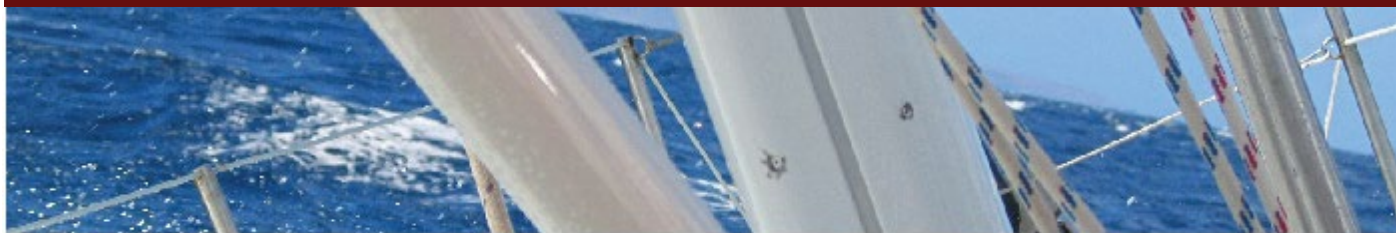




Carret Equity Insight



*This is the song that doesn't end.
Yes, it goes on and on, my friend.
Some people started singing it not knowing what it was,
And they'll continue singing it forever just because...*

Closing Credits, Lamb Chop's Play-Along, 1992–1995

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Firm Assets Under Management

\$3.522 Billion

Since 1973, I have spent time each summer on Lake Winnepesaukee. To be sure, I often make a stop in my hometown of Boston as part of my return trip. Driving from my old haunts in Alton Bay down to the familiar streets of Back Bay has always felt like retracing the lines of a well-loved map; quiet lakeside roads giving way to the pace of the highway and finally the elegant, bustling streets of the city. This year, the drive down from the lake began as the very picture of calm New England efficiency: me, the open road, and Waze® confidently assuring me that we would arrive in just under two hours, as if it personally controlled time, traffic, and Massachusetts drivers. The sun peeked through the clouds, the air smelled faintly of pine, and all was right with the world. For miles, it was the usual highway hum: steady speed, a travel mug of cold brew, and only the occasional “police reported ahead” to keep things lively. But as I neared the city, my trusty digital co-pilot got a little too clever for its own good. “Faster route available,” it announced, with the enthusiasm of a toddler holding a secret. Against my better judgment, I took the bait. Moments later, I was off I-93 and deep in the twisting backstreets of Charlestown, a neighborhood I hadn’t planned to explore but was now navigating like a contestant on *The Amazing Race: GPS Edition*. I dodged construction cones, circled the same Dunkin’ twice, and at one point I could have sworn Paul Revere’s ghost gave me a pitying look. The voice prompts from my GPS grew increasingly panicked: “Turn right! No, left! Wait...recalculating!” until, at long last, I emerged onto the Harvard Bridge and into Back Bay. Finding a parking spot felt like discovering buried treasure. I stepped out, stretched my legs, and couldn’t help but laugh; after all, what’s a trip to Boston without a little detour, a dash of chaos, and a humbling reminder that sometimes, even the smartest technology just wants to take you on an adventure?

This detour is a powerful analogy for the market: investors often chart their course based on historical patterns and clear roadmaps, but unexpected shifts, whether triggered by policy changes, new technologies, geopolitical events, or sudden changes in sentiment, can send the market down unfamiliar paths. These twists can feel unsettling, and during the detour, it’s hard to see the bigger picture. Yet, just as Waze’s route ultimately reconnected me with my destination, markets often find their equilibrium again, reaching the same economic endpoints through less predictable, sometimes bewildering paths. The key is to recognize that short-term disorientation doesn’t necessarily mean the route is wrong; it may just be different from what was expected.

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This year, reasonable expectations have been defied, and the imposition of rational probabilities has met with limited success. In short, this market has performed substantially better than our conservative mindset might have suggested. As I crossed the Charles River, it occurred to me that one might substitute the S&P 500 total return year-to-date in the place of my waypoint destination of Mass. Ave. and Comm. Ave. and acknowledge that just because our expectations have been exceeded, it does not mean that our assumptions are wrong.

Our expectations for this year included some negative impact from the imposition of the *tariff regime*, which prompted our discussion of Smoot-Hawley in our 1st quarter outlook. Our 2nd quarter piece was written close to the end of a swift bear-market decline, which suggested that *vague uncertainty*, manifest in tariff-inspired *inflation* and declining consumer *confidence*, would need to be overcome. Our 3rd quarter note discussed the surprising upside reaction of the market to the postponement of tariffs and laid out two possible courses of action for the Fed, one *accommodating* a slowing economy and the other, a *tightening* in the face of inflation. We cautioned that expanded Federal deficits engendered by the recent tax bill might lead to an adverse reaction on the part of players at the long end of the Treasury curve. Concern over the concentrated market has imbued our thinking over the course of the year. We judged that corporate earnings would suffer under the weight of *deferred spending and investment*. We recognized that AI was providing an overarching investment theme, but we challenged the new technology's ability to develop *profitability* on a timely basis. Lastly, we questioned whether the market's *resilience* in the face of uncertainty was truly warranted. In short, we remained skeptical.

Simply put, the market *follows* earnings, or perhaps more appropriately, the market *anticipates* earnings. Since the recent market bottom in March 2020, the S&P 500 has advanced some threefold. Over that same period, S&P 500 earnings have advanced approximately two times. The fact that prices have risen faster than earnings suggests that *valuations* may be somewhat *stressed*. Some details on the 2025 estimate: this is the first time in a long while that we can recall that earnings estimates have not been revised downward during the year. The typical pattern is for the top-down estimate to start the year at a convenient, but analytically suspect, 10% growth and then be revised downward as the year progresses. In short, the 10% rise in earnings growth during 2025 has provided fuel for the market's 15% advance through the third quarter. In Wall Street speak, we observe that *the trend is your friend*.

This begs the question of how earnings have remained intact in the face of the salient and, quite frankly, obvious headwinds that the economy has faced, and how did the market successfully anticipate that continued earnings growth? Notably, the economy has continued to grow apace, and final demand has remained strong, recording 3.8% GDP growth through the second quarter. Moreover, the *weak dollar* has boosted reported earnings of multinationals, as some 40% of aggregate S&P 500 revenues are from overseas. This may very well have *insulated earnings* from the anticipated deterioration in growth. Finally, we should consider one of the conundrums of the market, that is the overwhelming *concentration* of technology, not only in the price performance of the S&P 500 Index, but also in terms of the contribution of the technology and communication sectors to the overall S&P 500 earnings outlook. As it turns out, some 65% of the 2025 forecast earnings is represented by these sectors. We have commented at length on the perceived risk in having some 45% of the S&P 500 Index concentrated in two sectors, and dominated by fewer than ten names, but when you consider the relative earnings contribution, Willie Sutton's legendary "because that's where the money is" becomes worthy of consideration. The driver here of course is the boundless potential of AI, and the investments that companies are making to meet that demand. Of note, a good proportion of these investments are being made among a very small circle of names. We are aware that not all these investments will yield to profitable applications, which we term *the monetization of AI*; but for now, the horizon seems limitless. Our skeptical side is reminded of *radio in the 20s* and the *internet in the 90s* and ponders how this party might possibly end badly.

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The pundit Ted Lasso once commented, “You know what the happiest animal on Earth is? It’s a goldfish. You know why? It’s got a ten-second memory. Be a goldfish.” We find that investors have a short memory. Principally, as last week’s market action revealed, the details of the new tariff regime have not been assimilated. The market may have confused *postponement* with *relief*. We spend a good amount of time listening to the Federal Reserve, because we honestly believe that the Fed’s messaging is important to the direction of the market, and that one ignores this messaging at one’s peril. The apparent consensus of the 24/7 punditry suggests that the Fed is moving toward an accommodative stance and has signaled multiple rate cuts before the end of the year. But that is not what the Fed has offered in its last pronouncement. In the most recent briefing, Chairman Powell spoke of moving toward a *neutral* rate, one that indicates neither a restrictive nor accommodative stance. We still believe that the Fed is equally vigilant against *inflation* as well as a *slowing economy*, and further that there still is a reasonable probability that future Fed messaging will focus on inflation concerns while economic activity remains robust. We caution that the disconnect between what the Fed is *saying* and what the market is *hearing* poses some risk to near-term returns. Moreover, to the extent that one may harbor some latent concerns about an AI or technology *bubble*, every quarter-point rate cut probably will show up in greater valuation stress, perhaps revealed in the aforementioned *concentration* before it yields stronger employment numbers. Occasionally, one hears the term *stagflation* bandied about to describe the Fed’s dilemma, even though it has been some fifty years since that phenomenon last arose. A more compelling counterargument is the scenario of moderate economic growth paired with slightly elevated but stable inflation in the 3% range. The Fed would have to be very sensitive to the impact of moving off its 2% inflation target.

We chose the opening quote to represent our principal bugbear of *complacency*. One can observe complacency in the market’s historically high *concentration*, in the *misinterpretation* of the Federal Reserve’s messaging, and in the *assumption* that the economy will absorb all uncertainties correctly. It is never a bad time to review asset allocations to ensure that they reflect real risk tolerances. It is important to stay invested to participate in the market’s inexorable growth, but it is likewise important to remain vigilant.

Laurence R. Golding, Managing Director, October 15, 2025

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