

Good Afternoon,

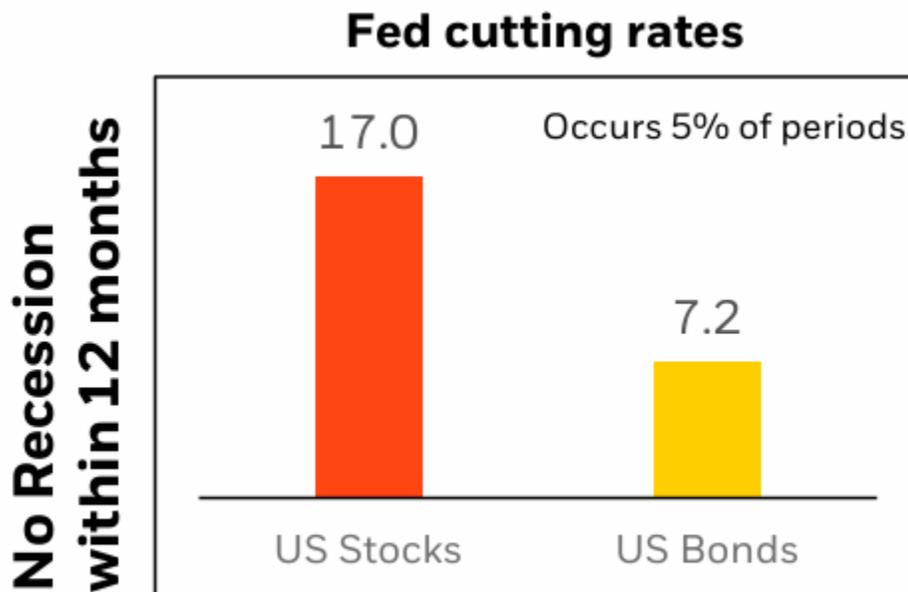
As we approach the final months of the year, there seems to be a tug of war going on in markets. On the plus side, earnings are beating expectations, the Federal Reserve is lowering interest rates, and economic growth remains positive. Opposing this are historically high stock valuations (especially for the largest tech companies), the ongoing threat of tariffs, and the continued weakness of the job market.

How will all this play out?

Using history as our guide, volatility is likely to pick up. We saw this recently, as Trump announced a potential increase in Chinese tariffs and the markets fell sharply. While this can be disconcerting, pullbacks during a market advance are normal, and in many instances lead to opportunities. For the year, the S&P500 has gained 12.5%: almost exactly equal to its earnings growth.

We are in an environment where the Fed is lowering interest rates without the economy in a recession. This is a pretty rare set of circumstances, and, as the chart below shows, has led to higher than average returns for both stock and bonds in the past.

1 year average forward returns (1/1 /1990 – 9/30/2025)



Source: Morningstar, Blackrock

Is the Market Too Expensive?

By most measures, U.S. stocks are at the high end of their historical valuations, as shown on the chart below. However, this does not mean they are due for an immediate correction. Indicators such as the price/ earnings (P/E) ratio are poor indicators of near-term performance. Rather, a more defensive stance is likely warranted. It is important not to be solely reliant on the price of the largest stocks continuing to appreciate at their recent pace.

S&P 500 valuation measures

GTM U.S. 5

S&P 500 index: Forward P/E ratio



Source: JP Morgan

Should we stick with Bonds?

With the continued strong performance in the stock markets, both domestically and abroad, and with the Fed resuming their rate cuts, should we continue to use bonds as part of a portfolio's investments? The short answer is yes. In retirement accounts, we do not pay taxes on the interest earned and current intermediate-term interest rates offer an attractive and consistent source of income.

In taxable accounts, where we often use tax free municipal bonds with lower yields than their taxable equivalents, the answer is also yes. There have been sizeable outflows of

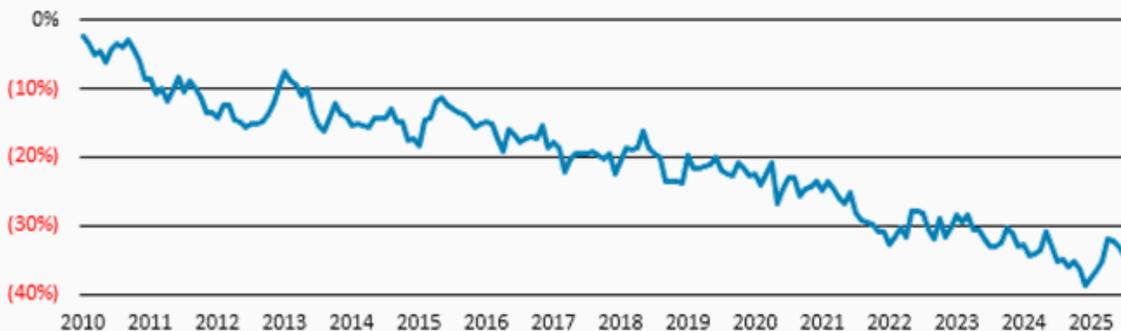
investor funds from muni bonds recently. However, this has typically resulted in strong 1 year performance in the subsequent year. (Source: Bloomberg, PIMCO)

International Stocks are still compelling relative to the U.S.

2025 has proven to be a good year for international stock returns. Year-to-date, foreign-developed markets have gained 24%, outpacing the 13% increase in the S&P 500. As so, they remain compelling relative to the U.S. on a valuation basis.

International Premium (Discount) to U.S.

MSCI ACWI ex-U.S. Index 12-Month Forward P/E Relative to S&P 500 Index



Source: Bloomberg; International data represented by MSCI ACWI ex-U.S. Index, U.S. data represented by S&P 500 Index.

Portfolio Updates

In keeping with the theme of staying invested defensively, I am emphasizing the following in our portfolios:

1. I am maintaining our allocation to International Developed stocks. They've benefited from a declining dollar this year, but even if the dollar stabilizes they remain compelling.
2. I continue to hold a position in buffered index ETFs in retirement accounts. The upside of the buffered ETFs is capped, but still nearly double the yield available on Treasury Bills, with the same 100% downside protection over 12 months. In addition, I use them as a source of funds to rebalance portfolios after a decline in the market.
3. I have increased the average maturities of bonds. With short-term interest rates declining, moving into intermediate term bonds offers higher yields and the potential for capital appreciation.

As always, please let me know if you have any questions or comments on the markets or economy, or your investments in particular. Mariza Bonilla has been busy scheduling fall meetings. If you'd like to meet sooner, please contact her directly at mbonilla@generatewealthllc.com.

Very truly yours,

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