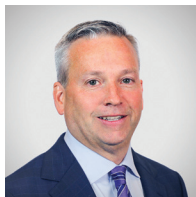


MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

Forward P/E is the price of a stock divided by estimated forward earnings.

Forward Earnings of the S&P 500 index are shown as estimates for the current fiscal year.

There is no assurance any forecasts will be achieved.

The charts are for illustrative purposes and does not represent any actual investment.

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Economist Benjamin Graham once observed, “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” In our view, this statement is present today, as a significant group of equity investors are “voting” on a narrow set of stocks that they believe will dominate their respective markets, deliver outsized short-term shareholder gains, or simply hope that the stock price will increase as other investors assign the same “certainty” of outcomes to these companies. These investors often favor any companies related to the artificial intelligence (AI) theme, meme stocks, Special Purpose Acquisition Companies (SPACs), and cryptocurrency firms.

In Graham’s view, this is not unusual, “...common stocks are subject to irrational and excessive price fluctuations in both directions, as the consequence of the ingrained tendency of most people to speculate or gamble...to give way to hope, fear and greed.”

Ultimately, however, market prices tend to revert to their intrinsic value based on a company’s underlying fundamentals. A stock’s true worth is determined by its earnings and growth prospects.

In our view, certain areas of the current market appear unburdened by the longer-term fundamentals of the companies they represent (Chart 1). Recently, many of these stocks have soared despite no noticeable fundamental change to the company’s future prospects. Many investors may be naively assigning too much certainty to long-term predictions that may not come to fruition.

In our view, this disconnect between price and value is a recipe for disappointment rather than long-term returns (Chart 2). Historically, expensive markets, especially those driven by speculation in the most exciting companies, tend to result in investor disappointment rather than gains. Our positioning view is to get away from market cap weighting, avoid speculative assets with few tangible advantages, and beware of very high valuations regardless of the story. Dividend paying stocks, as we wrote last month, remain a favorite.

As Graham astutely noted, “The intelligent investor realizes that stocks become more risky, not less, as their prices rise—and less risky, not more, as their prices fall.”

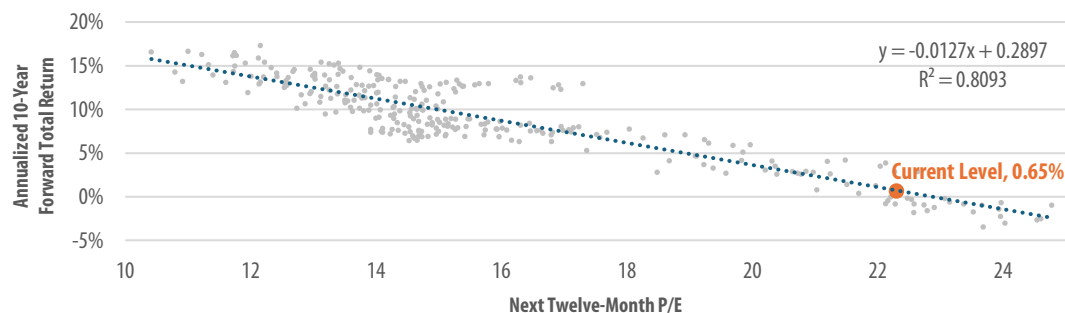
Chart 1: Unprofitable Tech Returns Relative to S&P 500

Unprofitable Technology Basket Return Minus S&P 500 Index Return



Source: Capital IQ. Data from 12/31/13 – 7/31/25. Returns are total returns. The unprofitable technology basket includes U.S. domiciled stocks in the Information Technology GICS sector with a market cap greater than \$500 million and trailing 12-month adjusted EPS less than 0. The basket is equally-weighted and rebalanced at the end of every month. The S&P 500 Index cumulative returns are subtracted from the unprofitable technology basket.

Chart 2: S&P 500 Forward P/E Ratios and Subsequent 10-Year Returns



Source: Bloomberg. Data from 1/31/1991 – 7/31/25. Returns are annualized 10-year forward returns.