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Greetings!

The U.S. economy was resilient in Q2'25 - GDP grew 3.8% on higher consumer spending and lower imports, but could be cooling in Q3'25. Headwinds include the impact high tariffs have on consumer prices, flagging consumer confidence, slower economic growth subdued residential investment, and a softer job market. While the tariffs are intended to address trade imbalances, the ultimate consequences could be, as the President likes to say, "huge." Amid these signs of cooling, a surge in AI-related spending has become both a tailwind and a risk - increasing business investment but generating job insecurity and higher electricity prices.

Below is an overview of key economic indicators and trends:

Inflation

Headline inflation (12-month CPI through September 2025) rose 3.0%, up slightly from August's 2.9%. Core inflation remains around 3.0%. Tariff-related cost pressures remain elevated especially for import-dependent goods and continue to feed into higher price levels. AI-infrastructure spending is also pushing up equipment and data-center investment costs, contributing to inflation through the capital-goods channel. Economists caution that although inflation has eased from recent highs, it remains above the Federal Reserve's target and may stay elevated through 2025–26 as tariffs and technology-related investment keep upward pressure on prices.

Unemployment & Labor Markets

The U.S. unemployment rate in September 2025 stood at roughly 4.4%, up from 4.3% the month before. Job openings remain elevated but labor-demand growth is soft, and layoffs are creeping up in trade-exposed sectors such as manufacturing, retail, transportation and warehousing. Meanwhile, AI-driven capital spending is contributing to job creation in areas like data-centers, chip manufacturing, utilities and the related construction trades partially offsetting losses elsewhere. However, the transition is uneven: significant skill mismatches and regional disparities may limit how much stabilization the AI-related hiring can provide to the broader labor market.

Housing Starts & Construction Activity

Housing starts remain under pressure. Elevated mortgage rates and declining affordability have weakened single-family construction, while multi-family building remains relatively stronger. Non-residential construction especially AI data centers and associated utilities and real-estate infrastructure has surged. Major tech firms forecast combined capital expenditures in the hundreds of billions for AI-infrastructure projects in 2025. These investments support construction activity and employment but are highly concentrated, and they may not fully offset the broader softness in residential housing and traditional commercial real estate.

New Motor Vehicle Sales

Auto-sales trends have moderated. Earlier demand was boosted by purchases made ahead of expected tariff increases, but analysts expect softer volumes heading into late 2025. Tariff pressures on imported components and overall higher production costs estimated at more than \$6,000 per vehicle in some cases are likely to raise prices and reduce demand. Automakers are also facing rising costs associated with EV development, autonomous features, and AI-enabled systems, adding cost pressures while also opening longer-term growth opportunities.

Consumer Confidence

Consumer confidence remains subdued. The University of Michigan's preliminary October 2025 index registered near 55.0, essentially flat from September and historically consistent with recession-leaning sentiment. Concerns about job security, inflation, housing affordability, and policy uncertainty continue to weigh on households. While AI-related investment may lift optimism in regions benefiting from data-center development, overall consumer sentiment remains challenged.

Manufacturing Activity

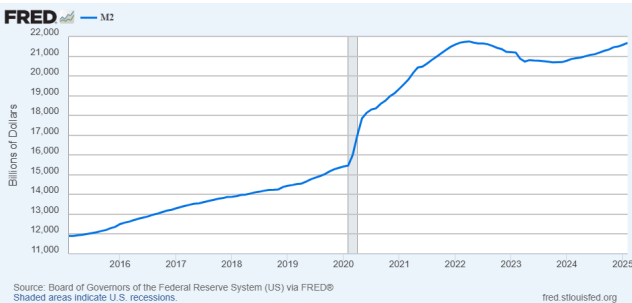
Manufacturing continues to contract. ISM-style indicators show a PMI below 50, reflecting ongoing tariff pressures, higher input costs, and persistent global supply-chain disruptions. Investment tied to AI-infrastructure particularly chip fabrication, power-grid upgrades, and data-center hardware is providing a limited offset. This has created a two-speed manufacturing environment: traditional sectors are weakening even as tech-driven industrial activity remains strong.

AI Spending Effects

AI-related business investment is surging:

- In 2024, U.S. private AI investment reached \$109.1 billion, while global generative-AI investment was nearly \$34 billion.
- In 2025, major tech companies (Amazon, Alphabet, Microsoft, Meta) project roughly \$364 billion in capital expenditures for data centers, AI hardware, and related infrastructure.
- Analysts estimate that without this spending, Q3 2025 GDP growth would likely have been below 1%.
- Goldman Sachs estimates that AI-infrastructure revenue among U.S. firms has risen \$400 billion since 2022, though only about \$45 billion has appeared in official GDP statistics implying a large measurement gap.
- Some researchers believe that data-center spending alone could lift GDP by 10-20 basis points (0.1%-0.2%) in 2025-26.
- Many see investment in AI as setting the stage for a genuine industrial revival.

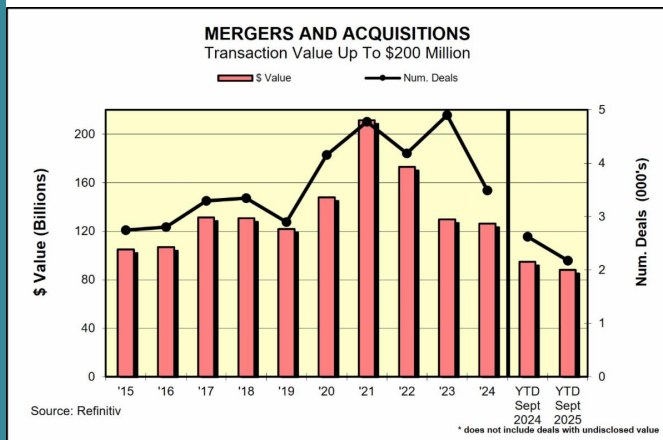
Money Supply Begins to Tick Back Up



As seen on the graph at left, the money supply (M2) hit a record \$22.2 trillion in October of 2023. Often an increase in the money supply portends future inflation.

Parallel to the rise in M2, a record amount of cash is being held by individuals and corporations leaving much dry powder should investors wish to employ capital.

M&A Market Activity

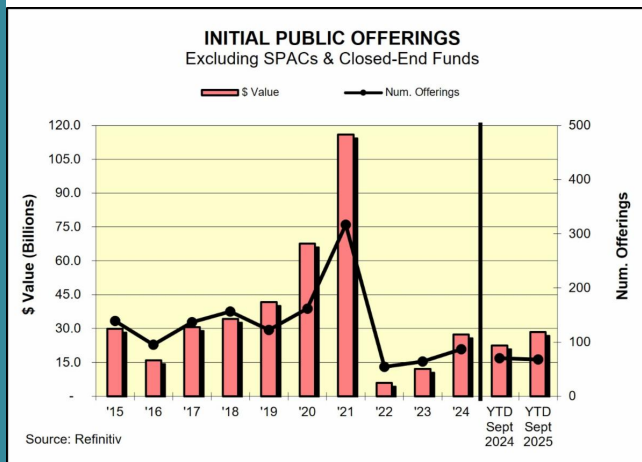


Although the overall M&A market has been quite strong in 2025, buoyed by large “mega-deals,” and strategic M&A, lower middle market deals (valued up to \$200 million) trended downward, possibly due to the postponement of transactions by sellers whose businesses have been affected by tariffs.

Regardless, it is a seller's market as private equity firms continue to seek new platforms and add on's to their existing portfolio companies.

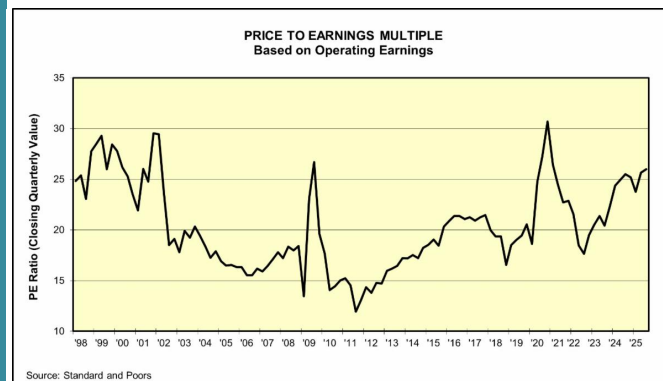
IPO Activity

IPO activity in 2025 improved over the



same period in 2024, with IPO's raising close to \$30 billion. Easing financial conditions, lower volatility, and a reduction in government regulation are making companies and hence, IPOs more attractive. On the demand side, investor appetite is returning, especially for growth companies with strong stories (such as AI-related deals and infrastructure plays). Looking forward, many private companies delayed going public during more difficult years and are ready to list, fueling a supply of traditional IPOs. Good post-IPO performance is restoring issuer confidence and consequently companies are more willing to go public knowing there's investor support.

Valuation Perspective: P/E Ratios



The chart on the left shows historical P/E ratios thru mid November. Current operating P/E ratios are in the neighborhood of 26x, above the 30-year average of approximately 20x. The rise in valuations reflects exuberance over the positive impact of AI, the reduction in government regulation and a more accommodative monetary policy.

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