

# Flower City Capital

## Quarterly Investor Report - Q3 2025

Dear Members of Flower City Capital,

We hope you had a great summer and are enjoying the crisp Fall weather. Despite all of the excitement and geopolitical events this year, stocks and bonds have done surprisingly well. Our takeaway is simply to continue to own a diversified portfolio and to remain patient.

- US stocks<sup>1</sup> are up 14% and are now at all-time highs.
  - This doesn't necessarily mean we are due for a big crash - more on that below.
- International stocks<sup>2</sup> are up 26% and have been a great diversifier for portfolios.
  - The dollar declined around 10%, making overseas earnings more valuable.
- Bonds<sup>3</sup> are up 6%, driven by falling interest rates and declining spreads (the extra return you earn for lending to riskier borrowers).
  - Lower starting interest rates and sticky inflation make bonds less attractive on a go forward basis.
  - We are actively looking for income alternatives within this defensive part of the portfolio.

With the strong market performance, it is fair to ask, "are we in a bubble?" The short answer is no, we don't think so, for a few reasons:

- Economic growth has remained strong.
- Corporate profits are rising and expected to continue to rise (this is good for stock and bond prices).
- Household wealth is at all-time highs, with low aggregate debt levels.
- The current backdrop of tax cuts, interest rate cuts and deregulation is very supportive for markets in the short-term.

We have also seen mortgage rates fall to the lowest level in ~3 years, driving a moderate increase in refinancing. We have already helped a few clients work through this process so please reach out if you are interested.

1. Total Return, Russell 3000 Index, FactSet data as of September 30, 2025

2. Total Return, FTSE Global ex. US Index, FactSet data as of September 30, 2025

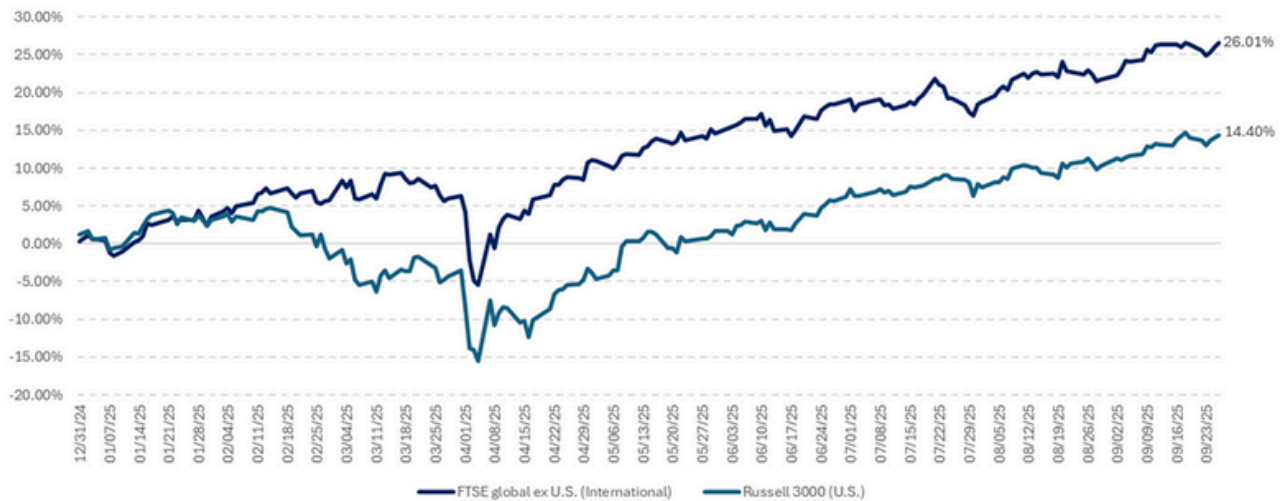
3. Bloomberg US Aggregate Bond Index, FactSet data as of September 30, 2025

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### International stocks are outpacing US stocks

- International stocks benefited in large part from a 10% decline in the dollar.
- US stocks were driven by strong corporate earnings, and expectations for earnings to continue to grow.
  - As a result, US stocks are now trading near all-time high valuations.
- We continue to look for opportunities in smaller, cheaper, less liquid portions of the market.



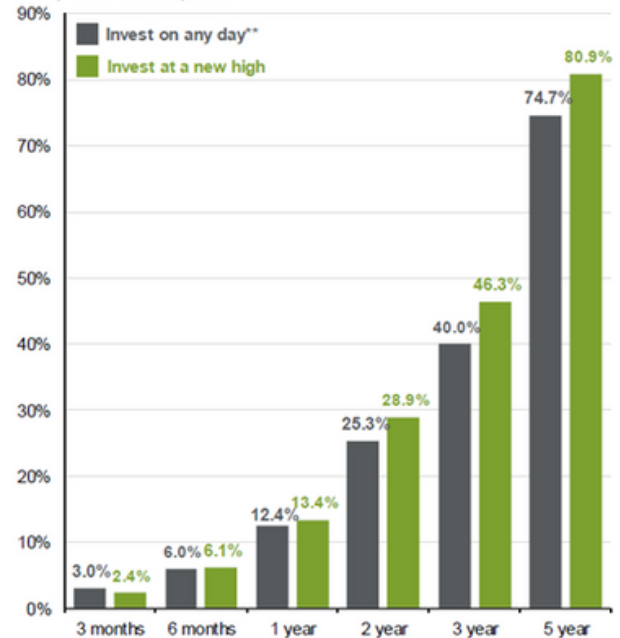
Total Return, FactSet, As of September 30, 2025

Even though the market is at all-time highs, history suggests a high probability of markets continuing higher from here.

The chart on the right shows that over the last 40 years if you invested in the market at all-time highs you actually had better performance over the long-run. That being said, markets are prone to corrections and that doesn't mean we won't have volatility from here.

#### Average cumulative S&P 500 total returns

Jan 1, 1988 - Dec 31, 2024



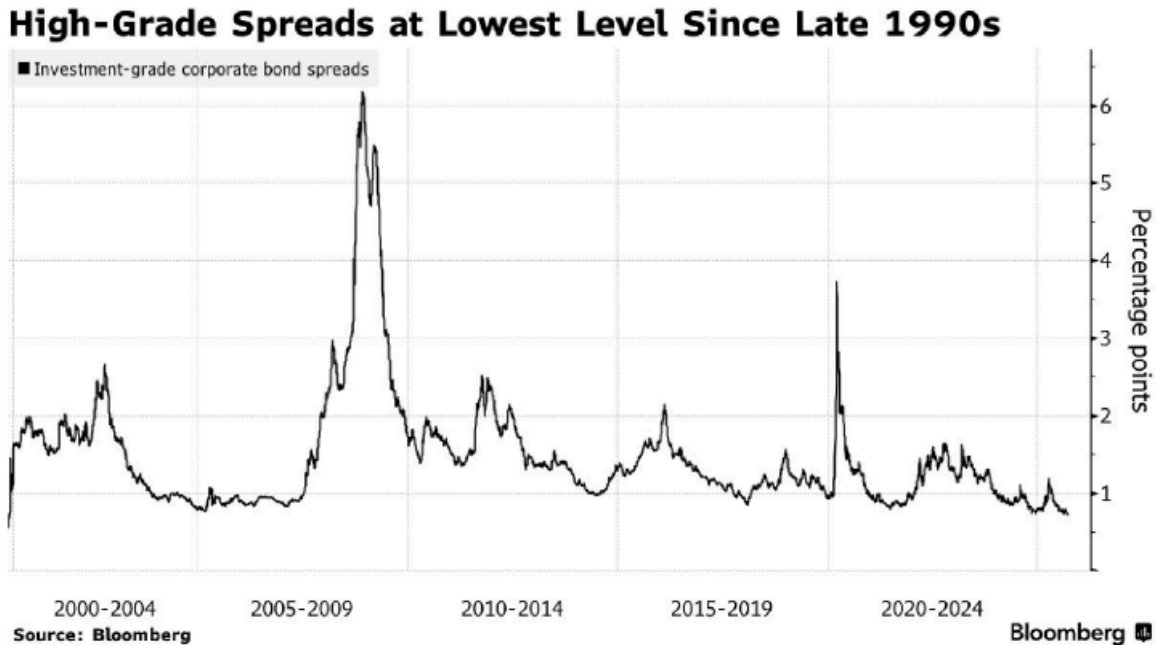
J.P. Morgan Research



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### Bond Yields Have Come Down

Bonds are having a great year as rates come down a bit. The most interesting part of this market is that credit spreads, or the extra yield for lending to riskier borrowers, are near 30-year lows. This lower spread makes it less compelling to take the extra risk to try to earn higher yields.



We continue to look for diversifying sources of income to provide ballast to portfolios. These include good old-fashioned dividend paying stocks and publicly traded partnerships that come with some extra tax complexity. We're most focused on the quality and stability of the cash flows in the more defensive part of portfolios. We plan on sharing opportunities and updates on this income strategy shortly. As always, please do not hesitate to reach out with any questions.

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