

Making Sense of Finance

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Third Quarter 2025 Review

Stock Market

(A Tale of Two Cities)

The S&P 500 stock index continued its recovery from April's tariff-induced dip, rising another 8.1% for the quarter. The bulk of the gains came from continued optimism on the AI (Artificial Intelligence) industry. GDP was up a very healthy 3.8% in the quarter, with inflation held relatively in check, rising only 3% year over year. A weakening labor market, however, still caused further unease. Furthermore, the federal reserve finally cut rates a quarter of a point, further fueling the rally.

An alarming phenomenon is starting to happen in the AI field, with many leading companies in the industry making investments in their customers. Nvidia, for example, took a \$100 billion investment in Open AI, which in turn will help fuel demand for the chips it makes. In our opinion, this is a form of double dipping and makes the true organic demand for AI chips harder to estimate.

We live in a global economy and Asian and European markets seem to mirror that of the U.S. Both Asian and European equity markets were mostly positive and

continued to be wary of Trump tariffs, given that the U.S. is the largest economy in the world and is a net importer of goods.

According to VantageScore, auto loans have become riskier. The combination of higher average vehicle prices and higher interest rates is stretching the average consumer to dangerous levels, leading to increased defaults in loans. While this is definitely a reason for concern, a robust economy could bale out consumers if they use that opportunity to shore up their finances.

Commodities

Interestingly, Gold matched or exceeded the rise in AI stocks, up 50% since the beginning of 2025. Gold is often purchased as a hedge against inflation or tumultuous times as a strong store of value, but with inflation fairly in check, we can only deduce that investors are investing in gold due to economic and political fears. Central banks around the world are also buying aggressively, further driving up demand. The Trump administration continues to use tariffs as a negotiating tool that will continue to be disruptive to markets, in our opinion. The

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Everyone and their neighbor has an opinion. At Karagosian Financial Services, we have a combined 40 plus years of investment experience. We have seen the markets at their highest highs and lowest lows. Through this newsletter we attempt to convey our opinions on current events in the investment world and their likely outcomes. Forecasting is inherently difficult and our advice is geared toward making sensible and prudent choices based on logic and experience, and not based on emotion.

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announcement of new tariffs makes strategic planning by companies very difficult to achieve. However, the administration has also ended up curtailing or pushing off many announced tariffs which has delayed the financial impact on goods; and maybe even “juiced” returns with companies pre-buying before expected tariffs take effect. We think this could be part of the reason GDP was particularly healthy in the third quarter.

At present, oil prices are under \$60 a barrel, down nearly 20% from the beginning of the year. Weaker demand from China, and increasing output from OPEC and the U.S. contributed to the drop in price.

Bond Market

The yield curve now resembles a ladle (serving spoon) with the handle to the right. In a “normal” economy, the yield curve usually rises gradually to the right, with earlier maturities having lower interest rates and higher interest rates the further out in time. In the third quarter, shorter-term bonds outperformed longer duration bonds, mostly due to the anticipation of a rate cut. Given the relatively flatness of the curve, the market is implying that there is only modest optimism about the economy’s future. A 30-year treasury, for instance, still yields only about 4.7%, not much higher than a 10 year at 4.1%.

Outlook

As we review the entire global economy, the same recurring themes pop up; that tariffs are being disruptive but resilient

economies have been able to overcome most of the effects. We would caution, though, that the full effects of tariffs will likely take place later in 2025 and more likely in 2026. We do think there is a bit of a bubble in the AI space, even though we would agree that it is a transformative technology. From our view, it seems more like an arms race with competitors investing without knowing what the actual outcome will be. For the most part, many of our clients have exposure to the AI industry through more tangential securities versus direct investment in pure plays. We also aren’t a proponent of gold at these prices given that we do not view fear as a good long-term theme as a reason for investment. Ironically, the flight to gold has indeed increased its financial risk, in our opinion, as we think the price is very inflated now.

Third quarter U.S. GDP likely got a boost from all the tariff talk. We can not quantify the amount, but anecdotally, corporations increased their spending in the early part of 2025 in order to avoid tariffs, some of which never materialized. Furthermore, the national EV credit that expired last month also prompted consumers to buy EVs in the third quarter. The consensus by many media outlets is that the fourth quarter will show a slow-down in business activity. It still surprises us how myopic looking many economists are. Even though all this business activity was a bit artificial, in general, spending begets more spending and thus creates stimuli for GDP growth.

We view precious metals, specifically gold, and AI stocks as a bubble, but bubbles don’t

always have to pop. Consider the booming residential real estate market from 2020-2024, something we identified in past newsletters. While many super high-end residential properties have come down in price, instead of plummeting, the average home has mostly just stagnated, and this could continue for a few more years.

As many of our clients have figured out, we tend to be optimistic about the future and looking back at the past 15 years since I’ve been writing this newsletter, it’s turned out that way. Global fears are a constant on our planet and information regarding world affairs has only heightened any fears people have.

For all the Chicken Littles out there, Albert Einstein is quoted as saying “I know not what weapons World War III will be fought, but I do know World War IV will be fought with sticks and stones.” And if that is the case, I suspect looking at your investment portfolio of securities will be low on the priority list.

-Seaver T. Wang

President,

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