

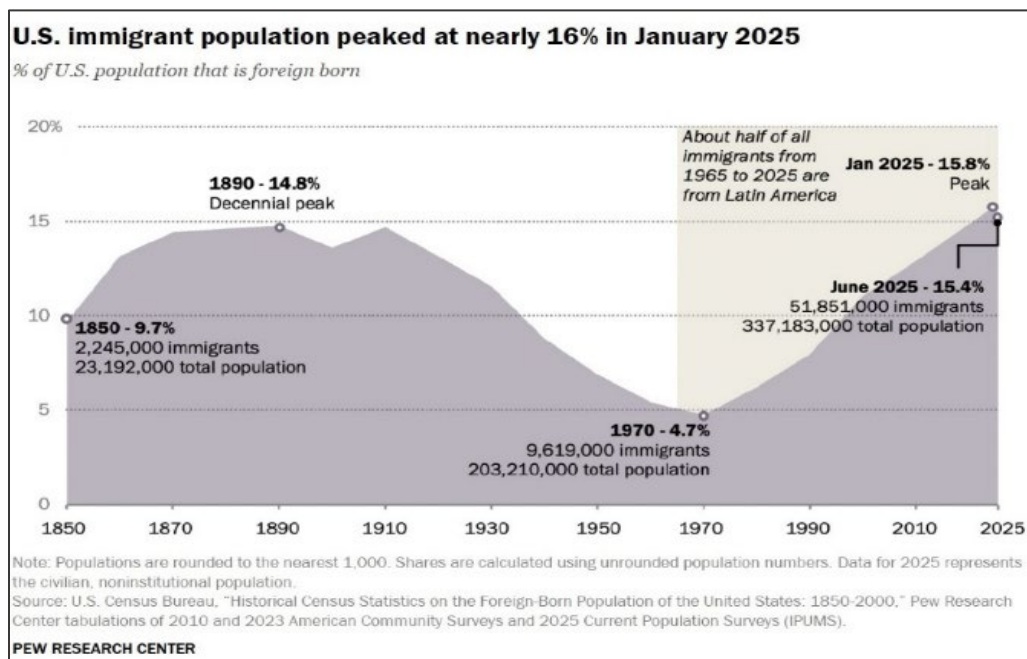
Risk-On Rally Drives US Equities Higher in Q3 2025

The third quarter of 2025 stood out as another strong period for US equities, as the S&P 500 notched an 8.1% gain building upon Q2's 10.9% rally, despite persistent uncertainties like ongoing policy debates, geopolitical tensions, signs of a weakening labor market, looming government shutdown, and renewed concerns around tariffs. The market exhibited pronounced risk-on sentiment, with micro caps and the "Magnificent Seven" leading the rally with roughly 17% gains. The performance and valuation gap between growth and value widened further with Russell 1000 Growth surging 10.5% and Russell 1000 Value advancing only 5.3%. Traditional quality companies also struggled to keep pace, with the S&P 500 Dividend Aristocrats Index delivering modest gains of 3%.

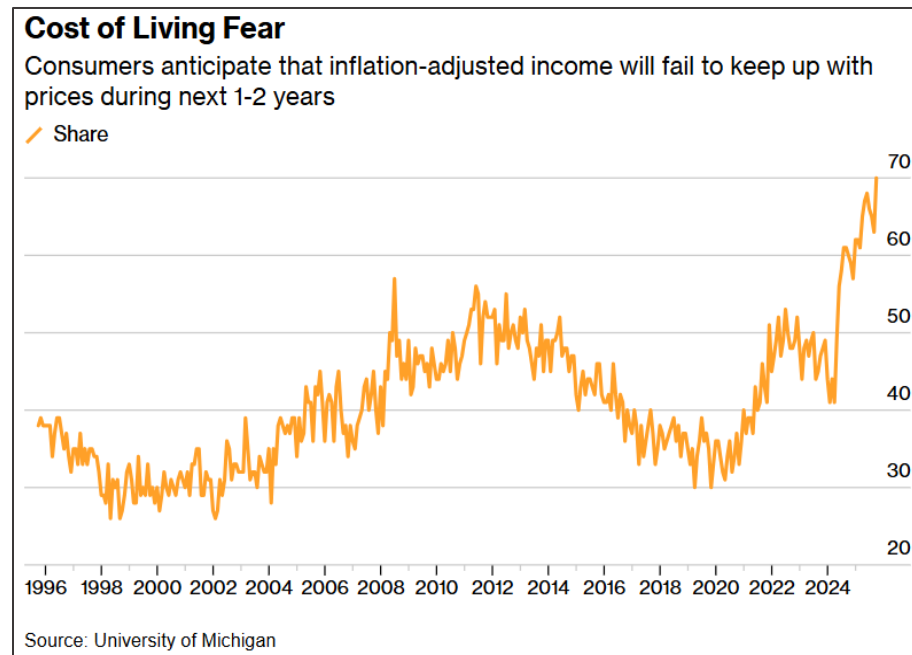
Labor Market Complexities and Weakening Consumer Confidence

Stricter immigration enforcement measures have meaningfully reduced labor supply, creating artificial tightness that masks underlying economic weakness. For context, the U.S. foreign-born population has contracted by more than one million in the first half of 2025, marking its first decline since the 1960s. Immigrants still formed 19% of the US labor force as of June 2025. This supply-driven contraction has kept the unemployment rate steady, even as labor demand softened. However, deportations and declining immigrant inflows are likely to act as a drag on GDP over the coming quarters if these trends persist.

During the quarter, weak nonfarm payrolls for July and August were released, which also included substantial downward revisions to prior months' numbers. Furthermore, the firing of the Commissioner of the Bureau of Labor Statistics has heightened concerns about political interference in traditionally independent economic institutions, undermining confidence in the credibility of official data.



With concerns around inflation and slowing employment growth, consumer confidence also continues to weaken. For now, however, consumers appear to be broadly resilient despite these pressures, though potential tariff cost passthrough threatens real income and spending power.



Federal Reserve Policy Shift

The quarter's most significant development has been the growing consensus around Fed policy easing. The Fed restarted its rate-cutting cycle, after a 9-month pause, with a highly anticipated 25-basis-point rate cut. However, there is concern that this easing is being driven by a weakening labor market rather than cooling inflation. Markets are pricing in two additional rate cuts before year-end and two more next year. We believe these cuts may be appropriate to support the weakening labor market and economic growth, but the Fed's caution in avoiding a resurgence of inflation remains warranted, especially given tariff-driven inflation concerns.

Policy Volatility and Fed Independence

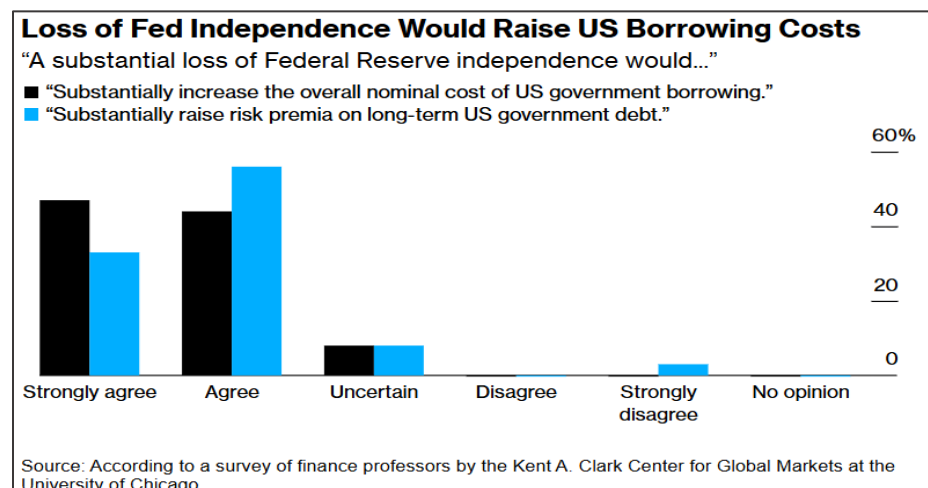
The quarter was again marked by elevated policy volatility from the Trump administration. Tariff policy remained a central source of uncertainty, with legal challenges mounting against the administration's sweeping "Liberation Day" tariffs. The U.S. Court of Appeals ruled in August that most of Trump's reciprocal tariffs were illegal, though the tariffs remained in place pending Supreme Court review. The administration has signaled it will pursue alternative executive authorities to sustain trade restrictions, highlighting a willingness to bypass traditional legal frameworks.

Additionally, following the end of the quarter, the US government entered a shutdown after lawmakers failed to reach an agreement on spending. This has the potential to increase volatility due to impacts on consumer income and spending from furloughs, as well as potential layoffs, and the suspension of government data releases. During a government shutdown, non-essential federal workers are furloughed and do not receive any income until the shutdown ends. In the days leading up to the shutdown, President Trump also stated that he plans to use this opportunity to cut jobs across the government, potentially causing an increase in unemployment. Furthermore, due to the “non-essential” categorization of the Bureau of Labor Statistics, monthly payroll and employment data will not be released during the shutdown. This increased opacity into labor market health significantly increases the chance of the Federal Reserve making a policy mistake, simply from a lack of current data.

Federal Reserve independence faced further unprecedented challenges as the administration intensified its campaign to remove Governor Lisa Cook from the Federal Open Market Committee. This marks the first time in the Fed's 112-year history that a president has attempted to fire a sitting governor. The U.S. Court of Appeals rejected Trump's bid to remove Cook before the September policy meeting and on October 1st, the Supreme Court also declined to allow Trump to immediately oust Governor Cook until it hears oral arguments in January next year. However, the administration's broader assault on Fed independence signals a fundamental shift in the relationship between monetary and fiscal policy.

An equally significant threat to Fed independence is the appointment of Trump's nominee, Stephen Miran, as Fed Governor just one day before the September FOMC meeting by a narrow Senate vote, despite his simultaneous role at the White House (on unpaid leave). His dual role creates a conflict of interest and effectively gives the White House greater influence over the Fed through his voting power.

The case has significant implications for the central bank's ability to set interest rates independently of political pressures, a factor widely regarded as essential for maintaining market stability and controlling inflation. Miran's isolated dot on the September FOMC dot plot, paired with his lone dissent in favor of a 50-basis-point cut at the September FOMC meeting, has been widely associated with influence from the White House.



China Tech Restrictions

Fluctuations in China technology restrictions intensified through a complex web of policy reversals and new enforcement mechanisms. The quarter saw dramatic swings in chip export policies, with July's conditional approval for H20 chip sales, a complete reversal from April's blanket ban. The July agreement allowing Nvidia to resume sales in China came with a significant caveat: a 15% export tax on revenue from Chinese chip sales. This "political tax" raises questions about whether national security justifications are being leveraged for revenue generation rather than genuine security concerns. China's immediate response with anti-monopoly charges against Nvidia on September 15th demonstrates the escalating tit-for-tat dynamic that has come to define bilateral tech relations. The administration also expanded restrictions to include electronic design automation software, targeting companies such as Synopsys, Cadence, and Siemens; however, these restrictions were subsequently lifted as part of broader trade negotiations. Simultaneously, the government has taken an equity stake in Intel, continuing to blur lines between public and private sector motivations.

The cumulative effect of these policy actions has been to create an environment of heightened uncertainty for multinational technology companies, particularly those with significant exposure to China. While some restrictions have been temporarily lifted, the underlying trajectory suggests an escalating technology competition that will likely continue to impact semiconductor and AI-focused investments.

Continued AI momentum

Despite the impressive advancements in AI performance and capabilities, via reasoning models and agentic AI, the benefits have yet to be realized from all but a few companies. The primary beneficiaries have been Nvidia, Broadcom, Microsoft, Meta Platforms, Oracle, and Palantir Technologies, reflecting the continued dominance of infrastructure and platform providers rather than the anticipated expansion to a broader ecosystem of AI-exposed companies. On an index level, this has been a tailwind. The eight most valuable AI-related companies in the U.S. stock market now account for nearly 30% of the S&P 500 index and gains in the shares of seven have accounted for roughly half of the S&P 500's YTD returns.

Active Management and Downside Protection

In the current environment of elevated potential risks and high valuations, active management is essential for managing downside risks. Elevated risks have the potential to impact both future earnings as well as valuations. The volatility of policy, as well as a quickly changing world, exposed to inflation, unemployment, and geopolitical risks, add significant uncertainty to business models and future earnings. A rerating of the market to historic norms, even if projected earnings remained constant, would represent a significant market contraction. With these risks to both valuation and businesses' success, active management is critical to ensure portfolios remain dynamic to ever-changing market conditions.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

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A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of this index may be materially different from the performance of the strategy.

The Brookmont Core Dividend Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Core Dividend Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Core Dividend Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

The Brookmont Quality Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Quality Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Index. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

The Brookmont Dividend Growth Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. The minimum investments and advisory fees required differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

Past performance is not indicative of future returns