

End of Summer Note



September 2025



Stephen Masri

Managing Director – Investments

Oppenheimer & Co. Inc.
Chrysler Building East Annex
New York, NY 10017
(212) 667-4445 Phone
(800) 620-6726 Toll Free

Another eventful year. After a technical bear market with Nasdaq down 27% from February to April, we experienced a dramatic recovery. The initial April-July bounce favored speculative stocks:

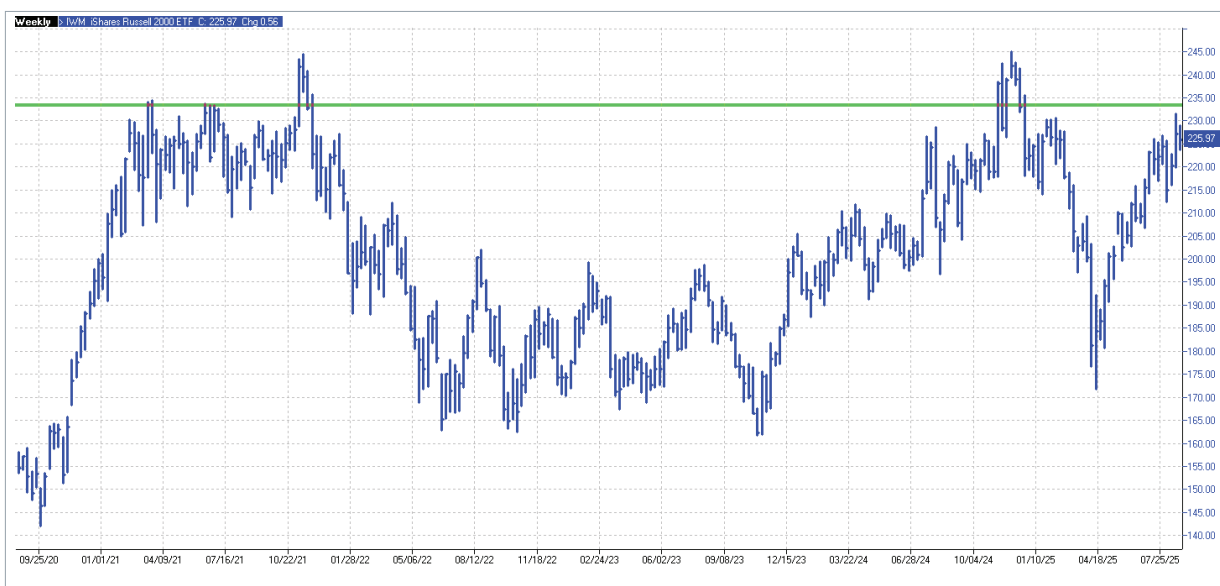
[The] basket of non-profitable tech stocks is up 62% from the April market low... double the S&P 500's 28%. The separation between money-losing tech stocks and the rest of the market shows how investors are upping their appetite for risk.

— Investor's Business Daily July 29, 2025

Small Cap Underperformance

Last year, we observed that small company shares were lagging while a few large stocks soared. This was one of few periods in history of such protracted underperformance.

If for no other reason than mean-reversion—or “what goes up must come down” and its corollary that what is down should catch up—we saw room for small companies to perform. They haven't. They were recovering when I wrote in December, but then swooned anew. This chart shows a 4¾ year struggle only to remain below January 2021 levels.



Why rabbit on about small cap? Smaller enterprises often pioneer innovation and demonstrate a corresponding performance advantage. From 1928 to 2024 annualized returns were:

Small Caps	+11.7%
Stocks	+9.9%
Bonds	+4.5%
Cash	+3.3%
Real Estate	+4.2%
Gold	+5.1

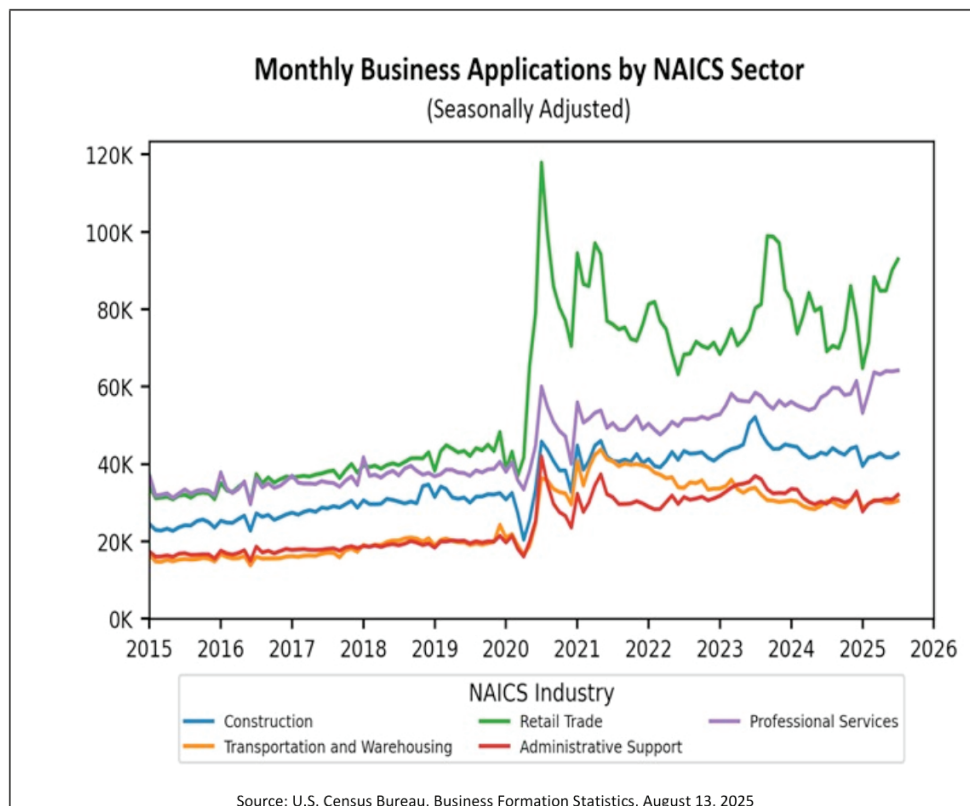
Source: Prof. Aswath Damodaran,
New York University.

August proved lackluster for large growth leaders while small caps bounced 10% during a single week. Promising, but after previous abortive rallies we continue a tenuous approach to ownership. In a bull market that embraces risk, it seems odd that small caps cannot get

a consistent bid. Traders continue to punish companies whose earnings reports come shy of hopes by knocking their prices down -15% to -30% before the market even opens the next morning. This is especially true for small caps. When traders are fickle smaller position sizes and shorter holding periods can prove safer.

Stock pickers have reason to monitor small caps. Looking more broadly, they can provide insights on an economy. Publicly traded small caps top the stack of unheralded enterprises that undergird economic dynamism. Small businesses contributed 55% of job creation from 2013 to 2023, according to the Bureau of Labor Statistics. Are small caps signaling a structural shift as to where competitiveness lies? Or forecasting pockets of weakness? It is too soon to tell.

Despite a hiccup during peak tariff ructions, government numbers show new business formation, e.g. small companies, has returned to stability and in some sectors growth.



The American consumer remains challenged by inflation but the US Federal Reserve says:

Most of the twelve Federal Reserve Districts reported little or no change in economic activity since the prior Beige Book period—the four Districts that differed reported modest growth.

U.S. Versus Other Markets

This year's early months saw US shares underperform international counterparts. We were cautious with non-US exposure because other economies rely far more on exports and tariffs have yet to ripple fully through global supply chains. It is unclear if capital movements were a transitory, rather than lasting, shift during peak trade vituperation. Speculation can quickly hop across borders and then back. By May, the US Treasury reported money flowing into US assets rather than away:

*Foreign acquisitions of US securities and banking flows was a **net inflow of \$254.3 billion**. This included \$259.2 billion in private inflows, partially offset by \$4.9 billion in outflows from foreign official institutions. **Foreign residents boosted holdings of long-term US securities**, with purchases totaling \$183.2 billion—\$146.0 billion by private investors and \$37.3 billion by official institutions.*

Non-US markets have represented better value for years. To compare two of the world's older capital markets, the S&P has a trailing PE of 25.9x versus only 16.8x for FTSE Europe. Cheaper assets appear attractive. However, we must dig down a level.

Of the European index, technology + communication services represent 11%. In the USA, technology + communication represent 43%. America has 4 times the weighting in industries with high persistent growth rates. In Europe, slower-growing financial services represent 23% of the market versus 14% in the USA. These distinctions count when investing for growth.

Emerging markets are cheap and could promise more in the long run. China (should it even be called emerging anymore?) has rallied but revenue and profit reports are still irregular. India has temporarily lost momentum. Latin America is interesting but numbers are not as robust as in the past.

Persistent Dominance of Magnificent 7 and Top 10 Stocks

It must seem as repetitive to read as to report. Just 7 stocks dominated returns in 2023 and 2024. Last year, they rose 57% versus a much lesser 13% for the other 493 stocks in the S&P 500. In 2025, traders again chased a few stocks while slighting other attractive choices.

We previously compared the S&P 500 headline index, which is skewed by the dominant size of the Magnificent 7, and the S&P 500 Equal Weight in which each company counts as much as the next, more truly an average. Investment periodicals are lately devoting more voting ink to the dichotomy between the sister indexes. Year to date returns are:

S&P 500 (SPY ETF)	10.7%
S&P Equal Weight (RSP ETF)	8.6%

Prudent diversification was less exciting than Mag 7, but their outperformance over the broad market continues narrowing in favor of the latter, a wholesome development.

A *Macromico.me* public domain chart shows the concentration phenomenon. Top S&P 500 stocks were historically 10%-15% of the index. They recently approached 40%.



Traders piled into the largest stocks and into ETFs which buy those same stocks to replicate indexes—a self-fueling, circular process we’ve discussed before. That makes valuations at the top expensive, which for the largest S&P companies are:

Name	P/E
NVIDIA	50
Microsoft	37
Apple	35
Alphabet	23
Amazon.com	35
Meta Platforms	27
Broadcom	111
Tesla	193
JPMorgan Chase & Co	15
Walmart	36
Eli Lilly and Co	48
Visa	35
Oracle	52
Mastercard	40
Netflix	51

Source: worldperatio.com

Despite the market hitting new highs, valuation cheapened because profits grew. The S&P 500’s 25.9x PE decreased from ~28x last quarter and 27.5x last year. If Pres. Trump’s tariff rush slackens as we approach midterm elections, his lowering of taxes and regulations could support stocks. Corporate insiders are buying shares in their companies, with net purchases at 5-year highs, a sign of business confidence.

The US Fed hints at interest rate accommodation. That is stock positive. Money supply doesn’t garner the headlines rates do, but M2 has been increasing. Easy supply tends to lift asset prices, stocks, bonds, real estate and precious metals. Conversely put, money’s value is depreciated. Our clients have positions in gold miner Newmont, PanAmerican Silver, and platinum producer Sibanye Stillwater.

A Correction?

High PEs require minding the potential for corrections. The sharp market decline of early 2025 occurred during a season that tends to be stronger, potentially postponing or softening a more usual August-September seasonal correction. Some of the Magnificent 7 came off their highs, but quietly so.

The market has experienced 60 large corrections since 1928. Most end with declines of 10% to 20% before markets again proceed higher. Broadly speaking, high PE stocks correct more than cheap ones. A “rotational” correction is possible: the market doesn’t decline much, but traders sell the dearest stocks and move to better valued sectors.

An Argument for Higher PEs?

Investing utilizes historical statistics. Wized observers cast a weather eye on “this time is different” arguments as unreasoning euphoria. With that caveat, there is room to consider that valuations for new industries might have some logic. In past bull markets, the leading companies made things that would hurt if dropped on your foot: steam locomotives, radios the size of refrigerators, and big cars. Manufacturing them required costly machinery. Microsoft makes software derived from thought and distributed via weightless electrons. NVidia develops chips, a concrete thing, but doesn’t manufacture them: Taiwan Semiconductor does. Asset-light business models stripped of heavy physical plant do not require the forms and capital dispositions of old. That lack of impediment permits traditional valuation ratios to move higher, or so the reasoning goes.

Palantir is a company which makes such arguments for itself (it is a former small cap, by the way.) It is the epitome of an asset light software business, growing extraordinarily quickly with revenues lately up over 50%. We were tentative in our approach to it and took a profit quickly. Palantir seems uniquely placed to benefit from government reforms. However, a forward PE of 244x and trailing 519x does boggle:

To match peer valuations, Palantir would need \$60 billion in annual revenue, far above the \$4 billion forecast for 2025... or sustain a 50% annual growth rate for 5 years to bring multiples in line with Microsoft.

—Source: Bloomberg Intelligence August 2025

We continue to follow the company and could buy it again, but it must do a lot to justify that PE or else correct to a better value.

In conclusion, we warn against chasing high valuations, but see opportunities from an economy proving more resilient than seemed likely a few months ago.

Important Information

This commentary was prepared by Stephen Masri of Oppenheimer & Co. Inc. for client accounts managed within the Omega Group program. The foregoing does not constitute an offer to sell nor a solicitation of an offer to buy or sell any security and does not purport to be a complete statement of all material facts relating to any of the investments within the illustration. This information and the inferred opinions are subject to change. Accounts in the Omega program might or might not own shares of any of the companies mentioned above at or after time of writing and could be purchased or sold for reasons not detailed here. Neither Oppenheimer & Co. Inc., nor any of its affiliates, assume any responsibility for the use of this information outside of the Firm or within the herein referenced managed account. There can be no guarantee that companies selected for a portfolio will declare dividends in the future or that if declared will remain at current levels or increase over time. Past performance is no indication of future results. Investing in securities involves risks and may result in loss of principal.

The success of an investment program may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a portfolio’s investments. Unexpected volatility or illiquidity could result in losses. Investing in securities is speculative and entails risk. There can be no assurance that the investment objectives will be achieved or that an investment strategy will be successful.

Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of Funds, countries, markets or companies. Actual events or results may differ materially and may lead to inadvertent omissions in this analysis.

The Standard and Poor’s (S&P) 500 Index is an unmanaged index that tracks the performance of 500 widely-held, large-capitalization U.S. stocks. Individuals cannot invest directly in an index.