SAPPHIRE
FIDUCIARY ADVISORS

October 8, 2025

Dear clients and friends,

A mentor of mine who has been a professional investor for more than fifty years writes letters consistently entitled "What Time is It?" In his letters, he shares his assessment of the current state of the economy, politics, and the financial markets, and puts his observations in the context of long-term, historical trends. I have not seen his recent work, but I've been thinking about the question he asks. When I first read "What time is it?" I was tempted to look at my watch, but I soon realized that it is also a philosophical question: Where do we find ourselves in the framework of ordering events – *our time*?

Our investment approach to security selection is bottom-up, rather than top-down. As Warren Buffett has noted, any company that employs an economist has one employee too many. Macroeconomic statistics and the whirl of politics have limited informational value in our assessment of the businesses that we want to own – businesses that we expect will compound value for many years to come. That said, it certainly has been hard to ignore macroeconomic and political developments this year.

So, where do we find ourselves historically? When we examine current conditions, we see certain attributes of multiple periods: tariffs of the Gilded Age, immigration restrictions and asset bubbles of the 1920s, trade wars and economic nationalism of the 1930s, political violence of the 1960s and 1970s, and deficit spending of the 1980s. Protectionist trade policies, restrictive immigration, loose monetary policy, massive deficit spending, and extreme political violence embody our current reality.

Real GDP in the United States appears to be increasing at a healthy rate, but the recent figure was mathematically boosted by a dramatic decline in imports. Tariffs averaged approximately 19% on affected imports as of September 30, 2025. This is effectively a sales tax that throttles imports in the short run and economic growth in the long run. Restrictive immigration policy has constrained labor supply, contributing to labor market tightness. Unemployment has fallen to 4.3%. Federal debt and deficit spending continue down unsustainable paths. Falling short-term rates have inflated asset prices and worsened wealth disparity. Politics have become increasingly polarized, tumultuous, and violent at home and abroad.

So, as investors are we whistling past the graveyard? We don't think so. The United States is the best place on the planet to innovate. Artificial intelligence may result in productivity gains comparable to the introduction of electricity or the assembly line – and the United States is currently the global leader in AI. Capitalism (our incentive system) produces productive behaviors and efficient resource allocation. We have a democracy, the rule of law, and property rights. We have regulatory frameworks and institutional safety nets in place to address what capital investment won't. Yes, we live in a tumultuous time. And yes, this too shall pass.

Equity investors appear to share our optimism. The S&P 500 Index posted a total return of 8% during the third quarter of 2025 and 15% year-to-date through September 30th. International markets have performed even better, with the MSCI ACWI ex-US Index returning 18% year-to-date in local currencies. Fixed income markets have also delivered positive results, with the U.S. Aggregate Bond Index generating a 6.1% return year-to-date.

We welcome the opportunity to discuss these themes and your portfolio with you. Please dial (502) 509-2568, visit sapphirefiduciary.com, or email info@sapphirefiduciary.com if you would like to schedule time with us to review your investments or to learn more about what we do for our clients.

Sincerely,

Paul Stropkay

Paul Stropkay, CFA

Sources

• J.P. Morgan Asset Management *Guide to the Markets®* U.S. 4Q 2025 as of September 30, 2025

• Council on Foreign Relations *How Today Is Like the 1890s* by Gideon Rose, July 16, 2023

• Politico Magazine *The Gilded Age Is Back — And That Should Worry Conservatives* by Joshua Zeitz, March 2, 2025

• Baird Advisors *3rd Quarter Bond Market Review*, October 8, 2025

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