

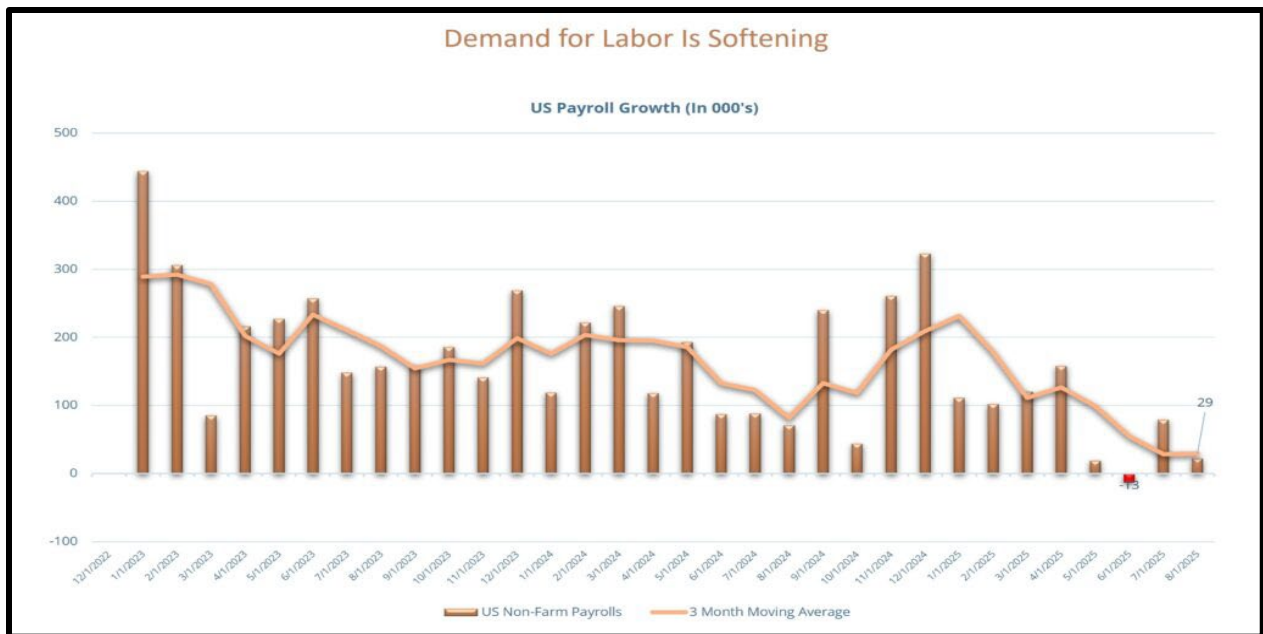


Source: Hedgeye

### The Economy Storms On

Throughout the 3<sup>rd</sup> quarter, ongoing downward revisions to monthly payroll data forced a significant reassessment of labor market conditions. The Bureau of Labor Statistics significantly revised recent monthly payroll gains; June's initial hiring number fell from a modest increase to an outright net loss upon revision, marking the first negative print since 2020. Over the summer, average monthly job growth plummeted to just 29,000, below the pace needed to sustain steady employment. Even more striking, the annual benchmark revision showed that the U.S. added 911,000 fewer jobs in the twelve months ending March 2025 than previously reported, marking the largest such adjustment in over two decades.

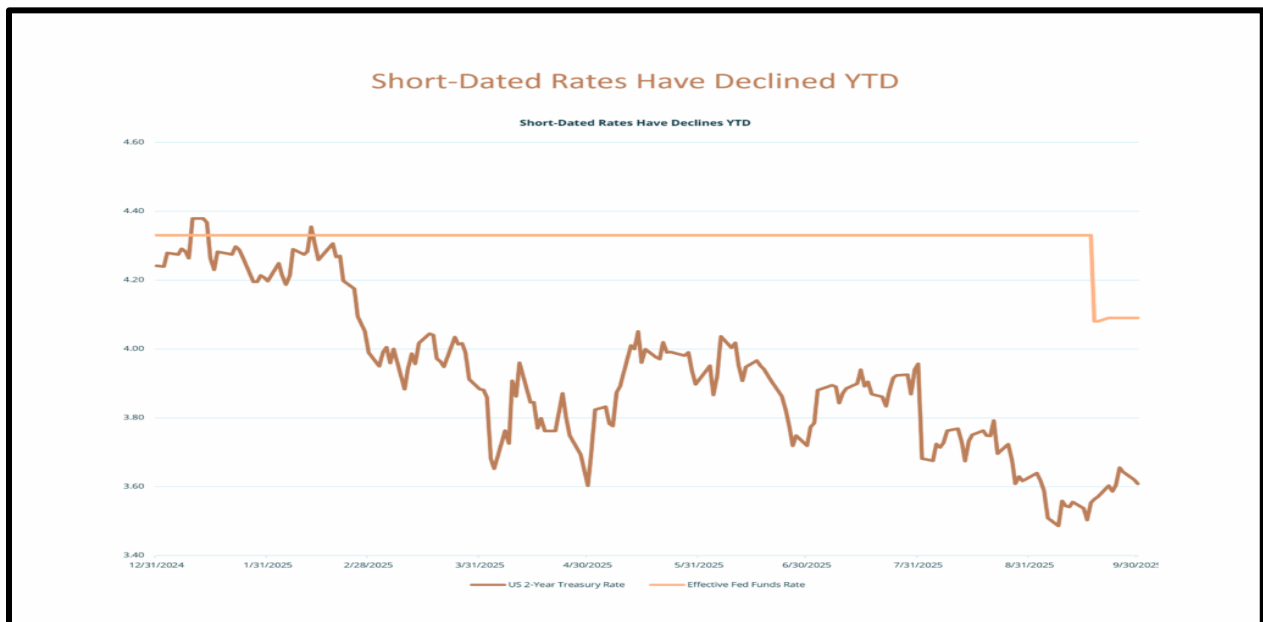
These revisions confirmed a deteriorating picture for the labor market, raising new doubts about the momentum that had previously underpinned consumer demand and economic resilience. The combination of weak hiring, rising unemployment rates, and reliability issues with headline jobs prompted calls for immediate rate cuts from the Federal Reserve. These recent developments in the labor market have meaningfully shifted expectations for Federal Reserve policy. As job growth has slowed and payroll revisions have pointed to softer employment trends over the summer, investors and policymakers alike are reassessing the risks to the economic outlook. In public remarks, several Fed officials have acknowledged that the balance of risks surrounding their dual mandate has become more evenly weighted, with concerns about labor market weakness now taking on greater importance relative to the fight against inflation.



Source: Bloomberg

Reflecting these shifting dynamics, interest rate expectations have moved lower. The two-year U.S. Treasury yield, often regarded as a reliable indicator of the expected path of policy rates, has declined significantly in recent weeks. This move illustrates growing conviction in markets that the cycle of restrictive monetary policy is nearing an end, and that Fed rate cuts may come sooner than previously anticipated.

Taken together, these developments underscore a significant shift in the policy and market narrative—from an exclusive focus on inflation risk to a more balanced consideration of growth, employment, and financial stability.



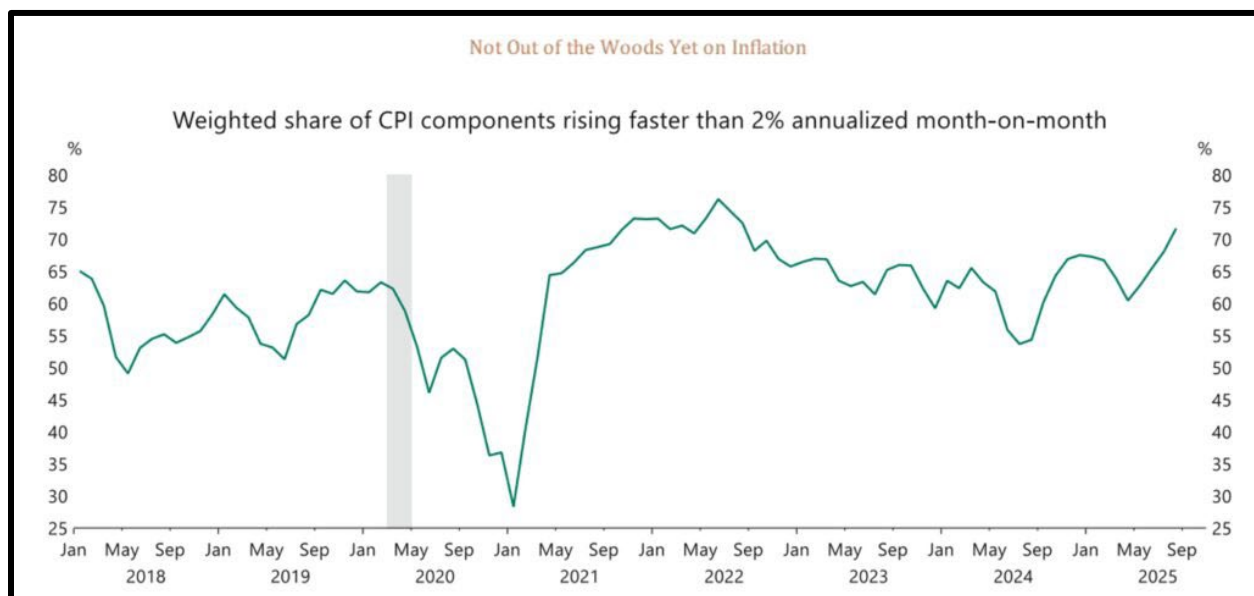
Source: Bloomberg

Despite mounting evidence of labor market weakness and rising consensus for lower policy rates, longer-date Treasury yields remained range-bound or even edged higher following major data releases, as investors demanded greater clarity on the Fed's tolerance for lagging inflation and

fiscal risks—particularly in the wake of deficit expansion and heavy Treasury issuance expectations. This stubbornness reflected both lingering concerns about inflation and skepticism that employment revisions alone would drive a rapid return to ultra-loose monetary conditions.

The bond market continues to signal caution, reminding investors that the inflation battle is not yet fully won. That concern may be well-founded. As the following chart illustrates, more than 70% of the components within the Consumer Price Index are still trending above the Federal Reserve’s 2% inflation target. This breadth of underlying price pressures suggests that inflation risks remain embedded across the economy.

Gold buyers are echoing that message, with demand for the metal reflecting investor skepticism that policymakers can shift toward an accommodative stance without reigniting inflationary pressures. The core risk is that easing policy too soon could trigger a second wave of inflation—an outcome reminiscent of the 1970s, when premature easing prolonged the inflation cycle.



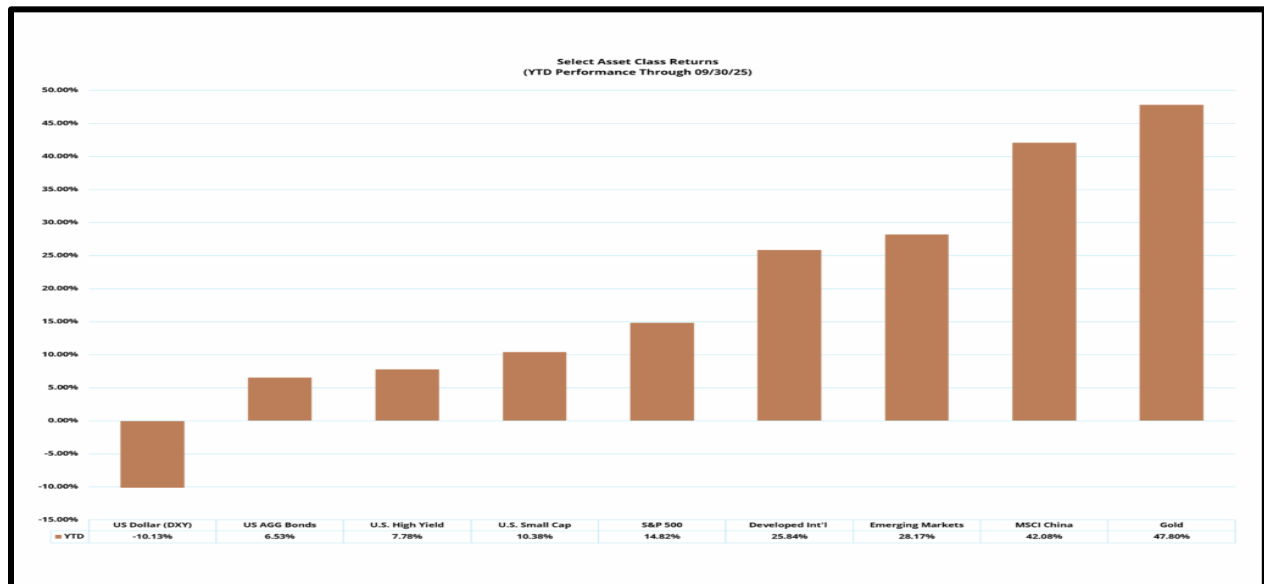
Source: Bloomberg

Amid an increasingly uncertain backdrop for government debt, demand for corporate bonds remains robust. AAA-rated corporate debt is trading at a spread of just 30 basis points over U.S. Treasuries—a slim premium for taking on additional credit risk. In fact, Microsoft Corporation’s bonds are trading at a negative spread to Treasuries, meaning investors are valuing them as if they carry less risk than U.S. government debt. Are they truly safer? Microsoft holds a coveted AAA rating, while all major credit-rating agencies have downgraded the U.S. The company sits on \$95 billion in cash against only \$40 billion in long-term debt, and it continues to generate exceptional profits. Perhaps, then, it isn’t so far-fetched. The market seems to agree; investors are voting with their wallets.

Investor sentiment toward the U.S. is highly divided. On one hand, many are optimistic about American corporations, especially large technology firms that are riding the wave of artificial intelligence. On the other hand, many foreign investors are skeptical about the broader U.S. outlook, citing concerns such as tariffs, lingering inflation pressures, rising public debt, the government shutdown, and questions over the Federal Reserve’s independence. The optimists are buying, while the skeptics are reducing exposure or shorting the dollar. Currently, overseas investors hold approximately \$18.5 trillion in U.S. equities, accounting for around 20% of the market, and \$8.5 trillion in Treasuries, which represents approximately 30% of the market.

The U.S. dollar and domestic equity markets have been moving in opposite directions this year, creating a more favorable environment for international equities. A weaker dollar has amplified returns for U.S.-based investors in foreign markets, as currency translation boosts gains on overseas assets. This dynamic is particularly evident in year-to-date performance across major asset classes through the first nine months of 2025, where international equity benchmarks have outpaced U.S. counterparts.

At the same time, persistent dollar softness has reinforced demand for real assets such as gold. With the greenback losing ground and concerns lingering over U.S. fiscal sustainability and inflation, investors continue to view gold as both a store of value and a hedge against currency depreciation. Together, these trends highlight how currency movements continue to be a key driver of portfolio outcomes in the current environment.



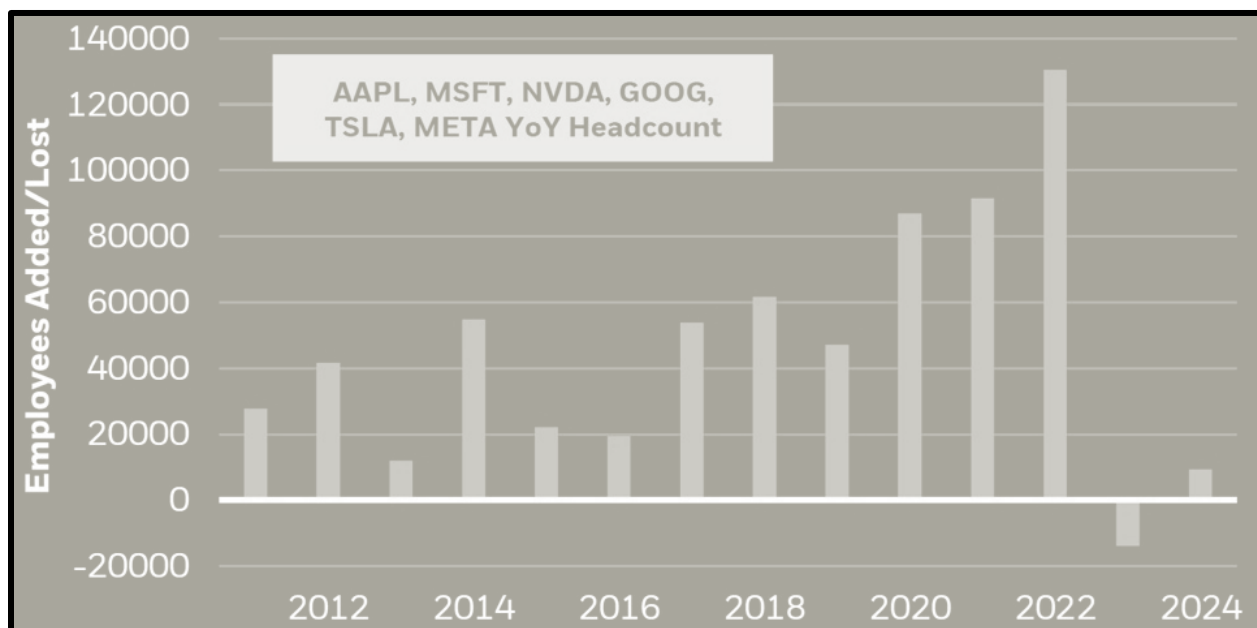
Source: Bloomberg

## AI Adoption Driving Productivity Gains & Economic Air Pockets

The integration of generative AI and automation into the global economy marks the beginning of what could be one of the most transformative technological revolutions in history. Unlike past cycles where innovation often brought uneven benefits, this wave is emerging as a driver of broad-based productivity gains and cost reduction. As automation and AI scale, they have the potential to expand output while simultaneously helping to contain costs, ultimately contributing to lower, not higher, inflation over the long term. This dynamic underpins our view that lower interest rates may not necessarily reignite inflationary pressures in the current environment. Instead, we expect that the adoption of these technologies will sustain economic growth while steadily improving efficiency.

Generative AI is already reshaping industries by enhancing workflows, accelerating decision-making, and enabling firms to achieve more with a stable workforce. Early signs suggest significant improvements in corporate performance driven by efficiency gains rather than workforce expansion. This represents a substantial shift in labor dynamics: while output and productivity rise, private sector hiring is showing signs of slowing as companies prepare for further disruptions. Routine, administrative, and even analytical roles are most vulnerable to automation, yet opportunities remain abundant for those who adapt, reskill, and evolve to work alongside AI.

In this sense, AI is not just a technology shift, but a workforce transformation—both a partner and, at times, a disruptor. The following chart illustrates the pressure on labor demand at major technology companies.



Source: Company Reports

#### Quarterly Performance

The return for the Hahn Capital Management Mid-Cap Value Composite was **3.61% gross of fees and 3.36% net of fees in the 3rd quarter of 2025**. For the quarter, we underperformed our primary benchmark, the Bloomberg Mid-Cap Total Return Index, by 2.42 percentage points gross of fees and underperformed by 2.67 percentage points net of fees.

For the quarter, in the representative account, sector allocations to Consumer Staples, Communication Services, Materials, and Industrials contributed, while those to Real Estate, Information Technology, Utilities, Financials, Consumer Discretionary, Energy, and Healthcare detracted.

In the representative account, the most significant relative performers during the quarter were Emcor Group (EME), Alexandria Real Estate (ARE), CBRE Group (CBRE), Ross Stores (ROST) and Warner Music Group (WMG), while the most significant underperformers were Virtu Financial (VIRT), Euronet Worldwide (EEFT), InterContinental Exchange (ICE), Wabtec (WAB) and Roper Technologies (ROP).

## Hahn Capital Quarterly Performance Attribution – 3Q 2025

LINKED PERFORMANCE BY SECTORS											
BENCHMARK: Bloomberg Mid-Cap TR Index											
PORTFOLIO: Representative Account											
GICS Sector	PORT Weight	BENCH Weight	DIFF Weight	PORT Return	BENCH Return	DIFF Return	SECTOR SELECT	STOCK SELECT	ACTIVE CONTR	PASSIVE CONTR	TOTAL CONTR
Financials	23.79%	14.36%	9.43%	-8.88%	3.15%	-12.02%	-0.24%	-3.09%	-3.33%	0.00%	-3.33%
Information Technology	6.15%	12.75%	-6.60%	-0.45%	10.63%	-11.07%	-0.30%	-0.68%	-0.98%	0.00%	-0.98%
Real Estate	15.94%	6.89%	9.05%	8.99%	1.97%	7.03%	-0.37%	1.11%	0.74%	-0.01%	0.73%
Industrials	19.40%	18.08%	1.32%	6.63%	6.40%	0.23%	0.04%	0.06%	0.10%	0.00%	0.10%
Health Care	11.28%	10.00%	1.28%	9.65%	4.46%	5.19%	-0.01%	0.59%	0.58%	-0.01%	0.57%
Consumer Discretionary	4.06%	10.33%	-6.27%	19.77%	7.90%	11.88%	-0.12%	0.44%	0.32%	-0.01%	0.31%
Materials	0.00%	5.27%	-5.27%	0.00%	4.40%	-4.40%	0.07%	0.00%	0.07%	0.00%	0.07%
Communication Services	6.06%	3.70%	2.36%	13.97%	17.45%	-3.49%	0.27%	-0.21%	0.06%	0.00%	0.06%
Energy	3.55%	5.09%	-1.54%	13.06%	7.26%	5.80%	-0.02%	0.19%	0.17%	0.00%	0.17%
Consumer Staples	2.11%	6.41%	-4.30%	1.44%	-3.92%	5.36%	0.44%	0.13%	0.57%	0.00%	0.57%
Utilities	0.00%	7.12%	-7.12%	0.00%	10.22%	-10.22%	-0.27%	0.00%	-0.27%	0.00%	-0.27%
Cash	7.66%	0.00%	7.66%	1.10%	0.00%	1.10%	-0.39%	0.00%	-0.39%	0.00%	-0.39%
<b>Total Portfolio - Net of Fees</b>				<b>3.64%</b>	<b>6.02%</b>	<b>-2.38%</b>	<b>-0.91%</b>	<b>-1.47%</b>	<b>-2.38%</b>	<b>0.00%</b>	<b>-2.38%</b>

### TOP 10 PORTFOLIO HOLDINGS

As of 09/30/2025

Company	% of Assets	Sector	Industry
CBRE GROUP INC - A	6.6%	Real Estate	Real Estate Management & Devel
WABTEC CORP	5.1%	Industrials	Machinery
VIRTU FINANCIAL INC-CLASS A	4.8%	Financials	Capital Markets
INTERCONTINENTAL EXCHANGE IN	4.7%	Financials	Capital Markets
EURONET WORLDWIDE INC	4.5%	Financials	Financial Services
ROSS STORES INC	4.3%	Consumer Discretionary	Specialty Retail
ALEXANDRIA REAL ESTATE EQUIT	4.3%	Real Estate	Health Care REITs
JACOBS SOLUTIONS INC	4.3%	Industrials	Professional Services
SEI INVESTMENTS COMPANY	4.1%	Financials	Capital Markets
AGILENT TECHNOLOGIES INC	4.1%	Health Care	Life Sciences Tools & Services

### HCM COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 09/30/2025	3Q 2025	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	3.61%	5.20%	11.97%	11.69%	7.85%	9.04%	12.99%
HCM Net of Fees	3.36%	4.16%	10.88%	10.61%	6.79%	7.97%	11.89%
Bloomberg Mid Cap Total Return Index	6.03%	9.76%	16.91%	12.81%	10.31%	11.70%	11.49%

[Link to: HCM Performance Disclosures](#)

## PORTFOLIO ACTIVITY

### New Positions

There were no new positions added during the quarter.

## Positions Added

**Euronet Worldwide (EFT)** – We added to our position in Euronet during the quarter as this leading Fintech company sells at less than 50% of our appraised intrinsic value. Concerns over competition are masking the underlying strength of its markets, with the company currently expecting 15% growth in 2025. The company sells for only 9 times the \$9.00 the company expects to earn in the current fiscal year.

**Becton Dickinson (BDX)** – We added to Becton Dickinson during the quarter as earnings are now reaccelerating after a post pandemic pause. Becton has compounded earnings at a double-digit rate since our first purchases in 2015.

## Positions Reduced

**Emcor Inc. (EME)** - We reduced our position in Emcor during the quarter as it rallied by over 50% during 2025 and increased 15-fold from our initial purchases in 2018. Emcor remains a core holding in the portfolio and a key beneficiary of the explosion in spending on AI, albeit at a lower position size due to our risk mitigation efforts.

## Positions Sold

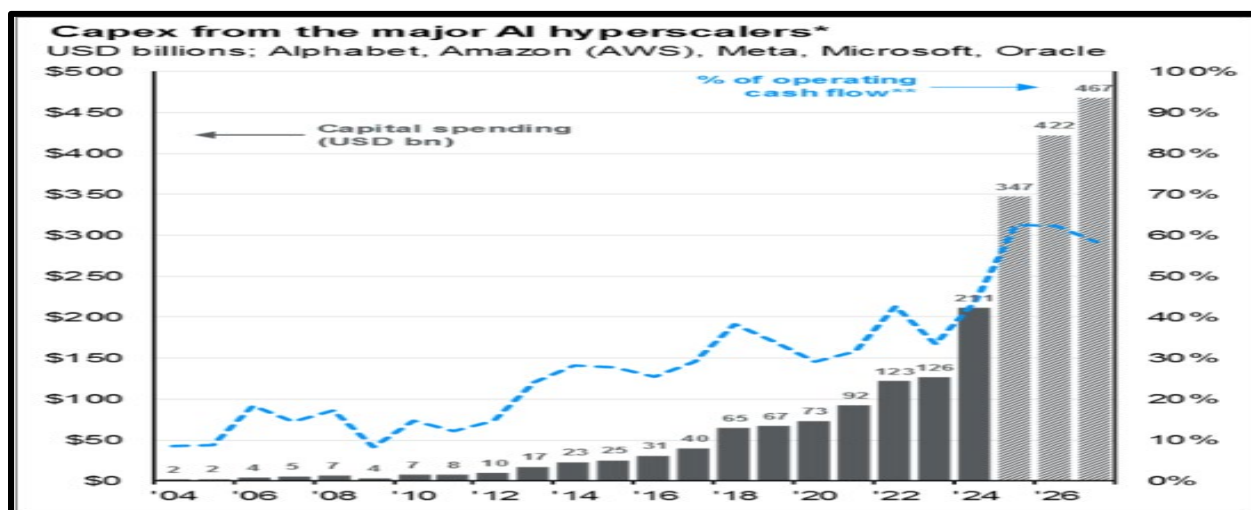
There were no positions sold during the quarter.

## Outlook

### Economic & Market Outlook

As we enter the final quarter of 2025, the U.S. economy is showing signs of weakness, primarily due to sluggish job creation and a decline in consumer confidence. Despite these challenges, there are reasons to anticipate continued positive markets.

Artificial intelligence continues to be a powerful driver of economic transformation. AI-related technology spending has consistently exceeded already high expectations and is projected to grow further in the years ahead. The chart below highlights how the four largest AI infrastructure companies plan to significantly increase capital expenditure through 2027.



Source: Company Reports

While the rapid adoption of AI may be contributing to the recent slowdown in job growth, the Federal Reserve has shifted its focus toward supporting the labor market. At present, concerns about employment weakness are taking precedence over inflationary pressures. In response, the Fed cut interest rates by 0.25% on September 17. Additional rate cuts are anticipated in October and December, which could help stabilize the job market and support investment returns as we close out the year.

Looking forward, there are several crosscurrents affecting the economy and global financial markets. Inflation and tariffs, while capturing fewer headlines than they have in the recent past, continue to be potential risks for the market. Local and global politics seem omnipresent as we weather a government shutdown at home and military conflicts abroad. Meanwhile, the labor market, which had been a pillar of economic resilience, is showing signs of strain.

At the same time, corporate earnings continue to deliver positive surprises, driven by new infrastructure investment and productivity gains. Additionally, retroactive tax cuts for 2025 and more accommodative Federal Reserve policy could provide economic support as labor dynamics are coming under pressure.

The consensus market cry is that risk assets look expensive; that view is most likely driven by equity indices reaching all-time highs. While it's true that equity multiples are full by historic standards, it misses the fact that earnings growth, particularly in mega-cap technology, is driving returns, we aren't seeing undue multiple expansion. When one combines the secular growth coming from the tech sector with a rate-cutting backdrop, it's understandable why equities continue to progress. The US labor market has certainly weakened but jobs are still being added, and consumer consumption shows little sign of weakness, which would be a recessionary warning sign. With rate cuts now being expected and fiscal tailwinds coming from the US and Europe, we expect economic growth to stabilize next year. Markets are likely to anticipate that. Consistent with last quarter, with so much cash on the sidelines, the risk is that markets grind higher, while cash rates grind lower.



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