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ADVISORY Notes

SEPTEMBER 2025

Third Quarter Report

As the leaves turn colors into the fall season, we take stock and look back at the third quarter.

The technology-weighted NASDAQ led the equity indices with 11.41% followed by the S&P 500 and DJIA, respectively 8.12% and 5.67%. The Federal Reserve finally allowed the economic data points to fuel a 25 basis point rate cut in September, which was highly expected and telegraphed. The markets cheered the first rate cut of the year and will most likely see another in the mid to late fourth quarter. This recent cut should bring short-term borrowing rates by the government, corporations, and individuals lower (see Market Table).

Mortgage rates, however, are dictated by supply and demand of the housing market and are usually priced more closely off the 10-year U.S. Treasury, which the bond market controls. Thirty-year mortgage rates are hovering around 6.30%, which is historically normal but certainly off the November 2023 highs of close to 8%. (see Mortgage Rate Graph on Page 3.) This rate decrease offers some relief to the housing market, but more cuts are needed to promote a healthier market. The 2022 inflation spike eroded spending power for new entrants into the market. Higher rates and home prices remaining high due to lack of inventory and willingness for existing homeowners to sell (many hold abnormally low fixed mortgage rates from the last ten years) has caused the affordability index to drop to 10-year lows. (see Affordability Index Graph on Page 3.) Perhaps this may also force the hand of the Fed to cut rates and move the economy forward.

Artificial Intelligence (AI) will also, undoubtedly, help the United States become more efficient and more profitable in the future. It is all the buzz, demanding attention to market capital spending and having current and future effects on the labor market. Whether we like it or not, AI will eventually be integrated into some parts of most environments, just like the internet (initially the World Wide Web), is today fully woven into the existence of our everyday work and personal lives.

We continue to look into the next generation of ideas, technologies, and processes that will not only help us manage your portfolio but deliver you a high quality experience in today's evolving landscape.

At VASI, we are committed to managing your individual goals and objectives, but as life evolves and you feel you may also need to discuss some changes, please reach out to one of our professional staff members for assistance.

Joseph M. Valicenti
President/CEO

MARKET TABLE	VALICENTI ADVISORY SERVICES, INC. Comparative Index Period Returns From 06-30-25 THROUGH 09-30-25								
	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	US Treasury Bill Index (90 day)
06-30-25 to 07-31-25	0.16	0.97	2.24	3.72	1.73	-0.26	-0.22	0.18	-0.03
07-31-25 to 08-31-25	3.42	2.69	2.03	1.65	7.14	1.20	0.94	1.03	0.10
08-31-25 to 09-30-25	2.00	1.11	3.65	5.68	3.11	1.09	2.50	1.44	0.02
Cumulative Returns 06-30-25 to 09-30-25	5.67	4.84	8.12	11.41	12.39	2.03	3.24	2.68	0.08
YTD Returns 12-31-24 to 09-30-25	10.47	9.90	14.83	17.93	10.39	6.13	2.85	6.87	0.06

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Director's Chair: A Historical View of Government Intersection with the Economy

Our contextual review of financial journalists on government actions over time, starts with the government's effort to acquire a 10% stake in Intel.

The Intel situation revolves around the government's doling out money from the CHIPS and Science act. The purpose of this act was to bring back high-end semiconductor fabrication to the United States. We are highly dependent on foreign chip production after being the largest producer of chips in the 1980s. The act authorizes $280 billion dollars to foster the building and expansion of chip plants domestically. This is enough to fund the militaries of the U.K., France, and Germany combined in 2022 for comparison.

Leadership of Intel has much of the burden of responsibility. Starting in 2005 by Paul Otellini (2005-2013), Brian Krzanich (2013-2019), Bob Swan (2019-2021), and Pat Gelsinger (2021-2024), each failed at leading Intel forward, technologically speaking, creating a world lead by NVidia, AMD, and Broadcom chips. In 2006 Otellini is famous, or infamous, for rejecting a proposal by Apple's Steve Jobs to produce chips for his new iPhone as the contract would have been immaterial.

Anybody like the band the Police fronted by Sting? It's time to strike up the song 'Roxanne.' Starting in 2019, semiconductor companies began lobbying Congress for money to support building, expanding, or modernizing chips plants in the United States. Or as the song says "put on the red light" and they were "...walking the streets for money" to appropriate, because the Congress typically "don't care if it's wrong or if it's right." Uncle Sam and his tax payer money would be sought after.

The way the act worked under the previous administration is companies would submit grant requests and, if approved, billions of taxpayer dollars would be doled out with no payback compensation required.

Uncle Sam now requires to be compensated for the billions it doles out. In exchange with the continued flow of billions of dollars the U.S. government will get approximately 10% equity stake in Intel, creating the current media kerfuffle. So, currently if you want Uncle Sam's money, Uncle Sam will now be getting something it wants in exchange.

Federal government ownership of companies has precedent in the 21st century. For instance the government took a 60.8% stake in General Motors during its government "managed" bankruptcy that was not allowed to go through regular judicial channels. Bond holders were forced to take smaller payouts while employee pensions did not suffer commiserate declines in direct opposition to the bankruptcy code. This deal used $49.5 billion of bailout funds to stabilize the car company. The Troubled Asset Relief Program (TARP) was used against the banking sector as well. All banks, distressed and healthy were forced to accept government bailout money in exchange for preferred stock or common equity. The money had to be paid back with interest and the government netted a $15.3 billion profit from the endeavor. J.P. Morgan did not need such funds for example.

Actually, such meddling in private markets pre-dates the 20th and 21st centuries. In 1828 President John Quincy Adams of the Whig party signed off on federal stock ownership of canal companies. The United States government was the largest shareholder of the Chesapeake and Ohio Canal, owning approximately 27% of the company. The Louisville and Portland canal was another large project with federal stock ownership. The government provided financing and expected an equity stake. President Abraham Lincoln got in on the action by signing the Pacific Railway Act into law in 1862. The act chartered the Union Pacific Railroad and Central Pacific Railroad to build the first transcontinental railroad. The act gave land concessions and bond financing to these private companies in exchange for an agreement to carry government supplies and troops at reduced rates going forward, an Abe Lincoln quid pro quo. Although the Railway Act enabled abuse by private companies and considerable bribing of members of Congress, it would also enable American capitalism to take off with unprecedented economic growth with the completion of the Union Pacific rail line.

Actually, the Intel situation is very similar to what the government did with Chrysler. In 1979 Chrysler found itself in dire financial straits and CEO Lee Iacocca lobbied for a bailout with, national security being one of the issues mentioned. Chrysler was one of the manufacturers of weapons during World War II and the argument was that industrial capacity was needed for national security. In exchange for a $1.2 billion reduced interest rate loan guarantee Uncle Sam got 14.4 million warrants (right to buy stock) to buy Chrysler stock at $13 a share. In the mid-1980s the government would exercise those warrants getting out of its arrangement with Chrysler and netting a $311 million profit for tax payers.

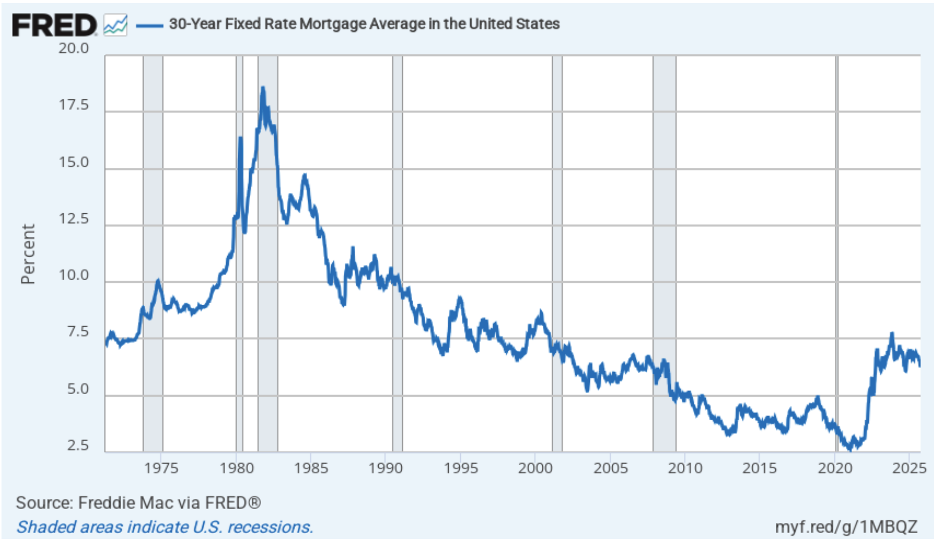
Meanwhile, the financial journalist class is not putting sufficient focus on growing stock market valuations. The current slowdown in the economy may or may not lead to a recession that the Fed, at the time of this writing is largely ignoring, in effect real concerns that may affect market performance.

We point out the historical unawareness of the financial press in handling current issues while also postulating why has the financial press wanted to scare people out of the financial markets, first with tariffs now with this? Equity markets have rallied 30% from their media induced April panic. We are not saying the stock market will continue to grow to ever new highs unabated, but do point out that U.S. markets have beaten European equity markets 23 out of the 25 years this century. European markets finally have outperformed U.S. markets this year after members of the European Union were in part forced to engage in deficit spending to begin a ramp-up in military spending that the U.S. has demanded. This deficit spending has finally awoken foreign equity markets. We point out that the American capitalism all of us invest in with stock ownership, in the past 50 years has created seven new companies from nothing that are worth over $1 trillion each, while enduring government meddling. Europe has only created one single new company, Sweden's Spotify ($140 billion), during the same period worth even $100 billion, a tenth of a trillion.

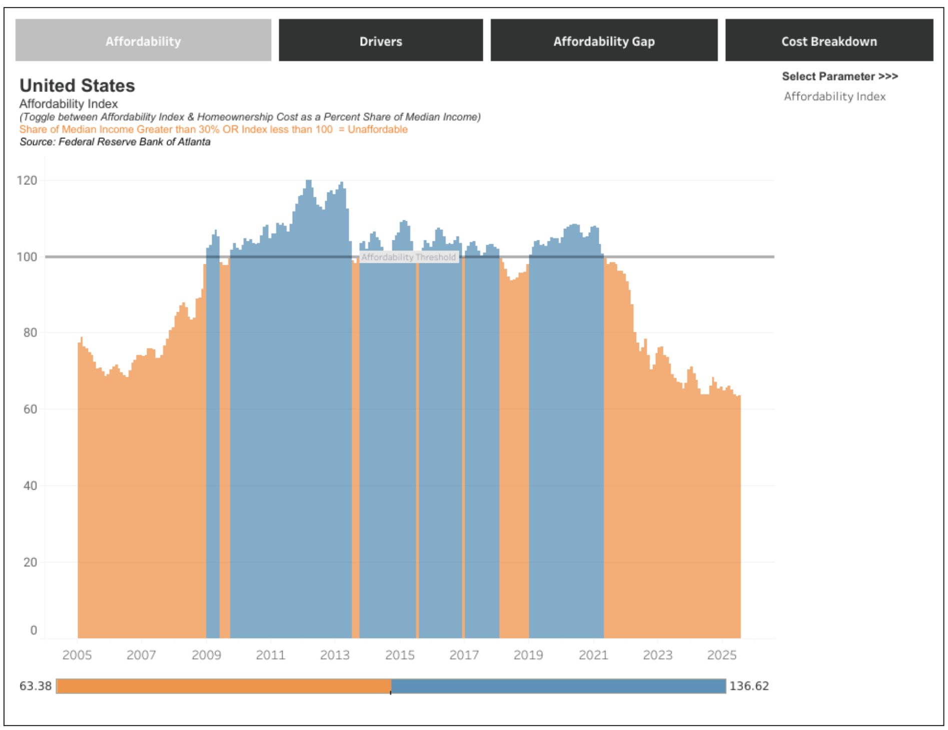
If we as a country want free-market capitalism perhaps we should repeal the CHIPS Act and ban any future bailouts, however we haven't heard any "journalist" champion such an idea.

See **Director's Chair** *on Page 3*

Third Quarter Report (Continued from Page 1)



Mortgage Rate Graph



Affordability Index Graph

Director's Chair

(Continued from Page 2)

Until then we invest with Warren Buffet's recent words in mind, "people have emotions, but you have to check them at the door when you are going to invest."

Footnote: Some sources wrongly claim that SAP, Novo Nordisk, and ASML should be included as $100 billion+ European companies, but each of these had predecessor companies before the 50-year mark that we highlight.

Louis F. Ruize
Director of Research/Portfolio Manager

Investment Strategy

The U.S. economy continues to show remarkable strength as we head into the final quarter of 2025. Consumer spending remains solid, acting as a key driver of economic activity and supporting broader market gains.

After experiencing notable lows back in April, markets have rebounded significantly. Today, major indices are trading at or near all-time highs. Importantly, this rally has broadened beyond the "Magnificent 7", with participation from a wider range of sectors, which can be viewed as an encouraging sign for market health and sustainability.

Corporate earnings have largely outperformed expectations this year. As we enter Q3 earnings season, all eyes will be on whether this trend continues. Strong earnings will be critical to maintaining the current market momentum and investor optimism.

That being said we remain dynamic in this environment, focusing on large capitalization companies with strong balance sheets, resilient profit margins, and consistent and strong cash flows. As such, our current asset allocation reflects a balanced yet flexible mix, 45-60% equities, 30-35% fixed income, 5% money markets & short-term government securities. This structure allows us to remain responsive to evolving market conditions and client specific needs.

As the second half of 2025 unfolds, we will continue to monitor key macroeconomic signals, Federal Reserve policy decisions, and corporate earnings trends. While uncertainty is a constant in markets, our focus remains clear: delivering strong, risk-adjusted outcomes through a consistent, quality-driven strategy.

We thank you for your continued trust.

Jeffrey S. Naylor
Executive Vice President/CFO

Analyst Corner

The third quarter of 2025 saw all-time highs for the S&P 500 and Nasdaq Composite indices. The Federal Reserve resumed its rate cut cycle after a nine-month pause following December 2024's cut. At the most recent Federal Open Market Committee (FOMC) press conference, Powell cautioned, "There are no risk-free paths now." This underscores signs of softening in the labor market, which can be seen from the preliminary benchmark revisions from the Bureau of Labor Statistics (BLS) and the monthly non-farm payrolls. At the same time, inflation has risen recently and remains above from the Fed's 2% long-run goal. These issues complicate the Fed's dual mandate and obscure the path to a soft landing.

The third quarter saw a resurgence of the Magnificent Seven supported by AI momentum, steady consumer and enterprise spending, and easing geopolitical tensions. AI spending dominated headlines, with companies such as Oracle, Nvidia, and OpenAI announcing new deals. It is yet to be seen whether the spending is sustainable, and whether this extends to smaller companies as well. With regards to inflation, Q3 saw evidence of a less benign inflation as both inflation and inflation expectations have risen.

The Information Technology and Communication Services sectors once again assumed the leadership role and gained 13.19% and 12.04%, respectively. The S&P 500 delivered an 8.11% total return for the quarter. Staples was the laggard, declining 2.36%, largely driven by investor optimism for rate cuts, which typically does not bode well for defensive sectors.

Positive Market Influences	Negative Market Influences
Rate Cuts	Employment
Mortgage Rates	Dollar Weakness
Consumption	Inflation Expectations

The 10-year U.S. Treasury rate gradually decreased through the quarter, briefly dipping below 4% intraday. This move lower can be tied to rate cut expectations and the cooling labor market. The 10-year rate sat at 4.15% at the end of September. In the corporate credit space, spreads remained very tight, with the spread above treasuries reaching a 27-year low in the quarter. The FTSE USBIG Corporate Index returned 2.68% in Q3.

While concerns about the business cycle for the remainder of the year have somewhat moderated due to the resilience of recent economic data, there still exists lingering potential tailwinds and the rest of the year will likely see market participants laser focused on the labor market, credit provisioning, and consumption patterns. The Fed has begun to ease monetary policy in the midst of a slowing labor market. The ability for them to navigate through this dynamic economic period will largely hinge on appropriate policy moves and the reliability of incoming data.

Positive Market Influences

- **Rate Cuts** – In the September meeting, the Fed cut 25 basis points, setting the target range for the federal funds rate at 4% to 4.25%. Markets are pricing in two more cuts for the remainder for the year. Historically, rate-cut cycles have been beneficial to the equity markets, barring any sort of shock or recession.
- **Mortgage Rates** – Rates have dropped to the lowest level since late 2022. With the expectation of additional rate cuts this year, we may see an increase in mortgage applications, home sales, and refinancing. This can spur optimism as buyers reenter the market.
- **Consumption** – Consumer spending has held up as seen through recent retail sales data and real personal spending. Higher income consumers have continued to spend, providing ongoing support to growth.

Negative Market Influences

- **Employment** – Recent BLS revisions have sparked concerns over labor market strength. Additionally, the unemployment rate has risen to 4.3%, albeit still a low rate historically.
- **Dollar Weakness** – The other side of trade is capital flow into dollar assets. The current trade discussions and recent attempts at re-ordering trading arrangements, combined with foreign allied nations needing to perhaps re-prioritize capital direction home for things like defense spending, has likely softened the bid for dollar assets such as stocks and bonds. This is showing up marginally in the relative exchange rate of the dollar.
- **Inflation Expectations** – Core CPI month-over-month and core PCE month-over-month have both risen since March 2025. Additionally, inflation swaps can be interpreted as where markets think inflation will be in the future. This has also been rising recently and thus supports Powell's comments that inflation expectations have increased.

Samson D. Lin, CFA
Investment Analyst

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4th Quarter Tax Planning

The 4th quarter is the last chance to make adjustments before year-end. Below are some things to consider.

Individuals

1. **Withholding & Estimated Taxes**
   - Review if you've had enough tax withheld throughout the year or if you paid via estimated taxes in order to avoid underpayment penalties
   - Make a final estimated tax payment due by January 15, 2026
2. **Retirement Contributions**
   - Maximize employer retirement account contributions, limit is **$23,500** plus $7,500 catch-up if over the age of 50. If you are ages 60-63, you have an enhanced catch up of $11,250
   - Maximize IRA contributions, $7,000 for those under age 50, and $8,000 for those age 50 or older
3. **Charitable Contributions**
   - Make charitable donations of cash or property
   - Consider donating appreciated stock or a qualified charitable distribution (QCD) from your IRA. This strategy may offer greater tax benefits than a cash donation

Businesses

1. **Accelerate or Defer Income & Expenses**
   - Pay upcoming or planned expenses, such as supplies, equipment or bonuses, before year-end to increase your deductions for the current year
   - If income will drop next year, you may be able to defer income by delaying invoices until January
   - Review year-to-date income. If necessary, increase your fourth quarter payment to avoid an underpayment penalty
2. **Section 179 & Bonus Depreciation**
   - Use the Section 179 deduction to write off the full cost of eligible equipment and software placed in service
   - Bonus depreciation: 40% if equipment is put in service January 1st to 19th and 100% bonus depreciation if equipment was placed in service after January 19, 2025
3. **Review Payroll & Benefits**
   - Ensure year-end bonuses are structured efficiently.
   - Review your payroll processes and make sure all tax withholdings are accurate and compliant
   - Consider retirement plan contributions
4. **Qualified Business Income (QBI) Deduction**
   - Check taxable income levels to maximize the 20% pass-through deduction.
   - In some cases, accelerating expenses or making retirement contributions helps stay under the income threshold.
5. **Estimated Taxes**
   - Final 2025 payment is due **January 15, 2026**

Giving Back

We are proud that one of our interns, Abby Valicenti, will be coordinating the annual Valicenti Angel Tree for one of her service projects for the 2025 holiday season. Abby is a junior at Elmira High School and is passionate about helping local children and animals in our community. The Angel Tree will sponsor two organizations this year, Heart to Heart and the Elmira Animal Shelter.

Heart to Heart is a local organization that serves over 400 children and their families every year. Families are selected based on the greatest need by many organizations throughout the Southern Tier of NY and Northern Tier of PA including Head Start, Healthy Families, CareFirstNY, and many local school districts. The staff and many wonderful volunteers of the Elmira Animal Shelter continue their tireless efforts to create a welcoming environment and provide necessary resources to ensure the well-being of animals until they find their forever homes.

Beginning November 3, ornaments with wish list items will be available at both locations, 400 East Water Street, Elmira or 447 East Water Street, Elmira. Angel Tree items will be delivered to both organizations by Monday, December 8. We appreciate your help in making this a special holiday season for many local children and animals in our community.

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Medicare Open Enrollment

From October 15 to December 7, 2025, individuals with Medicare can review and change coverage for 2026. This window (often referred to as "Open Enrollment" or AEP (Annual Election Period)) is when you can compare Medicare Advantage (MA) and Part D drug plans, switch plans or return to Original Medicare. Changes made during this timeframe generally become effective January 1, 2026.

If you are a caregiver, this is the one time each year to help your loved ones check costs, local provider networks, drug coverage, prior authorization rules, and benefits that may have changed. There have been significant changes in many of the MA programs in the last few years and your plan will send official notices (the ANOC – Annual Notice of Change – and EOC – Evidence of Coverage) before Open Enrollment; these documents provide the changes in that respective plan for next year. Plans must deliver your ANOC by September 30th. Most plans also deliver the EOC by October 15th. There are changes made at the government level that MA programs must follow. Some of the key changes are illustrated below.

Annual Medicare plan changes can affect monthly premiums, deductibles, drug costs, and provider or pharmacy "networks" (a list of doctors, hospitals, or pharmacies that have contracted with the plan to provide services to its members). Formularies—which are lists of drugs covered by Part D plans—can also evolve from year to year due to new drugs coming on the market, drug therapy changes, and new medical research.

Our team at Valicenti Insurance Services can assist you with navigating your Medicare open enrollment options. If you would like to explore options available to you for 2026, please contact our office to schedule an appointment with one of our trusted advisors.

Suzanne M. Valicenti, *President/CEO*
Valicenti Insurance Services

2025 - 2026: What's Changing and What Isn't

Topic	2025	2026
Part D out-of-pocket (OOP) cap	$2,000 (calendar year cap)	**$2,100** (indexed) - after you hit this cap, you pay $0 for covered Part D drugs for the rest of the year
Part D maximum deductible	Up to **$590** (varies by plan; some $0)	Up to **$615** (varies by plan; some $0)
Medicare Prescription Payment Plan (monthly "smoothing" of drug costs	Available in all Part D plans; opt-in	Continues and **auto-renews annually** unless you opt out or change plans.
Insulin & Adult Vaccines in Part D	Insulins capped (typically **$35**/month) and **$0** cost-sharing for ACIP-recommended adult vaccines	**Continues;** insulin cap codified with additional tie-ins to negotiated prices; adult vaccine $0 cost-sharing continues
Checking in-network doctors	Plan websites/directories	**New for 2026:** CMS will display **MA provider directory data in Medicare Plan Finder** and require plans to keep it updated (effective **Jan 1, 2026**)

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