

Market Commentary Third Quarter 2025

Have you ever experienced a “milk volcano”—the eruption of a pot of milk that has been heated to the boiling point? Everything seemed OK until trapped steam broke through a thin skin, sending milk gushing onto the stovetop. Only one degree separates relative calm from a foaming mess.

I think that something similar is stirring beneath the surface of a U.S. stock market driven by the outsized performance of the S&P 500's 10 largest stocks. The 29.8 average price-earnings ratio, which includes the Magnificent 7—Alphabet (Google's parent), Amazon, Apple, Meta Platforms (Facebook's parent), Microsoft, Nvidia, and Tesla—is significantly higher than the 20.6 average price-earnings ratio of the other 490 stocks in the index.¹ This relatively high average ratio isn't likely to attract interest from investors in the private markets. However, the rise of passive investing—and the continued strong performance of the S&P as driven by the Mag 7—means that these stocks continue to enjoy big inflows of cash.

Unfortunately for index investors, the stock market is comparable to a pot of milk: “One minute it's quietly heating up, and the next, it's frothing and bubbling over the edge like a mini volcano, creating a sticky, burnt mess on your stovetop.”² Moreover, “Once the milk has burnt, no amount of sugar or chocolate can mask that unpleasant bitterness.” Likewise, once the

stock market plummets, there's no easy way to undo the damage. It's essential to turn down the heat before things boil over.

How can you avoid the stock market equivalent of a milk volcano? It takes courage and discipline to buck the crowd with active investing and allocations into lesser-known asset classes, especially since following the crowd has delivered healthy returns in recent years.

Right now, it's as if investors are playing roulette, and everyone is betting on red. Red—the Mag 7—has been right for so long that people fail to consider that it might not go on forever. Greed keeps people going, but fear is even stronger, so once the Mag 7 unravel, the market will turn ugly. Anticipating and striving to protect our clients from such misery is a powerful motivation for 7Summit Advisors.

At 7Summit Advisors, we seek to create more resilient allocations to balance risk versus returns in what's known as a risk parity approach. We don't default to an allocation of 60% stocks versus 40% bonds as our baseline. Instead, we consider the risk posed by each asset class. We adjust allocations based on the risk that we foresee. We don't default to broad indexes. Investment management is not just stock selection. It has evolved to involve risk management.

I am completely committed to finding the best path for 7Summit Advisors' clients. I believe in the personal training philosophy that says, "If you put in 80%, you get 80%. But if you put in 100%, you get 1,000% back. The last 20% is where the magic happens.³

We're not afraid to buy individual stocks and bonds that better support our clients' long-term goals than index funds. We also invest in private markets to complement our allocations to public markets. Outside public markets, there's the potential to find investments that haven't been as efficiently priced because they aren't widely known among investors.

This more nuanced approach to picking investments allows us to anticipate which sectors are likely to perform better or worse. For example, people talk about the "death of luxury." The reality is more complex.

Many so-called luxury brands have raised prices while simultaneously using lower-quality materials, thereby diluting the value of their products. They are suffering as lower-end luxury consumers are laid off and lose spending power. In contrast, French fashion retailer Hermès continues to use the finest-quality materials, and most of its products continue to be made in France. Yet, Hermès has kept prices fairly steady. As proof of the effectiveness of its strategy, there is a waiting list to buy its new Birkin bags. Moreover, if Birkin buyers are interested, they can sell their hand-stitched bags for a quick profit.⁴ Hermès is the kind of luxury company that will continue to thrive.

At 7Summit Advisors, we take a craftsmanship-driven approach to wealth management, delivering a bespoke experience designed around each client's goals, complexity, and values. A discernable gap is developing between the mass-market and truly personalized advice, and we're intentionally building for the latter.

During the past quarter, we have sold a significant number of holdings in our effort to remove riskier holdings from the portfolio as a weakening economy saps consumer spending. I have made some fixed-income investments that take into account the Federal Reserve's recent short-term rate cuts and the expectation that more cuts are on the way. Such adjustments are part of how we proactively manage risk to the downside.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang

¹ J.P. Morgan Asset Management, Guide to the Markets, U.S. 3Q2025, August 31, 2025, p. 8.

² Ilaria Canevara, "Why You Should Never Walk Away From Your Pot When You're Boiling Milk," Cookist, <https://www.cookist.com/why-you-should-never-walk-away-from-your-pot-when-youre-boiling-milk>

³ Jude Freeman as cited by Greg Eisenberg (@gregeisenberg). "i saw this quote by jude freeman. i thought it'd be cringe... but it stuck. '80% effort gets 80% back. 100% effort gets 1,000% back. the last 20% is where the magic happens.' it reminded me of the state of AI apps. think of a bakery... a baker who stops at 80% takes the bread out too soon. it looks good in the window, it smells great, people might even buy it. but bite into it and it's raw. AI right now is full of underbaked bread. wrappers, weekend hacks, vibe-coded prototypes. shiny on the outside, hollow on the inside. the last 20% is the real baking. distribution, retention, data, security, trust. the stuff that takes longer, feels boring, and nobody applauds. most people pull the loaf out early. they stop at 80. the winners keep it in the oven until it's done." Twitter, August 23, 2025. <https://x.com/gregisenberg/status/1959323204859609594>.

⁴ David Rosenthal, Ben Gilbert, "Hermès," Produced by David Rosenthal and Ben Gilbert. Acquired. February 19, 2024. Podcast. <https://www.acquired.fm/episodes/hermes>.