

October 2025

Dear Donor,

### Third Quarter Review and Fourth Quarter Outlook

Admit it. Back in April, at the height of tariff mania, what would you have said to someone who told you that, by the end of the third quarter, the S&P 500 would be up in the low teens, with a super-relaxed bond market and a more or less stable US dollar? Crazy is what you would have called that person, right? April was the cruelest month – for the markets, if for nothing else. But it has been a fairly easy, low-key ride since then. What explains the Zen-like serenity of global financial markets amid a major geopolitical transition away from a world order that had more or less held together for the past eight decades prior to this year?

Two words provide at least a big part of the answer to that question: artificial intelligence. AI infrastructure spending – the data centers and energy supplies that provide the wherewithal for the large language models that supply the answers to the questions you ask of ChatGPT – is expected to top \$4 trillion within the next four years. This capital spending feeds directly into Gross Domestic Product (GDP), so that even as consumer spending slows down from the pace of recent years, real GDP growth manages to exceed the muted forecasts economists were making earlier this year. Now, we are still far away from being at a point where actual AI business use cases are demonstrating measurable productivity improvements. In fact, a survey published during the third quarter by the Massachusetts Institute of Technology contained the somewhat sobering insight that 95 percent of generative AI pilot projects implemented by US businesses failed to...well, generate a profit. On Wall Street, the AI hype so far is less about its real impact on businesses and more on the massive buildout engineered by a small number of companies. The star genAI performers of the last several years rode again mightily in the third quarter. But that outperformance has reignited concerns about a bubble, with much of the worry pertaining to the seemingly circular nature of the multi-billion dollar investments between the companies at the heart of the build-out. Leading AI spokespersons are quick to note that their companies operate on much more solid footing than did the dot-com darlings of yesteryear. Still, bubbles all tend to meet their comeuppance sooner or later.

Even more so than the stock market, though, it is the nonchalance of the bond market that has perhaps been the biggest surprise of the past three months. The credibility of the Federal Reserve, which a decisive majority of people in the business would agree is the most important financial institution in the world – has been under fire from a Trump administration pushing hard to get its way on major interest rate cuts. So far, the threat to unseat Fed chair Jerome Powell has not been followed through on. But the administration took advantage of an early retirement by one Fed governor to put one of its own members (Stephen Miran, the chairman of the Council of Economic Advisors) on the Federal Open Market Committee, and has also tried to fire another FOMC member on dubious charges with no direct relation to her job. The turmoil has shown through, with notable dissents to monetary policy decisions at each of the two most recent FOMC meetings. But it has thus far failed to make much of an impact on bond yields. Investors expect to see two more rate cuts in 2025 and continued easing next year, and that optimistic take seems to offset concerns that the Fed's storied independence might not survive for much longer.

Those rate cuts are by no means a guarantee, though, and neither is the continuation of a subdued bond market. Despite the better than expected progress of the economy in the year to date, concerns about the eventual effect of tariffs and a resulting structural realignment of global trading patterns have not gone away. Inflation is still trending well above the Fed's two percent target. The labor market is slowing, although the unemployment rate is still comfortably far away from levels that might signify an approaching recession. China is solidifying its domination of many of the industry sectors vital to the new economy. The end of the eighty-year geopolitical world order leaves more questions than answers about what comes next. For now – and quite possibly through the remainder of the year, markets seem capable of fending off whatever potential threats get thrown their way. But there are more than a handful of sustainability concerns that we will be taking into next year.

With warm regards,

*Masood Vojdani*