



# Glen Eagle

*Faith Family Firm®*

## October 2025 Investment Commentary

Over the past few months, one question has come up repeatedly in our conversations with clients and institutional investors: Are we in an artificial intelligence bubble? It's a fair question, given that the market's gains have been concentrated in just a handful of technology companies that have positioned themselves as AI leaders. To put the scale in perspective, NVIDIA alone now carries a market value equal to 6 Walmarts, 38 Nikes, or 94 Fords.<sup>(1)</sup>

The deeper concern behind that question, though, is whether this period of enthusiasm will end the same way as past episodes of speculative excitement — like the railroad boom of the 1870s or the internet bubble of the late 1990s, when the NASDAQ eventually fell more than 80% from its peak. History reminds us that markets can, and do, overshoot. Add to that today's worrisome headlines — government debt climbing rapidly, with interest payments on that debt now exceeding both defense and Medicare spending — and it's easy to see why investors might brace for a downturn.

And yet, despite those risks, our Investment Committee remains *cautiously optimistic*. If the stock market were a baseball game, we'd say we're in the seventh or eighth inning. This bull market has run for several years. Volatility is likely to increase as we move through the late stages of the cycle, but we still believe there's room for the market to rise further.

A major reason for that optimism lies in interest rates. Whether due to political pressure or changing economic conditions, the Federal Reserve is widely expected to continue cutting rates over the next year. Historically, since 1990, the stock market has delivered an average return of 17% in the following year when interest rates fall and no recession occurs.<sup>(2)</sup>

Corporations are also entering this period from a position of strength. Not only are corporations benefiting from a large windfall from the One Big Beautiful Bill Act (OBBBA), which reduced the corporate tax rate from a statutory rate of 21% to an effective tax rate as low as 12% but they are also experiencing increases in profit margins.<sup>(3)</sup> For context, in the early 2000s, the average profit margin of companies in the S&P 500 stood at 8%. Today it is close to 14%, which provides a buffer against continued tariffs and political uncertainty.<sup>(4)</sup>

So, where do we, as an Investment Committee, see interesting opportunities in this late-cycle environment?

1. **Interest Rate Beneficiaries:** When interest rates fall, two types of companies usually benefit the most — those that carry more debt and those that pay high dividends. The reason is simple: lower rates reduce borrowing costs for companies with loans, and they also make dividend-paying stocks more appealing because investors can't earn as much from bonds or money market funds, which move in tandem with interest rates.
  - ***Investment Implications:*** Publicly traded real estate companies (known as REITs) check both boxes — they typically have higher debt levels and pay strong dividends. Smaller companies ("small caps") also tend to carry more debt, but we think mid-sized companies ("mid-caps") are a better opportunity right now. Mid-caps still benefit from falling rates, yet they're generally more profitable than small caps. In fact, about 32% of small-cap companies are still unprofitable, which is why we're continuing to avoid that part of the market even in a lower-rate environment.<sup>(5)</sup>

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2. **Secondary AI Players:** The biggest tech firms — Amazon, Microsoft, Google, Meta, and Oracle — are projected to spend over \$391 billion on artificial intelligence in 2025. To put that in perspective, that’s more than the combined annual budgets of NASA, the Department of Energy, and the State Department. So far, investors have rewarded these companies’ stocks for this aggressive AI spending, but it’s still uncertain how — or when — those investments will translate into actual profits.<sup>(6)(7)</sup>
  - ***Investment Implications:*** Rather than adding more money into these already dominant tech names, we think there may be better opportunities in the secondary or indirect beneficiaries of this massive AI buildout. For instance, utility companies are positioned to gain as AI drives electricity usage higher — energy demand tied to AI is now expected to rise roughly 40% over the next decade.<sup>(7)</sup>
3. **Constrained Consumers:** The U.S. economy has become increasingly dependent on higher-income households. Today, the wealthiest 10% of Americans account for about half of all consumer spending, up from 37% in 1995.<sup>(8)</sup> This shift has been building for decades and may continue as the job market shows early signs of softening — for the first time since 2021, there are now more unemployed workers than job openings.
  - ***Investment Implications:*** Companies like Walmart are already seeing this divide play out. Higher-income shoppers are still spending, but middle-class consumers are becoming more cautious with their budgets. In this kind of environment, discount and value-focused retailers are likely to perform better as more Americans look for ways to stretch their dollars.

Of course, even our Investment Committee, despite the time and resources we allocate to analyzing the data, can not fully account for the human element of investing. Markets are ultimately driven by emotion, and perhaps never more so than today, when a single social media post can move billions of dollars. Yet, as legendary investor Peter Lynch once said, “Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves.”

For that reason, we continue to emphasize discipline over prediction. Now is not the time to attempt to “time the market,” but rather to focus on quality — investing in durable, well-run companies that can navigate volatility and create value over time.

Wishing you and your family a wonderful Fall season,

### **The Michel Team**

Susan, Rob & Carol Ann

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1. MFS “Beyond the News” 09.02.2025 2. BlackRock Student of the Market October 2025 3. Morgan Stanley “What are Potential Tax Law Implications of OBBBA for Investors?” 4. JPMorgan Guide to the Markets 5. Morningstar “Why are so many of these U.S. companies losing money?” 6. First Trust “Market Minute” October 2025 6. Blackstone “Jon Gray on the Economy, AI, and Where to Invest Now” 7. First Trust: “Client Resource Kit: Markets In Perspective” 8. MFS “Beyond the News” 09.22.2025

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