



OCTOBER 1, 2025

SEPTEMBER MONTHLY MARKET COMMENTARY

Michael Dashner, CFA | Director of Equity
Jon Lynn | Director of Fixed Income

KEY TAKEAWAYS:

- **Market Concentration & Leadership Rotation:** Expectation for broader participation across the S&P 500, beyond the mega-cap names.
- **From Buzzword to Business Reality:** AI is in a new phase of growth, with adoption happening at record speed and capital needs growing.
- **Munis Making Headlines:** Delivering standout returns, they outperformed both Treasuries and corporate bonds.
- **Valuation Caution:** With yields compressed and risks premiums low, maintaining a focus on quality and not reaching for yield





Michael Dashner, CFA | Director of Equity, Portfolio Manager

EQUITY REVIEW

Market Update

September looked like a return to form for mega-caps: the Bloomberg Magnificent 7 Total Return Index rose 9.01%, outpacing the S&P 500 (+3.64%) and the average S&P 500 stock (+1.10%). Even so, gains have been broad this year: year-to-date, the S&P 500 is +14.81% and the average stock is +9.88% - strong results with a quarter still to go.

Market concentration remains elevated with the top 10 companies accounting for over 40% of the S&P 500's market value. Still, leadership has shifted within the largest names. Three of the "Mag 7", Apple, Amazon, and Tesla, have lagged the index this year (+2.04%, +0.08%, and +10.12%, respectively), Rotation like this is healthy, suggesting market breadth can improve and that the AI theme can diffuse beyond a handful of companies.

AI: Adoption, Capital, and Risk Management

We believe AI has entered a new phase, both in everyday use and in how it's financed. Recently, my colleague Ryan Medhaug, CFA, who leads our AI research, presented on this subject with one standout datapoint: adoption has been exceptionally faster compared to prior web/app platforms. For example, it took Netflix ~3.5 years to reach 1 million users, Twitter ~2 years, and Facebook ~10 months. Meanwhile, ChatGPT reportedly hit that mark in ~5 days and is now estimated to have hundreds of millions of weekly active users. This speed of deployment is hard to ignore.

Just as important, the capital cycle is shifting. On its recent earnings call, Oracle surprised investors with a sizable increase in contracted backlog, about \$455 billion, with much of it tied to cloud infrastructure for OpenAI (ChatGPT). Delivering on that demand likely requires significantly more capital. Unlike the first wave of AI spending, funded largely by venture capital and the mega-cap cash flows of Meta, Microsoft, and Google, this next leg may lean more on debt markets.

Debt is leverage: it amplifies outcomes. Equity investors can look years ahead to profitability; lenders require near-term, regular interest payments. In our view, the stopwatch for profitable scale in parts of AI just started. We remain constructive on AI and hold targeted exposure, but we're selective on position sizes, diversify across beneficiaries, and actively manage risk because the road to lasting success in new technologies is rarely straight.

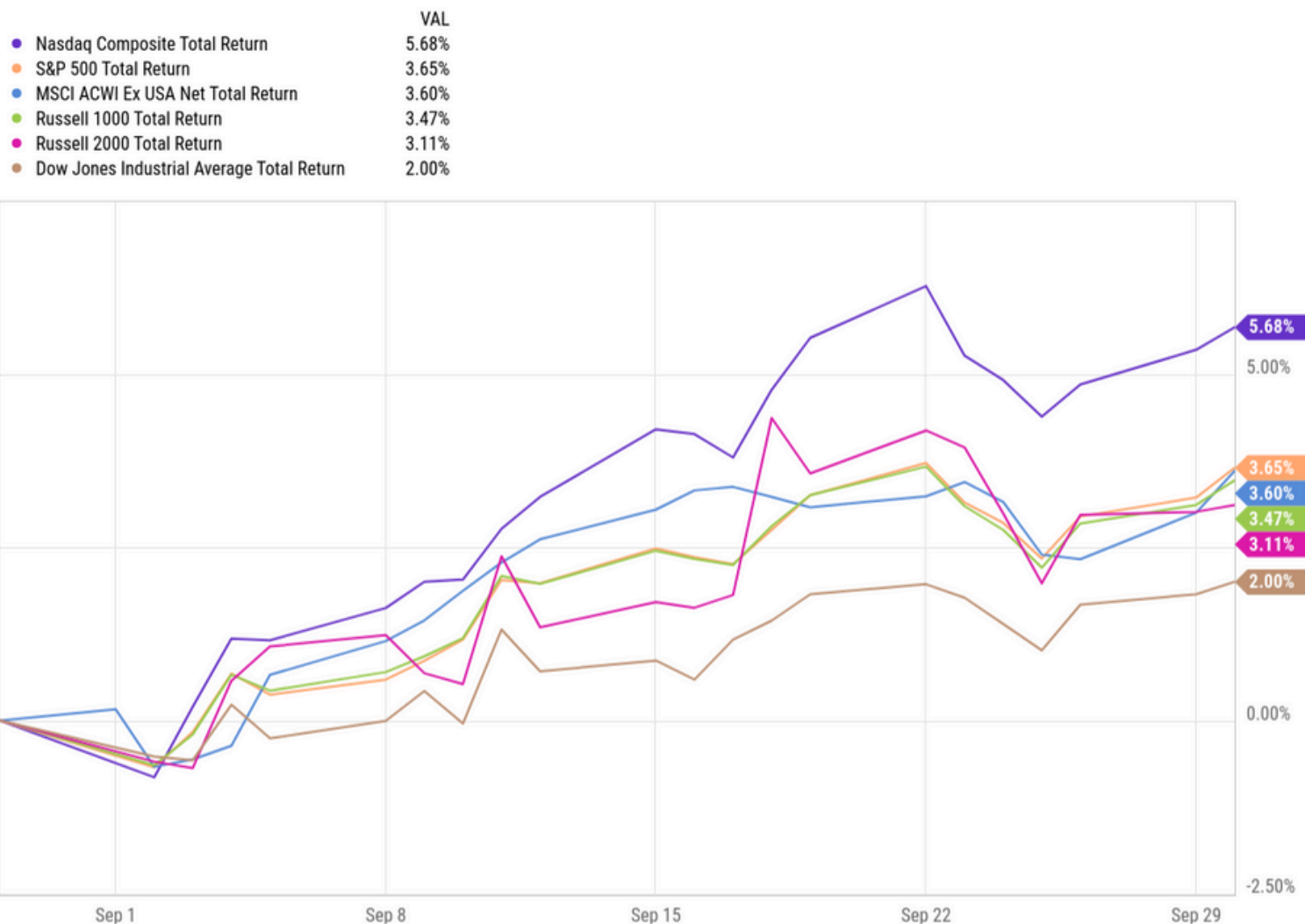
Government Shutdown

With another potential U.S. government shutdown in the headlines, our base case is that neither party benefits from a prolonged closure. Historically, short-term disruptions have had limited lasting impact on the markets or the economy; prices tend to follow growth, inflation, and earnings. Still, we're monitoring developments - if an extended disruption begins to affect essential services, hiring, or consumer spending, markets could pressure Washington to resolve it. In the meantime, we do not view the shutdown as an investment catalyst and would avoid large, reactive moves based solely on this issue.

"Experience is the hardest kind of teacher; it gives you the test first and the lesson afterward." - Oscar Wilde



YTD Major Index Returns

Oct 1, 2025, 2:58 PM EDT Powered by **YCHARTS**

“What’s important is that our strategy hasn’t changed. We’re fundamental investors and what it means to be a disciplined investor is you have to be disciplined when times are good and when times are bad.”

- Michael Dashner, CFA | Director of Equity

April 10th, 2025 - Stonebridge Annual Economic Forum



Jon Lynn | Director of Fixed Income, Portfolio Manager

FIXED INCOME REVIEW

Tax-exempt municipal bonds rallied significantly in September with the help of continuing solid investor demand. In fact, performance was so strong, munis outperformed Treasuries by more than 1.5% during the month alone. Even over the quarter, they beat out govies and investment grade corporates as well; you can see the corresponding precipitous drop in the 10-year muni rate below.

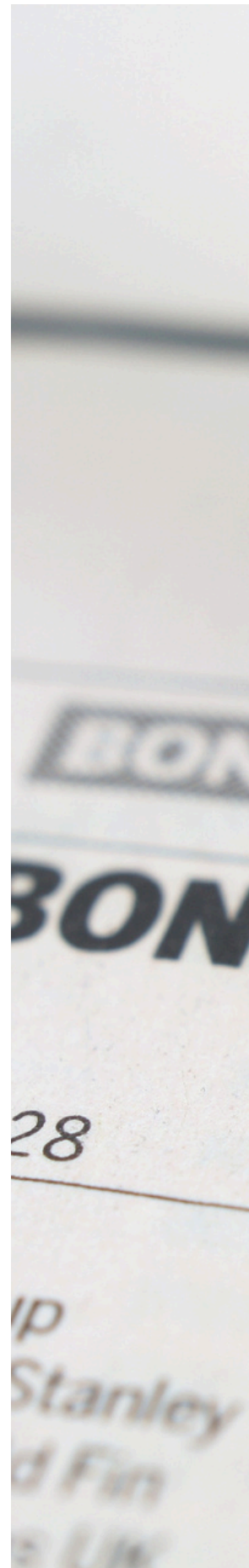
The solid returns over taxable counterparts have led to rich relative value readings (compared to Treasury yields), meaning buyers need to be much more discerning and patient in their evaluation process to find incremental value. The corporate bond market also remains well bid by buyers looking to lock in current yields ahead of expectations for lower future rates, particularly on the short-to-intermediate end of the curve. The steady grind to tighter credit spreads we have mentioned before showed no sign of slowing during the month, as we touched nearly 30-year lows in investment grade risk premiums.

The market, just in terms of spreads, is starting to feel frothy heading into the 4th quarter. A shift to safety and a preference for Treasury securities over credit could ease those levels some if the government shutdown extends beyond a handful of days and threatens to slow economic activity. While interest rates generally remain at levels we would consider attractive, because both taxable and tax-exempts carry such low risk-premiums, we continue to favor quality over stretching for what little extra yield might be attained lower on the credit spectrum.

“If we see inflation rise, we would expect the longer-term interest rates to rise as well. So, for us, we see that as an opportunity to continue picking up attractive longer-term yields. We think right now is a good time to be in bonds.”

- Jon Lynn | Director of Fixed Income

April 10th, 2025 - Stonebridge Annual Economic Forum



OVERVIEW

Key Market Moves

08/29/2025 - 09/30/2025

S&P 500:

6460.26 to 6688.46 (up 228.2)

.....

Dow Jones:

45544.88 to 46397.89 (up 853.01)

.....

NASDAQ:

21455.55 to 22660.01 (up 1204.46)

.....

Key Market Moves

08/29/2025 - 09/30/2025

2-Year Treasury:

3.59% to 3.60% (up 1 bps)

.....

10-Year Treasury:

4.23% to 4.16% (down 7 bps)

.....

10-Year A-rated Corporate:

4.98% to 4.59% (down 39 bps)

.....

10-Year AAA-rated Municipal:

3.22% to 2.92 (down 30 bps)

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Equity

Stonebridge's equity investment style seeks to provide methods for growth and income generation. Within this style, we utilize three equity strategies to invest in industry-leading, domestic companies with solid fundamentals.

We focus on companies with attractive fundamentals, highlighted by strong profit margins, cash flows, and balance sheets.

Prioritizing portfolio diversification, we take advantage of lagging sectors and identify best-in-class companies on an on-going basis. Our disciplined approach allows for us to actively manage portfolios, regardless of market conditions.

EQUITY LARGE CAP GROWTH

est. January 2001

EQUITY DIVIDEND INCOME

est. March 2011

EQUITY GROWTH & INCOME

est. March 2015

Fixed Income

Stonebridge's approach to fixed income seeks to provide principal protection, asset liquidity and income generation. We manage two fixed income strategies that both utilize individual securities, and are broadly diversified across sectors and issuers.

Maintaining a conservative risk profile, we favor high quality investment-grade credit and capitalize on yield curve relative value. We focus on opportunities along the yield curve to help provide income and lower volatility.

FIXED INCOME TAX-EXEMPT

est. June 1997

FIXED INCOME TAXABLE

est. December 1998

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For more information:

We always welcome the opportunity to work with you. If you are interested in learning more about how our expertise can elevate your investment strategies, please do not hesitate to contact us today!

