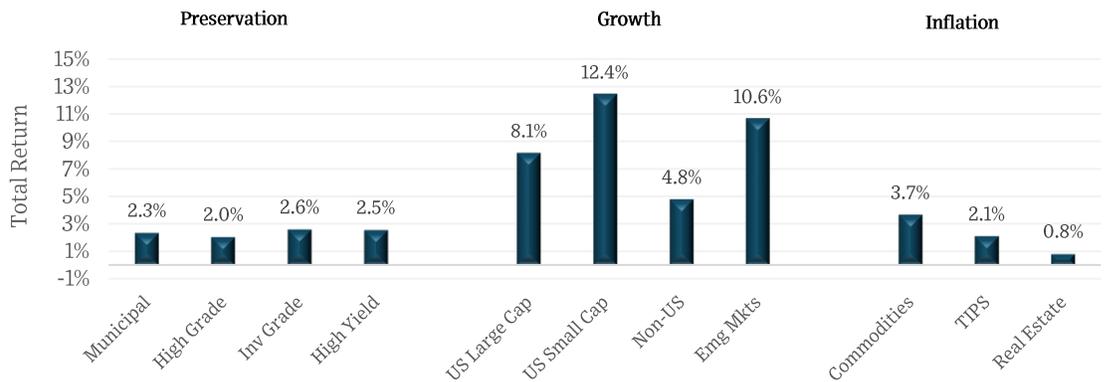


Quarterly Investment Letter

3rd Quarter 2025 Summary

Strong corporate earnings and more accommodative monetary policy drove equity markets to all-time highs during the quarter. AI capital spending continued unabated while markets and financial media debated whether stock prices are in a bubble. Gold and Bitcoin reached new highs as investors increasingly question the direction of US fiscal and monetary policy.



3rd Quarter 2025 Market Index Performance

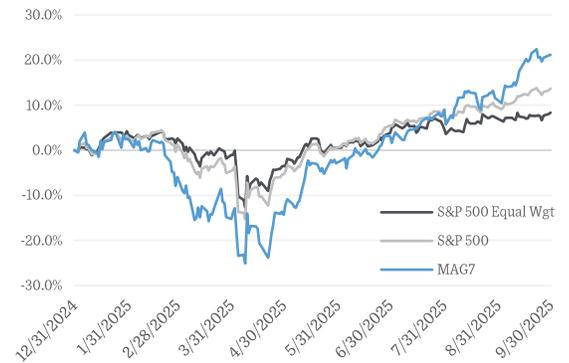
Source: Bloomberg, S&P, MSCI, NCREIF (Real Estate) data is lagged 1 quarter.

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3rd Quarter 2025 Market Recap

Markets continued their recovery from April’s tariff policy concerns on a strong summer earnings reporting season, more accommodative Fed policy, and investor appetite for all things Technology and artificial intelligence (“AI”). The S&P 500 Index was positive each month of July, August and September and returned 8.1% for the 3rd quarter, bringing 2025 returns to just under 15%. Other areas of equity markets also delivered strong returns for the quarter with the Russell 2000 Index up over 12% and Emerging Market stocks adding 10.6%. Year 2025 returns to date look strong across almost all categories of stocks and the S&P 500 index is on track for its third consecutive year of double-digit gains. Fixed income markets in the US also saw strong performance in the 3rd quarter as investors reacted to the increasing certainty of Fed rate cuts while weaker jobs data softened interest rates. The Bloomberg US Aggregate Bond Index returned 2.0% and is up over 6% in 2025



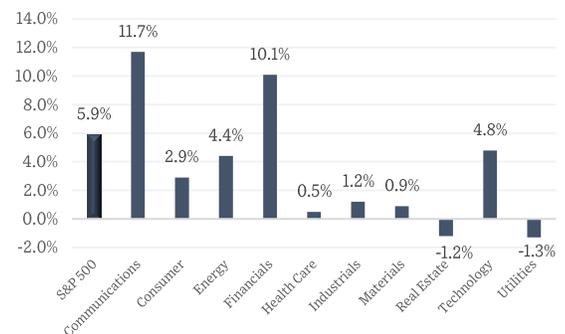
Year 2025 Market Performance by Cap Weighting

Source: Ycharts!

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while Municipal bonds returned 2.3% and are up over 4% for the quarter and year, respectively. Despite lower rates and inflation numbers in line with market expectations, inflation-sensitive assets like TIPS, Commodities, and Real Assets were not left out during the quarter. Gold reached new all-time highs and is up over 50% so far in 2025, while broad commodity indexes returned 3.6% in the 3rd quarter and are up over 9% for the year. Investors are having a historically strong 3-year stretch and wealth effects are continuing to drive consumption, especially from higher income consumers.

The 2nd quarter earnings reporting season that took place primarily in July and August boosted investor confidence that the AI capital expenditure cycle remains fully in place and that the Trump administration’s tariff policy was less impactful to corporate earnings than expected. Analysts entered the reporting season on July 1st expecting S&P 500 earnings growth overall to be about 5%, a solid number, but not one that would necessarily justify current elevated valuations. By the end of August, actual S&P 500 earnings had delivered 12% growth versus the 2nd quarter of 2024, a substantial improvement that reversed a pattern of declining earnings expectations. Earnings improvement came from the sectors populated with “Mag7” names like Technology, Communications, and Consumer. Financials, and specifically big banks, were also a catalyst for overall earnings growth improvement, delivering double-digit growth versus just under 3% expected growth at the start of the 3rd quarter. Trump administration policies bode well for large banks with lower regulation and increasing capital market activity, but tariff policy increasing recession odds caused banks to perform poorly in the 2nd quarter. Bank earnings released in July provided relief to markets and the pattern has continued early in the 3rd quarter reporting season with JPMorgan, Goldman, Wells Fargo, and Bank of America all reporting strong quarterly growth. 3rd quarter earnings growth in the Financial sector is over 19% versus last year according to Refinitiv data through October 21st. Strong corporate earnings growth in 2025 was expected and the major reason we were comfortable with equity markets in our 2025 outlook, despite two years of very strong market returns and the uncertainty of Trump administration policies.

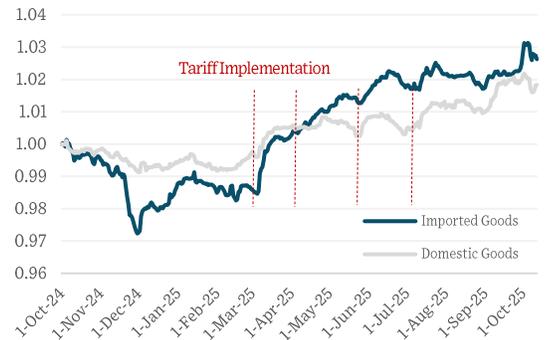


3q25 Change in Earnings Y/Y Growth: 7/1 to 8/31
 Source: FactSet Earnings Insight

Consumer spending is a critical component of the overall US economy and there was rightfully concern on whether spending could hold up in the face of tariff increases. The average tariff rate on US imports has hovered between 10-15% since April compared to just over 2% at the end of 2024. Trump administration policies have created significant uncertainty for consumers and importers given the stop-and-start nature of the rollout and the administration’s trade negotiation tactics.

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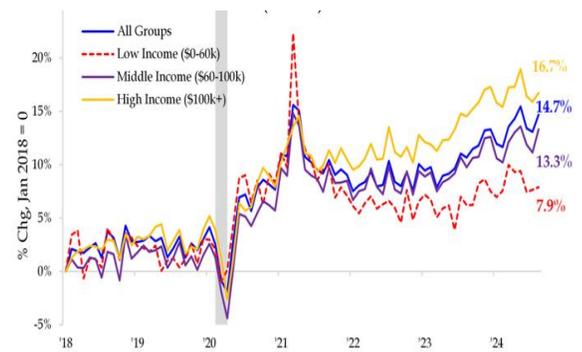
After a period of relative calm in the 3rd quarter, President Trump posted a threat to China on October 10th of “additional 100% tariffs” that sent markets to their worst day since April. The President later acknowledged that 100% tariffs on Chinese imports were not practical and seemed to be trying to shift negotiation leverage as the APEC summit and next round of China-US trade negotiations are scheduled at the end of October. Tariff costs, the economic impact, and who may be paying for them are political and hotly debated in financial and media circles. A reasonable response based on the data to date may be that everyone is paying something. The administration has focused on the fact that broad inflation data has remained



HBS Price Tracker: Domestic vs. Imported Goods
 Source: Cavallo, Llamas, & Vazquez, HBS Pricing Lab

in-line with expectations prior to tariff implementation. The past three months of Consumer Price Index (CPI) increases¹ have averaged 0.26%, slightly down from the previous six month average of 0.31% despite a much higher average tariff during the recent period. Data from the Harvard Business School (HBS) Pricing Lab tracks goods sold at four major US retailers divided up by whether that good is produced domestically or imported. The HBS data suggests that tariff-impacted prices were deflating prior to tariff implementation in March 2025. In their analysis, imported good prices were down 1-3% in just 5 months from October 2024 through February 2025. From early March when the first tariffs began to early October, this same basket of imported goods prices increased almost 5%. Despite the contribution from imported goods, CPI overall has been subdued by a weaker contribution from the shelter (rent) calculation as well as energy. This stable but elevated CPI outlook is likely to continue given lagged rental market data in the shelter component as well as Trump administration energy policy focused on increased production.

The consumer also remains a beneficiary of the Covid-era fiscal policy that flooded the economy with unprecedented levels of stimulus. Higher income consumers have benefited the most given market and other asset returns over the past 5 years. Economists had pointed to cumulative excess savings drawing down over the course of 2023 that could lead to changes in consumer behavior, but spending has shown no signs of letting up. Our sense is consumers have



US Average Real Retail Spending by Household Income
 Source: Federal Reserve (Hoke, Feker, Chylak 10/24 paper)

¹ This includes June, July, August as the September CPI release has been delayed to October 24th due to the federal government shutdown.

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seen far more benefit from Covid fiscal policies, equity market returns, gig economy jobs, and cryptocurrency than what is captured in official estimates of consumer wealth and savings. Lower income consumer spending has leveled off since the Fed hiking cycle in 2022, but monetary and fiscal policy look stimulative again. The Fed began a modest rate-cutting cycle in September and the One Big Beautiful Bill (OBBB) is leading to an increase in federal tax returns that will be paid in early 2026. An estimate by Strategas suggests that federal tax refunds per non-farm payroll employee may increase by as much as \$1k per person. That would represent over a 40% increase from 2025, and consumers tend to spend tax refunds as “found money”, creating a likely boost to consumer spending in early 2026.

A reduction of interest rates may also help the US consumer. On September 17th, the Federal Reserve cut their benchmark interest rate by 25bps for the first time since December 2024. The Fed had been on hold given concern over tariff policy and stubborn inflation reports that were above their 2% target. With weakening jobs data over the summer, no pickup in headline inflation, and perhaps political pressure, the Fed moved to pre-emptively reduce rates. Investors expect two additional rate cuts this year and then the picture gets cloudier for 2026. There is no guarantee overall interest rates will decline solely on Fed action, longer-term rates are only down slightly since the Fed cut rates on September 17th and initially had risen. Longer-term interest rates adjust not only to Fed policy, as well as market dynamics such as supply and demand for Treasuries. While pressuring the Fed to lower rates, the Trump administration has been funding government deficits increasingly through T-bills, their shortest duration instrument. This can increase liquidity while reducing the supply of longer-duration Treasuries that may pressure interest rates lower.

Housing and manufacturing have been contracting since the Fed hiking cycle began in 2022. Each of those areas is highly impacted by interest rate levels. Housing had benefited from the low interest rate and accommodative monetary policy that followed the Financial crisis until 2022. The spike in the average US mortgage rate has hurt affordability and frozen many housing markets. Housing activity such as housing starts and existing home sales are down significantly in the past 3 years and there is likely pent-up demand that would be unleashed if interest rates fell. Levels of affordability for renting versus buying are at all-time differences forcing younger homebuyers to put off their first home purchase. Housing has been a negative contributor to GDP from 2022-2025. Manufacturing has not fared much better.



Estimated Monthly Mortgage Payments
 Source: Strategas, Based upon 30-Yr Fixed Mortgage & Median Existing Home Price

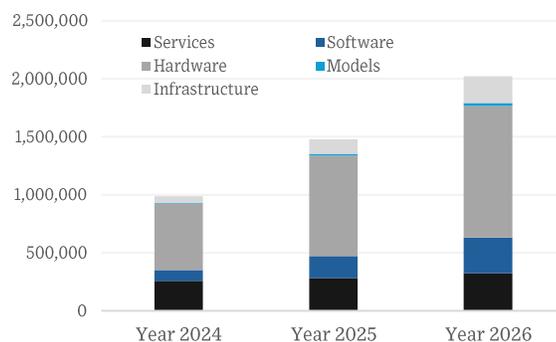
While the Trump administration has been focused on onshoring and supply chains shifted post-

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Covid, the tailwinds to US manufacturing have been more than offset by higher interest rates. The administration appears focused on supporting these areas of the market, but whether markets are cooperative remains to be seen.

While housing and manufacturing wait for monetary policy, capital expenditures on AI show no signs of slowing down. On October 12th, 2022, the S&P 500 index rested at 3,577 down 25% for the year as stocks withered under Fed rate hikes and rising layoffs in the Technology sector. Facebook had become “Meta” and shed almost 70% from its previous high as investments in the metaverse damaged cash flow. Shortly after that October market low point, ChatGPT was released, and the AI spending cycle began, creating a virtuous circle for hyperscalers, hardware, and venture capital to drive markets to all-time highs. Gartner projects that global AI spending will top \$2 trillion in 2026

across services, software, hardware, models and infrastructure. That projection would represent more than a double from 2024 levels, and off already massive spending. Mag7 companies, other large Technology companies, the industrial complex, and even utility companies have seen massive increases in their value due to AI. OpenAI, the company behind ChatGPT, announced a new capital raise on September 30th at a \$500b valuation. And CB Insights reports that there are 498 other



Global Spending on Artificial Intelligence (\$m)
Source: Gartner, Year 2025 and 2026 are projections

companies with private valuations greater than \$1 billion. As markets raced higher, numerous articles questioned whether markets were in an AI spending bubble. The most common issues cited were a lack of tangible return on the capital spending to date and the closed loop of spending among related companies on AI. But investor attention, based on equity market inflows, remain fully focused on Technology and all of the areas that are the focus of bubble-watchers.

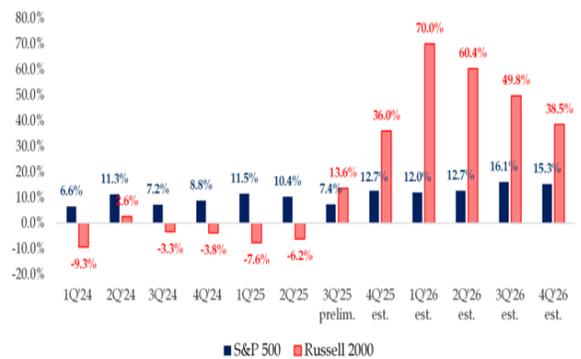
Two areas that likely deserve more investor attention and are clearly not capturing positive inflows are Japanese equities and US smaller companies. Many of us growing up in the 1980s remember the strength of the Japanese economy and fears in the US that Japanese wealth would overwhelm the US. These concerns reached their nadir in 1992 when the Seattle Mariners were purchased by a group of investors from Japan led by Nintendo’s President at the time. Japanese markets peaked around the same time and the Japanese economy entered a period of severe deflation that lasted for over 30 years². For the decade of the 1970s and 80s, the MSCI Japan index annualized at 22.4% versus 11.6% for the S&P 500 index. Since 1990, the MSCI Japan has annualized at just 1.7% (versus 10.8% for the S&P 500). Japan’s flagship index, the Nikkei 225, only recently set a new all-time high

² The purchase did pave the way for the Mariners to win the Ichiro sweepstakes. The Japanese ownership group sold their majority stake in 2016.

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after 35 years as Japan has returned to modest positive inflation in the post-Covid landscape. Japan has taken significant steps to improve corporate governance and shareholder protections with independent director requirements. And inflation creates a different catalyst for consumers and businesses that reduces incentives to hoard cash. Japan also has heavy exposure to areas of the current economy that are likely to experience strong growth: Industrials, Robotics, and Technology. Years of underperformance have created a Japanese stock market that trades at a 35% discount to the S&P 500 in terms of earnings multiples. Japan has clear longer-term challenges in their demographics and population decline, but the near-term sets up well for their markets.

Small companies in the US that trade publicly are typically captured by the Russell 2000 Index. Small Caps had historically out-performed Large Caps like those in the S&P 500 over most periods as smaller companies were deemed to be more cyclical and have higher upside (and risk) relative to large companies. Since the Financial Crisis, Small Caps have offered little relative performance to investors. The S&P 500 index has out-performed the Russell 2000 index in greater than 90% of the monthly rolling 3-year periods since 2010. The most recent 3-year period shows an almost 10% deficit for annualized Russell 2000 returns to the S&P 500. Small companies have very little of the excitement around AI spending and more recently have suffered from the higher interest rate environment. Small companies have a higher proportion of debt that is floating-rate, increasing their expenses starting in 2022, and small company indexes are more represented with housing, manufacturing, real estate related companies that are sensitive to rates. With the Fed starting to reduce interest rates, smaller companies may get some relief from lower interest expense. Small Cap earnings growth is set to accelerate in 2026 based on projections. Part of that is anticipated improvement from the rate environment and the comparison to weaker earnings from recent quarters. That combination along with much cheaper valuations could setup a positive backdrop for relative performance, which many investors are not positioned for based on flows into ETFs.



Quarterly Earnings Growth Year/Year % Change
 Source: I/B/E/S data from Refinitiv, Bloomberg, Strategas

Despite increasing financial media articles on a market bubble, market speculation continues unabated. According to Morningstar there are now more ETFs than actual public companies listed on exchanges. Of approximately 900 ETF launches through mid-October in 2025, almost 200 have been leveraged performance ETFs, typically trying to provide 2 or 3x performance of some underlying assets. An additional 55 of the launches are related to cryptocurrency. And of course, if leverage and crypto separately are just not enough for any investor there are ETFs like the Volatility Shares Trust XRP 2x ETF that had a standard deviation of just 117% in its first 4 months of trading.

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While the asset management community tries to come up with new ways to put 4-letter tickers together in order to catch investors' attention³, all of the leverage and speculation can lead to unfortunate outcomes. Leveraged ETFs are just 1% of ETF assets, but already make up over 12% of daily ETF volume. Modest leverage where the return exceeds the cost of capital can be effective in enhancing returns, especially when the underlying asset being leveraged is fairly stable. Putting leverage on already volatile assets and assuming investors will properly time when to invest has literally no historical data to support the thesis that these investments will work well for investors. We already saw this environment in late 2021 and markets are showing a shorter memory than usual.

The projections for economic growth and corporate earnings in the US look positive over the next 3-5 quarters. Companies are seeing positive operating margins despite tariff impact where applicable and robust demand from consumers and capital expenditures. We expect that environment to continue based on catalysts from monetary and fiscal policy in 2026. Given speculation levels in markets, investors should be on guard for "market" events, but we believe "economic" events are further off in the future.

Summit Trail Investment Team

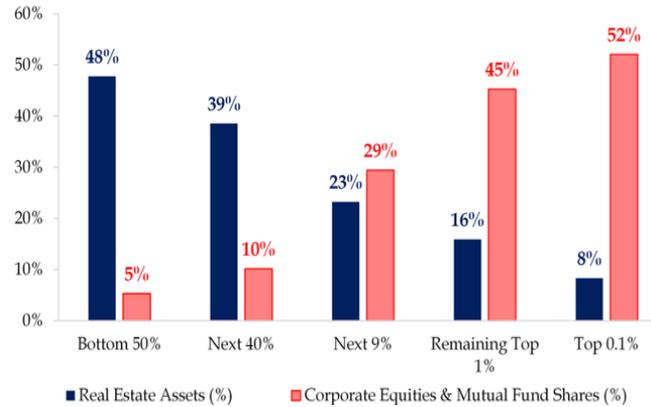
³ *Kudos to EGGQ, ELON, PIPE and TURF so far in 2025.*

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Chart of the Quarter:

Percent of Real Estate and Equity Assets of Total Assets by Wealth Percentile Group

US Consumers are benefiting from substantial increases in asset prices over the past 3, 5 and 10 years. The majority of those gains have taken place in the overall stock market. The higher the income group, the larger their percentage of total wealth that is invested in equity markets. The top 1 to 10% of incomes are far more exposed to the current market runup. The remaining 90% of households, especially the bottom half, have a significant majority of their overall assets in their homes. Home prices have not seen dramatic increases in recent years since the 2022 Fed hiking cycle, leading lower income consumers to not feel “wealthier”. Consumer spending and sentiment indicators are showing strong differences in high versus low-income segments. If home prices do not participate in the market gains, lower income consumers are unlikely to increase spending.



Source: Strategas, Federal Reserve, Data as of 6/30/25

Term of the Quarter:

“Vendor Financing”

Vendor financing is a term to describe a financial transaction where a vendor selling a service or product provides some portion of the proceeds of the cost via equity or debt financing. These sorts of arrangements call into question whether the service or product would be purchased if not for the financing, or whether the sales are “real”. Vendor financing was a trademark of the dot-com bubble when telecom companies helped finance the cost of internet infrastructure leading to overcapacity and poor capital allocation. A spate of AI spending deals related to OpenAI resurrected the concept and concerns of whether the issues of the dot-com bubble are happening as part of the AI buildout. OpenAI is the source of many of the concerns. During the 3rd quarter, OpenAI announced deals with Oracle, Broadcom, Nvidia, and AMD. Similarly across these deals, were large purchases of products by OpenAI and in some cases capital or equity investments by the “vendor” in return. Market commentators have made the point that the drivers of AI capex spending today (AAPL, MSFT, META, GOOG) are extremely strong balance sheet companies with high operating margins and low debt. However, OpenAI is a significant part of the AI spending engine, responsible for \$300m of Oracle’s \$455m revenue backlog the company announced during the quarter, and 13% of Nvidia’s 2026 revenue projection to cite two examples. OpenAI is not at this point an extremely strong balance sheet, or even profitable. The company’s own projections show losses into the next decade. Currently those losses have been privately financed, including OpenAI’s \$500b recent valuation. The question, or issue, would be if that capital dries up prior to profitability and what that means for the broader AI ecosystem. Source: UBS

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