

Stapp Financial Investment Letter

Stapp Wealth Management, PLLC

Third Quarter 2025

“The only problem with market timing is getting the timing right.”

- Peter Lynch

Market Recap

The last few months have been a period when it has been almost challenging to not make money in markets. As uncertainty has diminished and investor confidence has risen, most pockets of the market have risen in tandem. As a result of the strong market performance, concerns have shifted away from the economic and political arenas to equity valuations and the speculative behavior of market participants.

As the Fed has continued to forecast a trajectory of easing rates, bonds continued their steady climb during the quarter, with investment grade bonds up +2% and high yield bonds up +2.5%. Among equities, small cap US stocks were the best performers, catching up from their earlier lagging performance with a gain of +12.4%. US large caps weren't too far behind, delivering gains of +8.1% during the quarter. For the year, international equities continue to hold their lead, with exceptional year-to-date returns for developed foreign stocks and emerging market stocks of +25.1% and +27.5% respectively.

Alternatives continue to fare well with gold being by far the strongest performer so far this year, gaining +46.6% in price as the debasement trade has picked up steam. The trend-following managed futures strategies we use are just slightly negative on the year but have performed much better in recent months. Managed futures, as broad asset class, have done a bit worse than the strategies we have allocated to, with our proxy for managed futures down -8.1% year-to-date but up +5.2% in the 3rd quarter. Strategy selection continues to be critical in this area.

Asset Class Performance		
	3 rd Quarter	Year-to-Date
Investment Grade Bonds	+2.03%	+6.13%
High Yield Bonds	+2.54%	+7.22%
US Large Cap Stocks	+8.12%	+14.83%
US Small Cap Stocks	+12.39%	+10.39%
Developed International Stocks	+4.77%	+25.14%
Emerging Market Stocks	+10.64%	+27.53%
Gold	+16.36%	+46.61%
Managed Futures	+5.24%	-8.11%

Data as of 9/30/2025. Source: Kwanti Analytics¹

¹ Indexes used: Bloomberg US Aggregate Bond Index, Bloomberg US Corp High Yield, S&P 500 TR, Russell 2000 TR, and MSCI EAFE TR, MSCI Emerging Markets Index TR; Gold represented by the change in the gold spot price; Managed futures represented by a 50/50 allocation to ASFYX and PQTIX set to rebalance quarterly.

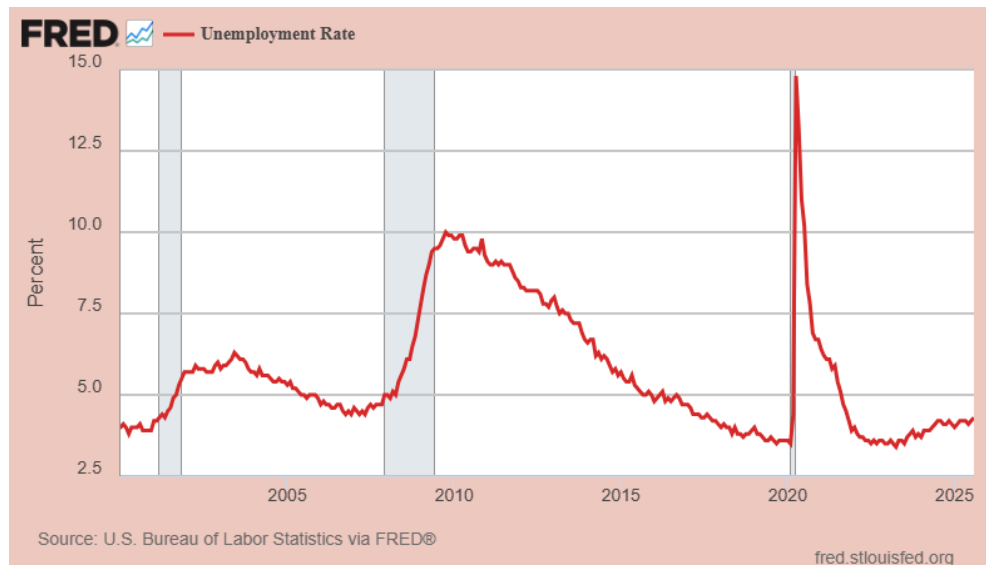
Investment Outlook and Portfolio Positioning

We have written much about AI in previous newsletters, but it wasn't until the release of Sora 2 on September 30th when it almost felt like someone flipped a switch that made it clear that AI is going to radically change society. If you haven't already seen it, look up Sora 2's promo video, and you will see what we mean. OpenAI was able to demonstrate that it will be possible for almost anyone to generate a completely realistic looking short clip or even a full length film by purely typing prompts into the AI engine - no actors, no camera crews, no vfx engineers, and no sound engineers needed.

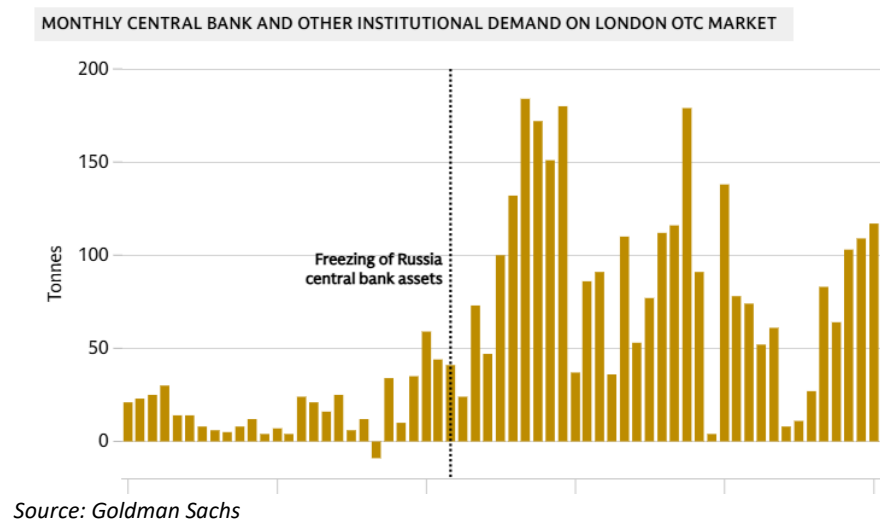


Screenshot from Sora 2's promo video

The global entertainment industry generates close to \$3 trillion of revenue annually. There is a lot of uncertainty here, but of the jobs that generate that industry revenue, it is estimated that around 30%-50% of jobs in the entertainment industry will be replaced by AI in the next 10 years. Jensen Huang, the CEO of Nvidia, the company that is benefiting the most from AI at this time, is one of the few that thinks otherwise, saying recently, "AI is not going to take your job away. It's going to make your job better, and it's going to create new jobs. Every time a new technology comes along, it creates more opportunities than it displaces." Maybe he will be correct in the long-run, but at least in the short-run we are seeing a hiring freeze at many companies as they look to increase their production over the next several years without hiring new employees. Walmart is perhaps the best example of this. Walmart is forecasting that their growth will slightly exceed their historical growth rate, but they will deliver this growth without hiring any new employees over the next three years. Walmart's CEO Doug McMillan has stated, "It's very clear that AI is going to change literally every job." "Maybe there's a job in the world that AI won't change, but I haven't thought of it." Jim Farley, the CEO of Ford thinks what we will see will be even more radical. He believes, "Artificial intelligence is going to replace half—literally half—of all white-collar workers in the U.S." These dynamics have made it challenging to assess the labor market. As of the last reading, the unemployment rate sits at 4.3% and has remained flat for some time now. A break upwards would traditionally spell risks for the economy, but if workforces are being replaced by AI, perhaps it would mean something different.



One dynamic we are seeing globally is that policymakers now appear to have little appetite for austerity measures that would reduce national deficits. “Run it hot” policies have become the norm for countries who markets have enabled these policies with accommodative interest rates. Historically, when investors lost faith in governments’ ability to finance itself, we would see spikes in yields across the bond curve. This led to the coining of the term, “bond vigilantes” to describe the actors who influenced these pricing mechanisms in markets. Now, we are not seeing any bond vigilantes, but we are seeing what might be able to be described as “gold vigilantes.” To protect themselves from these financing dynamics, central banks in many countries have been aggressively buying gold to add to their fx reserves. Poland’s National Bank, for example, has most recently raised their gold as a percentage of fx reserves target 30%. Gold is currently about 22% of their total fx reserves, so depending on the price of gold when they purchase it, they will need to buy another 90 tons of gold to reach their target. Poland is not the only country with this ambition. Many other countries around the have announced intentions to add more gold to their fx reserves. Gold has already has a strong showing in terms of its price gains, but with central bank buying underpinning the gold price, we believe gold still has further to go, albeit with many pullbacks and corrections along the way.



Our working thesis that we are seeing a reversal of the Washington Consensus continues to play out, even exceeding our expectations by how closely everything is aligning. The Washington Consensus as it was implemented post the 1980's, centered on three key areas: Trade liberalization (reduce tariffs, allow foreign competition, remove government guarantees), privatization (move government owned corporations to private sector, reduce government influence on wages), and financial liberalization (allow markets to set exchange rates and bond yields). Tariffs and protectionist measures continue to be at the center of political discourse. We have seen for the first time in many years the US federal government taking ownership stakes in many companies that are being deemed critical, such as Intel and MP Materials. Fiscal spending continues to surge, but we have not yet seen intervention in exchange rates or bond yields - that is something to monitor.

The investment implications of this thesis remain as we posited several months ago. We think this is an environment of investment winners and investment losers.

We want to own -

- Insurance against US government error (Gold, maybe bitcoin)
- Non-US assets in everything except consumer discretionary
- Political utilities and national champions
- Non-capex reliant tech
- Real assets
- Long/short strategies that can identify winners and losers

We want to avoid/underweight -

- Financial system business models that break if the USD or US treasuries decline
- High capex businesses
- Premiumization/wealth effect business winners
- Dominant US brands that face consumers that may become global political targets
- Interest rate sensitive bonds

Since we posited this thesis, the areas we have allocated to have done far better than we would have expected. This has benefited our portfolios as we continue to see outperformance across our different strategies.

Our main concern at this time would be a rise in speculative behavior that we have seen. An index of the most shorted stocks, stocks of companies that are believed to be low quality, has seen its strongest performance since 2021, the last time we saw similar speculative behavior. This leads us to tread cautiously. We believe we have portfolios positioned well in case of a pullback in markets, but we are continuously monitoring risks in case we believe further adjustments need to be made. An important point to remember is that as an investor, it is often an unnecessary luxury to generate returns through bad times, but we prefer to at least dampen losses during those times if possible.



Source: Financial Times

Closing Thoughts

Asset markets have shown resilience, maintaining their upward trajectory despite the changing environment. Risk remains an ever-present factor, requiring us to stay vigilant and prepared for unexpected turns. However, history reminds us that optimism, grounded in prudent planning, often shapes the future. As always, we approach our work with caution but carry forward with hope.

We deeply value the confidence you place in us to manage your capital. Should you have any questions, insights, or wish to discuss your unique circumstances, please don't hesitate to reach out. We're here for you, ready to connect at your convenience.

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