NEW REPUBLIC PARTNERS

MARKET COMMENTARY

Q3 2025

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Market Commentary

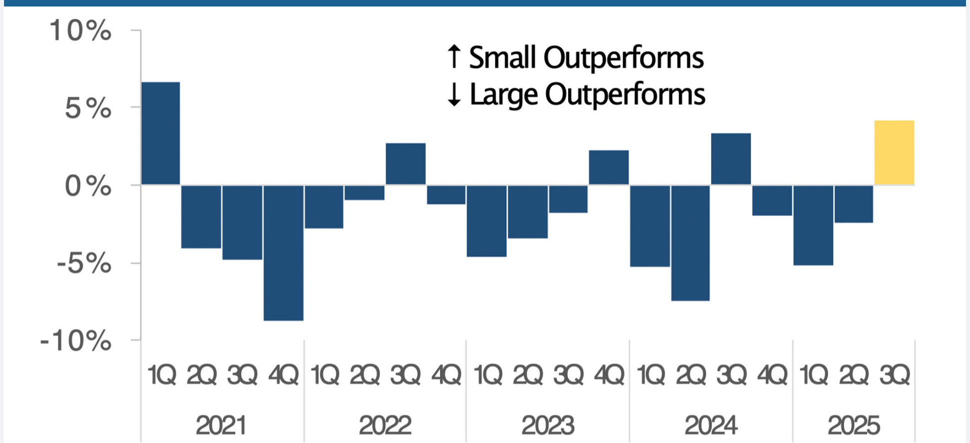
Market Monitor 2025	Q3	YTD
MSCI All-Country World Index	7.6%	18.4%
S&P 500 Index	8.1%	14.8%
Bloomberg U.S. Agg. Index	2.0%	6.1%
Bloomberg Commodity Index	3.6%	9.4%

Markets Pressing Onward and Upward

Markets carried their strong momentum from Q2 into Q3, with the S&P 500, Nasdaq, and even small-cap stocks hitting new highs. Investor sentiment remained optimistic despite soft labor market data and mixed economic signals. Concurrently, stocks traded higher due to strong corporate earnings, the Federal Reserve's resumption of rate cuts, and easing trade tensions. The technology sector remained an important contributor, as artificial intelligence (AI) companies reported strong earnings growth and significant investment.

The S&P 500 gained more than +8% in Q3, bringing its year-to-date return to over +14%. Technology stocks remained a key driver (Nasdaq +11%), but broader market leadership also provided a tailwind. Small-cap stocks rallied sharply in anticipation of the Fed's rate cut. The Russell 2000 surpassed its previous high from 2021 and returned nearly +12% as investors assumed rate cuts would benefit smaller companies. In fact, as shown in Exhibit 1, small caps posted their biggest quarter of outperformance over the S&P 500 since Q1 2021. In another sign of the market's optimism, cyclical sectors broadly outperformed their defensive counterparts (Exhibit 2).

EXHIBIT 1: QUARTERLY RETURN GAP: U.S. SMALL VS. LARGE CAPS



Source: S&P Global, Russell Indices. Index performance is illustrative.

EXHIBIT 2: MSCI CYCLICAL & DEFENSIVE INDICES

MSCI Cyclical & Defensive Indices	QTD	YTD
EM Cyclicals	11.4	28.1
World Cyclicals	8.3	19.0
EM Defensives	2.3	9.3
World Defensives	1.9	5.2

Source: FactSet, MSCI, Altrinsic Research.

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Feeling the AI Fever?!

Artificial intelligence continued to be a top market theme during the quarter. Management teams across the AI supply chain continue to report strong demand. Spending plans measure in the hundreds of billions, and order backlogs span years, not quarters, into the future. The spending boom has become a significant contributor to economic growth and helped offset softness in rate-sensitive areas, such as housing, manufacturing, and non-AI business investment.

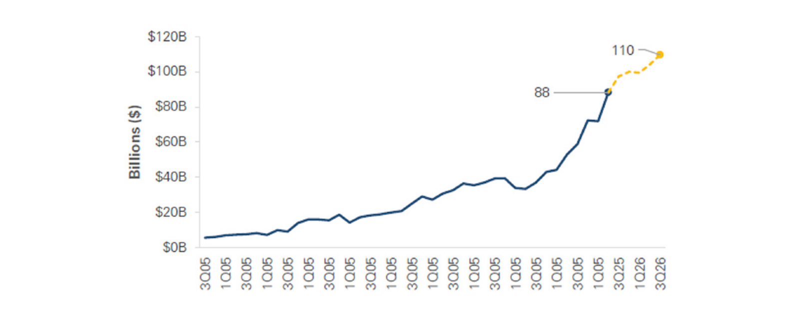
Exhibit 3 provides quarterly capital expenditures across Microsoft, Amazon, Meta, and Google since 2015. Combined capex has risen from $6bn in 2015 to $88bn in Q2 2025, with over half of the increase since early 2023. Analysts forecast capex to grow to $110bn by Q3 2026, as the group invests in chips and data center infrastructure to meet AI demand. Management commentary and the scale of investment reinforce the market's belief that AI will drive capex budgets in the coming years. Our tech-focused managers view AI infrastructure spending as a durable theme with room for growth. In the equity market, AI enthusiasm has fueled outsized gains in specific technology and semiconductor stocks, creating a wide divide between AI-infrastructure leaders and the broader market. As one of our tech managers highlighted, since the launch of ChatGPT in November '22, AI-related stocks in the S&P 500 have risen 165% while non-AI stocks have risen 24% and the index has risen 68%[1]. The UPenn Wharton School estimates AI has contributed close to ~1% of U.S. GDP YTD and is primed to contribute 1.5% each year by 2035 through productivity gains[2] (Exhibit 4).

While investors view AI as a multi-year investment cycle rather than a one-off spending burst, conversations around an AI bubble have risen as well. Some question whether spending is outpacing potential revenue growth and the circular nature of the spending among different companies in the AI food chain. While the majority of this capex has been from free cash flow, recent debt-funded investments are another potential risk (Exhibit 5). Early studies have also questioned whether the productivity gains from the new technology justify the high level of investment. These concerns have

[1]Coatue: Data thru Oct 2025.

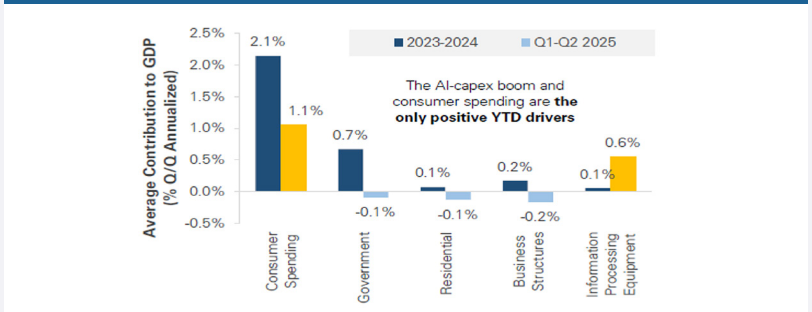
[2]UPenn Wharton School: "The Projected Impact of Generative AI on Future Productivity Growth" Sept 2025.

EXHIBIT 3: CAPITAL EXPENDITURES BY LEADING AI COMPANIES



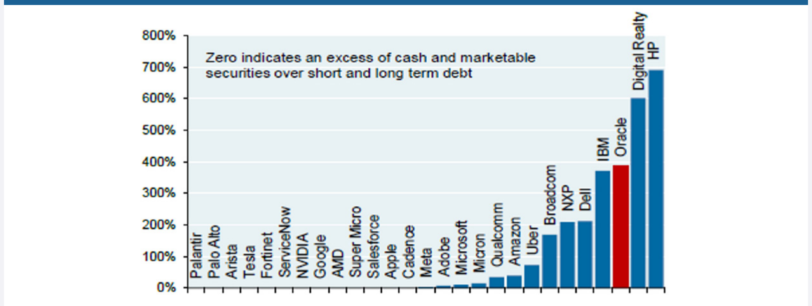
Source: MarketDesk. Based on capital expenditures of Microsoft, Amazon. Meta, and Google. Estimates based on median quarterly capex forecast.

EXHIBIT 4: FACTORS DRIVING YTD GDP GROWTH



Source: MarketDesk, U.S. Bureau of Economic Analysis. Seasonally adjusted.

EXHIBIT 5: NET DEBT TO EBITDA RATIOS OF DIRECT AI STOCKS



Source: Bloomberg, JPMAM, October 3, 2025.

Market Commentary

Feeling the AI Fever?! continued

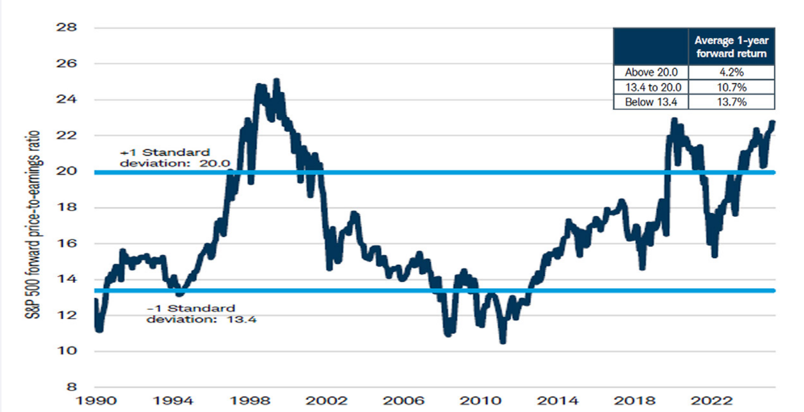
triggered periodic volatility, but we do not believe they have derailed the broader narrative that AI will continue to be a key driver of corporate earnings growth, economic growth, and market returns. We are investing in this durable theme from different angles, across both public and private markets; this includes hedge funds that invest both long and short to take advantage of the Schumpeterian creative destruction that is inevitable in the AI/tech space. We expect periods of market volatility and are closely watching both the pace of AI adoption and potential signs of excess. As this theme matures, we're monitoring the types of imbalances that defined past bubbles, such as those seen in '99-'01, including elevated valuations, rising debt-funded capex, and speculative activity such as retail fervor and increased margin debt (Exhibit 6).

International Markets Still Ahead YTD

International stocks performed in line with the S&P 500 in Q3, but headline results masked significant divergence beneath the surface. Emerging markets outperformed U.S. stocks, driven by renewed stimulus efforts in China and strong gains from AI-related companies in Asia (Exhibit 7). The Fed's decision to resume its rate-cutting cycle provided another tailwind, as emerging markets — such as U.S. small caps — are often viewed as more sensitive to rate cuts and shifts in global financial conditions. In contrast, developed international markets underperformed U.S. stocks. European equities ended the quarter modestly higher as they consolidated gains from earlier this year. Despite the quarter's mixed returns, both emerging and developed international markets have gained more than +25% year-to-date. The two indices are each outperforming the S&P 500 by more than +10% since the start of 2025.

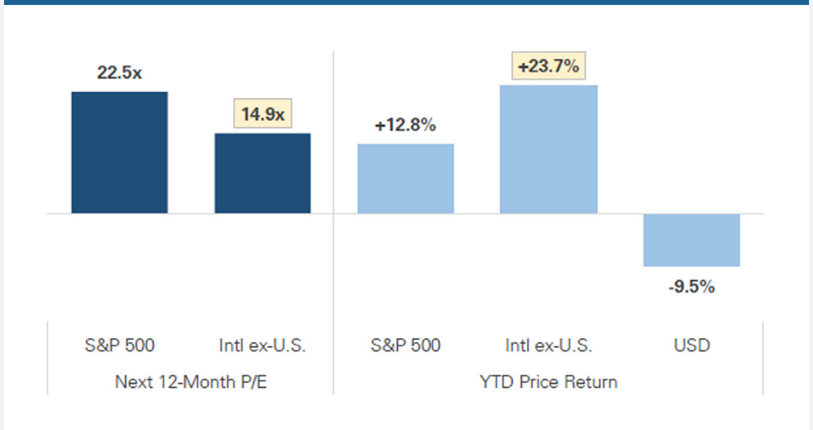
International stocks have benefited from a weak U.S. dollar and expanding market multiples from lower valuation levels than in the U.S. At the same time, nearly 40% of the S&P 500's revenues come from international markets. So how does international fit in today's portfolio? In our view, international serves as a hedge against high U.S. valuations, particularly in the AI industry, rather than a hedge

EXHIBIT 6: U.S. VALUATIONS BACK AT HIGHS



Source: Schwab Chartbook.

EXHIBIT 7: YEAR-TO-DATE TRENDS - U.S. VS. INTERNATIONAL



Source: MarketDesk. Analysis uses SPY and ACWX ETFs as proxies.

Market Commentary

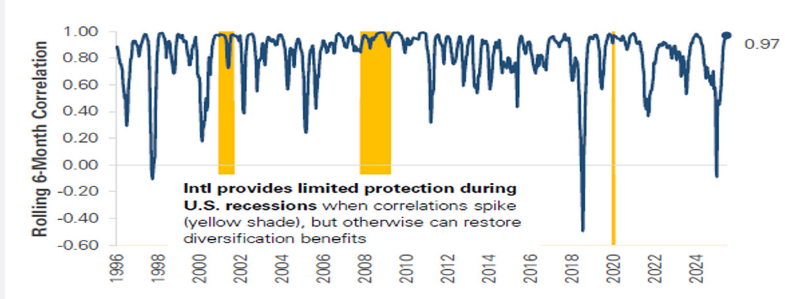
International Markets Still Ahead YTD continued

against a U.S. economic recession. While correlations go to 1 in true risk-off periods, such as recessions, recent data indicates U.S. vs. non-U.S. equity correlations have weakened in the past few years as AI's influence and market concentration have increased (Exhibit 8). A similar pattern occurred in the 1990s and 2000s, highlighting the diversification benefit of international stocks in non-recessionary periods, which is our base case given recent economic and consumer spending data. How should portfolios be allocated across regions? With the Fed resuming its rate-cutting cycle, the current narrative and historical data favor emerging markets as the primary beneficiary of easing financial conditions and further USD weakness. We are particularly favorable on India, which has been the laggard emerging market in 2025 as its equity markets have derated while earnings growth has remained strong. The Indian equity market has also had to digest a lot of equity issuance from an active IPO market (in contrast to the U.S.). Foreigners have been net sellers of Indian equities ($20B year-to-date). Meanwhile, domestic investors have been offsetting the outflows as consistent net buyers of their market, a technical positive sign for the domestic demand story in India.

Navigating Tighter Credit Markets

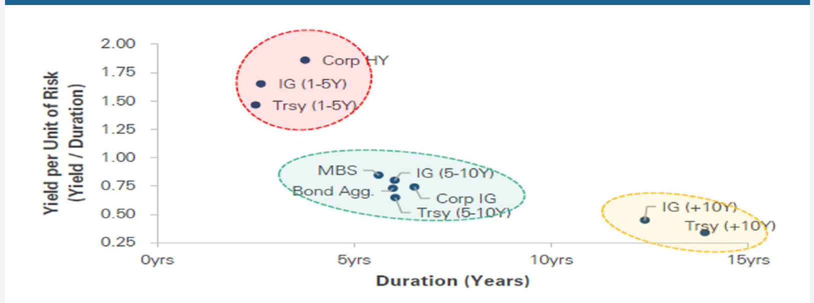
In credit markets, bonds traded higher as the Fed resumed its rate-cutting cycle after a 9-month hiatus. While economic growth has slowed this year and the labor market has softened, the slowdown has been a cooling rather than a collapse. The bond market is pricing in the same soft landing outlook as equities do. The Treasury yield curve is steepening, with front-end rates falling on expectations of additional Fed cuts, while longer-term yields remain anchored due to concerns about fiscal deficits and inflation. Corporate credit spreads remain tight by historical standards. Investment-grade and high-yield spreads are at their tightest levels in decades, a reflection of investor confidence in corporate earnings growth and the economic outlook (Exhibit 10). While spread tightening has supported corporate bond returns recently, valuations are no longer cheap. This has led us to favor mortgage-backed securities as the lone fixed income sub-segment with wide spreads for much of 2025 (Exhibit 9).

EXHIBIT 8: STOCK MARKET CORRELATIONS - INTERNATIONAL VS. S&P 500



Source: MarketDesk, NBER

EXHIBIT 9: COMPARING RISK-ADJUSTED INCOME AGAINST DURATION



Source: MarketDesk.

EXHIBIT 10: CORPORATE HIGH-YIELD CREDIT SPREAD (1996-PRESENT)

Source: MarketDesk.

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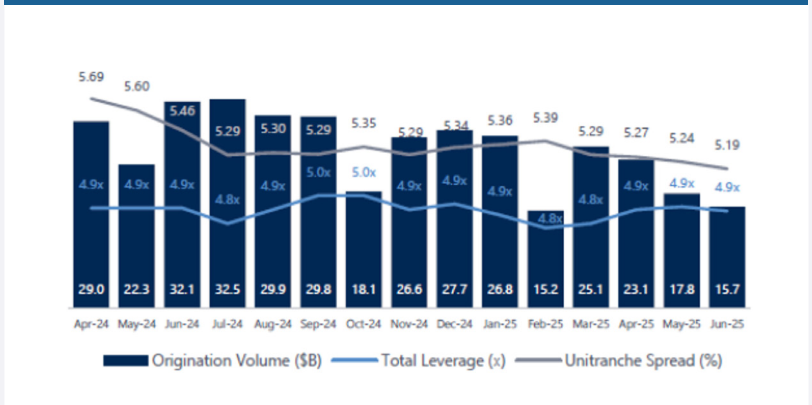
Navigating Tighter Credit Markets continued

While Fed rate cuts should push investors off the sidelines and out of cash, we still believe it is prudent to keep fixed income duration short as more term premium is jammed into the long end of the curve due to the U.S.'s fiscal deficits and spending. Tightening spreads are not just a feature of public fixed income but also in the larger end of private credit, where asset selection and positioning matter in an environment defined by declining rates and looser financial conditions.

Not All Created Equal in Private Credit

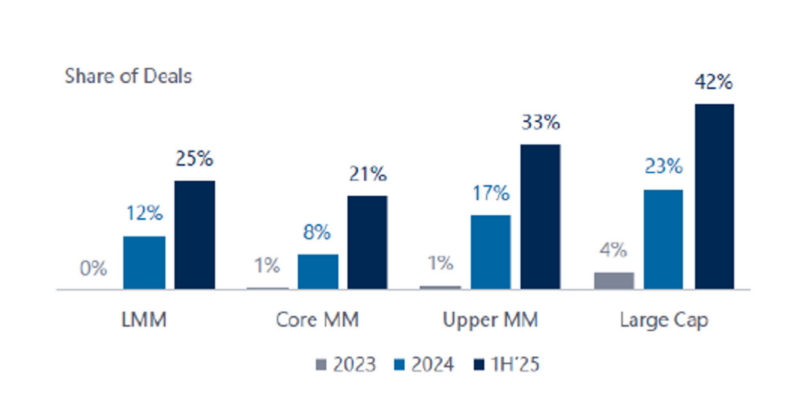
Over the past five years, private credit firms have raised over $1.7T, with most of this capital going to a handful of large-cap lenders, such as Ares, Blackstone and Apollo. These firms compete in a different segment of the market than the lower middle market private credit lenders in our portfolios. These large funds compete with banks and other lenders in the broadly syndicated loan market for large-cap credits, typically those with $50M+ of EBITDA. Over the past year, terms for these large loans have become increasingly competitive and spreads have compressed, especially for top-tier sponsor-backed borrowers. A recent Houlihan Lokey market survey showed 85% of lenders quoted spreads at or below S+475 for higher-quality issuers (Exhibit 11). By contrast, the lower middle market, which typically serves borrowers with less than $25M of EBITDA, remains more disciplined with spreads in the S+500-550 range (Exhibit 12). Leverage averages about 4.0x in the lower middle markets, compared to 4.75–5.5x in the core and upper middle market, and most deals include at least one maintenance covenant. This is the segment of the market in which the lenders in our portfolios compete and the market positioning we prefer in the current environment.

EXHIBIT 11: DIRECT LENDING VOLUMES, PRICING, AND LEVERAGE



Source: Houlihan Lokey.

EXHIBIT 12: SHARE OF DEALS WITH SUB S+500 SPREADS



Source: MarketDesk.

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Keeping the Long-Term Orientation

The market outlook is constructive, but that also brings risks. Financial markets are priced for a near-perfect outcome: a soft landing, resilient earnings growth, and AI-driven capex. The combination leaves little margin for disappointment. With forward P/E ratios above historical averages and credit spreads at multi-decade lows, investors are implicitly assuming Fed rate cuts and resilient demand will extend the cycle into 2026. A modest miss on economic growth, inflation, AI capex, or rate cuts could create volatility in today's crowded market. The challenge for investors is to participate in the upside while protecting against the risk of high expectations. Rather than timing the market, we prefer to build-in portfolio buffers with hedged equity and absolute return strategies. We also favor a full real assets allocation in client portfolios as a hedge against inflation (due to fiscal deficit spending and any latent tariff pass-through) and a weaker dollar outlook. Finally, long-term investors should still maintain full allocations to private equity and private credit as premium returns in those asset classes still compensate investors for the illiquidity.

We are keenly focused on AI and tech leadership, the engine that has fueled recent stock market gains, GDP growth, and corporate earnings growth. If AI capex slows, it could trigger a sentiment shift and weaken risk appetite, as reduced tech investment would likely slow GDP and earnings growth. We are looking for a bubble, but do not see one yet.

It's been a busy year for markets, and Q4 is shaping up to be no different. Our team is watching the data and policy developments closely as we help clients stay positioned for the coming quarters. The market's ups and downs this year are a good reminder that investing is a marathon, not a sprint.

—NRP Investment Committee

October 31, 2025

NRP Market Outlook | At a Glance

OUR TEAM'S CURRENT POSITIONING AND FOCUS AREAS

- Investing in the AI theme from multiple angles, across public and private markets, while monitoring adoption trends, valuations, and speculative signals as the cycle matures.
- Watching closely for signs of an AI market bubble, though we do not see one yet.
- Viewing tech infrastructure spending as a durable multi-year growth theme, despite periodic volatility in related equities.
- Positioning international equities as a hedge against high U.S. valuations and as a source of diversification in non-recessionary environments.
- Remaining constructive on emerging markets, with India standing out as a laggard with strong earnings growth and supportive domestic demand.
- Favoring mortgage-backed securities within fixed income for their attractive spreads, while keeping duration short amid steepening yield curves and rising term premiums.
- Preferring lower middle market private credit, where spreads, leverage, and covenants remain more disciplined than in large-cap deals.
- Building portfolio buffers through hedged equity and absolute return strategies to balance upside participation with risk management.
- Maintaining a full allocation to real assets as protection against inflation, fiscal spending, and potential dollar weakness.
- Monitoring data and policy developments to stay positioned for opportunities as the cycle extends into 2026.

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