



LEUTHOLD
FUNDS

October 29, 2025

3Q25 Market Commentary

Robust technical action in U.S. equities has easily outweighed the adverse dynamics, keeping our stock market assessment in a high-neutral stance throughout the third quarter.

Doug Ramsey
Chief Investment Officer



In the last week and a half, the stock market has largely shrugged off a mini-crypto* crash and several signs of corporate credit cracks. Impressive, to say the least. We are more worried about credit than crypto, but if the credit cycle has indeed taken a turn for the worse, it could still be a while before the stock market and economic expansion follow suit. Various yield spreads we track continue to affirm a “risk-on” approach. Our Technical work, which monitors performance, momentum, and leadership trends across a broad range of equity indexes, has also been endorsing the case for continued upside for stocks.

In all, we’re inclined to give the bull market the benefit of the doubt. Net equity exposure in Leuthold tactical portfolios is 54-55%, which is down from the 59% position held for the better part of the last three months. This trim back reflects our decision to be a bit more prudent in the face of elevated equity valuations and an economic expansion that looks increasingly unbalanced.

On the jobs front, state-level employment data from Bloomberg shows initial and continuing unemployment claims remain in the same vicinity as recently reported by the federal government (which has ceased releasing data due to the shutdown). In addition, the tally of daily job postings at Indeed generally confirms a steady downtrend, which also mirrors figures previously published by the Fed.

From the perspective of inflation, the latest Consumer Price Index¹ calculation of 3% is still decidedly above the Federal Reserve’s 2% target; yet the consensus view is that gap will not prevent the Fed from cutting rates on October 29th. Moreover, the 2-Yr. Treasury yield (which has a pretty

good record of pegging where the federal funds rate² “should” be at any given time), suggests a 50 basis-point³ cut wouldn’t be inappropriate. Is the 2-Yr. yield telling us that the economy is much weaker than the consensus believes, or that higher inflation is increasingly becoming normalized? The “stagflationary” answer to both is “yes.”

Despite this year’s frequency of new all-time highs in the leading indexes, rallies in heavily shorted stocks, and surges by unprofitable small caps, the upswing across U.S. equities is not actually broadening out. In fact, it’s been incredibly tough to keep up with the S&P 500⁴. In the last month, the S&P MidCap 400⁴, S&P SmallCap 600⁴, and Equal Weighted S&P 1500⁴ were all trailing the S&P 500 by about 300 basis points. The Russell 2000⁴ has done better (lagging by 100 bps), but that bottom line is disguising the fact the index’s *money-losing* components are those driving its stellar performance.

As we enter the final three months of 2025, the stock market still looks exceptionally strong from a technical perspective. Each of the “Big Four” indexes—the DJIA⁴, Russell 2000, S&P 500, and NASDAQ 100⁴—closed at new all-time highs on October 24th. NYSE Daily Breadth⁵ also sits at a fresh cycle high. Historically, such stamina indicates that any important peak is not imminent.

The latest S&P 500 high has pushed its Normalized Price/Earnings⁶ multiple into the “danger zone,” on par with past market bubbles. Another glaring red flag is the message from a range of sentiment indicators: Overly optimistic consumer confidence in the economy, stocks, business conditions, and the job market is not supported by underlying data.

* The fund does not invest directly in or hold crypto.

¹ Consumer Price Index (CPI) is used as a key indicator of inflation. It measures the average change over time in the prices of a basket of goods and services paid by urban consumers.

² Federal funds rate is the interest rate at which banks trade federal funds overnight, and is the central rate in the U.S. financial market.

³ One hundred basis points = 1%.

⁴ S&P 500 is a capitalization-weighted index of 500 stocks measuring performance of the broad domestic economy; S&P Midcap 400 is a capitalization-weighted index of the performance of the mid-range sector of the U.S. stock market; S&P SmallCap 600 is a capitalization-weighted index of the small-cap range of U.S. stocks; S&P 1500 Equal Weight Index is a combination of the S&P 500, S&P MidCap, and S&P 600 SmallCap Index; Russell 2000 makes up the smallest 2,000 stocks in the Russell Index; DJIA is a price-weighted measure of 30 U.S. blue-chip cos.; Nasdaq-100 is a stock market index of equity securities issued by 100 of the largest non-financial cos. listed on Nasdaq stock exchange.

⁵ NYSE Daily Breadth tracks the cumulative difference between the stocks advancing and declining each day.

⁶ Normalized P/E multiple uses five-year arithmetically-averaged annual earnings, looking six-months ahead and 54-months back divided by current price.

3Q25 Market Commentary (continued)

Nonetheless, robust technical action in U.S. equities has easily outweighed the adverse dynamics, keeping our stock market assessment in a high-neutral stance throughout the third quarter. In turn, this constructive outlook has helped our tactical portfolios capture a decent share of this year's equity gains while maintaining a moderate risk posture.

Within fixed income, as a result of trimming global Treasuries and increasing both higher quality-corporate bonds and mortgage backed securities during Q3, the portfolio's credit exposure grew to a small overweight versus a small underweight the prior quarter. We reduced FX¹ exposure while duration² increased modestly from 5.8 to 6.1 (vs. 6.0 for the U.S. Aggregate Bond Index³ and 6.4 for the Global Aggregate Index³). We remain overweight

high-quality corporate bonds and short term Treasury Inflation Protected Securities (TIPS).

If this cycle is fated to end with anything loosely resembling a traditional topping process, we don't expect to see a bull market peak for a couple of more months, at the earliest.

In the case of our tactical portfolios, however, high valuations and escalating risks to the U.S. economy stymie any desire to more aggressively play the bull's final innings. Overall, we're still out there dancing, but we're dancing a little closer to the exit.

Thank you for your ongoing support!

Sincerely,



Doug Ramsey, CFA, CMT
Chief Investment Officer

¹ Foreign exchange (FX) exposure is the risk that a business's or investor's financial performance will be negatively impacted by unexpected changes in currency exchange rates.

² Duration is a measure of a bond's sensitivity to interest rate changes, typically expressed in years.

³ U.S. Aggregate Bond Index is a broad benchmark for the investment-grade U.S. bond market. The Global Aggregate Index is a flagship measure of global investment grade debt from a multitude of local currency markets.

Other Market Notes

PECULIAR DEVIATIONS

There's some evidence of internal fracturing within the stock market that is not apparent from our usual breadth and leadership studies. We've observed some disagreement, of late, among long-term leaders, including the Magnificent Seven¹—of which only two have made new 52-week highs in the last month (as of early October).

It's also notable that the Russell 2000's recent surge to a new cycle high has been led by its *unprofitable* components. Overall, leadership is being driven by lower-quality, more speculative areas.

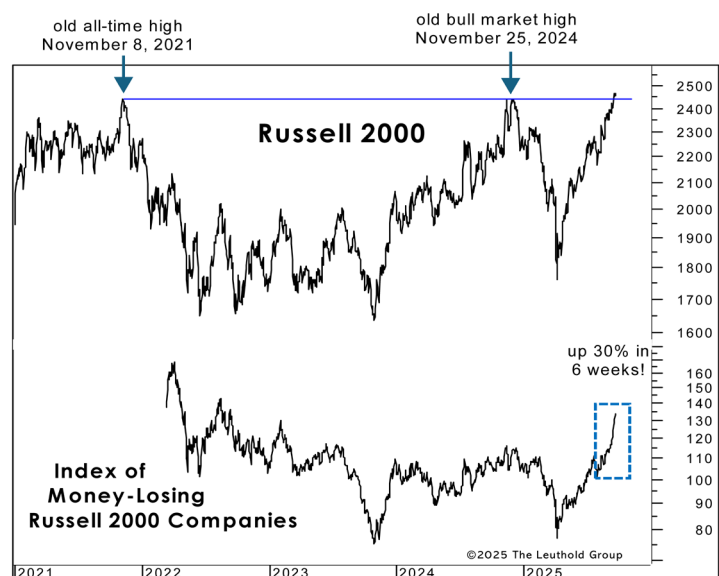
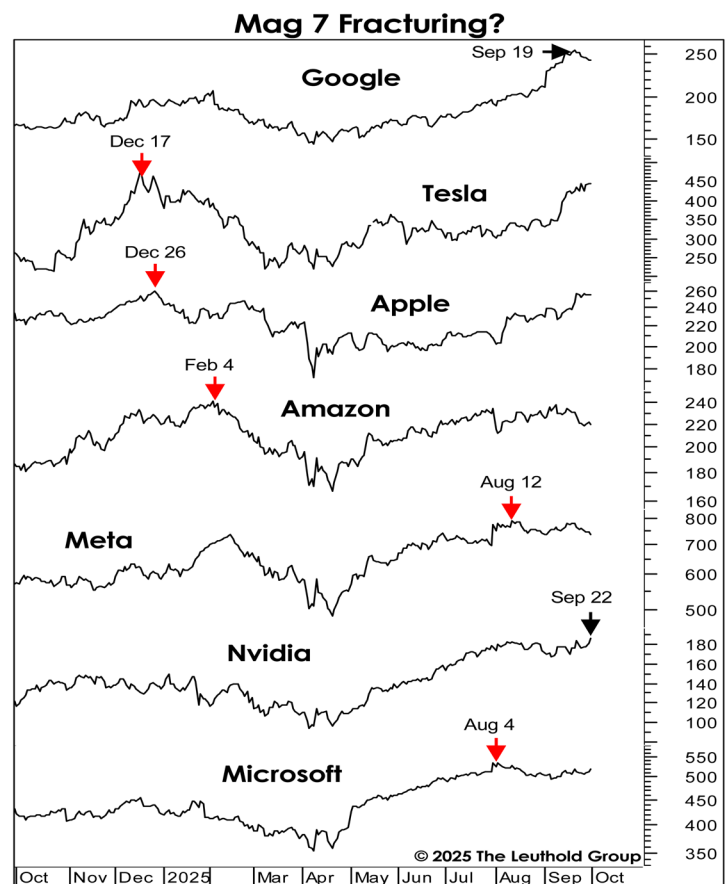
Since its trough on April 8th, the S&P 500 has returned an outstanding +35% through September, with five consecutive monthly advances. Based on an average of several valuation measures, the index is just 3-4% below its valuation high at the March Y2K Tech-Bubble peak.

Using those same valuation metrics, the S&P 500 has the potential to decline about 46% to return to its median level measured from 1957-to-date.

Conversely, excluding the Magnificent Seven, the median valuation of the top 1,500 stocks is right in line with the 30-year average.

With this striking valuation disparity between broad swaths of stocks appearing reasonably priced while other equity subsets are trading at extreme levels (mega-cap growth, Tech- and AI-related), when the bull market ends, the downside move will be bifurcated in a fashion similar to the upswing.

All things considered, we see a long-term opportunity for those who are willing to move a little out of sync with the Mag-7 mania.



¹ The Magnificent Seven is a group of major tech companies with stock growth that, on average, far outpaced the high-performing S&P 500® over the past decade.

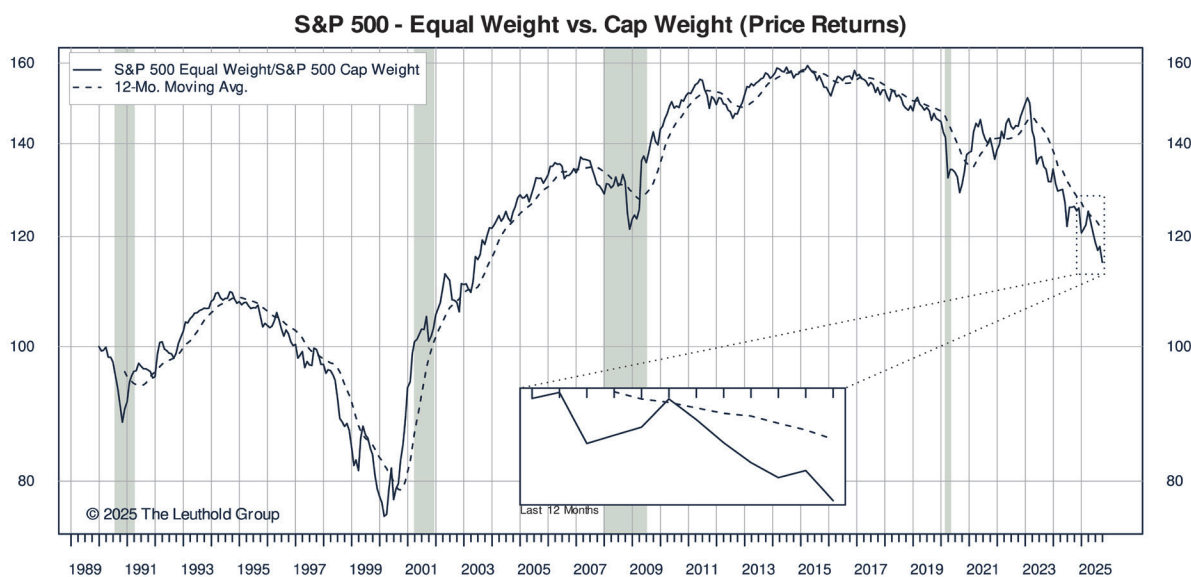
Other Market Notes

MEGA-CAP MUSCLE

Although mega-cap names stumbled out of the gate, 2025 is back to following the exact same playbook seen the past two years. The eight largest firms in the S&P 500 posted an average return of +50% since the end of Q1. That octet—now a 37% index weight—contributed a little over two-thirds of the S&P 500's 20% gain during the last six months.

The Equal Weighted¹ S&P 500 made a new 22-year relative strength low versus the Cap Weighted index in September. Since peaking in January 2023, the latter has returned 39% more than the former. That's just shy of performance for the 32-month period ending January 1999, when the Cap Weighted version outpaced by 41%.

S&P 500 Indexes Total Return	Sep	Q3	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016
Top 10	+6.7%	+15.0%	+21.6%	+41.0%	+62.3%	-34.9%	+37.6%	+39.6%	+40.8%	-0.6%	+28.5%	+11.9%
Top 50	+5.0%	+10.6%	+16.0%	+33.8%	+38.3%	-24.1%	+30.8%	+24.5%	+32.5%	-3.4%	+23.3%	+11.3%
Cap Weighted 500	+3.7%	+8.1%	+14.8%	+25.0%	+26.3%	-18.1%	+28.7%	+18.4%	+31.5%	-4.4%	+21.8%	+12.0%
Equal Weighted 500	+1.1%	+4.8%	+9.9%	+13.0%	+13.9%	-11.4%	+29.6%	+12.8%	+29.2%	-7.6%	+18.9%	+14.8%



¹ The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used capitalization weighted S&P 500.



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Past performance does not guarantee future results. Investing involves risk, principal loss is possible. Index performance does not reflect fund performance and it is not possible to invest directly in an index.

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