ALTA CAPITAL MANAGEMENT
A member of Guardian Capital Group Limited

MARKET LETTER

October 2025

Amid mounting concerns over a looming federal government shutdown and persistent uncertainty surrounding monetary policy, U.S. equity markets powered forward, lifted by a potent combination of innovation-driven growth and resilient economic fundamentals. Both the S&P 500 and Nasdaq indices reached all-time highs in the third quarter. While conflicting near-term economic data could continue, we remain convinced that our disciplined focus on high-quality growth businesses with wide economic moats positions the portfolio well for long-term value creation.

The Federal Reserve's (Fed) September action, its first rate cut of 25 basis points this year, marked a pivotal inflection point after an extended period of restrictive monetary policy. While the move fell short of some expectations for a more aggressive easing, it underscored the growing data-dependency of policy decisions as inflation remains above the 2.0% target. Economic resilience continues to be a prominent theme, with GDP growth projections revised higher and the labor market maintaining relative strength in the face of cooling job creation. Fed Policymakers signaled potential additional cuts by year-end, offering a supportive backdrop for risk assets even as balance sheet normalization continues. This prudent approach mirrors the balanced tone we see in markets, where optimism about long-term growth coexists with recognition of elevated valuations and geopolitical tensions.

However, fiscal policy remains a key source of uncertainty, as congressional budget impasses likely trigger another government shutdown. Geopolitical tensions, including ongoing trade conflicts and "Liberation Day" tariff adjustments, added to the noise, prompting episodic sell-offs. Still, progress on reshoring and domestic manufacturing, bolstered by incentives in the "Big Beautiful Bill," offers an underappreciated tailwind for long-term growth. Markets have historically weathered such events with minimal long-term disruption, as the underlying earnings power and competitive advantages of leading U.S. enterprises remain largely unaffected by these political machinations. This underscores the importance of our bottom-up investment discipline focused on enduring quality and structural growth.

The artificial intelligence (AI) revolution continues to reshape the economic landscape and investment opportunities, with AI infrastructure investments reaching unprecedented levels. Hyperscalers and data center operators have now committed over $1 trillion across major projects. The OpenAI-led Stargate Initiative expanded to five new U.S. data centers with $400 billion in commitments, while Microsoft allocated $80 billion to additional spending. This massive capital deployment drove exceptional performance in AI-related sectors. Technology sector leadership extended beyond the "Magnificent Seven," with leading semiconductor and infrastructure companies like Amphenol, Broadcom, Nvidia and ASML benefiting from the rapid expansion of high-performance computing and network connectivity demanded by AI workloads.

The current environment presents both opportunities and challenges that underscore the importance of our quality growth approach. Valuations have extended meaningfully, with pockets of speculative behavior emerging alongside legitimate secular growth stories. This type of environment rewards rigorous fundamental analysis and disciplined stock selection, creating conditions where active management can add significant value relative to passive index strategies. We believe our portfolio's emphasis on companies with pricing power, high margins, strong balance sheets, and exposure to durable growth themes should serve investors well as markets navigate the competing forces of monetary easing, fiscal uncertainty, and technological disruption.

The quarter's performance landscape revealed both the opportunities and challenges inherent in our bottom-up stock selection process. While Communication Services, Information Technology and select Healthcare holdings contributed meaningfully to returns, other quality holdings faced temporary headwinds. Fiserv and GoDaddy both declined, reminding us that even high-quality growth businesses

navigate periodic volatility when market dynamics shift. These setbacks, while disappointing in the near term, reinforce our conviction in companies with durable competitive advantages led by management teams that can adapt to evolving conditions.

Looking toward the fourth quarter and 2026, we remain constructive on the market's trajectory while acknowledging elevated valuations and potential volatility catalysts. The S&P 500's valuation multiples have expanded, requiring continued earnings growth to justify current levels. Geopolitical uncertainties, including government shutdowns and trade policy developments, may create short-term market disruptions. Within this environment, Alta remains focused on its search for companies with competitive advantages, strong balance sheets, and clear pathways to compounding intrinsic value independent of short-term macro developments. As always, the team will use market volatility to upgrade quality and risk-adjusted return potential, staying anchored to a bottom-up process that has served clients well through varied market climates.

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Magnificent 7" stocks refer to Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta, and Tesla.

The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap universe.

The Nasdaq Stock Market;(National Association of Securities Dealers Automated Quotations) is an American stock exchange, the second-largest by market capitalization on the list of stock exchanges, and the first fully electronic stock market.

Gross Domestic Product (GDP) is the total market value of all finished goods and services produced within a country's borders in a specific time period.