFR 1.75 percentage points below the cycle peak. And more cuts are forthcoming in 2026, with the latest SEP median forecasting one more cut. However, financial markets are forecasting three additional cuts (Chart 3).

Chart 3: Futures Implied Fed Funds Rate

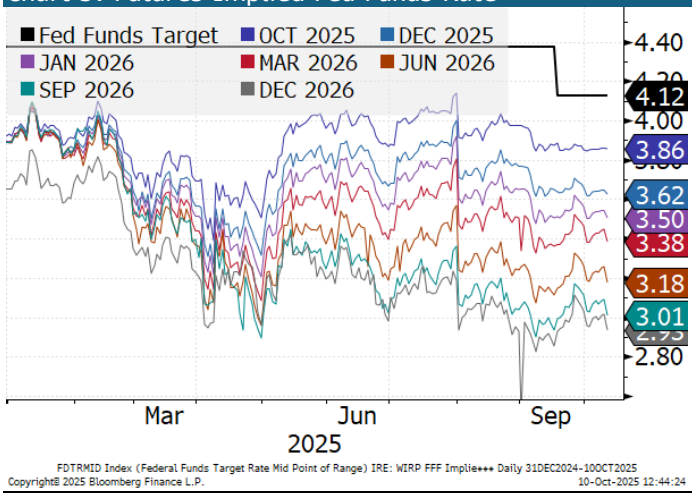


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 4: Mag 7 vs. The Rest of the SPX

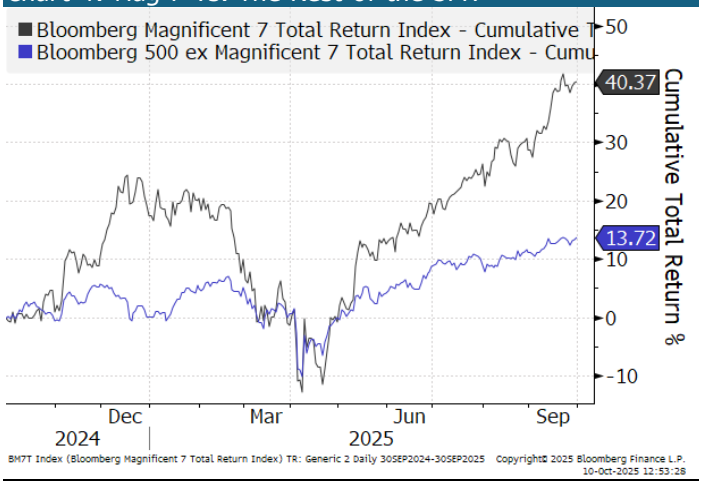


Chart source: Access Financial Services using Bloomberg Software & Data

For the third quarter, risk assets once again generated strong returns – and the riskier the better. Almost every asset class we track was in the green. And once again, large capitalization technology related stocks led the way higher – and by a large margin.

The S&P 500 Index (SPX) shook off the seasonal September curse as investors have thrown caution to the wind. In fact, the Index had its best September in 15 years. It seems as though it is rather easy to make money across a plethora of risk assets since the dark days leading up to and following the "Liberation Day" risk asset selloff. Maybe a bit too easy with investor sentiment gauges close to manic territory – a flashing yellow light that suggests confidence but also potential overreach.

Supported by Fed rate cuts and stronger earnings outlooks, technology related shares, led by the ever-dominant Magnificent Seven[1] (Mag 7), powered the rally. Over the last 12 months, the difference in returns between the Mag 7 and the other 493 stocks that make up the SPX has been an incredible 25.4% (Chart 4). Since the SPX bottomed on May 8, the difference is 34.4%.

Looking at the factors or characteristics driving US stock returns, the lower the quality the better. With short term interest rates coming down, floating rate loan exposed stocks benefited from Fed cuts, including microcaps and small caps. These two factors, along with high volatility/beta, earnings growth and large cap stocks performed extremely well last quarter. Buyback achievers, quality, value and momentum all enjoyed mid-single digit returns while the equal weight factor, companies growing their dividends, and low volatility stocks ended the quarter at the bottom (Table 1).

Table 1: Returns by Factor

US Factor Indices	Third Quarter 2025 Return
Russell Microcap Index	17.03%
Magnificent Seven	16.93%
Bloomberg Momentum Factor	15.38%
Bloomberg Short Interest	14.30%
S&P 500 High Beta Index	12.95%
Russell 2000 Index	12.39%
S&P 500 Top 50 Index	10.58%
S&P 500 Growth Index	9.78%
S&P 500 Buyback Index	6.29%
S&P 500 Value Index	6.20%
Bloomberg Quality Factor	5.02%
S&P 500 Equal Weighted Index	4.83%
S&P 500 Dividend Aristocrats Index	2.97%
S&P 500 Low Volatility Index	1.47%

Source: Access Financial Services using data from Bloomberg

Stock market valuations, which have become elevated by almost any measure have yet to weigh US stocks (Chart 5). In fact, the stocks of technology companies that generate no profits have outperformed those with profits (Chart 6). This backdrop may extend the bull run, but history warns when the lowest quality stocks drive the market higher, caution is warranted.

In the aftermath of "Liberation Day," risk assets have generated outsized returns. Abundant global liquidity, along with super loose financial and monetary conditions in the US have seemingly made the hunting across asset classes easy and abundant. The near double digit year to date fall in the US dollar is one of the key ingredients behind the global reflationary impulse (Chart 7). Were this depreciation to continue unchecked into next year on the back of aggressive Fed cuts, more gains could easily be in store across risk assets on a cyclical 9-12 month time horizon.

[1] Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla

Chart 5: S&P 500 Valuation Measures

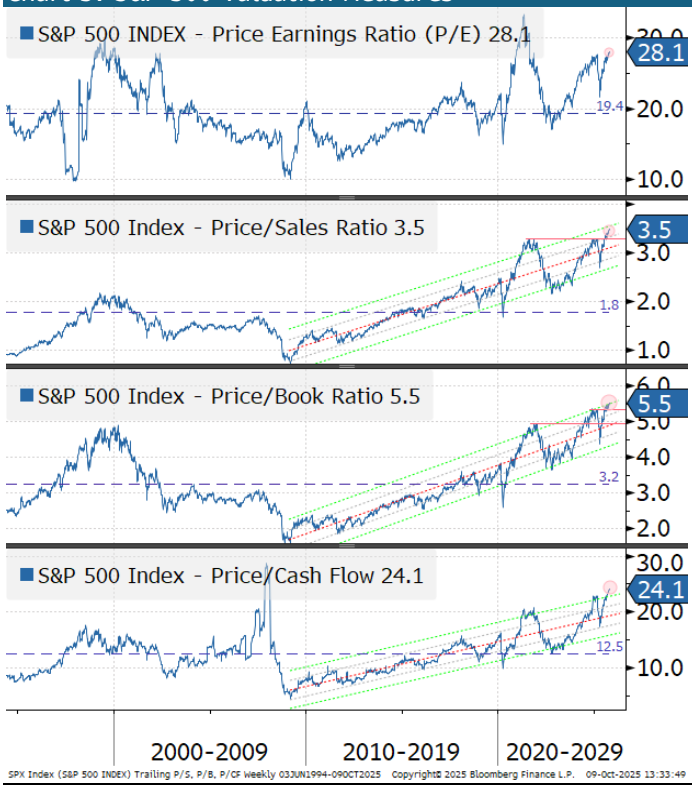


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 6: Technology Stocks With No Profits Outperform

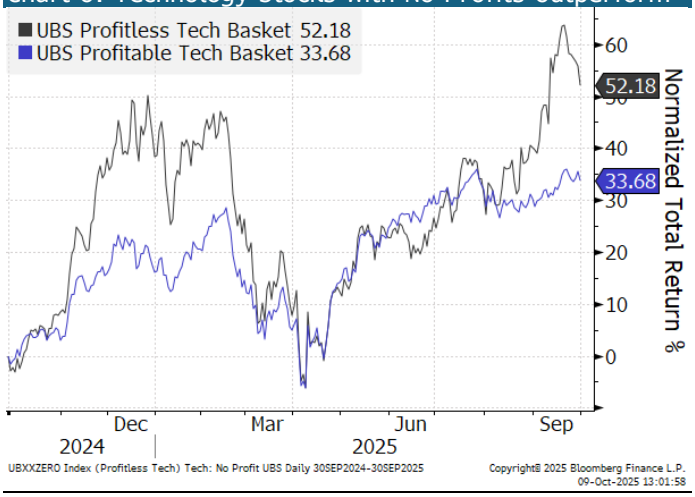


Chart source: Access Financial Services using Bloomberg Software & Data

Nevertheless, in the near term, I am quite uneasy with where risk assets in general, and equity markets in particular, stand. I think we have run too far too fast from the April 7 intraday lows when the SPX hit 4835. At this point, the uninterrupted rebound has seen the Index soar by nearly 2000 points. Something has got to give and a consolidation period would be healthy. In fact, hubristic language from the artificial intelligence (AI) leaders is loaded with danger.

Beyond this qualitative assessment, on the quantitative side, the compressed volatility index (the VIX index[2]) is sending an unambiguously bearish message for stocks. The 20-day correlation between the VIX and the SPX is at multi-year highs (Chart 8, bottom panel). This is uncharacteristic, rare and a red flag, warning that a stock market drawdown is a rising probability event. VIX seasonality also suggests that a rise in equity volatility would be normal (Chart 9)

Chart 7: US Dollar Index (DXY)

Chart source: Access Financial Services using Bloomberg Software & Data

Chart 8: Positive Correlation is a Red Flag

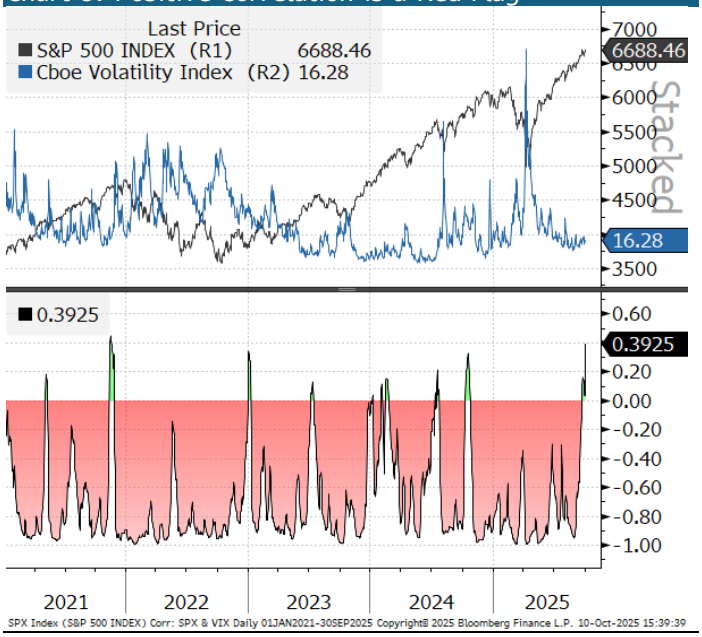


Chart source: Access Financial Services using Bloomberg Software & Data

While AI has been a hot topic since the release of OpenAI's ChatGPT in November 2022, there is now an insatiable appetite for anything AI related. It has literally taken over the investing narrative this year. Investing in AI has become the magical fairy riding a rainbow unicorn.

[2] The VIX measures market expectation of near term volatility conveyed by stock index option prices

Chart 9: VIX Seasonality

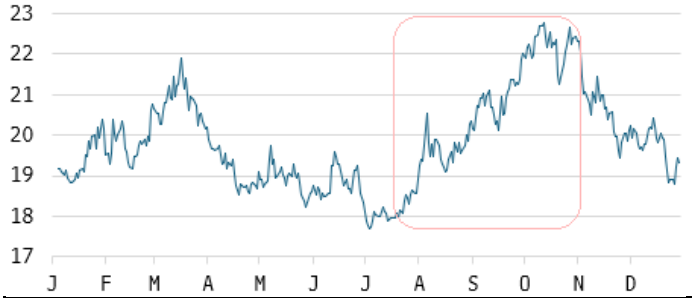


Chart Source: Access Financial Services using data from Bloomberg

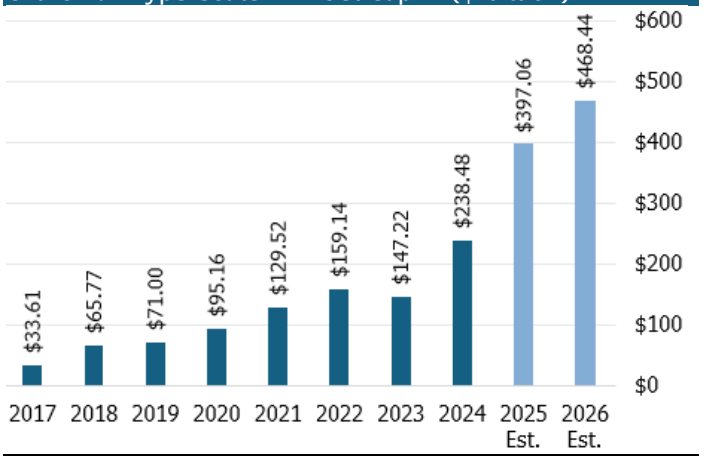
Almost daily, a new deal seems to be announced – financed either on more cross shareholding or a new financing deal of a datacenter buildout – with Nvidia and OpenAI at the epicenter of it all. A few examples include Nvidia agreeing to invest as much as $100 billion in OpenAI to help the Company fund a data center buildout so massive it could power a major city. OpenAI in turn committed to filling those sites with millions of Nvidia chips. The following day, OpenAI confirmed it had a $300 billion deal with Oracle to build out data centers. Oracle, in turn, is spending billions on Nvidia chips sending money back to Nvidia. The next week, OpenAI struck a deal with Nvidia rival Advanced Micro Devices to deploy tens of billions of dollars' worth of its chips. This will leave OpenAI in a position to become one of AMD's largest shareholders.

The amount of money being invested to build out the infrastructure to support the growth in large language models (LLMs) and the resources it will consume is mind boggling. Capital expenditures (CapEx) made by Microsoft, Amazon, Alphabet (Google), Meta (Facebook) and Oracle (referred to as hyperscalers) grew from $147 billion in 2023 to $238 billion in 2024 with projections of over $468 billion by the end of 2026 according to Bloomberg (Chart 10). FactSet puts the number at over $550 billion by 2030 (Chart 11). OpenAI's leader, Sam Altman, has said he expects the Company to invest trillions in building out the physical infrastructure to support its AI models, while Meta (Facebook) has plans to build a data center the size of Manhattan. Meta has also been luring top AI researchers with compensation packages valued at hundreds of millions of dollars.

Finding the revenue to justify all of this will be challenging to say the least. If, for example, one assumes that outlays to build the requisite AI infrastructure will total $2 trillion to $3 trillion, then the relevant companies will need annual revenue of $1 trillion or more to deliver a decent profit – in part because the AI infrastructure will depreciate rapidly, requiring ongoing investment to remain state of the art. That is at least 3% of US gross domestic product, a pretty high bar.

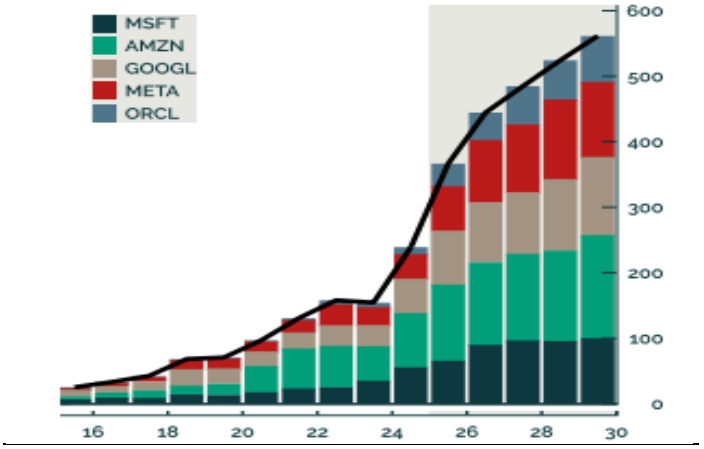
A recent study by Bain & Co.[3] concluded that the ongoing AI CapEx spending spree can only be justified from a profitability perspective if hyperscalers end up raking in $2 trillion in new annual revenue by 2030. As a recent story in the Wall Street Journal[4] noted, that would exceed the combined sales of Amazon, Apple, Alphabet, Microsoft, Meta, and Nvidia in 2024. It would also be more than five times as large as today's entire global subscription software market.

Chart 10: Hyperscaler Annuel CapEx ($ billion)



Source: Access Financial Services using data from Bloomberg

Chart 11: Hyperscaler Annuel CapEx ($ billion)



Source: BCA Research, FactSet

A lot of this circular financing is reminiscent of the late 1990s dotcom era. Chart 12 is a diagram from Bloomberg illustrating how interconnected companies pinning their futures on AI have become.

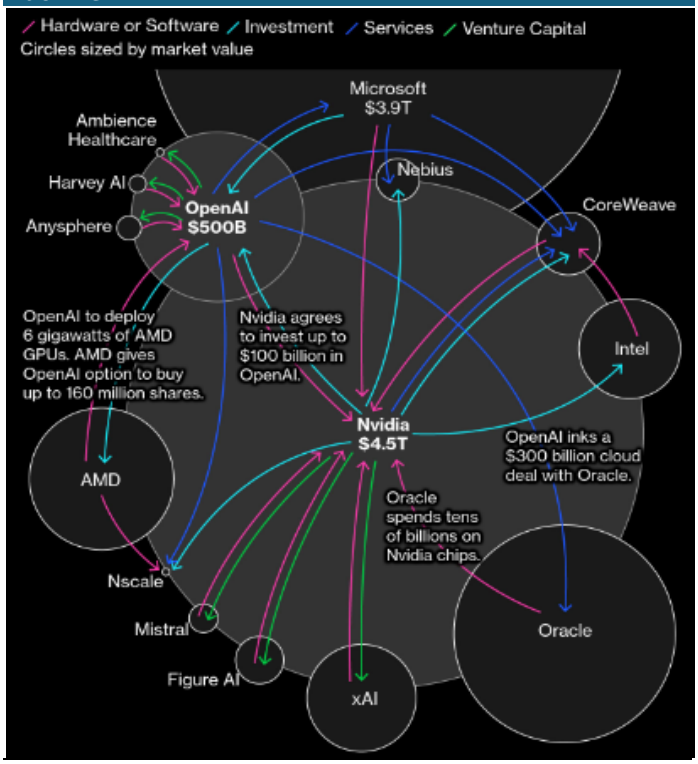
These companies face the risk from another factor: the capital cycle. The theory basically says that when too much capital floods into an industry, it normally leads

[3] https://www.bain.com/about/media-center/press-releases/20252/

[4] https://www.wsj.com/tech/ai/ai-bubble-building-spree-55ee6128?gaa_at=eafs&gaa_n=ASWzDAiuPpr2jQfqAV92_c7pcNGX5rZx4R-9UCx6yFrFcyZmflouVhEwCjacv0TsN8s%3D&gaa_ts=68db17f8&gaa_sig=YIJr65jquQl8QTT8_KcATYHCLkDr4N4Mk8Q08rt2KdMVAMxhw8Ws0JQYR40_WxmIcMTEKdU1JheSgWMA1JRVxQ%3D%3D

to oversupply, falling prices and reduced margins. Examples include telecom and fiberoptics in the early 2000s, shipping and the massive fleet expansion in container ships due to China related demand in the mid-2000s, and the mining and gas glut of the early 2010s. All ended with meaningful and protracted underperformance of the industry's stocks.
These cycles operate over several years with lead times between overinvestment and stock underperformance of about two to three years.

Chart 12: How Nvidia & OpenAI Fuel the AI Money Machine



Source: Bloomberg

It is always true that this time could be different, but there is anecdotal evidence that the improvement in LLMs is leveling out at a time when the hyperscalers are shifting from innovation spending to asset buildout.

It is now widely understood that AI requires a considerable amount of electricity both during its development (training) and when the models are actually run (inference). As such, the growth of AI should be a tailwind for not only the power grid, but for the energy sector more broadly. Data centers consumed 4.4% of US electricity generation in 2023. The Department of Energy expects that number to potentially triple over the remainder of the decade.

So far, there is little evidence in macro data that CapEx in the energy space is on a major upswing. This is true both for investment in electric power as well as for the traditional fossil-burning parts of the energy complex.

This has led to Wall Street's latest obsession with providing energy to the industry. The race to build data centers is driving up power contracts and making anything linked to nuclear look like the ticket to the future.

For example, Nano Nuclear Energy has no revenue, no license from the US Nuclear Regulatory Commission and no operating power plant. Yet investors have driven its valuation past $2.3 billion, a figure that may be built more on optimism than fundamentals.

The enthusiasm stretches beyond a single stock. Backed by OpenAI's Sam Altman, Oklo's shares have soared more than 1,000% in the past year, while NuScale Power Corp. and Nano Nuclear have both tripled in value. Centrus Energy Corp., which sells reactor fuel, is up over 400%. While Centrus is actually a profitable company, its shares trade at 67 times earnings, a multiple more common in Silicon Valley than the power sector.

To some analysts who have followed the sector for years, the optimism seems premature and are warning that their valuations are running ahead of the reality of long lead times, persistent regulatory hurdles and an uncertain fuel supply that could delay commercial projects well into the next decade. While hyperscalers are willing to pay almost any price for power in the near term, that is not what nuclear offers.

My suspicion is that AI will prove to be unable to make major inroads in the service sector, where humans remain customers. As long as people are making buying and selling decisions, any automation of their experience will either lead to consumer flight or demand for reduced prices. It seems unlikely that corporations will be able to maintain high price points when they replace humans with chatbots.

A recent example is that of Klarna, which fired almost a thousand customer service professionals only to have to reverse the decision and scramble in early 2025 to rehire them when its sales collapsed. Apparently, humans do actually prefer speaking to other humans.

It seems as though most of the world believes that AI is cognition. It is not. It is statistical inference. There are things it does really well, but these are not things that involve actual thinking. Yes, AI systems have access to all human knowledge that is on the Internet almost instantaneously and may be able to answer any question (sort of), they are unlikely to be capable of asking the right question or conceive of what questions customers will be asking six months down the road.

But still, the US AI drive is mostly centered on a future where LLMs dominate. This could be an issue for a few reasons.

There is unlikely to be a "winner takes all" LLM the way that there was in the Web 2.0 applications. In the world of social media or online shopping, it makes sense to be on the network that all your friends and family use. The one that provides the most scale. This probably will not be the case with LLMs, which are likely to evolve along the path of Internet browsers or videoconference apps, where adoption is a matter of personal choice or corporate strategy. So, the earnings of LLM providers – and the AI revolution as a whole – probably will not follow the path of "winner takes all" platforms such as Meta and Amazon.

China's approach to AI looks more interesting. Instead of obsessing over LLMs and pursuing artificial *general* intelligence (AGI), Chinese developers a focusing on productization, robotics and other devices that have specific end goals.

Ford CEO Jim Farley called his recent trip to China "the most humbling thing I've ever seen." After visiting a string of factories, Farley was amazed by the technical innovations being packed into Chinese cars – from self-driving software to facial recognition. "Their cost and the quality of their vehicles is far superior to what I see in the West," he warned in July.

The most profitable path for an AI future is probably AI enabled devices (robots, phones, cars, etc.) and applications (accounting, legal, strategy, etc.). Sure, these still require LLMs to a degree, but if that is the case, the massive data center buildout underway predicated on LLMs dominating the AI sphere may prove to be overkill.

While all CapEx overbuilds end in tears, productivity enhancements will emerge out of the AI revolution – just not in the ways the tech bros are telling us they will. It will most likely suppress the labor force in the most repetitive or mechanically routine jobs while enabling higher productivity in the rest of the labor force. Ultimately, AI may be less of a "tech play" and more of an industrials, consumer discretionary, health care and financials play.

Instead of over-indexing on the 1990s and the Internet revolution, we should think more in terms of the railroads and containerization of seaborne trade. In both cases, the winners were not so much the rail and shipping companies, but rather the entrepreneurial B2C businesses that figured out how to benefit from the new horizons offered by the railroads and lower cost standardized shipping. IKEA is a great example of a small company out of Sweden that took on America's furniture industry thanks to the new technology available to it. They benefited from and leveraged the investments of those who invested in building out the new transportation infrastructure.

AI will similarly enable the companies that learn how to use the technology, but not necessarily the companies that directly build and maintain the AI infrastructure itself. Ultimately, the way to invest in AI is probably not to obsess about the infrastructure, but instead think in terms of the second and third order effects of that infrastructure.

For now, though, as long as the tech bros are driving the narrative, the buildout will continue. And, as former Citigroup CEO Chuck Prince famously said in July 2007 (three months before financial assets melted down), "as long as the music is playing, you've got to get up and dance."

We are in an environment where the stock market is happy to reward almost any company that announces its intention to throw more money at AI. With the combined market value of the biggest AI plays at around 33% of SPX market capitalization, the performance of AI related stocks will continue to have an outsized impact on the returns delivered by the stock market as a whole and there is nothing saying the music is about to stop.

If the music does stop – which it always does at some point – this outsized impact will be a problem. Since it is impossible to know when that time will come, and the final inning of a bull market is often the most lucrative part of the cycle, it seems early to get overly defensive. This is even more true because the Fed looks like it will continue lowering interest rates as the employment environment continues to weaken thereby encouraging more leverage in the system and more capital to flow into increasingly risky assets. As the process unfolds, I expect volatility to increase and the investing environment to be more challenging. Stay tuned...

As always, we thank you for the confidence you have placed in us. Please do not hesitate to contact me if you would like to discuss any of this in more detail.

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