



OPTIMUM[®]

Global Asset Management

Financial Outlook



Fourth Quarter 2025

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At a Glance

- The S&P 500 continued to make new all-time highs in Q3 2025
- Risk assets are being powered higher by momentum and expectations of FED easing FED Funds further this year and next
- Consumers are feeling more pessimistic as the labor market weakens and inflation stays high
- Artificial Intelligence may already be impacting demand for labor negatively

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Point of View

Jan Erik Warneryd, CFA, Chief Investment Officer

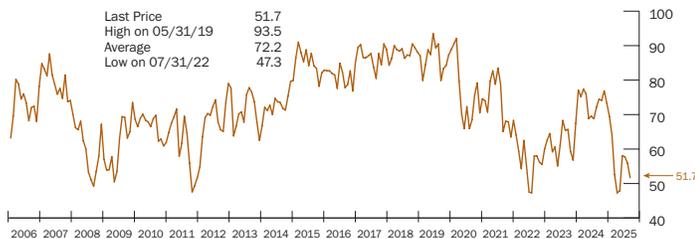


The third quarter of 2025 offered a continuation of the rally that started shortly after the April “Liberation Day” tariff announcement. Several new all-time highs were recorded both in the S&P 500 and the Nasdaq indices. Financial markets are now clearly carried by positive momentum both in equities and in fixed income, where spreads on corporate bonds are at multi-decade lows. While signs of an economic slowdown are appearing, for example in the slowing labor market, they are not having any negative impact on market sentiment at this point. Weaker economic news, if anything, is taken as another reason for the Federal Reserve (FED) to cut rates further, thereby supporting risky assets even more.

During the third quarter, investors were focused on changes in the outlook for monetary policy. In his August Jackson Hole Conference speech, FED Chair Jerome Powell signaled a change in his outlook that de-emphasized the FED’s mandate to keep inflation low and instead gave the full employment mandate increased weight. This change was further apparent when the Federal Reserve Open Market Committee (FOMC) decided to lower the FED Funds rate by 25 basis points at their September 17 meeting. When Powell in his press conference after the FOMC meeting sounded a bit more dovish than expected, the Fixed Income markets saw this as a “hawkish cut”, resulting in a Bond market sell-off. However, the seemingly always optimistic Equity market saw it as the beginning of a cycle of cuts that would lend further support to the rally.

Financial markets may not worry about the economic outlook, but the general public may feel differently; the chart below shows the University of Michigan Consumer Expectations Index. Here we can see that Consumer Expectations, while slightly higher than earlier in 2025, are at levels typically seen around recessions (2008/9) or periods of very high inflation (2022). Consumers are clearly worried about the economic outlook, and while previous such periods often happened near the bottom of economic and Equity market cycles, it has never happened with the US Equity market at or near all-time highs.

Consumer Expectations

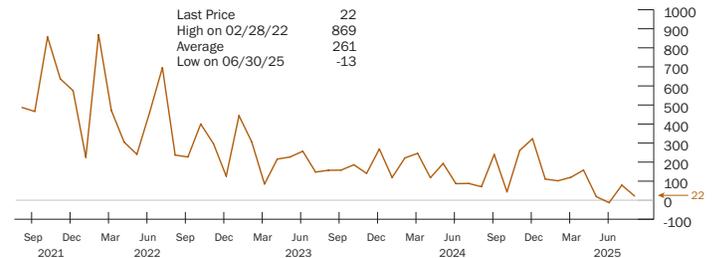


Source: Bloomberg and Optimum Quantvest

This disconnect between the rosy outlook on Wall Street and the cautious outlook on Main Street may have many explanations: one possibility is that Artificial Intelligence (AI), which clearly is the driving theme in the US Equity market right now, already is impacting job security among the general public. This is consistent with labor market indicators showing a significant decline in job growth in the

last 12 months or so. See the chart below, which shows the monthly change in Nonfarm Payrolls (NFP) over the last 3 years.

Monthly Change in Nonfarm Payrolls



Source: Bloomberg and Optimum Quantvest

The September number for NFP was scheduled to be released on October 3rd but has been delayed because of the Government shutdown currently in place, but the recent trend has shown a stalling in job growth which is puzzling given other economic indicators that still look healthy. Overall GDP growth is currently projected to be over 3% on an annual basis in Q3, although growth for all of 2025 is forecast to be just above 1.5% year-on-year. This gap between the fairly anemic pace of job growth and reasonably good GDP growth is most readily explained by increased productivity, which is what AI is expected to bring.

Economic theory looks at the division of national income between Labor and Capital. The current situation means that we may already be seeing the early effects of AI on the economy: an increase in returns to Capital (higher stock prices) and a lower return to Labor (flat job growth). If this is the correct conclusion, then the much-awaited rebalancing between Capital and Labor in developed economies, which was expected after Globalization peaked around the time of the Covid pandemic, may not happen. Globalization allowed owners of Capital to benefit from lower Labor costs resulting from offshoring production to developing economies at the expense of workers in developed economies. Conversely, the trend towards onshoring or re-shoring production for reasons of supply security or geopolitics, was expected to raise real wages and increase Labor’s share of corporate revenue.

We are now faced with the real possibility that, at least in the short term, investors will see high returns while large swaths of the population experience a difficult labor market. The long-term implications, were this to continue, include higher unemployment and a further widening of the income gap. A benign scenario, where the initial dislocation in the labor market caused by AI ultimately leads to a more efficient labor force that shares in future productivity gains is a possible outcome.

Many obstacles stand between this benign scenario and the current backdrop of persistent budget deficits in the US and the resulting high real interest rates that are likely to dampen economic activity once the current AI investment boom cools off.

Bond Markets

Marvin Kouame, Investment Analyst



The Quarter That Repriced Everything

The third quarter marked a clear shift in investor positioning as markets leaned into an easing-oriented policy path. The Federal Reserve resumed their long-awaited easing in September, cutting the policy rate 25 basis points to 4.00–4.25%. The markets quickly priced two additional 25 basis point cuts during the October and December meetings, and many forward-looking cuts in 2026-2027. The policy pivot helped spark a broad rally in rates and credit: yields fell, and spreads tightened, but the quarter also exposed an uneasy equilibrium of robust nominal demand running into growing fiscal and structural headwinds. Simply put, policy is loosening but system-level frictions remain.

Trapped Between Policy and Debt

Treasuries produced positive returns as the front-end reacted most to near-term easing expectations. The 2-year Treasury reached 3.48%, breaking below its 2024 low of 3.53%. At the same time, longer maturities faced friction from heavy issuance and persistent fiscal deficits, which limit how far the long-end can rally without stronger, durable demand. Market activity in September was strong, and Treasury auctions and dealer coverage remain key signals to watch as supply dynamics evolve. Investor positioning showed a tilt toward the front and belly of the curve where duration exposure is lower. That stance reflected a preference for carry with manageable rate sensitivity, rather than aggressive long-duration exposure. If inflation or fiscal signals surprise to the upside, the long-end would be most vulnerable to a repricing.

Q3 Yield Curve Performance



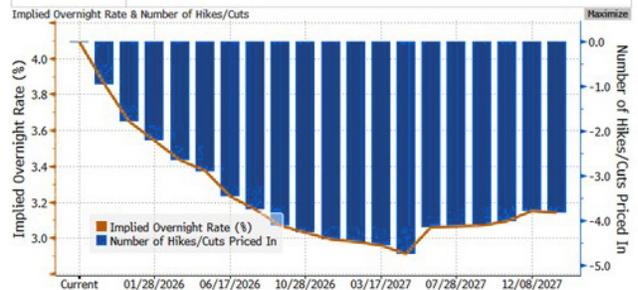
Source: Optimum Quantvest and Bloomberg

September's rate cut was framed by the FED as a "risk-management move" given the increased downside risks to the labor market and a stubborn inflation environment. FED Fund futures, which are financial contracts based on the FOMC's target for the FED Funds rate, now imply further cuts in the months ahead. Although the FED has resumed easing, the path ahead doesn't come without caution, however. The FED itself has cautioned that future rate decisions will be data-dependent. The primary focus has shifted slightly more towards the labor market instead of the 2% inflation target, so labor data is likely to dictate the pace of easing. The current state of the labor market is one of low hiring and firing. Elevated unemployment rates for recent graduates support this theme. We also cannot ignore the changing dynamics of the

FOMC board members and their different views of what the neutral rate looks like. Market participants are baking in a particular level of certainty in a market cycle that is all but certain, and it could lead to an eventual reset of expectations if the path ahead becomes bumpy.

Interest Rate Probabilities

Meeting	#Hikes/Cuts	Imp. Rate A	Implied Rate	ARRH
10/29/2025	-0.951	-95.1%	3.858	0.250
12/10/2025	-1.784	-83.3%	3.649	0.250
01/28/2026	-2.211	-42.7%	3.543	0.250
03/18/2026	-2.642	-43.0%	3.435	0.250
04/29/2026	-2.891	-25.0%	3.373	0.250
06/17/2026	-3.499	-55.7%	3.223	0.250
07/29/2026	-3.751	-30.3%	3.158	0.250
09/16/2026	-4.106	-35.4%	3.069	0.250
10/28/2026	-4.261	-15.6%	3.030	0.250
12/09/2026	-4.421	-16.0%	2.990	0.250
01/27/2027	-4.471	-5.0%	2.977	0.250
03/17/2027	-4.551	-7.9%	2.958	0.250
04/28/2027	-4.741	-19.1%	2.910	0.250
06/09/2027	-4.149	+59.3%	3.058	0.250
07/28/2027	-4.121	-2.7%	3.065	0.250
09/15/2027	-4.117	+0.4%	3.066	0.250
10/27/2027	-4.021	+9.6%	3.090	0.250
12/08/2027	-3.775	+24.6%	3.152	0.250
01/26/2028	-3.821	-4.6%	3.140	0.250



Source: Optimum Quantvest and Bloomberg

How Low Can We Go?

Just as the title alludes, this is the big question everyone is asking as corporate bond spreads continue to creep lower. U.S. investment grade (IG) credit extended its strong run in Q3 with spreads compressing to multi-decade lows and all-in yields remaining historically elevated in the high 4-5% area. The Bloomberg U.S. Corporate Bond Index tightened 9 basis points from Q2's level of 83 basis points, finishing September near the 74 basis points.

US IG Spreads Set New 27-Year Low



Source: Optimum Quantvest and Bloomberg

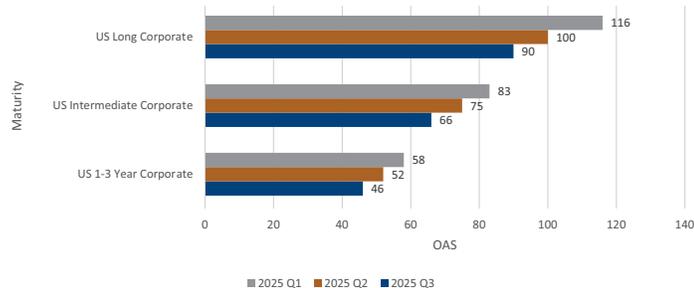
Bond Markets (cont'd)

Marvin Kouame, Investment Analyst



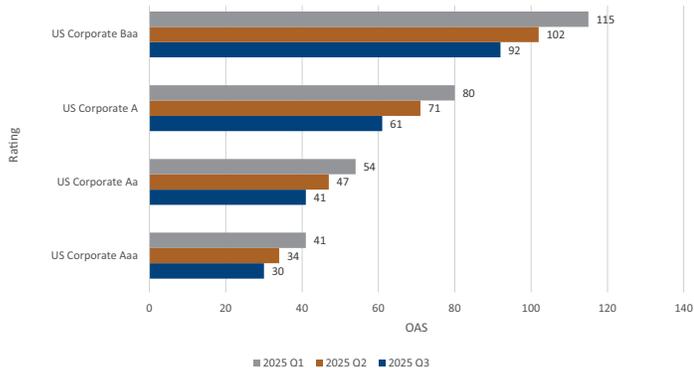
The rally reflected a mix of macro tailwinds and technical demand. Exceptional investor appetite absorbed large gross issuance as September was among the busiest months on record for IG supply, yet net issuance dynamics and strong inflows (institutional, foreign, and ETF) helped stabilize secondary markets. Credit fundamentals remain broadly intact as leverage and interest-coverage metrics are generally manageable. Refinancing needs and margin pressure in cyclical sectors are watch points for the quarters ahead. Rating-stack behavior showed A and BBB cohorts capturing much of the tightening as investors balanced yield and credit risk. Below are graphs illustrating the option-adjusted spread performance of maturity buckets and the rating-stack.

Bloomberg US Agg Corp. Index Maturity Performance (bps)



Source: Optimum Quantvest and Bloomberg

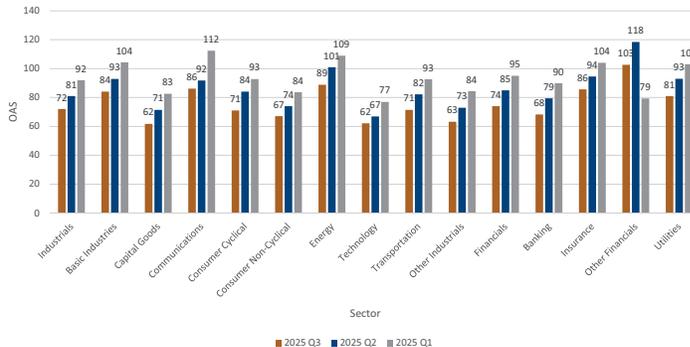
Bloomberg US Agg Corp. Index Rating Performance (bps)



Source: Optimum Quantvest and Bloomberg

Sector performance reflected this dynamic. Financials outperformed on stable deposit trends and solid capitalization, Industrials and Energy generally held up where pricing power existed, and Consumer-exposed subsectors lagged amid margin pressure and tariff uncertainty.

Bloomberg US Agg Corp. Index Sector Performance (bps)



Source: Optimum Quantvest and Bloomberg

That said, spreads now sit at the bottom of their historical range. The market is increasingly being driven by demand for income rather than by an expanding fundamental safety margin. Are these attractive nominal entry levels by recent standards? No question. But we believe the concept of risk-to-reward is being forgotten for the moment as credit markets are priced to perfection.

A Tale of Two Economies

While economic data still suggest a picture of consumer resilience, the underlying dynamics are one of increasing divides – those who can spend versus those who cannot. The American consumer base has never been more unevenly positioned to endure the lagged effect of monetary policy, and the market isn't pricing in the reality of the average consumer under the hood. Recent data shows the top 10% of earners accounted for roughly 49% of total consumer spending in Q2 2025, the highest share in decades, underscoring how concentrated demand has become.

Meanwhile, household-level stress is rising in select pockets. Non-housing consumer debt grew, and student-loan delinquencies climbed sharply after repayments resumed. Not to mention that some measures of serious delinquency have moved higher for credit cards and auto loans in recent quarters as well. The result is a consumer picture that looks resilient on headline gauges but is increasingly dependent on a relatively small, high-income cohort to sustain aggregate demand. While macro data looks smooth, micro-level distress is already obvious, just not yet manifested in the pricing, relating to the earlier point of the unfavorable risk-to-reward in credit markets.

Bond Markets (cont'd)

Marvin Kouame, Investment Analyst



Everything That Glitters Isn't Gold

Gold's record-setting rally in recent months has become one of the most telling paradoxes in global markets. The yellow metal's steady climb to all-time highs, surpassing levels reached during prior inflationary or geopolitical stress, has occurred alongside record equity valuations, historically tight corporate spreads, and fading volatility across risk assets. In a traditional capital markets framework, such coexistence shouldn't happen. This co-movement signals that gold's bid is not pure "flight to safety" in the classic sense but a layered hedge against lower real yields, dollar depreciation concerns, and the structural risk of fiscal oversupply. Institutional buyers and central banks are increasingly using gold as a form of portfolio insurance while staying long risk assets. This is an indication that investors are protecting portfolios against risk scenarios where nominal anchors (dollar strength, Treasuries' safe-haven role) may weaken. For bond investors, gold's strength alongside Treasuries implies a market hedging multiple dimensions of risk simultaneously: duration, policy credibility, and currency.

Gold vs. S&P 500 vs. Bloomberg Corp. Bond Index



Source: Optimum Quantvest and Bloomberg

STRATEGY

There is no question that capital markets have some headwinds that may take center stage and deter the euphoria in the markets. But as we say, you must keep dancing until the music stops. The fundamental drivers in IG credit markets coupled with the insatiable demand of yield-focused investors remain robust enough to keep a lid on spreads, for now. On a spectrum of low to high risk, we view the current opportunity set in credit as the latter. Therefore, we are preserving our moderate underweight in credit. We continue to maintain a long duration stance above the index aligning with our macro view of a lower FED Funds rate in the coming months.

U.S. Equities

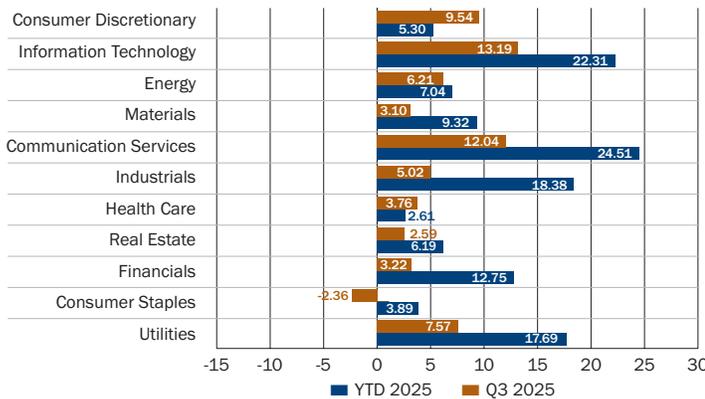
Jan Erik Warneryd, CFA, Chief Investment Officer



In the third quarter of 2025, the S&P 500 continued its bull run, closing just off a new all-time high set earlier in September. For the quarter, the index was up 8.12% and year-to-date +14.83%.

Information Technology and Communication Services were the best performing sectors, both for Q3 and for 2025 to date. All sectors now show positive returns for 2025, with Health Care and Consumer Staples the worst performers (see the chart below). The momentum-driven bull market in US equities has now resulted in an estimated Price/Earnings (P/E) ratio of 25 times expected 2025 earnings. This is the highest* P/E ratio of the S&P 500 since 1999, a few months before the “Dot-Com” bubble burst in 2000.

S&P 500 Index Total Return (%) by Sector

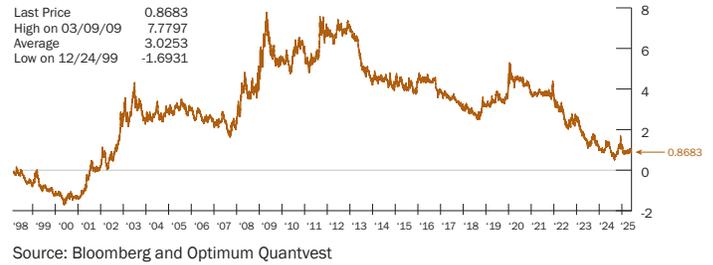


Source: Optimum Quantvest and S&P Global

A recurring theme heard in explanations of why the US Equity market is performing so well is that the Federal Reserve (FED) has resumed cutting rates. On September 17, 2025, the FED delivered the first rate cut since December 2024 and the market now expects two more 25 basis point cuts in 2025 and at least another three next year, thereby taking the FED Funds rate to below 3% before year-end 2026. Curiously, the yield on the 10-year Treasury Note actually increased from 4.03% on the day of the latest rate cut to 4.20% 10 days later as FED Chairman Jerome Powell sounded more guarded about rate cuts than the market had expected. The Equity market, however, rose during the same period and has since continued up, seemingly ignoring what the Bond market thinks of the outlook for long rates. The Equity market appears to be more optimistic about the rates outlook than the Bond market. Given how high the P/E is currently, it is a bit worrying that equities are looking to lower interest rates to support the current valuation. For an illustration of the relative value of equities versus bonds, see the chart above, which shows a measure of the Equity Risk

Premium defined as the spread in percentage points between the inverted CAPE (Cyclically Adjusted Price/Earnings, also known as the Shiller P/E) ratio and the real yield on 10-year TIPS (Treasury Inflation Protected Securities).

Equity Risk Premium



Source: Bloomberg and Optimum Quantvest

As can be seen above, the risk premium in equities versus Treasury bonds is now at levels last seen in 2002. Equities still offer a higher expected incremental real return over Treasury bonds than they offered in 1999, at the height of the “Dot-Com” bubble, but the attractive valuation level that equities enjoyed after Fed Funds were cut to zero during the Global Financial Crisis of 2008/9 is well behind us. The increase in real rates of almost 3% (from -1.25% to 1.75%) on 10-year TIPS since 2021, coupled with a rise in the P/E ratio from 16 to 25 has made the US Equity market much less attractive than at any time in the last two decades.

In April, the S&P 500 dropped by 15% in the days following the “Liberation Day” tariff announcements. The subsequent rally erased those losses by mid-May as the market became convinced that the ultimate tariff impact would be relatively muted. After the 90-day tariff reprieve expired on July 9, new rates were revealed, in some cases higher than initially proposed in April. As a result, the overall tariff burden is now much higher than the market expected earlier in the year and while the economy appears somewhat unaffected so far, higher tariffs are likely to have a significant long-term impact on the US economy.

Earnings growth expectations are quite high and do not appear to have been affected by the higher-than-expected tariffs imposed over the summer. In fact, at 10% year-on-year, according to Thomson Financial Consensus EPS Estimates, they are the same as in late March this year, before the “Liberation Day” announcement. In the period since then, the S&P 500 is up 17%, while the 10-year Treasury yield is still the same, at 4.15%.

*In 2020, the P/E ratio on the S&P 500 briefly exceeded 25 as earnings fell due to the COVID epidemic.

U.S. Equities (cont'd)

Jan Erik Warneryd, CFA, Chief Investment Officer



STRATEGY

The US economy has seen significant swings in GDP so far this year but after a weak first quarter heavily impacted by a rush to bring in imports before tariffs hit, GDP growth has stabilized at a higher level. Growth for all of 2025 now looks to be at least 1.5%, which is a drop from last year's rate of 2.8%, but still better than many feared just a few months ago. The labor market, however, appears to be weakening much more than is suggested by current GDP growth, leaving the economy vulnerable to a downturn in the next few quarters. There is also the threat of future tariff-related price rises that have yet to show up in CPI data, which could cause the FED to hesitate in cutting rates as much as imbedded pricing suggests. The tariff impact on corporate earnings is unclear at this point, but it seems reasonable to assume that the increased costs will be shared between consumers and producers and possibly partly absorbed by exporters to the US. While the market isn't concerned

about profit margins, they are likely to be under pressure and could disappoint over the next few quarters.

A more cautious tone in the US Equity market could eventually lead to a change in leadership in favor of sectors that have lagged the multi-year equity rally. Cyclical and Value sectors such as Financials, Health Care, Utilities and the Telecom sub-sector could outperform the overall market if large-cap technology-related stocks give up their leadership. The timing of this shift in leadership has been difficult to predict but the catalyst could be a likely economic crisis coupled with ongoing uncertainty about future Washington policy.

The low forward-looking risk premium in the US Equity market after the strong performance in the last few years makes it more likely that recent policy changes and general uncertainty will act as a catalyst for more subdued performance going forward.

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OPTIMUM QUANTVEST CORPORATION

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