

# the serious investor

FALL 2025

## THE SERIOUS INVESTOR: FALL 2025

Welcome to the fall edition of LVW's *The Serious Investor*.

### Market Outlook: Discipline Over Distraction

Investors looked past a host of risk factors including rising valuations, elevated inflation, weakening labor market and ongoing uncertainty regarding fiscal deficits and trade policy to post strong returns for the quarter.

Anecdotally, there has been a noticeable increase in headlines—both in print and on financial television—discussing the possibility of a stock market “bubble.” Historically, true bubbles tend to be less obvious in realtime, often characterized by a shift in investor sentiment toward a fear of missing out (“FOMO”). However, current data suggests that this may not be the case today.

Aided by a long-awaited interest rate cut, the S&P 500 posted an 8.1% return for the quarter, with technology companies accounting for 3.9% of that gain.

As bond yields declined, small cap stocks rallied. With 46% of the companies in the Russell 2000 Index unprofitable, the resumption of rate cuts - and expectations that the Fed will go further - helped buoy lower quality, more highly leveraged companies.<sup>1</sup> The Russell 2000 outperformed the S&P 500 for the first time in a year, posting a 12.4% return for the quarter.<sup>2</sup>

The government shutdown adds headline risk, but effects are typically short-lived. We remain focused on disciplined entry points, quality bias, and using volatility as opportunity.

### Valuation

- **Rich Valuations:**

The S&P 500's price-to-sales ratio is **3.34x**—well above its long-term average and dot-com peak. Market cap-to-GDP is over **200%**, signaling stretched valuations. The S&P 500's forward P/E ratio was **22.8x** at the end of the quarter, significantly elevated as compared to the 30-year average of 17.0x.<sup>3</sup> This reflects strong investor optimism but also means the market is more sensitive to any disappointment in earnings growth or macro conditions.

- **Mega-cap Concentration:**

The Technology sector's index weight is at a record, with nine U.S. companies above \$1T market cap. Index performance continues to be driven by a handful of stocks.

- **Breadth:**

Outside Technology and Communication Services, most sectors have lagged, highlighting the need for selectivity and diversification.

## Growth

- **S&P 500 Earnings Outlook:**

Consensus expects S&P 500 earnings to grow approximately **8–10% year-over-year in Q4**, with full-year 2025 earnings growth projected in the **high single digits**. This reflects resilient consumer spending, strong corporate margins, and ongoing innovation, especially in technology and AI.

- **Global Markets:**

- **U.S.:** The S&P 500 is up over **14% year-to-date**, with Q3 gains supported by mega-cap strength and broadening participation.

- **Europe:** Major European indices posted solid Q3 returns, but earnings growth is expected to be modest, with exporters facing headwinds from weak global demand and currency volatility.

- **Japan:** Japanese equities have outperformed global peers year-to-date, supported by corporate reforms and a weaker yen, though forward earnings growth is likely to moderate.

- **China:** After a strong Q3 rebound (MCHI ETF up nearly 20% for the quarter, 40%+ YTD), China's earnings outlook is mixed as stimulus fades and property sector risks persist.

- **Emerging Markets:** India and other EMs may benefit from central bank easing and favorable demographics, but earnings growth will depend on currency stability and global trade flows.

- **Risks to Growth:**

Labor softness, signs of weaker economic momentum, reduced tech spending, housing challenges, and tariff-related inflation remain key risks to the global earnings outlook.

## Liquidity

- **Rates & Credit:**

Rates have retreated from 2023 highs; Fed funds expected to drop by 1.0% by mid-2026. Mortgage rates are falling, improving overall housing affordability.<sup>4</sup>

- **Credit Spreads:**

High yield and investment grade credit spreads remain at multi-decade tights, leaving little margin for error - any widening could quickly raise equity volatility. Meanwhile, signs of stress have begun to emerge in private credit and leveraged loan markets.

- **Global Flows:**

Foreign investors continue to buy U.S. assets; the dollar remains dominant. Over \$7 Trillion in money market assets suggest ample liquidity in the private sector.

## Positioning (Technical Conditions)

- **Trend & Breadth:**  
S&P 500 momentum is strong, but recent gains are increasingly mega-cap driven. Breadth outside tech remains weak.
- **Overbought & Volatility:**  
The S&P and Nasdaq have been persistently overbought—historically a setup for consolidation. Sector correlations are unusually low, often preceding 5–18% pullbacks.<sup>5</sup>
- **Tactical Playbook:**  
Use staged entries on weakness, not strength. Spikes in the Cboe Volatility Index (VIX) above the long run average of 19.5% can signal tactical buying opportunities.
- **Seasonality & Sentiment:**  
Q4 is historically the strongest quarter of the year. Sentiment is neutral, and retail trading activity is subdued.

## Bottom Line:

In our view, investors should focus on maintaining diversified core allocations, adding cautiously if markets pull back, and emphasizing quality to avoid overreliance on individual stocks. The third quarter's increased breadth argues against de-risking, but in favor of disciplined selectivity.

Heading into the final quarter of the year, our positioning remains fully invested, with a focus on trimming concentrated exposures and reallocating toward higher-quality companies and structural growth opportunities. We view volatility as a means to make thoughtful adjustments rather than chasing market strength.

Within fixed income, we intend to maintain exposure to high-quality bonds with short- to intermediate-term maturities.

Please feel free to reach out with any questions or to discuss your portfolio strategy further. We appreciate your continued trust and confidence in LVW Advisors.

1 J.P. Morgan Asset Management, Understanding Small Cap Valuations, August 10, 2025

2 Koyfin, data as of September 30, 2025

3 J.P. Morgan Asset Management, Guide to the Markets, September 30, 2025

4 CME Group, FedWatch, October 5, 2025. <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html> 6 DataTrek Research, October 2, 2025

5 DataTrek Research, October 2, 2025

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