OPENARC MARKET OUTLOOK

Navigating the AI Supercycle – Strong Tailwinds, Thinner Air

4Q 2025

MARKET STANDOUTS AND LAGGARDS

US Related

ETF	Description	Q3	YTD
SPY	S&P 500	3.56%	14.66%
DIA	Dow Jones Ind	1.97%	10.27%
QQQ	Nasdaq 100	5.38%	17.88%
IJH	S&P Midcap 400	0.48%	5.69%
RSP	S&P 500 Eq Weight	1.01%	9.70%
QQQE	Nasdaq 100 Eq Weight	3.78%	13.60%
IWB	Russell 1000	3.31%	14.34%
IWM	Russell 2000	3.18%	10.36%
IWV	Russell 3000	3.44%	14.25%

Factors

ETF	Description	Q3	YTD
IVW	Russell Growth	5.19%	19.31%
IVE	Russell Value	1.71%	9.54%
IJK	Midcap 400 Growth	0.99%	5.96%
IJJ	Midcap 400 Value	-0.08%	5.10%
IJT	Smallcap 600 Growth	0.60%	5.21%
IJS	Smallcap 600 Value	1.42%	3.12%
DVY	DJ Dividend	1.06%	11.10%
MTUM	Momentum	5.47%	24.81%
USMV	Low Volatility	1.32%	8.32%
SIZE	Size	0.99%	9.46%
QUAL	Quality	3.19%	9.98%

Global

ETF	Description	Q3	YTD
EWA	Australia	-0.30%	14.89%
EWZ	Brazil	5.08%	40.28%
EWC	Canada	3.61%	26.28%
MCHI	China	7.40%	41.91%
EWQ	France	3.15%	25.23%
EWG	Germany	-0.64%	32.94%
EWH	Hong Kong	1.84%	32.15%
INDA	India	0.15%	-1.10%
EWI	Italy	1.76%	46.97%
EWJ	Japan	2.47%	20.51%
EWW	Mexico	10.12%	48.32%
EIDO	Indonesia	-0.68%	-2.49%
EWP	Spain	3.75%	61.22%
EIS	Israel	5.82%	30.96%
EWU	UK	1.23%	26.34%
EFA	EAFE	2.07%	25.63%
EEM	Emerging Mkts	7.10%	28.93%
IOO	Global 100	4.58%	19.91%
VT	All World	3.37%	18.65%
CWI	All World ex US	3.87%	26.77%

Sectors

ETF	Description	Q3	YTD
XLY	Cons Disc	3.59%	7.53%
XLP	Cons Stap	-2.32%	1.60%
XLE	Energy	-0.32%	6.87%
XLF	Financials	0.11%	12.62%
XLV	Health Care	1.73%	2.51%
XLI	Industrials	1.88%	18.26%
XLB	Materials	-2.42%	8.08%
XLRE	Real Estate	0.33%	6.00%
XLK	Technology	7.53%	21.79%
XLC	Comm Services	6.64%	23.36%
XLU	Utilities	4.12%	17.63%
SMH	Semis	12.43%	34.76%

Currencies

ETF	Description	Q3	YTD
FXB	British Pound	-0.28%	9.48%
FXE	Euro	0.41%	14.22%
FXY	Yen	-0.67%	6.12%
DXY	Dollar	-0.08%	-9.87%

Fixed Income

ETF	Description	Q3	YTD
SHY	1-3 Yr Treasuries	0.29%	3.84%
IEI	3-7 Yr Treasuries	0.14%	5.83%
IEF	7-10 Yr Treasuries	0.65%	7.04%
TLH	10-20 Yr Treasuries	2.43%	6.34%
TLT	20+ Yr Treasuries	3.59%	5.35%
AGG	Aggregate Bond	1.13%	6.19%
TIP	T.I.P.S.	0.42%	6.85%
JNK	High Yield	1.04%	7.30%
MBB	Mortgage-Backed	1.21%	6.77%
LQD	IG Corporate	1.88%	7.53%

Commodities

ETF	Description	Q3	YTD
DBC	Commodities	1.44%	5.38%
DBA	Agric Commod.	-3.64%	0.64%
USO	Oil	-1.46%	-2.38%
UNG	Nat. Gas	1.87%	-22.25%
GLD	Gold	11.76%	46.81%
SLV	Silver	17.08%	60.92%

Source: YCharts, as of 9/30/25

THE OPENARC MARKET OUTLOOK

3Q Setup:

1. 4 prices (USD, oil, rates, credit spreads) all being pressed lower with the administration guiding constructively thus far
2. Don’t Fight ~~the Fed~~ Trump
3. Market rally led by Semis, AI, and Power, bolstered by administration support
4. AI momentum – AI capex helped drive the mania, and the market is picking winners
5. Earnings stayed strong through the summer, especially in the US

Key Questions:

1. Where are we in the AI supercycle?
2. Gold is on a tear – what is that signal telling us?
3. Why aren't bonds pricing in more volatility?

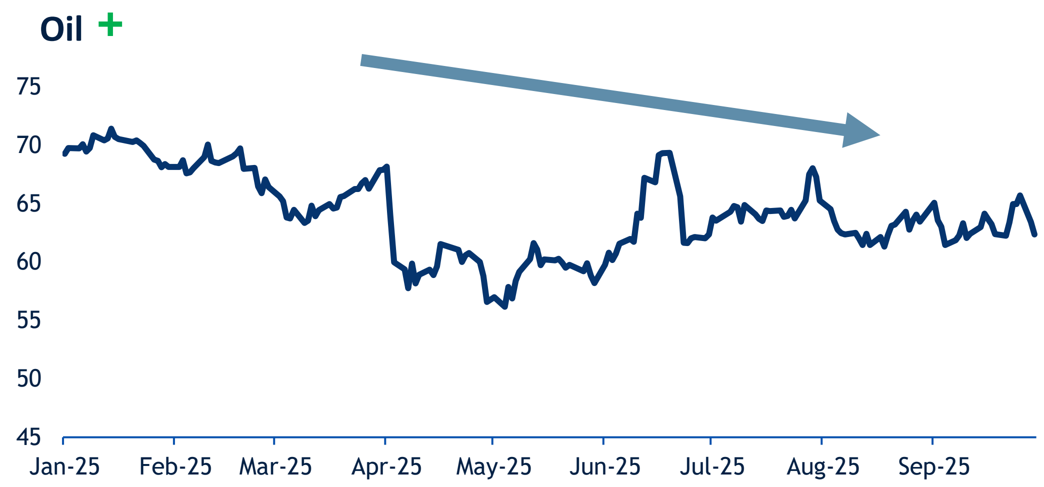
Our View:

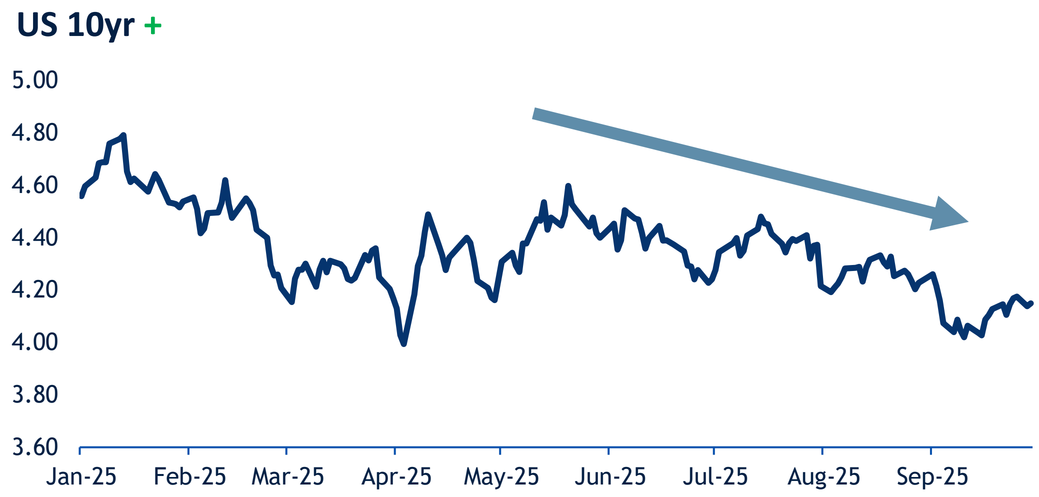
1. Long the “Power Shortfall” using active – the US is structurally short power, and demand is increasing significantly
2. Long AI using active – dispersion within AI is picking up, we think the market will continue to pick winners and losers
3. Long Defense – starting with fiscal in Europe and bolstered by OBBBA in the US
4. Long Financials – think the steepening yield curve and deregulation should be beneficial for financials going forward

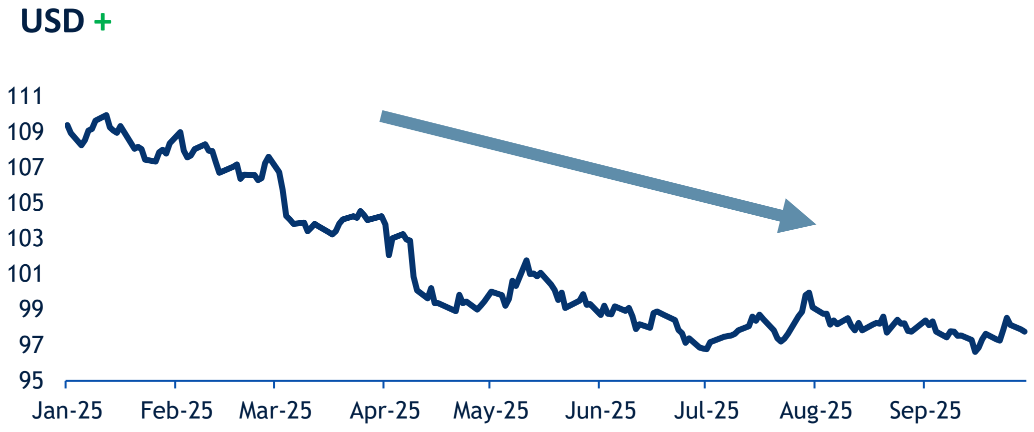
We are responsibly bullish into year-end, but laser focused on what could go wrong.

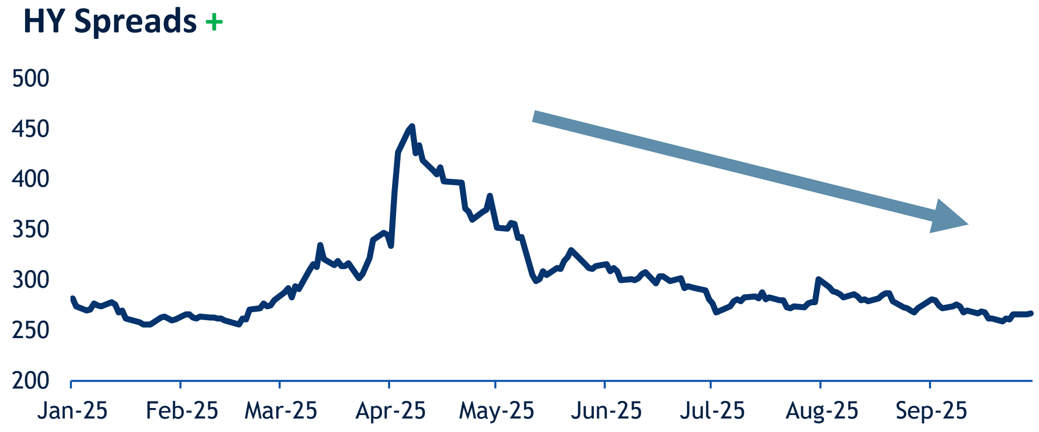
3Q SETUP

OPENARC "FOUR PRICES" SIGNAL RISK ON:







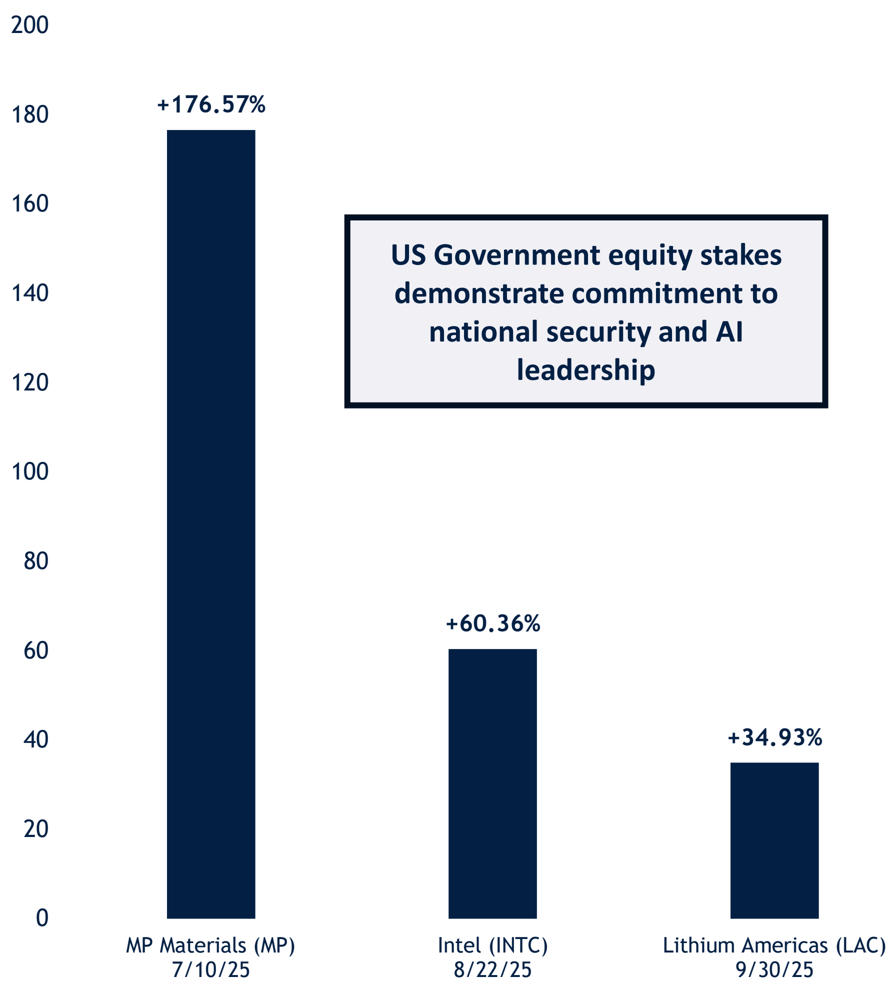


The Trump administration is actively pushing three of the four key prices we monitor – oil, the US dollar, and interest rates – lower, creating a constructive backdrop for risk assets. We remain responsibly bullish and are closely monitoring these indicators, as any reversal could signal a broader need to reassess our risk posture.

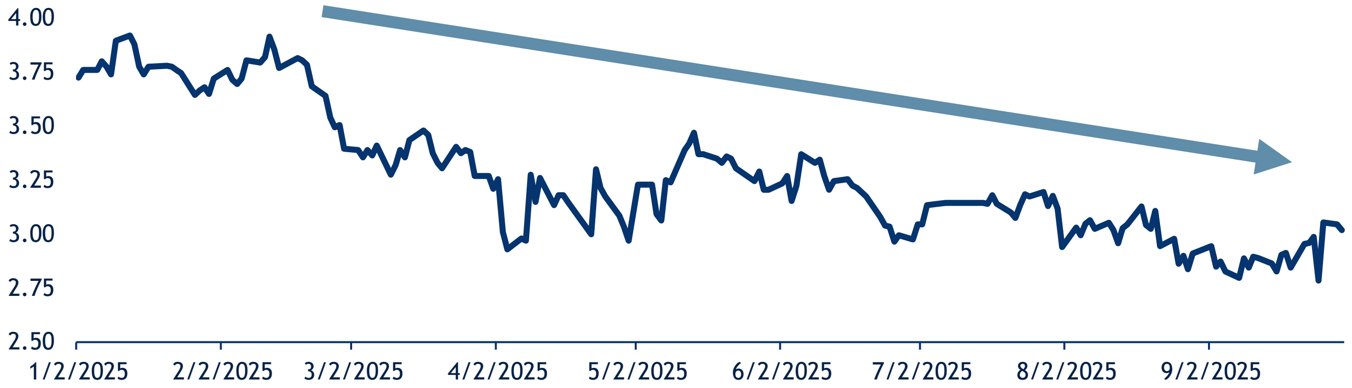
Source: Bloomberg, as of 9/30/25

DON'T FIGHT ~~THE FED~~ TRUMP

Uncle Sam as shareholder – US gov't equity positions



Fed funds rate decline – aligning with administration's low-rate policy push



The "invisible hand" of the Trump government is visible

"To The Department of Energy: DRILL, BABY, DRILL!!! And I mean NOW!!!" – @RealDonaldTrump, 06/23/25

"Even more importantly, LOWER INTEREST RATES!" – @WhiteHouse 07/24/25

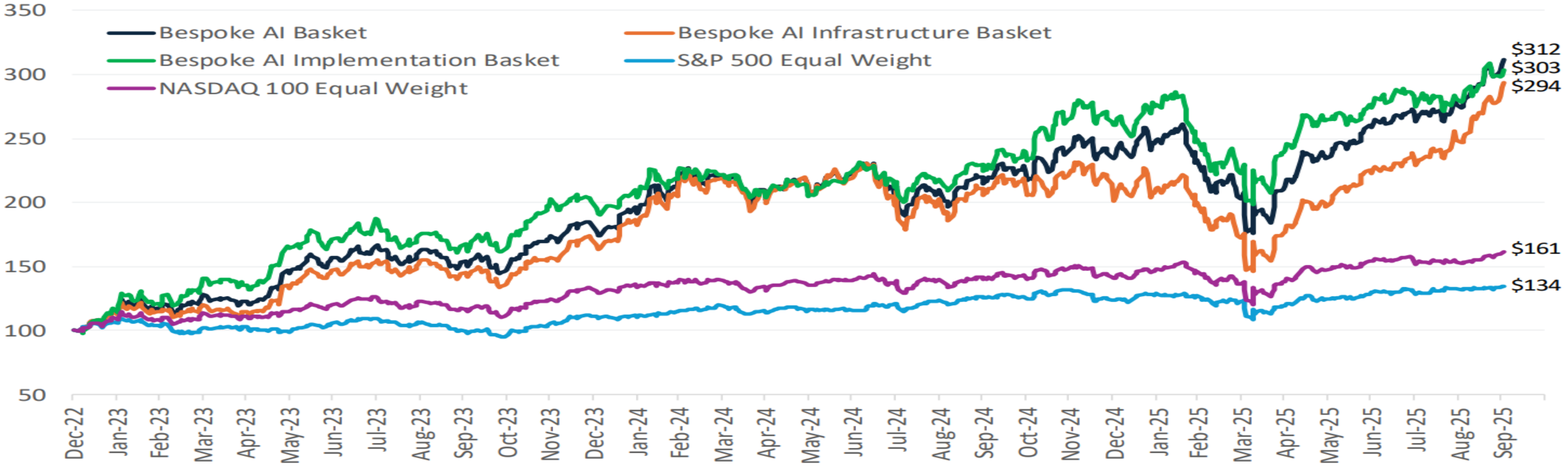
"America is the country that started the AI race. And as President of the United States, I'm here today to declare that America is going to win it" – @WhiteHouse, 07/24/25

"Under my administration, we will maintain necessary protections for our national security, but we will never forget that the greatest threat of all is to forfeit the race [for AI] and force our partners into rival technology. We're not going to do that." – Trump, 07/29/25

Source: Bloomberg, as of 10/10/2025

MARKET RALLY LED BY AI, SEMIS, AND POWER

AI Basket Performance vs Nasdaq EW and S&P 500 EW



Market performance continues to be driven by performance of companies engrained in or adjacent to AI

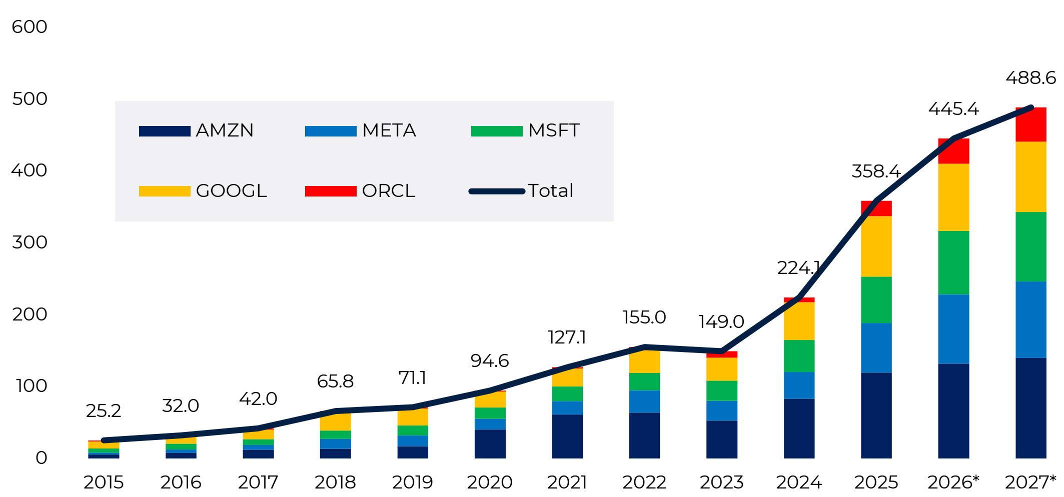
Semis, AI, and power are leading the way higher as optimism surrounding the future of AI provided robust support to the market

Washington isn't just talking—it's investing. Semiconductors, AI, and power infrastructure are leading the market as the administration's commitment to American AI dominance creates a powerful tailwind.

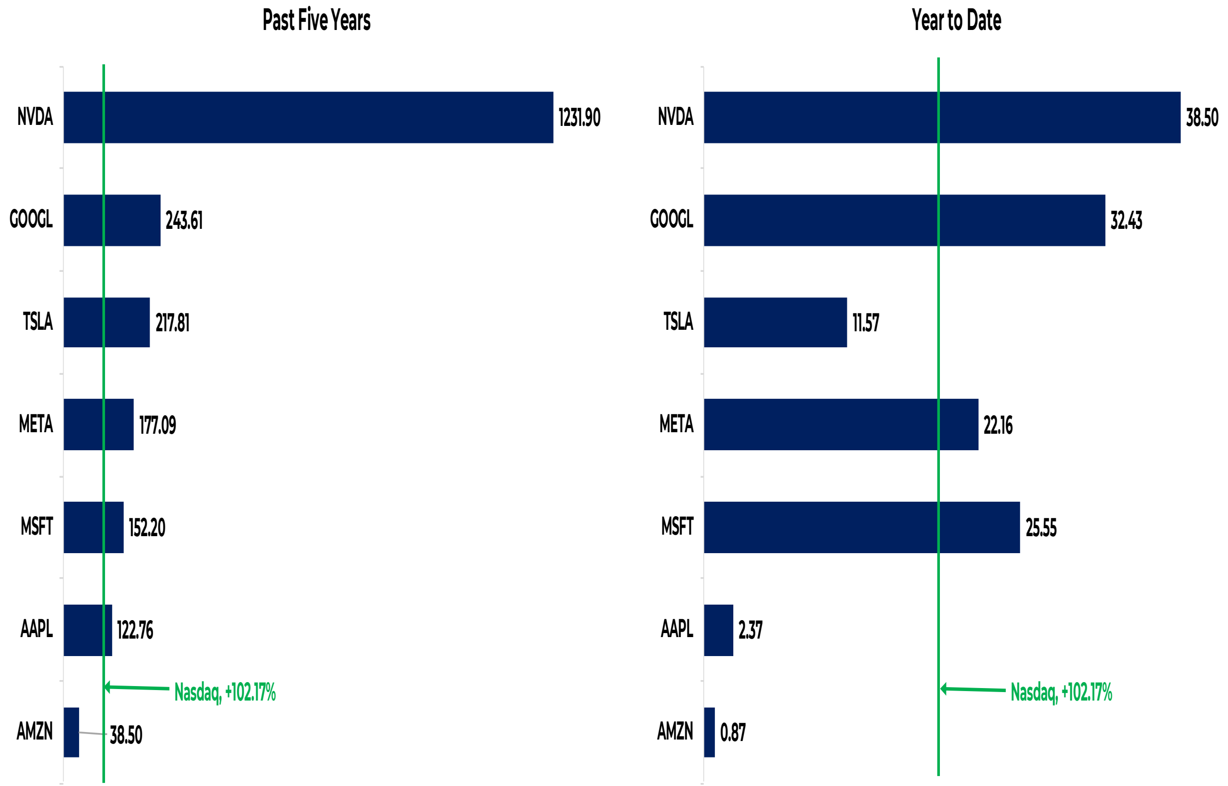
Source: Bespoke, as of 09/30/25

AI MOMENTUM – MAG 7 DISPERSION 7 CAPEX DRIVING GAINS

Capex has been a key driver of stock performance



Mag 7 performance dispersion past five years vs YTD



Market is rewarding companies spending on AI-related capex

Over the past five years, tech exposure paid off broadly, but dispersion is accelerating as the market rewards winners and punishes losers on AI spend.

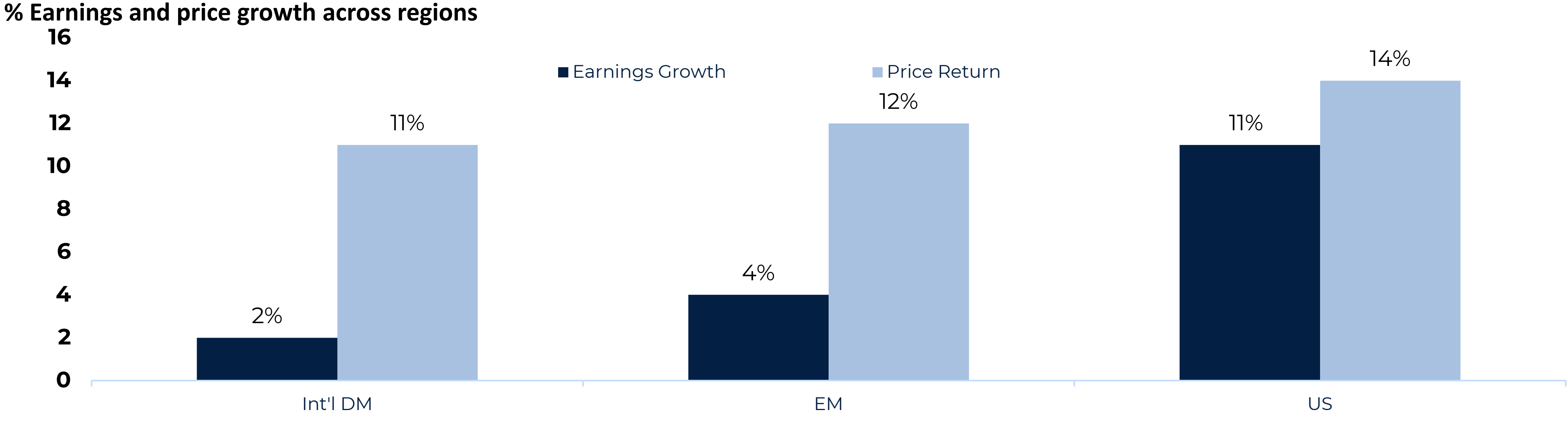
The market is violently picking winners and losers

Within the Mag7, NVDA, GOOGL, MSFT, and META are clear winners, actively deploying significant capital toward AI buildout. Conversely, AAPL and AMZN are viewed as behind the curve, with lower AI-related capex.

Source: Bloomberg, YCharts, performance data as of 10/08/25

US EARNINGS STAYED STRONG THROUGH THE SUMMER

Valuations are high but the US is generating earnings growth



Valuations reflect real earnings strength

Valuations have reached the upper end of their historical range, but strong company fundamentals are supporting these prices.

S&P 500 operating margins remain healthy and stable near multi-year highs, indicating operational efficiency and pricing power rather than just multiple expansion — a key difference from past market peaks.

Prior to the dot-com bubble, tech's earnings weight increased by ~5%, while its market cap weight surged over 20%; today, that gap is much less extreme.

Source: Bespoke, as of 09/30/25

KEY QUESTIONS

WHERE ARE WE IN THE AI SUPERCYCLE?

Three reasons we think we are in the early innings of the AI buildout

1 Growing Ecosystem

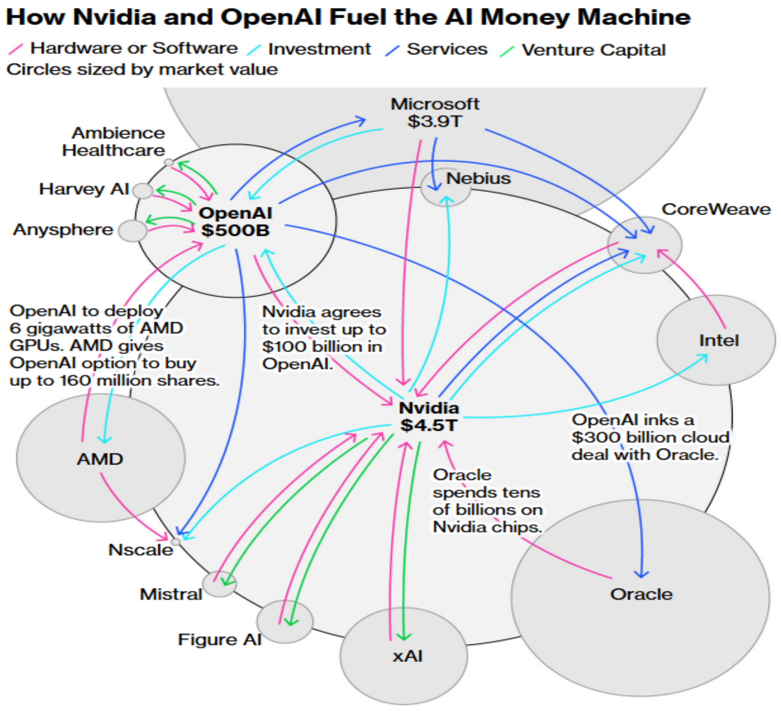
Slowly expanding circle of participants beyond the current major players

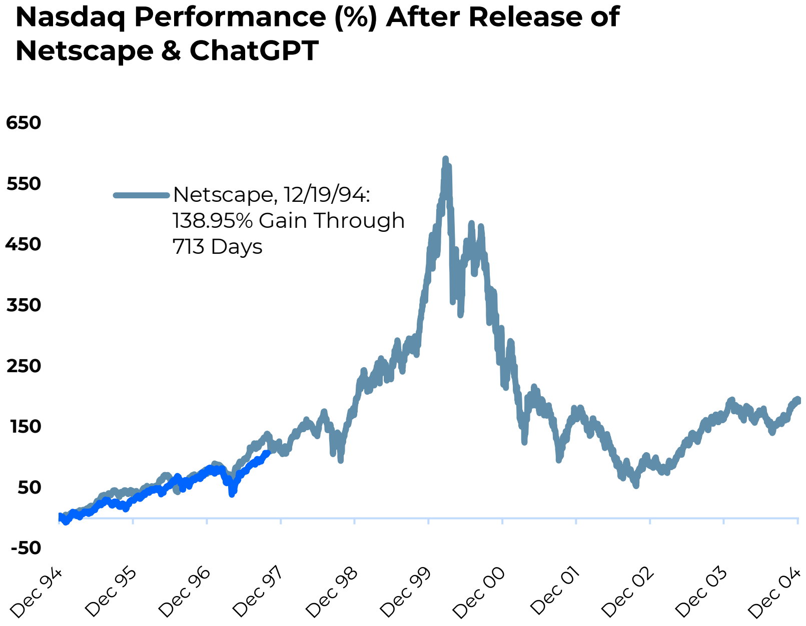
2 Significant Investment

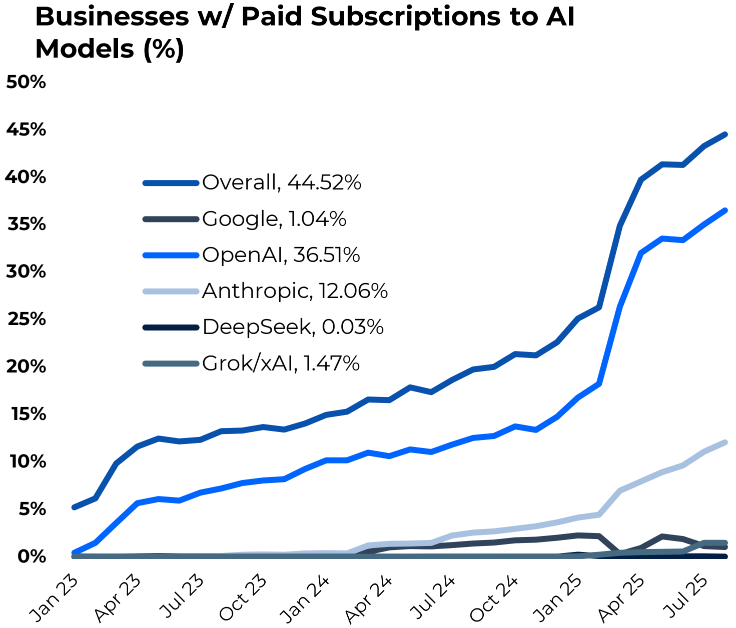
Massive infrastructure investment from leading AI players

3 Increasing Adoption

Rapid but incomplete adoption, leaving significant runway for growth





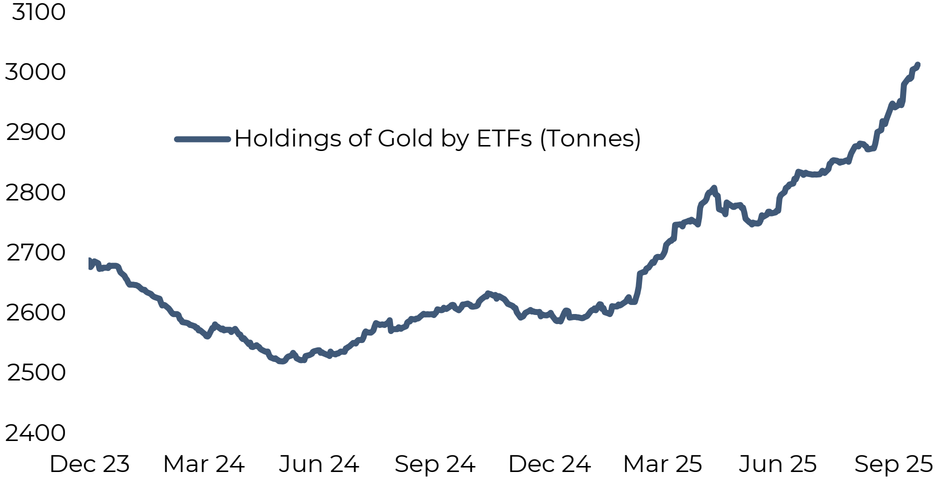


Source: Bloomberg, Bespoke, as of 10/10/25

GOLD IS ON A TEAR – WHAT IS THAT SIGNAL TELLING US?

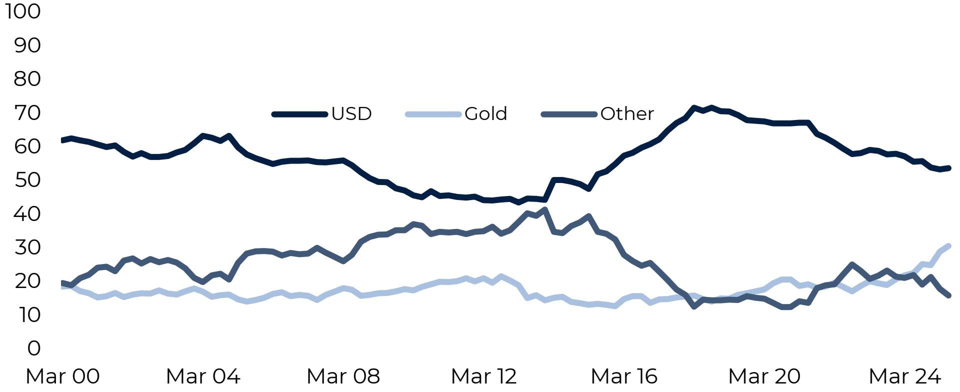
Gold's powerful rally continues

ETF buyers of gold



- **New market participants:** ETFs and retail buyers are adding incremental demand
- **Global central bank buying**: Central banks continue to shift reserves away from the US dollar as a hedge against ongoing deglobalization
- **Large U.S. fiscal deficits:** Portfolios are increasingly turning to gold for protection

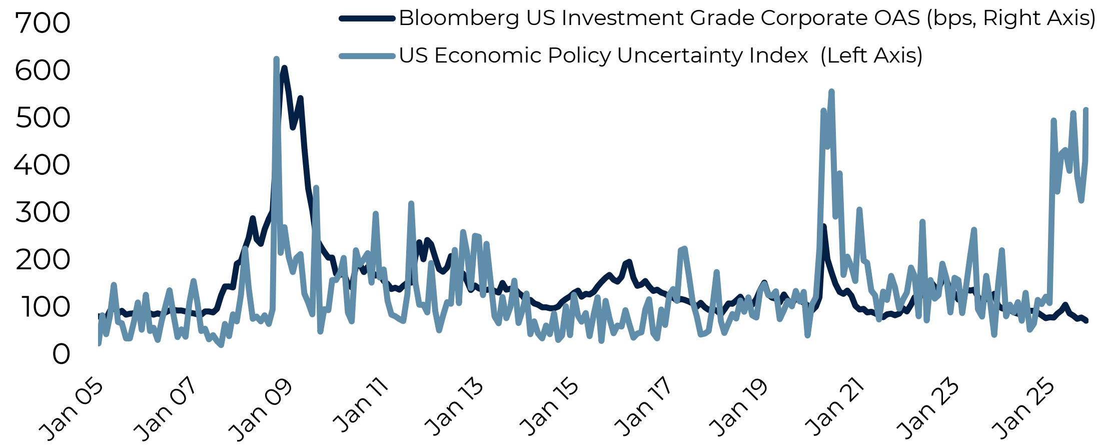
Allocation of total global FX reserves (%)



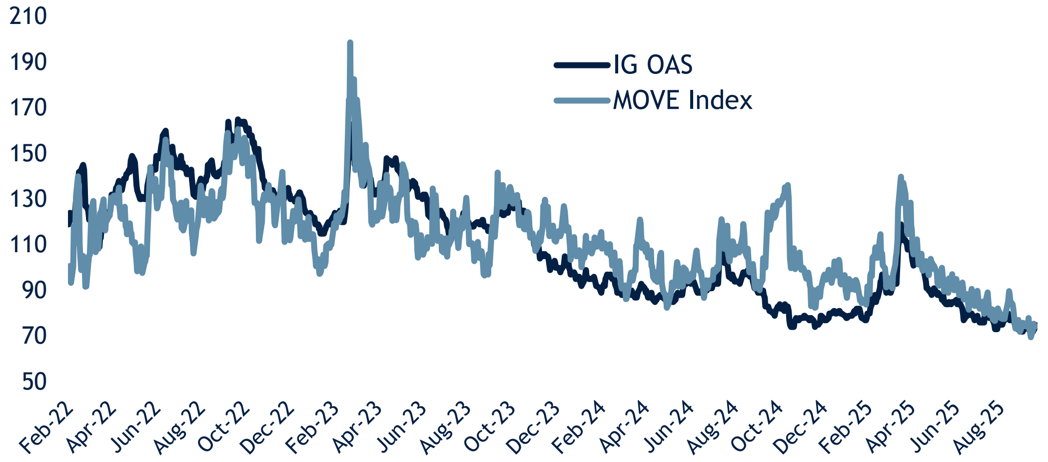
Source: Bloomberg, Bespoke, as of 10/10/25

WHY AREN'T BONDS PRICING IN MORE VOLATILITY?

US economic policy uncertainty remains elevated



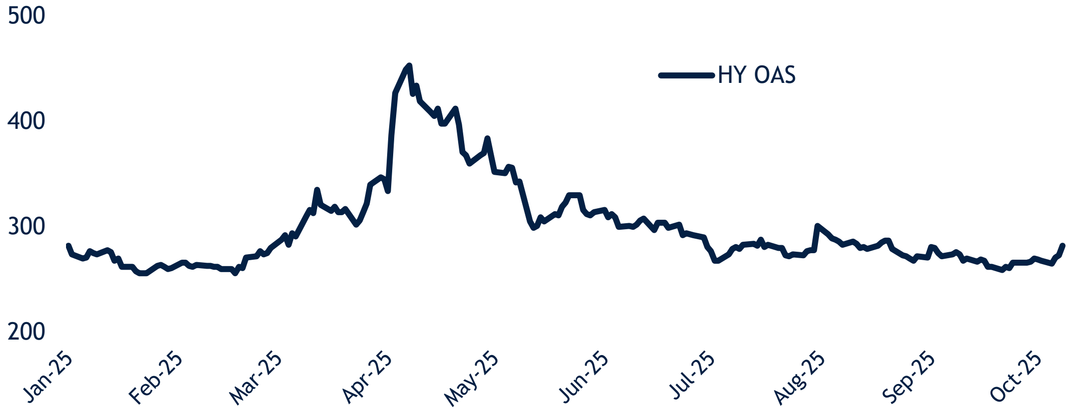
Bond market volatility holds steady



Corporate bonds have been immune to economic policy uncertainty

Corporate fundamentals remain solid, supported by a favorable economic backdrop and healthy balance sheets with manageable leverage. While pockets of stress exist within credit markets, overall conditions remain stable. Despite elevated policy uncertainty under the Trump administration, rate volatility has stayed contained – providing a firm foundation for corporate bond spreads to remain tight.

And spreads remain at multi-decade tights…



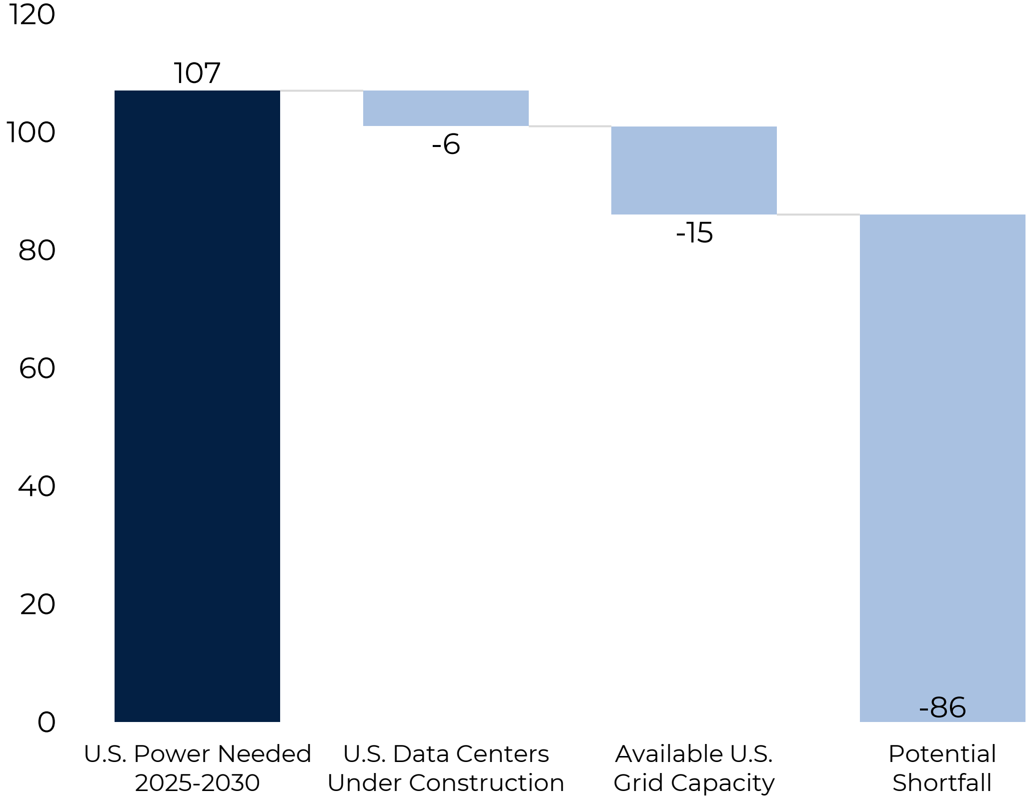
Source: Bloomberg, Bespoke, as of 10/10/25

OUR VIEW

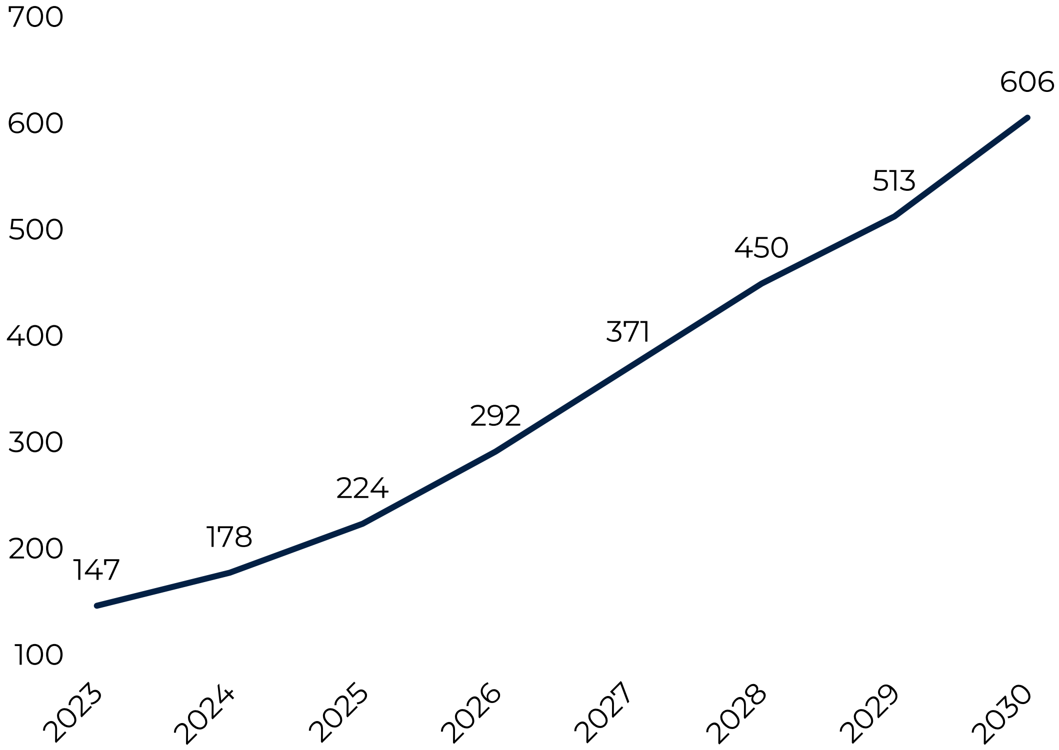
THE US IS STRUCTURALLY SHORT POWER

View 1: Long this structural shortfall using active

Projected US Power Shortfall (Gigawatts) (2025–2030)



Data Center Energy Demand (TWh)



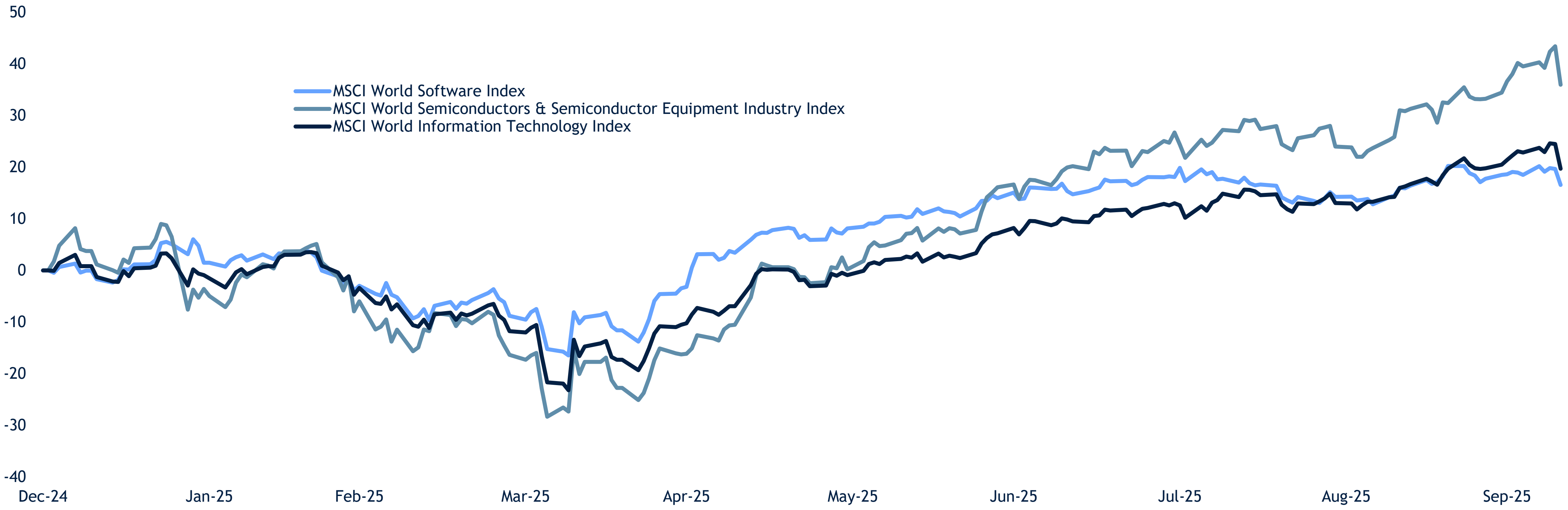
The US remains critically underdeveloped to provide for the growing power generation demands of the AI supercycle, as well as everyday consumption. We continue to see significant capital investment directed toward expanding generation capacity, including initiatives supported by the US government. We believe this theme offers considerable upside potential, and we are leveraging active managers to capture these opportunities.

Sources: TCW Transform Systems ETF Presentation, 09/30/25

TECHNOLOGY – MORE WINNERS AND LOSERS

View 2: Responsibly long AI supercycle use active

Performance across tech sectors YTD (%)



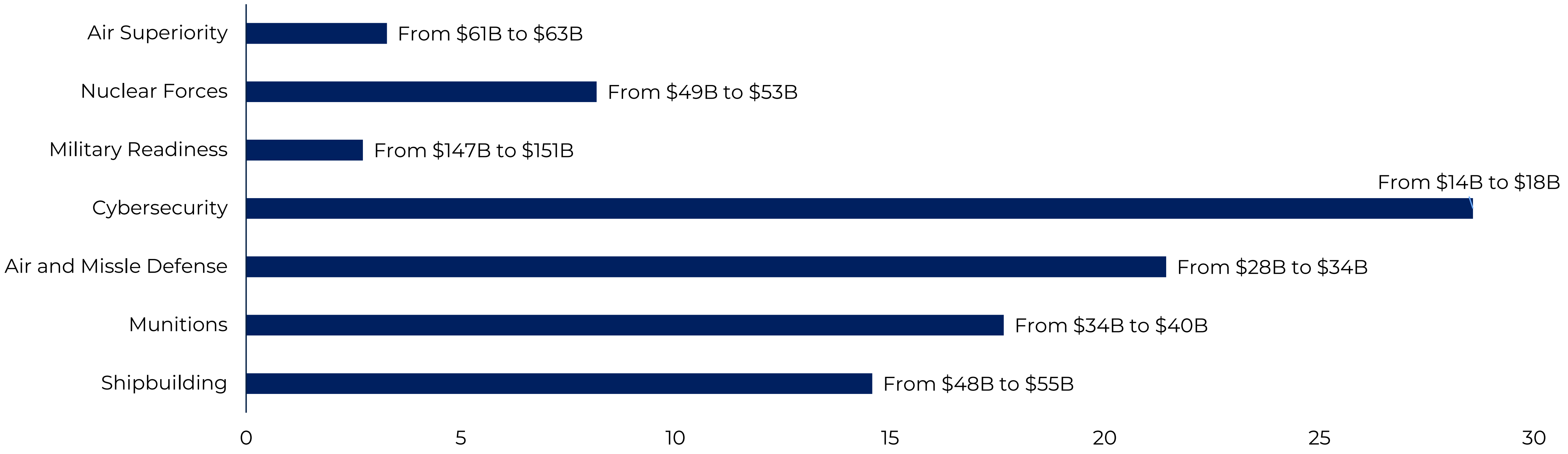
We believe the AI supercycle will continue to create clear winners and losers, consistent with the trends observed year-to-date. As illustrated in the chart above, there is substantial performance dispersion between the "haves" and "have-nots" across broad-based technology. Our goal is to capture as many winners as possible while avoiding underperformers, which is why we favor active management over passive beta exposure for this theme.

Source: Bloomberg, as of 10/10/25

AEROSPACE AND DEFENSE – FOLLOW THE MONEY

View 3: Long defense due to the increase in fiscal spend from OBBBA

OBBBA spending impacts to defense (% increase)



Geopolitical shifts, supply chain restructuring, new trade barriers, and competition for critical technologies are accelerating investment in national security and resilience – creating a theme we believe will drive performance across the defense stack.

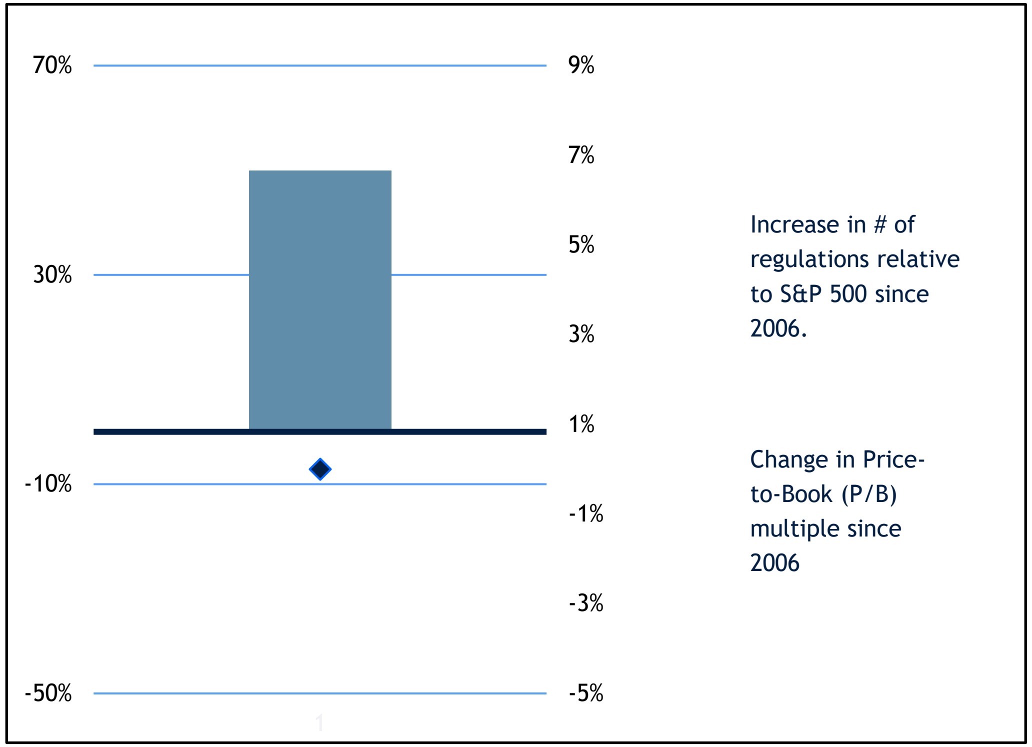
While the US leads through the OBBBA, global defense spending reached a record $2.7 trillion in 2024, providing multi-year revenue tailwinds for industrial companies throughout the defense supply chain. We favor allocating to this theme, confident that fiscal support will translate into performance.

Source: BlackRock, BCA

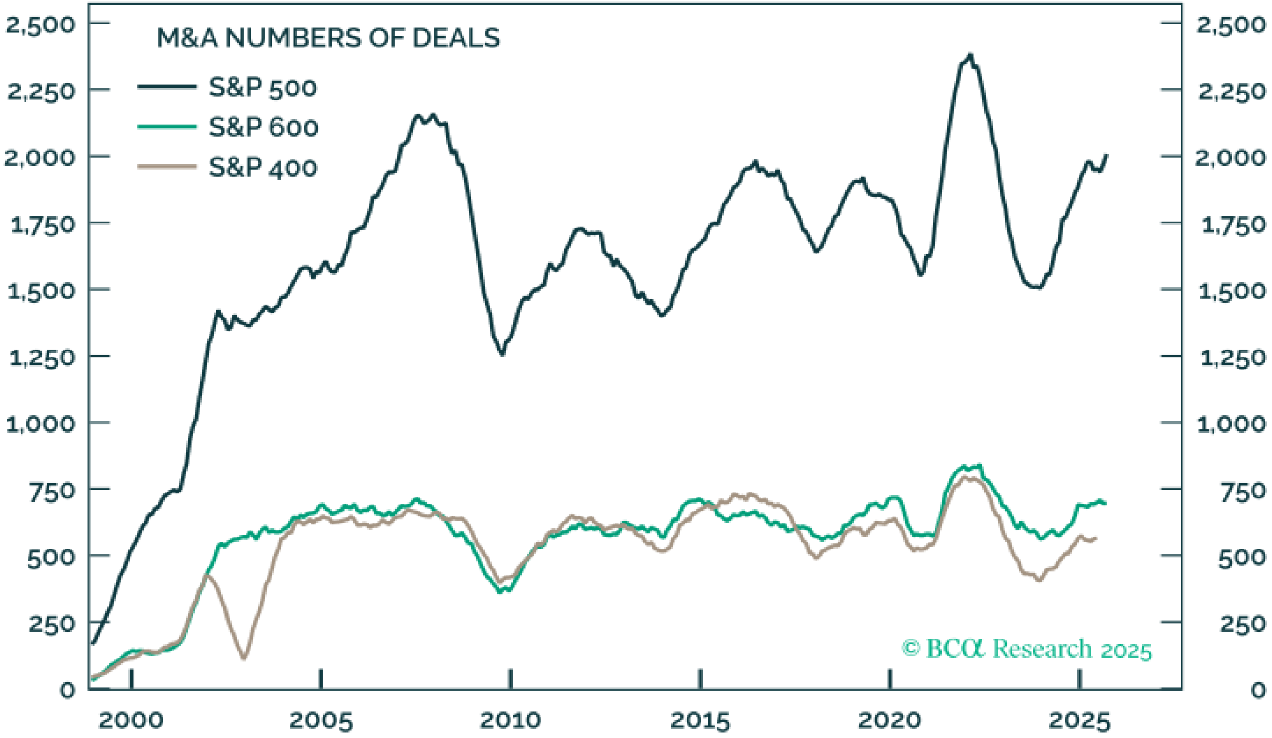
FINANCIALS SHOULD BENEFIT

View 4: Long financials for steeper yield curve, less regulations, and more deal flow

Regulation has hampered valuations



Deal volume is picking up



Bank-Friendly Administration: Regulatory conditions are easing.

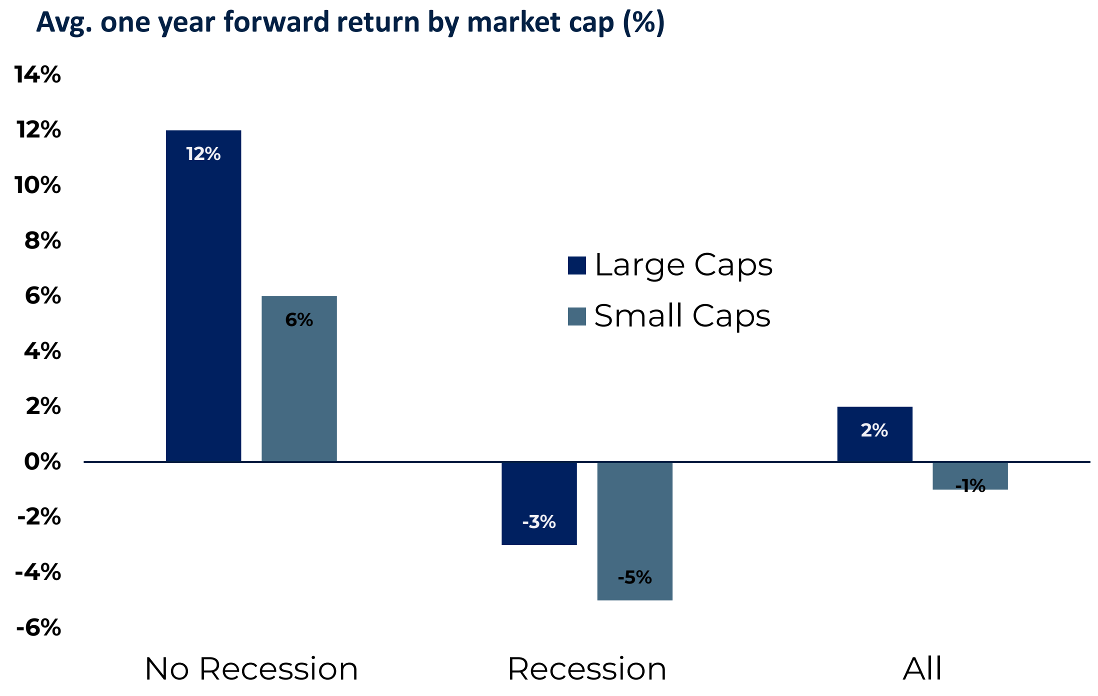
Net Interest Margins: Profits likely to expand with a steeper curve, as banks lend long and borrow short.

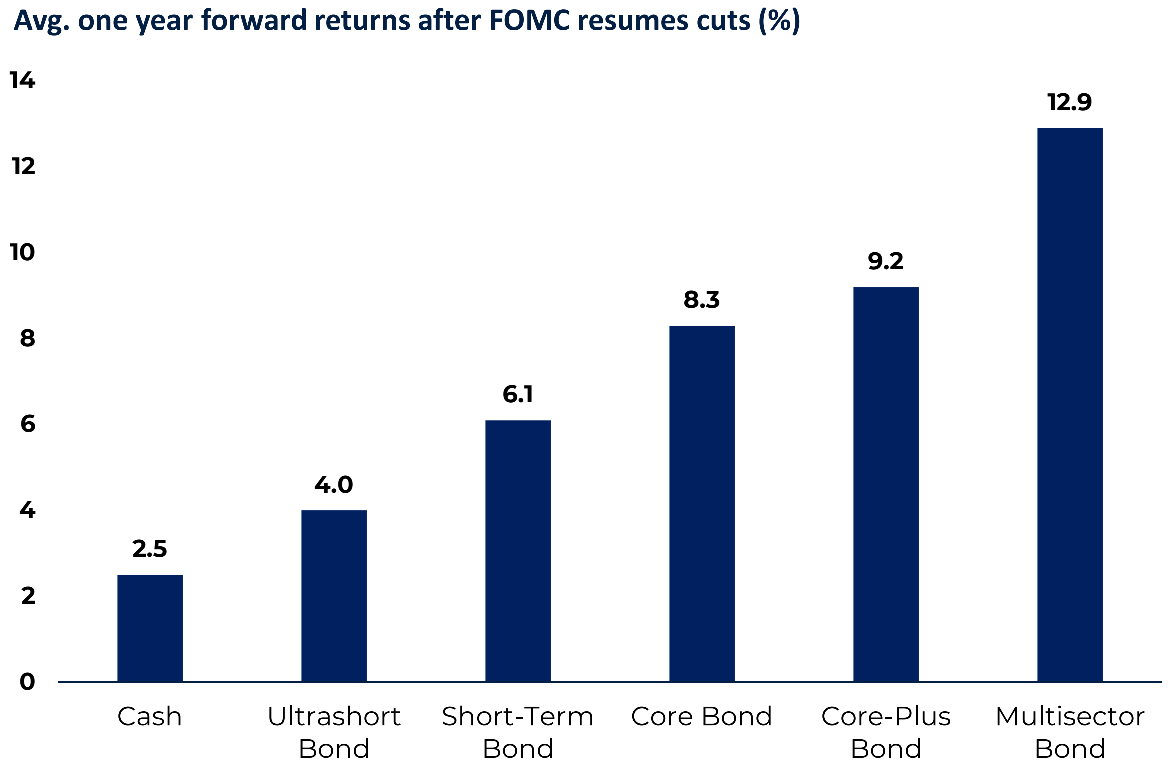
Capital Markets are Rebounding: M&A and IPO activity are picking up, driving stronger earnings for financials. As corporate confidence builds, we expect this trend to gain further momentum.

Source: BCA, Bespoke, as of 09/30/25

THE FED IS BACK IN THE GAME

Fed easing cycle is a tailwind for risk assets





The Fed has resumed its easing cycle after a nine-month pause. Historically, Fed easing has supported risk assets – provided a recession does not follow shortly thereafter. Given our outlook for continued economic growth, we believe this cycle could offer incremental support to markets, particularly in large-cap equities and across multi-sector, core-plus, and core bond segments within fixed income.

Source: Blackrock, Bespoke, Bloomberg, as of 09/30/25

WHAT'S NEXT?

Source: Robert Rich, Hedgeye Risk Management, 2025

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