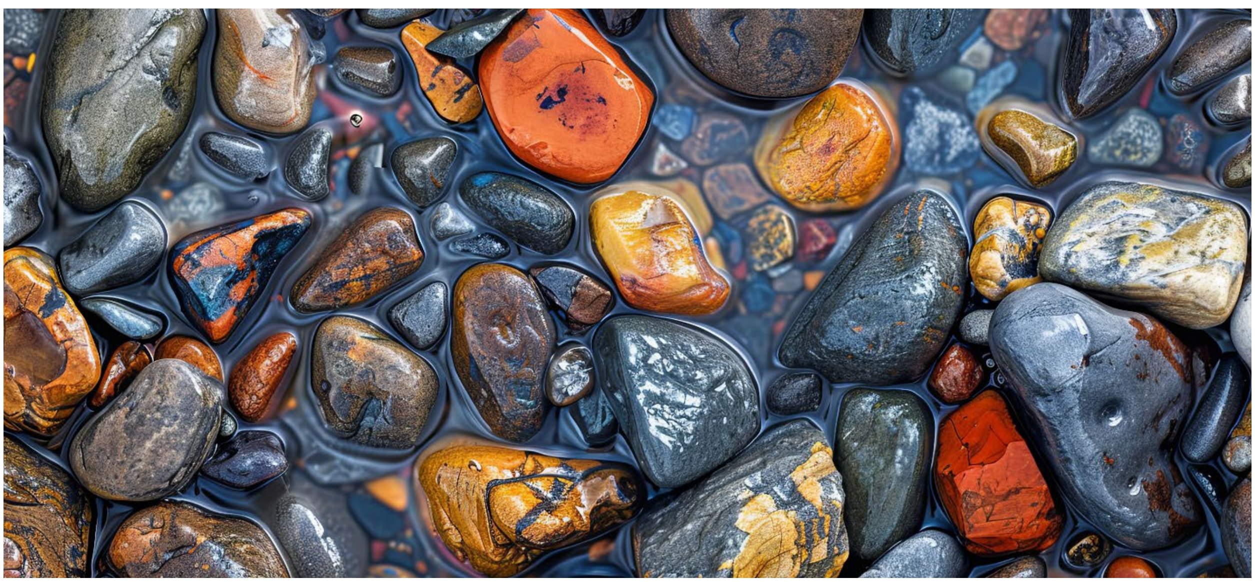
RIVERSTONE WEALTH MANAGEMENT

Fall 2025

Welcome to the Riverstone Review!



Dear valued client,

We are pleased to share this new quarterly newsletter as part of our ongoing commitment to keep you well-informed and confident in your wealth management journey. In each issue, we will highlight key market developments, emerging opportunities and potential risks, along with select features on our core investment strategies, timely wealth-planning considerations and a few lighter moments to brighten your day. Think of this as a conversation starter: a way for us to share what's shaping the markets and your portfolio, and to invite deeper, one-on-one discussions whenever you're ready.

Share the Riverstone Review with a friend

State of the Market

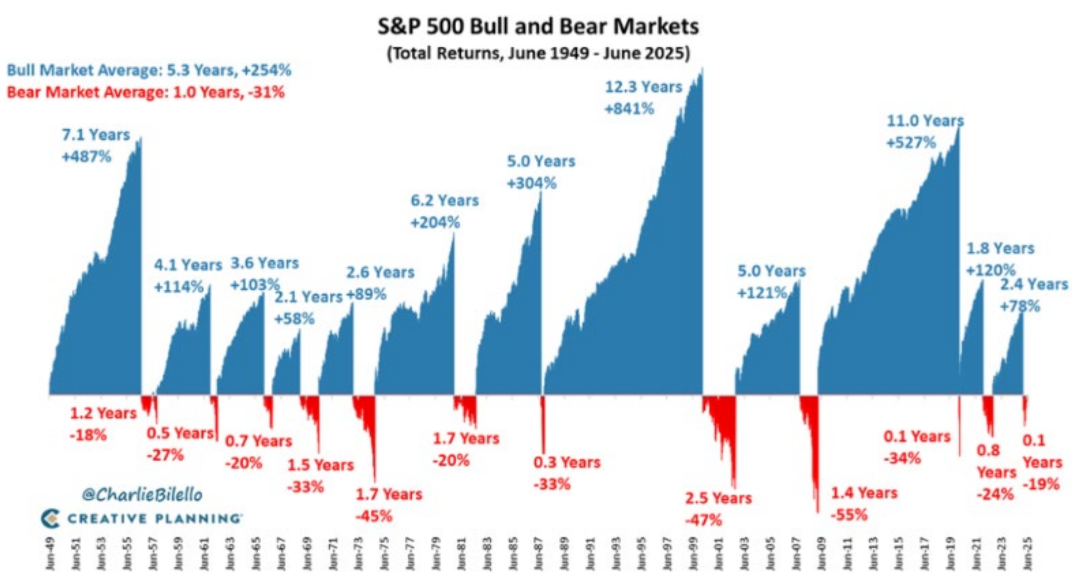
The equity bull market continued this quarter with gains enjoyed across asset most classes. Capital flows are still strongest in companies with direct Artificial Intelligence (AI) involvement (e.g. IT and infrastructure) and the commodity / materials space (e.g. gold, copper).

Principle drivers here have been:

- Accommodating monetary policy. Central banks are starting to lower short term interest rates, and this is expected to continue. Markets love easy money. US Money Supply also just reached a new all time high.
- Relaxed US fiscal policy is also a driver with lower taxes / increased government deficits to fund the gap.
- The market is also responding well to the push by both the US and Canada to cut red tape and let big scale projects get built.
- Expectations around the presumed efficiency & economic benefits from Artificial Intelligence (AI), and the massive infrastructure investments to make this happen.
- Google, Amazon, Meta and Microsoft have earmarked US $364 billion in AI capital expenditures this year alone - more than 4x higher than their capex budgets from five years ago.

Strategic Perspective

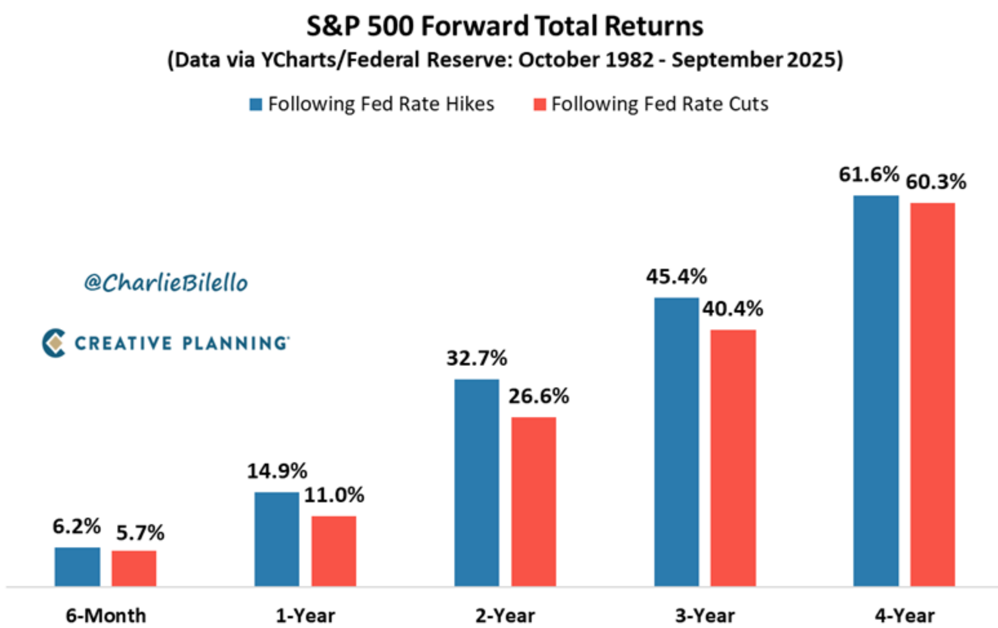
- Investor sentiment and the equity market trend are still strong
- The current financial backdrop is quite stable
- US economic growth is healthy (e.g. 2nd quarter GDP up 3.8% annualized) and operating margins are at the second highest level in the past two decades.
- The lowering of interest rates is stimulative for the economy, all else equal.
- The AI buildout looks deep. Nvidia CEO Jensen Huang recently stated that he expects the largest AI companies to spend between US $3 trillion to US $4 trillion over the next five years (source: Reuters).
- As per the graph below, bull markets (even more expensive ones) can continue for some time.
- Some pundits even feel that the Spring 2025 pullback counted as a resetting of the rally clock.



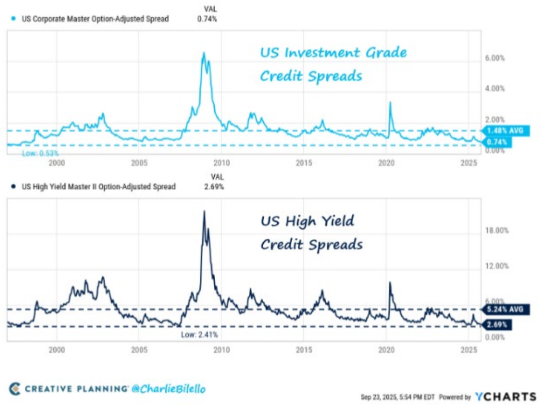
Context & Considerations

- The equity market is expensive by historical standards, particularly in the US, with the S&P at the second highest Price-to-Earnings ratio since the early 2000 tech boom.
- Expensive markets don't historically cause market corrections, in and of themselves, but corrections tend to be more pronounced when a negative catalyst does come along
- Technological advancement right now is amazing and unprecedented. However, from a businessperson's perspective, the economic case for AI is still uncertain – currently favouring the sellers of the"pitchforks" (i.e. chips) over than the "gold miners" (i.e. AI application providers / beneficiaries)
- Technological buildouts can take longer (e.g. internet) and perhaps be less profitable than the market expects. The Airline Industry was an example of a major technological advancement that ultimately proved to be somewhat of a challenging business model.
- The US labor and housing markets are showing signs of fatigue
- US GDP growth is still strong, but supported by the AI spend. AI capital expenditures have added more to US GDP growth than consumer spending over the last two quarters (Source: The Rundown)
- Goldman Sachs' so-called speculative trading indicator jumped to one of highest levels on record recently (source: Bloomberg). The indicator monitors things like trading volumes in unprofitable stocks (e.g. Quantum computing, crypto companies), penny stocks, and stocks with elevated EV/sales multiples. As well as IPO activity, first-day IPO returns, and speculative new issuances (e.g. Special Purpose Acquisition Corps).
- Goldman reported that, historically, spikes in speculative trading have preceded strong 3-, 6-, and 12-month S&P500 returns, but also below-average returns on a two-year horizon.

- Interest rates are accommodative.However, forward returns in the S&P 500 have actually historically been lower in declining interest rate environment, albeit still quite positive. The data here is skewed by periods where Central Banks dropped interest rates in response to recessionary forces.



- Leveraged investing through margin debt is near historical highs.
- Other valuation and risk metrics are also pricing in a rosy outlook (e.g. the S&P 500 Price-to-Sales ratio is at an all time high)



- Fixed income credit spreads (i.e. incremental yield investors demand to assume credit risk over government bonds) are at >20 year lows.
- There continues to be a high degree of concentration in returns and market capitalization towards the US mega capitalization Tech companies.

The Riverstone Playbook

- Tailwinds from fiscal / monetary stimulus, deregulation and technological advancement are still supporting a hearty market trend.
- The factors that I am watching most closely right now, as it relates to a change in sentiment and a more conservative portfolio stance, are:

1. Any indication from the US Central Bank that it may pivot to a more restrictive stance.
2. AI capital expenditures are slowing down.
3. Negative price behaviour in leading edge speculative stocks, such as quantum computing and crypto companies.
4. Hedging behaviour of top tier fund managers with proven track records – e.g. Bill Ackman and David Tepper

- It may be prudent to rebalance more towards lower capitalization and volatility equities, alternatives (e.g. gold) and shorter duration fixed income investments if some of the above actors become apparent.
- It is worth noting that an eventual change in risk sentiment does not necessarily mean a loss of opportunity. In 2000, the year the Nasdaq was down 39%, the S&P

400 Mid Cap Index was actually up 16% as investors rebalanced into value-oriented positions. The S&P 400 Mid Cap Index went onto double into 2007.

Insights & Opportunities

- Some of the better business models / historical long-term compounders are actually being challenged in this market.
- Although this is not a solicitation, examples include Constellation Software (CSU), Lumine Group (LMN), Roper Technologies (ROP) and S&P Global (SPGI)
- Alberta natural gas prices are also near all time lows and creating some interesting prospects for forward-looking investors.

Quick Take on Gold: Gold and gold-related stocks have really contributed to gains in the TSX (and our portfolios :) this year. So why is gold rallying and what is the outlook from here?

Public sector debt and deficits are expanding in the face of relaxed fiscal policies (i.e. taxation to fund debt obligations).

Investors understand that this and a softening interest rate outlook can lead to money printing, debasement in reserve currency value and potential inflation. Policy-makers are not necessarily opposed to a weakening currency, in this environment, because their debt obligations are denominated in the weakening currency and export markets are supported by a weak currency. Investors (and other Central Banks) are thus motivated to move away from treasury bonds and into other store holds of wealth. In short, gold tends to do well when there is the threat of a weakening global reserve currency (i.e. US$) and above average inflation.

And In Other Good News...

Good news from Goldman on aging. A recent IMF study suggested that 70 year olds today are in the same shape cognitively as 53 year olds in 2000, the same shape physically as a 56 year old from that same year!

Learn More

Elon Musk on AI and human intelligence at the All-In Summit: *"The questions are the really hard part. The answer is the universe. Like the answer is everything you see around you."*

Watch Now

Get ready to not believe your eyes! If you a looking for a really fun, mind-blowing and funny magic show to watch, I would highly recommend Justin Willman's *Magic Lover* on Netflix

Stream Now

Thank you again for your trust and support. We look forward to connecting with you again soon, although, as always, please don't hesitate to reach out if we can be of any assistance.

Share with a Friend: Riverstone is always open to meeting with qualified new relationships, so please feel free to share this newsletter with a friend, peer or colleague as well.

Sincerely,

Dan Dorland

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"If you spend your time trying to figure out what's "best" for you, your choices will be cautious, your decisions will take forever, and your journey will be launched on a sea of expectations.
If you are not careful, you will drown in your expectations."

- Neale Donald Walsch

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