

FORTHRIGHT PARTNERS, LLC

EXECUTIVE SUMMARY

Artificial Intelligence

- Prompt and prompt wisely
- Constrained by human knowledge?
- \$3-4 trillion AI investments by 2030?
- Law of diminishing marginal returns?

Investments

- Weakened labor market = lower interest rates = stronger financial markets?
- High stock valuations argue for a defensive and diversified approach.

INVESTMENT LETTER, 3RD QUARTER 2025

I PROMPT, THEREFORE I AM?

It is difficult to go a day without seeing headlines about layoffs because of the rising use of artificial intelligence (AI). AI can greatly enhance productivity, especially in automation, data management and repetitive processes. Today's and tomorrow's workers need to master AI in order not to be replaced. So, everyone needs to learn how to prompt AI (asking AI for output) effectively, because, depending on how you phrase your prompt, you may not get the output that you need, or worse, you may get output that is irrelevant or incorrect.

As a non-tech person, using ChatGPT (or any other AI platform) is terrific when looking up information on almost any topic. We can even have this quarterly letter written within 15 minutes (more on it later). However, without a certain level of knowledge base, how can users know that the AI output is up-to-date or correct? To find out the constraints of using AI, we posed the following prompt to ChatGPT: ***Are ChatGPT responses constrained by the database it is trained on?***

Here is ChatGPT's response:

ChatGPT doesn't have a database of "stored answers" – it has a trained model that learned patterns from its training data. Here's what that means:

Ways My responses Are Constrained:

1. Knowledge Cutoff

- ***My "knowledge" is limited to what I saw during training (plus any live web search I'm allowed to do).***
- ***If something happened after my last update and I don't search the web, I won't know about it.***

2. Patterns & Probabilities

- ***I can only generate text based on patterns I learned.***
- ***If I was never exposed to a concept or phrase, I can't invent correct facts about it – I'd just guess, which might be wrong.***

3. Style and Safety Rules

- ***I follow rules that encourage helpful, safe and respectful responses.***
- ***This constrains how I answer (e.g., I won't give harmful instructions).***

Please note #1, AI is constrained by the collective knowledge base that has been created by humans. AI is a tremendous synthesizer of current knowledge and data, it speedily combines information and creates new things in such a way that no individuals can. Perhaps it can even help accelerate innovation because of its processing speed. In a way, AI democratizes knowledge (at least for curious people who have high speed internet access). However, will it stymie learning because homework can be done with a simple prompt? Or will it be an aid to deepen understanding? Are there enough adults in the room to make sure AI is utilized properly in a productive manner?

Critical thinking is key in prompting AI effectively, both in terms of securing correct and productive output and understanding any potential biases because of the database that is used. So, instead of "I prompt, therefore I am", maybe we should change it to "I prompt, therefore I am employed".

"I think, therefore I am."

Rene Descartes

AI INVESTMENTS

According to JP Morgan, AI investments from the hyperscalers (Alphabet, Amazon, Meta, Microsoft and Apple) will total \$347 billion this year, \$422 billion in 2026 and \$467 billion in 2027. The hyperscalers have already invested ~\$460 billion from 2022 to 2024. Nvidia's CEO Jensen Huang expects total AI infrastructure investments to reach \$3-4 trillion by the end of 2030. Based on JP Morgan's data, the hyperscalers will have invested \$1.7 trillion by the end of 2027. Using Jensen Huang's mid-point forecast of \$3.5 trillion AI spending by the end of 2030 means that companies will need to invest another \$600 billion per year from 2028-2030. That's a lot of chips, a lot of data centers and a lot of water and electricity needed. Meanwhile, few companies have quantified the financial benefits of using AI and 90% of ChatGPT users utilize the free version. Will the law of diminishing marginal returns be defied? Will innovators seek to build more efficient AI models in the future?

ECONOMY

	Most recent	Expected for year-end 2025
Economic Growth	1.2% for the first half of 2025	1.6%
Unemployment Rate	4.3% as of August 2025	4.5%
Inflation (Consumer Price Index)	2.9% as of August 2025	3.0%

- The Federal Reserve lowered short-term interest rates by 0.25% in September due to the weak labor market.
- Consumer spending has grown at a healthy clip of 2.5%. According to Bloomberg, the top 10% income group accounted for almost half of all consumer spending in the 2nd quarter (versus 35-40% prior to 1999).
- Thus far this year, AI-related investments have accounted for almost all the growth in business investments.

MARKETS

Both the bond and stock markets posted strong returns in the third quarter, bolstered by AI enthusiasm and the Federal Reserve's interest rate cut in September. The US stock market remains dominated by technology stocks (+13% for the quarter) and the S&P 500 Index has become even more concentrated, with the top 10 holdings representing over 40% of the index.

The investment landscape has not changed that much in the past three months. Investors continue to contend with a low-growth economy, ~3% inflation, ongoing tariff uncertainties and a burgeoning budget deficit. Ironically, a weak (but not too weak) economy can benefit financial markets as it may lead to more interest rate cuts and help dampen inflation. At the risk of sounding like a broken record, given the stock market's high valuation and ongoing economic uncertainties, we prefer a more defensive/diversified strategy.

As always, please do not hesitate to contact us if you have any questions.

By the way, we could have ChatGPT write this quarterly letter in 15 minutes. It would have been a wonderful summary of current consensus thinking.

"AI will not destroy us. It will, however, expose who we truly are."

Reid Hoffman, internet entrepreneur, co-founder of LinkedIn, Inflection AI and Manas AI

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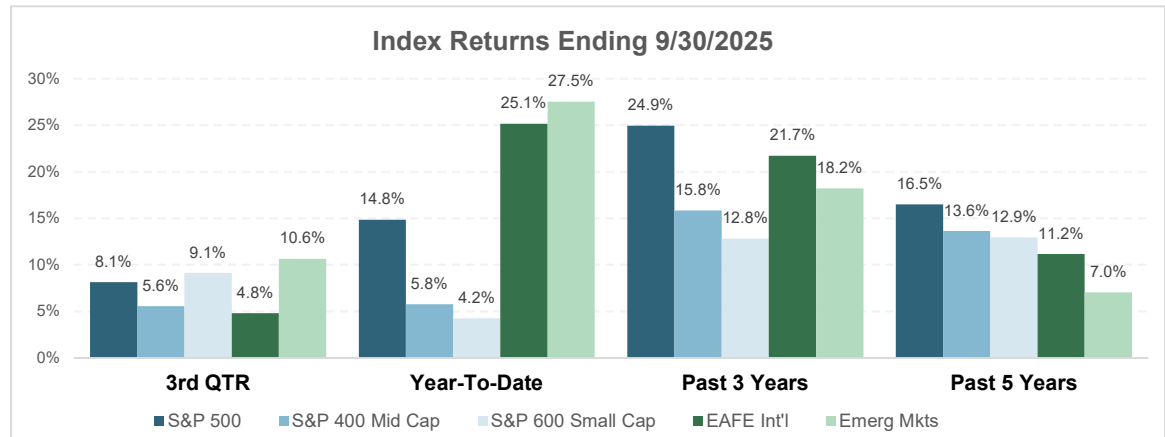
Forthright Partners Investing with Care & Integrity

THIRD QUARTER 2025 MARKET HIGHLIGHTS

Stocks

- Small-cap and emerging markets were the best performing asset classes last quarter.
- Year-to-date, overseas markets continue to dominate.
- In the US

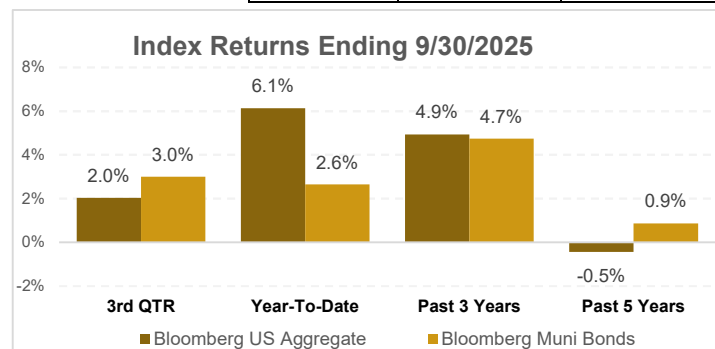
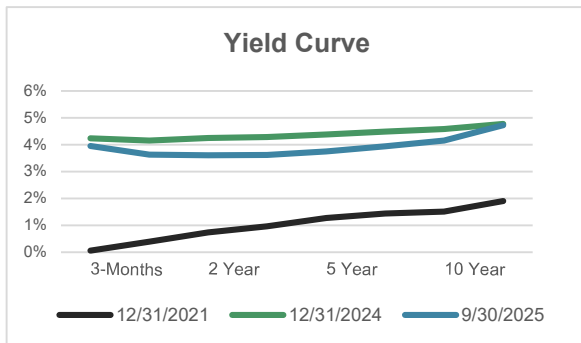
market, the Magnificent Seven account for 45% of the S&P 500's year-to-date return. Healthcare and consumer staple stocks remain the laggards.



Bonds

- The Federal Reserve lowered interest rates by 0.25% in September. With a weakening labor market, 1 to 2 more rate cuts are expected this year.
- Corporate and high yield bonds have done very well this year. Spreads on intermediate corporate bonds are the tightest since 1998.
- Intermediate bonds look increasingly attractive as short-term rates will likely decline further.

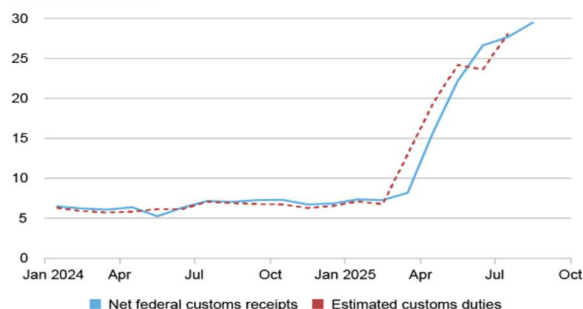
	2 Year Bond Yields	10 Year Bond Yields
12/31/2023	4.3%	3.9%
12/31/2024	4.3%	4.6%
3/31/2025	3.9%	4.2%
6/30/2025	3.7%	4.2%
9/30/2025	3.6%	4.2%



Tariffs, Tariffs, Tariffs

Government Revenues from Tariffs Have Skyrocketed

Billions of U.S. dollars



Sources: U.S. Treasury; U.S. Census Bureau.

For details, please go to

<https://libertystreeteconomics.newyorkfed.org/2025/10/a-country-specific-view-of-tariffs/>

The chart to the left can be found on the Federal Reserve Bank of New York website. According to its analysis based on the Census Bureau's data as of July, here are the realized tariff rates:

	Realized Tariff Rates (calculated as Share of Total Imports)	Share of Imports Subject to Tariffs
All Countries	9.7%	46.4%
China	40.4%	93.9%
Japan	14.8%	84.9%
Korea	13.1%	69.7%
European Union	9.1%	61.7%
Mexico	4.7%	18.9%
Taiwan	3.1%	19.1%
Canada	3%	10.4%