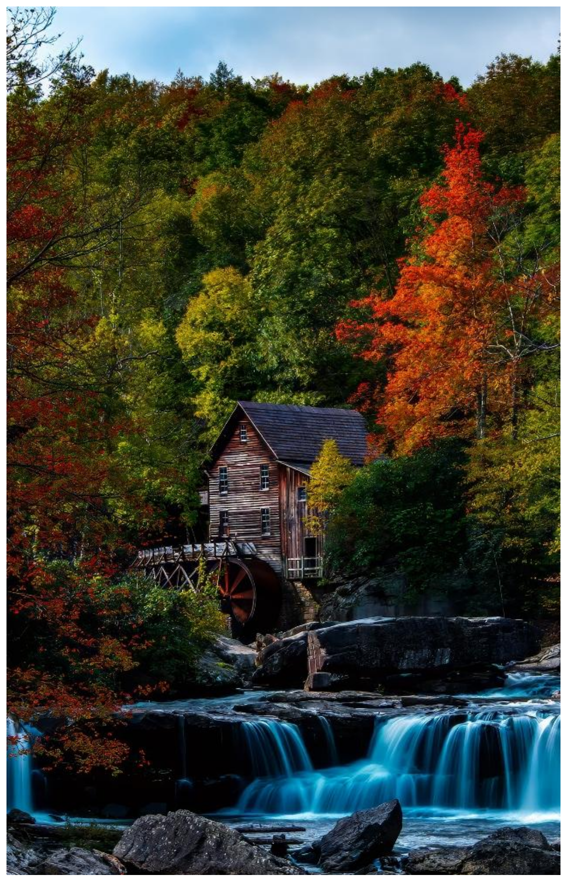
AUTUMN REFLECTIONS



As October settles in, Southwest Virginia once again reminds us why it's such a wonderful place to call home. The hills and mountains are alive with color, offering brilliant reds, golds, and oranges at every turn. Whether it's a walk along the Huckleberry Trail, a drive on the Blue Ridge Parkway, or a weekend trip to the Smoky Mountains, fall is the perfect time to enjoy the outdoors and create lasting memories with family and friends.

This season also invites reflection. Just as the leaves change, it's natural to pause and consider what matters most: both personally and financially. As the holidays approach, many families think not only about traditions but also about ways to give back. Charitable gifts at year-end are a wonderful way to align values with action. Whether through a simple check to a local nonprofit, donating appreciated stock, or making a qualified charitable distribution from an IRA, giving can create impact in the community while offering meaningful tax benefits.

For those with children or grandchildren, the holidays are also an opportunity to model generosity. Including younger family members in decisions about which charities to support can help instill values that will last well beyond the season.

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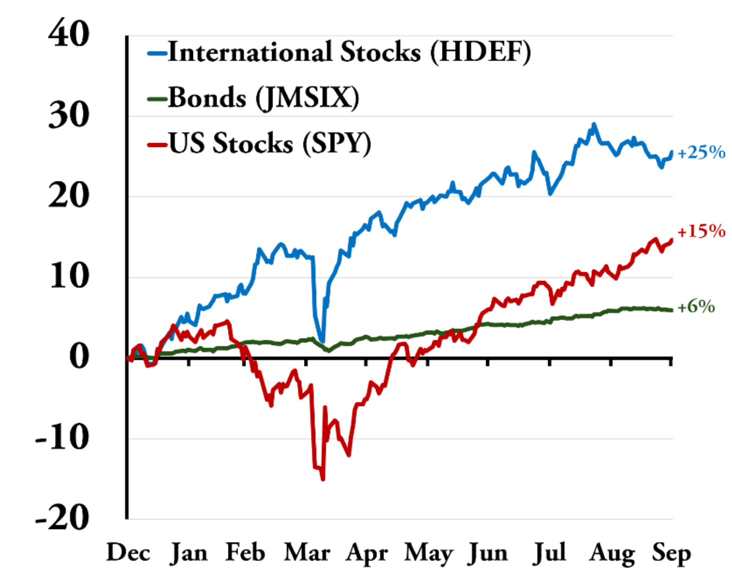
STOCKS CONTINUE THEIR GRIND HIGHER

Entering the final quarter of the year, markets continue to absorb whatever speed bumps that appear. Following the imposition of tariffs, a brief conflict with Iran, and several other events throughout the year, a few new developments are being digested. The Fed's 0.25% interest rate cut in September, with a signal of two more cuts likely to come by the end of the year, will continue to support equity and bond markets. The Fed's decision was motivated by a softening labor market, despite inflation remaining above target. Shortly thereafter, on October 1st, we had our first government shutdown since 2019, adding a new item of uncertainty for those mapping out the rest of the year.

	Year-to-Date 2024	Year-to-Date 2025
International Stocks (HDEF)	+13.2%	+25.5%
Gold (GLD)	+27.1%	+46.8%
US Stocks (SPY)	+21.8%	+14.6%
Bonds (JMSIX)	7.4%	+5.9%
Real Estate (VNQ)	+13.5%	+5.7%
Cash (Money Market)	+4.0%	+3.3%



In U.S. equities, the rate cut renewed the push for technology companies, particularly those exposed to AI. Broad indices have also performed well, although the strength is increasingly concentrated in the largest companies. This phenomenon historically occurs in the later stages of market cycles and bubbles. That concentration has left many small- and mid-cap stocks lagging but also made them more reasonably valued.

Abroad, international equities have continued to have one of their best years in recent memory. European stocks are benefiting from stabilization in growth, moderate inflation, and fiscal support. A weakening dollar has helped, and it should continue to do so.

In the fixed income market, the rate cut nudged short-term yields lower. Still, longer-term rates remain under pressure from inflation expectations and fiscal dynamics. Credit markets remain cautiously optimistic thanks to underlying fundamentals and yield compensation.

Looking ahead, the path will depend heavily on upcoming labor, inflation, and corporate earnings data — as well as further trade or fiscal surprises. For now, maintaining global diversification, anchoring to income sources, and avoiding overconcentration remain prudent strategic pillars.

GOVERNMENT SHUTDOWNS: A HISTORICAL PERSPECTIVE

On October 1, 2025, at 12:01 a.m. Eastern Time, the U.S. government officially entered a funding lapse due to the failure of Congress and the White House to agree on appropriations for fiscal year 2026. This marks the first federal government shutdown since the long standoff of 2018–2019 and continues a history of periodic funding gaps that date back to the 1970s.

What Happens During a Shutdown

When a shutdown begins, federal agencies without appropriated funding must halt or sharply reduce operations. Many federal employees are placed on furlough, while others deemed essential are required to continue working without immediate pay. Core services tied to defense, law enforcement, and public safety typically continue, while services deemed nonessential are paused until funding is restored.

In 2025, policy disagreements around health care funding, Medicaid reimbursement levels, and other entitlement programs were key sticking points that prevented passage of a short-term continuing resolution. The result is widespread disruption across federal agencies. Activities such as processing new contracts, issuing permits, and distributing grants are on hold. Although much of the missed economic activity eventually returns once funding is restored, the near-term drag on consumer confidence and business planning can impact corporate earnings where a shutdown shifts earnings from one quarter to a future one.

A Historical Perspective

Shutdowns are not new in American politics. Since 1976, there have been more than 20 separate instances of funding lapses. Most have been short, with minimal long-term impact. In fact, only four shutdowns in modern history have lasted longer than a few days. The average length has ranged between 8 and 14 days, depending on how one counts very short funding gaps.

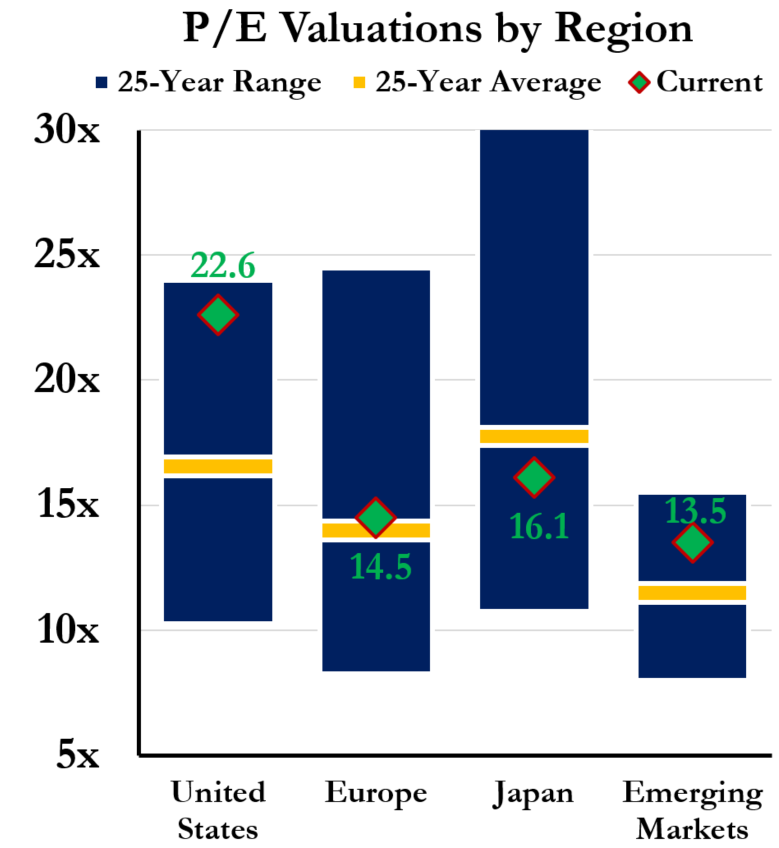
There are notable exceptions. The October 2013 shutdown stretched for 16 days. The S&P 500 declined modestly during that period but rebounded once a funding agreement was reached. The 2018–2019 shutdown remains the longest on record, at 35 days, which caused delays in tax refunds, agricultural payments, and government contracts. However, the market moved 10% higher during the shutdown. Even in that case, however, the broader economy quickly regained its footing - with the impact being more of a deferral than a loss of economic activity.

These precedents suggest that while shutdowns are disruptive, they rarely derail the economy or financial markets over the long run. Instead, they are often remembered more for the political drama that surrounds them than for lasting financial consequences.

Recent U.S. Government Shutdowns Lasting At Least 1 Day (Past 30 Years)

Shutdown (Start Date)	Duration	S&P 500 Performance During Shutdown	Volatility (VIX) Peak	Post-Resolution Rally
November 14, 1995	5 days	+0.1%	14.2	+2.3% (30 days)
December 16, 1995	21 days	+3.3%	15.8	+5.1% (30 days)
October 1, 2013	16 days	+2.4%	20.3	+3.1% (30 days)
December 22, 2018	35 days	+10.3%	36.2	+4.9% (30 days)
October 1, 2025	TBD	+0.3%	13.32	TBD

Source: YCharts



Non-U.S. markets trade at a significant discount to the United States on a price-to-earnings basis. In Europe, economic growth has stabilized, and inflation has moderated faster than expected. Increased defense spending, particularly in Germany, is driving business for supporting industries, including basic materials and technology firms. In Asia, many countries are delivering strong domestic growth. While US tariffs provide some headwinds in Asia, the weakening dollar and shifting supply chains mitigate much of the local impact. For example, China has shifted its soybean imports from US farmers to Brazil.

Another factor supporting international allocations is currency. The Federal Reserve's recent rate cut in September opened the door to further easing, which could weigh on the dollar. A softer dollar tends to enhance returns on non-U.S. assets for U.S.-based investors.

A weakening US dollar will also increase commodity prices as their non-US value stays constant but requires more US dollars to purchase. Gold is one of the clearest examples of the devaluing effect and concerns about future inflation.

Fixed Income and Alternatives as Complements

The case for diversification is not limited to equities. Bonds have reemerged as an attractive component of portfolios, now that yields remain well above the levels seen just a few years ago. High-quality bond funds currently yield 5-6%, and high-yield funds reach 8-9%. Investors can lock in income while still holding securities that provide ballast in the event of an economic slowdown. Global corporate bonds expand the opportunity set even further by offering access to different sectors and credit markets, and recently have benefited from the continuing weakening of the dollar.

Alternatives also deserve mention. Real estate assets, private credit, and infrastructure can provide returns that do not move in lockstep with either stocks or bonds. While not appropriate for everyone, they can help smooth portfolio performance during periods when speculative narratives drive traditional markets.

Putting It All Together

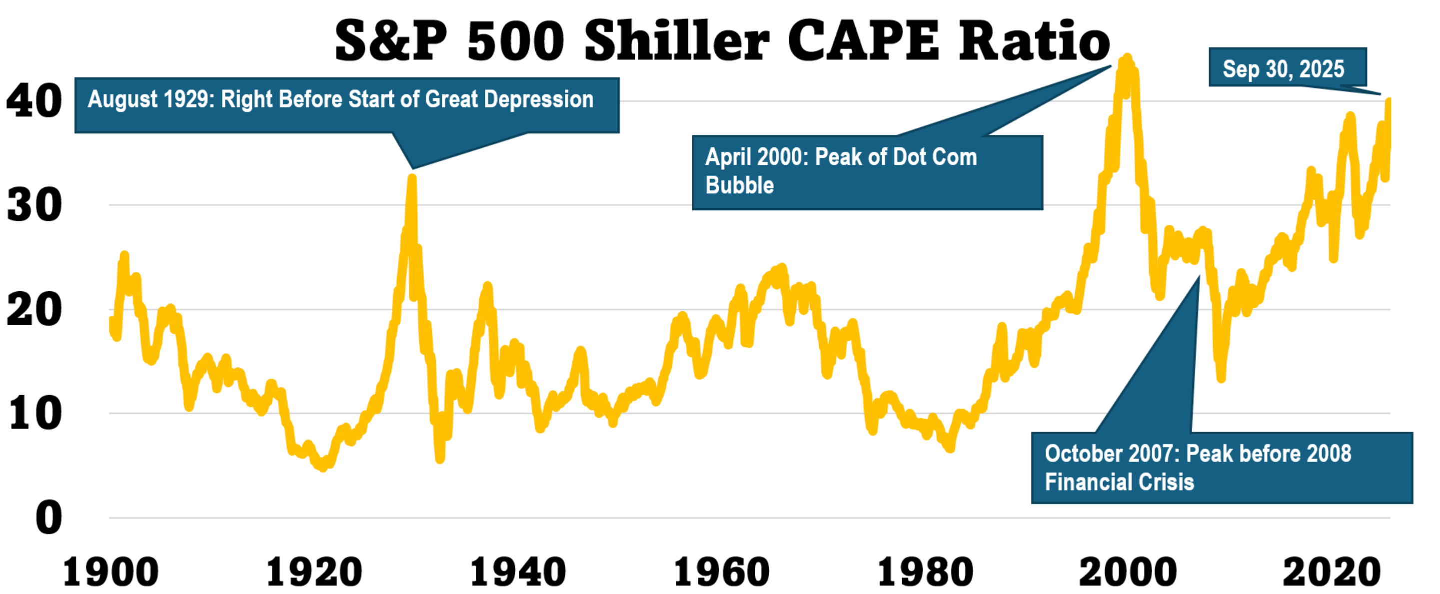
A well-constructed portfolio today might balance a core allocation to U.S. equities with greater exposure to international markets. It might also include fixed income for stability and alternatives for diversification. Within equities, we do not encourage stock-specific investments in AI right now. Most investors already have significant exposure to current AI valuations through index funds.

The excitement around AI's potential future benefits is not misplaced, but remember that even the strongest company's stock can, at times, have an unreasonably high valuation. NVIDIA, the most visible company to benefit from current surge in AI, saw their stock lose 86% of it's value when the dot-com bubble burst. History teaches that even revolutionary technologies can go through painful corrections before sustainable winners emerge.

For investors, the lesson is clear. Stay diversified, avoid excessive concentration, and focus on asset classes with compelling long term valuations. Doing so can help capture growth while maintaining the resilience needed to weather whatever comes next.

STATE OF THE MARKETS

Amid several geopolitical events so far this year, including tariffs, global conflicts, and most recently, a government shutdown, the story of financial markets in 2025 continues to be driven by two main stories: the continuing surge in valuations of AI-related companies and the powerful performance of international stocks, driven by a weakening dollar and increased foreign defense spending.



Source: Ycharts. Date Range: 1/1/1900 to 9/30/2025

The AI Boom and the Question of Sustainability

Companies worldwide are investing heavily in AI infrastructure, software, and data capacity. JPMorgan research notes that the total spend on AI in 2025 may approach one trillion dollars, with major players such as Microsoft committing tens of billions alone. Investors see a massive growth story, and many stock prices have already fully priced in a potential paradigm shift in profitability that has yet to materialize.

The challenge is that much of the investment case is based on expectations rather than proven earnings. There are many similarities to the late 1990s, when internet companies commanded extraordinary valuations despite untested business models, many of which never achieved profitability. In the first quarter of this year, AI startups accounted for roughly 70 percent of all venture capital funding. The rapid creation of dozens of “unicorn” companies echoes the IPO mania that preceded the dot-com crash.

Some analysts have begun sounding the alarm. Some warn that a correction in AI-related equities could be sharper than the one that occurred in 2000 if earnings growth fails to meet investor expectations. None of this suggests that AI as a technology lacks merit. The concern lies in the extent to which future success is already reflected in today’s stock values.

Why Global Diversification Matters

One of the simplest ways to reduce risk from overexposure to US mega-cap technology is to increase international equity allocations. Valuations abroad are much more reasonable, and the sector mix differs meaningfully from US benchmarks. Developed markets outside the US lean more heavily on established and profitable companies in industries such as financials, industrials, and materials, in contrast to the US market, which currently emphasizes higher valuations more towards future potential growth than current profitability. Emerging markets are tied to rising middle-class consumption and infrastructure demand, which is expected to increase over the coming decades, particularly in India.

How Markets Respond

Investors naturally wonder how shutdowns affect stocks, bonds, and other assets. History provides some guidance. Equity markets often experience a brief uptick in volatility during the days leading up to a shutdown. Sectors closely tied to government spending or regulation, such as defense, aerospace, and federal contractors, can experience more significant short-term fluctuations. Broader indices, however, have usually remained resilient.

During 21 shutdowns since the 1970s, the S&P 500 delivered positive returns in 12 of them. The average return across all shutdown periods was flat.

Bond markets sometimes react differently. Treasury yields can fluctuate as investors assess the fiscal outlook, and agency or municipal bonds tied to federal programs may experience temporary stress. Credit markets generally hold up unless the shutdown stretches into weeks and begins to dampen broader economic activity.

Why the 2025 Shutdown May Matter More

Although history provides reassurance, the current environment is different in several ways. First, the US economy is already navigating slower growth and elevated inflation. The Federal Reserve cut its benchmark rate in September for the first time in several years, responding to signs of a softening labor market. Suppose the shutdown leads to the delayed release of economic data. In that case, the Fed may have less clarity for future policy moves. This creates more uncertainty for both bond and equity markets.

Second, repeated budget standoffs can erode investor confidence in fiscal governance. Each episode of brinkmanship raises concerns about policymakers' willingness to manage long-term deficits. This matters for Treasury markets, where investor confidence underpins demand for US debt and foreign investor demand for US dollars.

Third, this shutdown has more expansive policy disputes than some prior episodes. Health care funding, subsidies, and long-term program reforms are at the heart of the current impasse. If these debates persist, the shutdown could stretch longer than the historical average.

Lessons for Investors

For investors, the key question is not whether shutdowns create short-term noise, but whether they alter the fundamental drivers of markets. Here are several points to consider:

- **Duration matters.** A lapse that lasts a few days will have far less impact than one that extends into several weeks. The longer a shutdown lasts, the greater the risk of reduced growth, increased credit spreads, and business disruptions.
- **Watch the flow of economic data.** Shutdowns can pause the release of reports, such as the monthly jobs data or inflation updates. Markets may become more volatile as investors speculate without reliable information.
- **Sector impacts vary.** Defense contractors, biotech companies awaiting FDA approvals, and federal contractors tend to feel shutdowns more acutely than diversified multinational companies.

Practical Steps

While shutdowns are disruptive, they should not drive wholesale changes in investment strategy. Instead, investors can take several measured steps:

1. Maintain perspective. Past shutdowns have been more of a political spectacle than an economic game-changer.
2. Evaluate fixed income exposure. Elevated yields continue to offer an opportunity to secure attractive income. Even with political drama, high-quality bonds continue to serve as a defensive role.
3. Stay focused on long-term goals. Volatility driven by headlines is rarely a good reason to shift strategies. Long-term planning should continue to guide portfolio decisions.

CHARITABLE GIVING STRATEGIES IN 2025: NAVIGATING CHANGE AND OPPORTUNITY

The New Landscape under OBBBA

Signed into law on July 4, 2025, the OBBBA preserves many existing tax rules but imposes new constraints on charitable deductions beginning in 2026. Notably:

- For taxpayers who itemize, a **0.5% of modified adjusted gross income (MAGI) "floor"** will apply to charitable contributions. That means donations up to 0.5% of MAGI will not be deductible.
- Simultaneously, the law introduces a **"haircut" on itemized deductions** for those in the top 37% bracket. Effectively, high-income taxpayers will see their itemized deductions reduced in value.
- The OBBBA also makes permanent the **60% AGI ceiling for cash contributions** to public charities—something that had been scheduled to expire.
- For non-itemizers, beginning in 2026, there is a limited above-the-line charitable deduction of **$1,000 for single filers and $2,000 for married couples filing jointly. However,** this deduction does <u>not</u> apply to giving to DAFs.

These new rules combine to create a "shave and haircut" effect: small or moderate gifts may lose tax effectiveness under the floor, and the deduction limitation for high earners may reduce the tax effectiveness of large gifts. Below, we look at how to deploy giving strategies in this new world, comparing key vehicles.

Qualified Charitable Distributions (QCDs)

For donors age **70½ or older**, QCDs remain a compelling tool. A QCD allows you to direct a distribution from a traditional IRA directly to a qualified charity, and excludes it from taxable income. That amount also counts toward the IRA's Required Minimum Distribution (RMD), so it can satisfy that requirement in a tax-advantaged way.

Because the QCD directly excludes income rather than generating a deduction, it is **not subject to the new 0.5% floor or deduction "haircut** imposed under OBBBA. Not all organizations qualify for QCDs. Donor-advised funds, private foundations, and supporting organizations are not eligible.

Donor Advised Funds (DAFs)

DAFs have long been popular for their simplicity and flexibility. The donor contributes to the DAF, takes an immediate tax deduction (if eligible), then recommends grants over time to charities.

Strengths

- **Upfront deduction timing**: You can accelerate the deduction in a year that is more tax-beneficial (e.g., 2025), yet retain discretion to distribute grants over future years—helpful given the looming deduction constraints.
- **Eliminate capital gains tax**: Donating long-term appreciated securities to a DAF allows for the avoidance of capital gains while deducting the full fair market value, thereby enhancing tax efficiency.
- **Simplicity, efficiency, and reduced administrative overhead** compared to running a private foundation.

Constraints and considerations

- QCDs cannot be directed into DAFs

Because OBBBA's 0.5% floor applies to charitable deductions, significant contributions to a DAF in 2025 may allow donors to "pre-fund" later years' giving before the rules bite.

Private Foundations

A private foundation gives donors maximum control, but it also comes with increased complexity and a regulatory burden. Under the new environment, it's worth revisiting its advantages and drawbacks.

Strengths

- Control and flexibility: Donors can set giving policies, involve family, determine grant schedules, and manage investments more actively.
- Perpetuity and legacy: A foundation provides a vehicle to perpetuate giving across generations with control over outcomes. It also offers an opportunity for your children to learn about being good financial stewards, preparing them for any future inheritances they may receive.
- Self-dealing and granting to DAFs: Foundations may make qualifying distributions to DAFs, enabling a hybrid strategy (foundation → DAF → charity).

Constraints and Considerations

- Foundations are subject to strict rules, including a minimum annual payout requirement of 5%.
- Establishing and operating a foundation involves legal, administrative, and compliance costs
- Private Foundations are not eligible to receive QCDs

In many scenarios, a private foundation is best suited only for families with the scale, governance willingness, and long-term commitment.

Strategic Tactics & Best Practices

Given these dynamics, here are some strategies clients and advisors should consider:

1. **Accelerate giving into 2025**: Before the 0.5% floor and deduction haircut take effect, clients may benefit from "front-loading" multi-year giving into this year. Using a DAF or private foundation allows spreading grants later but capturing the deduction now.
2. **Use QCDs aggressively:** For clients over age 70½, using QCDs for charitable giving (mainly to satisfy RMDs) remains one of the few strategies insulated from OBBBA's deduction constraints.
3. **Donate appreciated securities**: Regardless of the giving vehicle, gifts of long-term appreciated stock or other assets remain highly tax-efficient and continue to avoid capital gains tax.
4. **Balance deduction timing and grant flexibility**: Use DAFs or foundations to de-synchronize deduction years and grant years, but avoid over-contributing beyond AGI limits in 2025.
5. **Coordinate with estate and gift planning**: Because OBBBA locks in higher unified credit and generation-skipping tax exemptions, transferring assets to charitable vehicles may align with a broader estate strategy.
6. **Monitor carry-forward rules and ordering**: The order in which contributions, limits, floors, and carry-forwards apply under OBBBA is essential. For instance, the 0.5% floor is applied before AGI ceilings are reached.
7. **Review philanthropic mission vs. tax motive**: With more constraints, aligning charitable gifts with the mission (rather than purely for tax leverage) may reduce regret and improve outcomes.

Key Considerations

Like most aspects of financial planning, the earlier you start, the better the outcome. If any of these giving strategies are relevant to you, the sooner you discuss them, the more successful you will be. Particularly, suppose you still plan to complete gifts within 2025 involving the establishment of a foundation or donor-advised fund. In that case, these structures can take weeks or months to establish, so do not wait.