FORTITUDE CAPITAL MANAGEMENT

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800 Roosevelt Road
Bldg. B, Suite 413
Glen Ellyn, IL 60137
630.545.2800
fortitudecapitalmgmt.com

October 14, 2025

"If a tree fell in the woods, but the data said it didn't, does it really mean anything?" – First Trust Monday Morning Outlook for 9/15/2025

"The man who asks a question is a fool for a minute, the man who does not ask is a fool for life. -- Confucius

Fellow Investors:

Unlike the second quarter of the year, the third quarter was a generally smooth ride upward for the equity markets. The US market continues to be driven by a handful of mega-cap tech companies specifically and optimism about the economic contributions of artificial intelligence. Interest rates also drifted lower through the quarter, and the Fed made its long-anticipated cut in the federal funds rate at its September meeting. The state of the labor market remained hard to read after some big revisions in the data, leaving data nerds wondering about the integrity of any government generated data. On the positive side, the US economy seems to have shaken off the fears of tariffs and US GDP grew 4.59% for the year ended 6/30/2025 according to the Bureau of Economic Analysis.

Through the end of the third quarter the S&P 500 index was up 13.7% year to date with a total return of 14.8%. Over half of this year-to-date return came in the third quarter. The Russell 2000 was up 9.25% for the year through the end of the quarter after rising 10.87% in the third quarter. The NASDAQ Composite also had a robust quarter rising 11.68%, producing a 16.78% gain for the first nine months. International equities had the best performance year to date of 22.33% (MSCI EAFE) with most of that coming in the first six months. As we have noted before, a good portion of the non-US markets' gains can be attributed to a first half decline in the dollar. The ICE US Dollar Index declined 10.79% for the first have of the year with a small recovery in the third quarter.

The US market continues to ride on the backs of the largest companies as the top ten account for nearly 40% of the S&P 500. This level of concentration is unprecedented as shown in the chart below. For additional perspective, in 2015 the value of the top ten companies in the S&P equaled about 20% of US GDP. In 2025 the top ten market capitalizations equaled about 67% of US GDP. While driving the indexes higher with their performance, we need to keep in mind that a reversal of their performance will also weigh heavily on the index.

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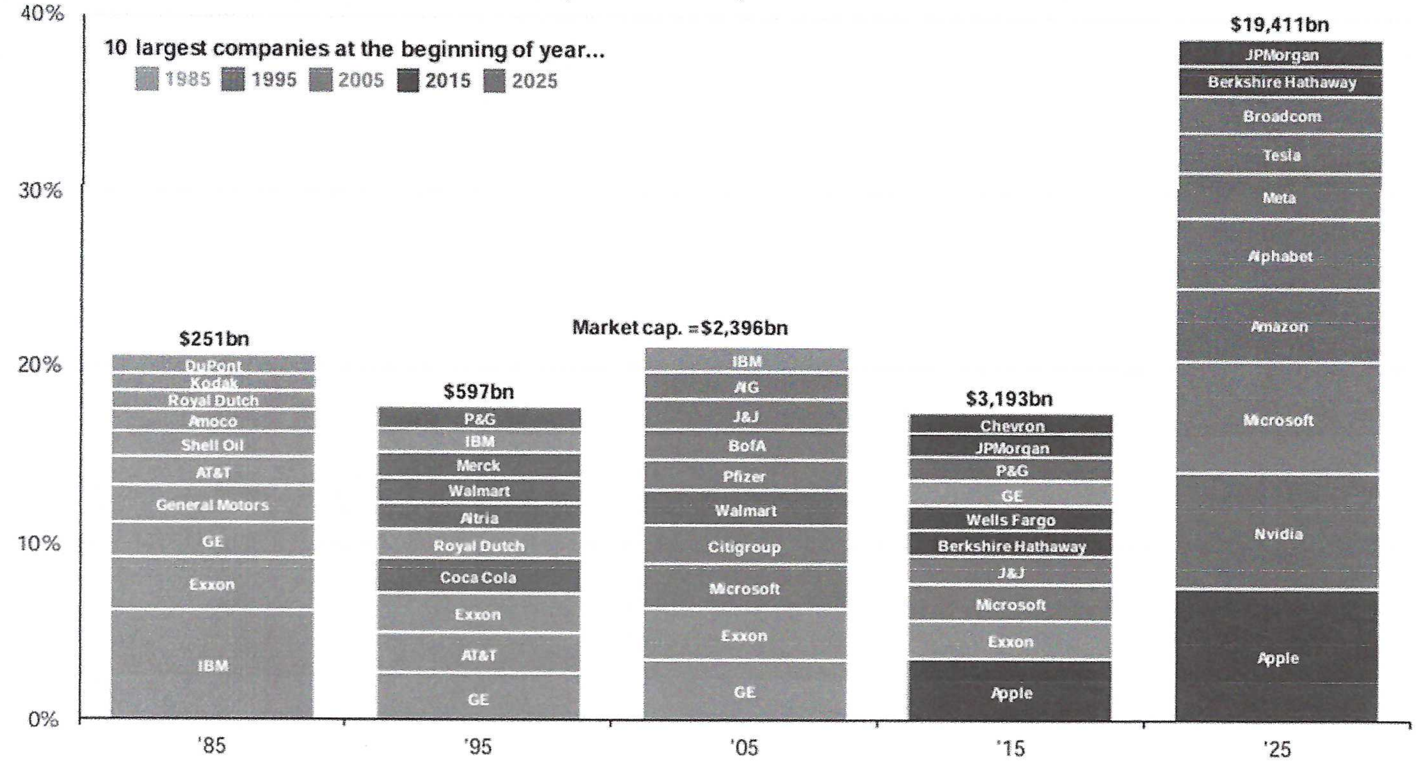
Top 10 S&P 500 companies by market capitalization

Percent of S&P 500 market capitalization as of the first day of the indicated year



Source: Bloomberg, Standard & Poor's, J.P. Morgan Asset Management.
Companies are organized from highest weight at the bottom to lowest weight at the top. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of September 30, 2025.

The ten-year treasury rate declined by 0.42% for the first nine-months ending the quarter at 4.16%, touching 4.01% twice during the year. The two-year treasury rate declined by 0.56% over the same period, resulting in a steepening of the yield curve. The very short end of the yield curve does remain elevated above the two-year rate but declined sharply in August and September.

The interest rate environment, as well as equities, fluctuates on the constant stream of data and news, at times in baffling ways. There are times when bad economic news seems to be good for the markets and good economic news is bad for the markets. It can be easy to get bogged down in the data and miss the forest for the trees. Perhaps the federal government shut down and resulting hold on data releases will give us the opportunity to step back and observe the forest.

The question of everyone's mind is whether the market can continue to be carried by the mega-cap tech and AI trades. To some it brings back memories of 1999-2000. While that is an understandable concern, one difference is profitability.

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The companies driving the equity markets now are making money, lots of it. Twenty-five years ago, it seemed any two college dropouts with a web address could get funding and an IPO. Another point is that the promise of the internet twenty-five years ago ran into infrastructure roadblocks which eventually bankrupted companies through excessive capital expenditures. We are not dismissing that there may be froth in the current market, but the primary roadblock today may be the need for power to support the vast computing power of AI and it looks like that is being addressed and AI adoption appears to be broadening out. We have yet to see how AI will impact the broader economy, but expectations are running high.

There remain several cautionary factors for concern. At the macro level, the US government debt keeps reaching new highs and Washington has yet to make any real headway. Gold has increased 52% year to date, playing its role of safe haven and inflation hedge for the cautious. Gold buying by central banks may be adding to the upward price pressure. Silver prices have gone up even more for the year than gold. Precious metals also do well against a falling dollar, which was mentioned above. The uncertainty around trade talks and international conflicts are factors as well.

Despite uncertainties, the US consumer sentiment is well below the average for the last fifty years and historically, troughs in consumer sentiment have been a bullish sign for equities. As the old saying goes, "the market climbs a wall of worry". There are plenty of worries to climb and we will have to hang on for the ride. It is never time for complacency. Risks are always there and not always apparent. Black swans appear without warning. Know your risks and make sure you are comfortable with your exposures.

Sincerely,

Erik Ford

Jason Marrs

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

The S&P 500 Equal Weight Index (EWI) is an equal-weight version of the popular S&P 500 Index. Although both indexes are comprised of the same stocks, the different weighting schemes result in two indexes with different properties and different benefits for investors.

The term Russell 2000 Index refers to a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index. The Russell 3000 is a capitalization weighted index representing approximately 96% of the investable U.S. equity market.

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The MSCI EAFE Index tracks large cap and mid cap companies in developed countries around the world. The index primarily covers the Europe, Australasia, and the Far East regions.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Along with the Dow Jones Average and S&P 500 it is one of the three most-followed indices in US stock markets. The composition of the NASDAQ Composite is heavily weighted towards information technology companies.

The ICE US Dollar Index is a geometrically averaged calculation of six currencies weighted against the U.S. dollar: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc. Currently, the euro holds a 57% weight in the calculation formula, having replaced 5 previously weighted currencies.