PERKINS
CAPITAL
MANAGEMENT, INC.

October 27, 2025

Dear PCM Clients and Friends:

Fall arrived late in Minnesota this year. The past several years' trend of record temperatures with warmer autumns and delayed first freeze dates continued this fall with a lengthy and much enjoyed October heat wave. Some days were more like summer than fall. Temperatures soaring into the 90s across much of the state breaking the latest date on record to reach a 90-degree day. Some leaves turned early, others were glorious in their color last week and others, due to the late fall, are just coloring now. Yet, despite enjoying this year's wonderous fall season, two weeks ago we prepared for winter "around the house." Why? Because we know winter will come. It's just part of living here in Minnesota.

At this time, investors are enjoying the new highs in the markets; but also asking about market valuations and if AI or technology stocks are in a "bubble." There have been a number of articles comparing this year's dramatic price increases in AI-related stocks to past "bubbles" in general and more specifically to the "new era" dot-com bubble of 1999-2000 whose acronym then was the "TNT stocks" (Telecom, Networking and Telecommunication).

This is a valid question. Have AI investors gotten ahead of themselves? Probably. It has happened before. We recently read a quote which, due to our investing experience, made sense to us and is attributed to a futurist, Roy Amara: "We tend to overestimate the effect of technology in the short run and underestimate the effect in the long run." Bill Gates phrased this a different way. He said: "People overestimate what will happen in the next two years and underestimate what will happen over the next ten". He also wrote that he had personally underestimated the growth and impact of the internet.

In recent meetings with clients, when asked why we think most stock market indices continue to hit new highs we have stated that we believe it is because of economic stimulus. At this time, for the rest of 2025 and clearly into 2026, we feel the markets are currently being driven by three forms of stimulus. The Big Beautiful Bill is significant fiscal stimulus and there is still remaining unspent or currently being spent Covid stimulus. The Fed has shifted to a mild stimulative posture. Needed or not, lower interest rates are monetary stimulus. There has also been massive corporate stimulus agreed to by large corporations as they move operations and manufacturing onshore to the U.S. We believe this stimulus is a powerful three-way "tailwind" for stocks which will provide economic growth.

At PCM, we continue to review portfolios to both take advantage of the wonderous "fall" investment season we are now having, while at the same time, we are attempting to reduce risk by continuing to avoid or trimming back on investment in companies which we feel have "gotten ahead of themselves." We continue to find opportunity in the health care sector which is at a historic valuation low similar to past important low inflection points.

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THE MARKET SCOREBOARD

The second quarter 2025 market rally continued from the April lows into the third quarter with most market indices increasing to new all-time highs during the quarter as economic growth remained stable, tariff increases were no worse than feared and the Federal Reserve began the market's long-awaited and hoped for rate-cutting cycle.

Positive news in July and August "set the stage" for the quarter. The One Big Beautiful Bill Act passed. By making the 2017 tax cuts permanent, reintroducing accelerated depreciation and committing billions to the development of domestic industries, this legislation provided the markets and the economy with a fresh dose of fiscal stimulus. As released, second-quarter corporate earnings results continued stronger than expected and, importantly, showed no significant signs that tariffs or policy uncertainty were weighing on results. Also in July, the Trump administration announced trade agreements or "deals" which reduced investor anxiety. In August, Fed Chair Powell hinted a rate cut was coming and at its September Fed meeting the Fed did cut rates. An AI and related technology risk-on enthusiasm continued to drive the S&P 500 and the NASDAQ to new historically high levels.

The quarter had the broadest rally in years and was the best third quarter since 2020. The quarter ended with the best month of September since 2010.

By market capitalization, as the market broadened, many small caps began to outperform large caps as investors rotated into the more economically sensitive small caps and industries which have historically benefited the most from lower interest rates and a risk-on growth-oriented investment environment.

Indexes	% Return YTD 2025	% Return Q3 2025	% Return Q2 2025	% Return Q1 2025
NASDAQ Composite	17.34	11.24	17.75	-10.42
S&P 500 Total Return	14.83	8.12	10.94	-4.27
Wilshire 5000	13.55	8.05	10.91	-5.25
NYSE Composite	12.92	5.56	5.33	1.56
Dow Jones Industrial Average	9.06	5.22	4.98	-1.28

On a sector level, 10 of the 11 S&P 500 sectors finished the third quarter with a positive return. AI-related enthusiasm powered Technology and Communications to the top two sectors. The Consumer Discretionary and Utilities sectors, meanwhile, benefited from solid economic growth and expected lower interest rates.

In sum, the third quarter was resoundingly positive for the U.S. economy and markets as economic data showed solid growth, inflation readings stayed mostly stable, the Fed cut interest rates, the U.S. reached trade agreements with major trading partners and companies continued to produce better-than-expected earnings. Given these positives, the third quarter reflected renewed optimism that economic strength and market gains could continue into year-end and beyond into 2026.

STOCK MARKET OBSERVATIONS

As we look into 2026, we see a positive macroeconomic environment with what we have described as a "tailwind" of fiscal, monetary, and private corporate stimulus. The Fed has begun to cut interest rates, tariffs have not disrupted the U.S. economy (so far), U.S. economic growth remains stable, corporate earnings are strong, corporations are investing in America by onshoring manufacturing, and investment enthusiasm for "risk-on" investments, including AI-linked tech stocks, remains high.

We began our second quarter, July 25, 2025, *Stock Market Observation* section with the statement: "While the market was impressively resilient over the past three months, it would be a mistake for investors to become complacent in this environment, because there remain risks facing the economy and markets." We still feel this way.

Earlier, in this year's stock market observations we wrote about and, in our May 6, 2025 letter, we published the price channel chart of the S&P 500 which shows the prices the S&P 500 has traded within, or its channel, since the market lows in 2008. This chart is from the very solid technical work of RBC's Technical Strategist Robert Sluymer, CFA. We publish it here again, below, because we feel it accurately helps visualize where the markets are today.

After correcting in April to the red 4-year moving average line around 4800, in early May, the S&P was in the middle of the green price channel at around 5500. Since then, the S&P has continued its rise to new highs and is now at around 6800. In the past 18 years, the

S&P has touched the top of this price channel four times and has also touched the bottom of the price channel twice; nearly touching both the top and the bottom twice more.

We continue to feel that, at this time, with what is “known,” that the S&P will continue to stay and trade within this price channel; the price channel it has traded within since 2008. It is now near; but not at the top of this channel.

What does this mean? With several market indexes recently going to new highs and the potential for a year-end rally ahead, the S&P 500 and other markets, could continue to move higher. Climb along toward the top of the price channel into year-end. The Four-Year Presidential Cycle also predicts a positive market tone into spring. The very top of this channel in early 2026 is around 7400 – 9% higher than the S&P is now. Markets, after a strong persistent move during the first three quarters of the year, often finish the year with a strong fourth quarter and year-end rally. According to statistics from The Sevens Report, when the S&P 500 is up 10% or more in the first nine months of the year, like 2025, it does even better in Q4. Since 1050, the S&P has averaged a 4.2% return in the fourth quarter, nearly twice the average return of any other quarter.

For the past several months, the market has persistently climbed what Wall Street often refers to as a “wall of worry.” Lots to be concerned about; yet, it has “got legs.”

The markets have moved up strongly with fewer than normal or expected smaller corrections since this past April’s -18.9% correction. We have come a long way in the last six plus months with very little in the way of pullbacks. Even including the recent October 10 one-day decline. Since April, we have experienced a strong 30% rally without a 3% or more drop. According to The Bespoke Report, this is just the fifth time the market has been this strong after a significant correction since 1952. The rally since the April correction has also lasted 186 days without a 3% or greater drop. This has occurred only twelve times since 1953. Further, the S&P has gone over 120 trading days without touching its 50-day moving average, the third-longest streak since 1990. Dips of 3% or more are expected to occur every 6 to 8 weeks and we are long overdue.

A study of the S&P 500 price channel chart does clearly show that we are now near the top of the 18-year 2009 to today channel; but not at the absolute top of a positively sloped increasing channel. There is clearly more space in the channel below than above. By looking at the past ups and downs within this channel we see that healthy corrections are normally both a correction in price and a period of time when the markets move sideways.

It is important to note that, the distance from the top of this S&P 500 price channel to the bottom of the channel is approximately 2,000 points. Staying within this price channel leaves plenty of room for the markets, the S&P 500, to correct; yet, still maintain its upward path with up, down or sideways price movement along the way. Based on research by Ned Davis Research, which we have reviewed in the past and will cover again in detail in 2026, stock market corrections are normal. Dips of 3% or more have occurred typically 7.2 times per year on average since 1928. Mild Corrections of 5% or more have occurred 3.4 times per year. Ten percent or more corrections have occurred annually, each year, on average, in the past. More severe corrections of 15% or more occur every couple of years. Bear Market Corrections, or 20% or more market corrections, are no fun and we, as investors, have worked through several.

The cartoon below speaks to an early use of AI we are all experiencing – updating, improving or, even, "onshoring" call centers by bringing in AI to "improve customer service".

We thank you for your continuing confidence and trust. We are always available to meet with you by phone, Zoom, FaceTime, or in person to review your investments or for you to update us with any changes in your investment objectives. If you have any questions, please give us a call. Or call and ask to schedule a time to talk or meet in person.

Sincerely,

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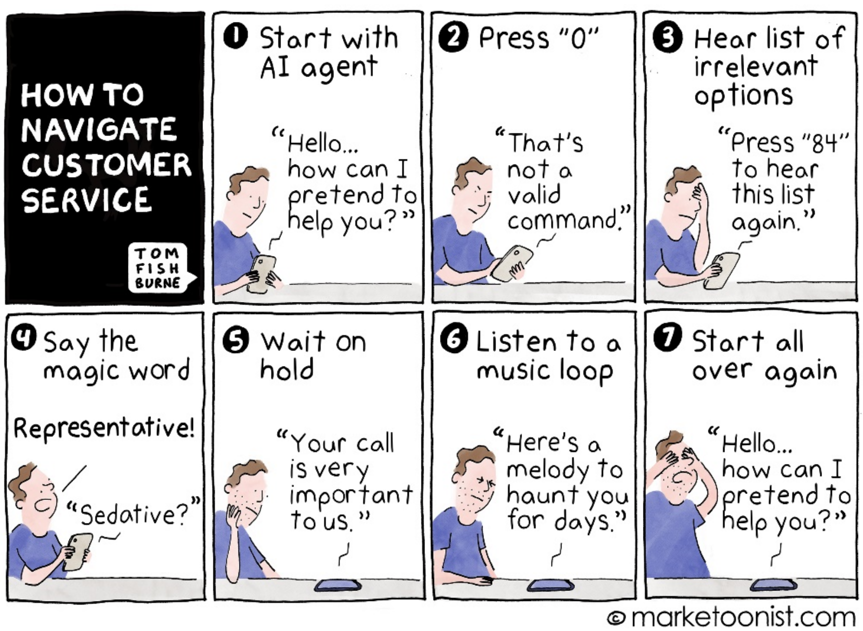
RCP:DSP/jah



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Ole and Sven have been on a fishing trip for three days with no luck. The fourth day, they head out again to the other side of the lake, and this time the fish are biting like crazy. "Sven," Ole says, "Ve outta mark dis place somehow so ve remember to come back here next time!" Sven says, “Oh yah,” and he thinks for a minute, then paints a big X on the bottom of the boat. When Ole sees this he laughs, then smacks Sven in the head. "Sven, you are not too smart. That's never gonna vork. "How d'ya know ve'll get da same boat next time?"

In December Ole and Lena moved down to Minneapolis. They thought they wouldn't get as much snow as they used to get up north, but as it happened, the very first night after they moved into their new house, there was a snow emergency. “Ole,” Lena said, “dey’re saying on the news ve have to move the car to da odd side of the street.” So Ole bundled up, went outside, and moved the car.

The next night, Lena informed him, “Now you gotta move da car to da even side,” so Ole bundled up and went out to move the car again. Minneapolis had another snow emergency the next week and then again, the week after that, and each time Ole moved the car to the odd side one night, and the even side the next night. When there was yet another snow emergency for the fourth week in a row, Ole had had it. “Lena,” he said, “I von’t care if dey give me a ticket. I von’t even care if dey arrest me. Tonight, I’m leaving da car in da dang garage!”

One day Sven went to see his friend Ole and found him digging a big hole in the back yard. "Vhatcha doin,’ Ole?” asked Sven. “Vell, I’m gonna dig me a new outhouse, da old vun’s full. So, Sven says, “Vell, dere’s an easier vay to do dat. Take two sticks of dynamite and you put vun stick under da outhouse and da other stick down into da poop. You light both sticks. Ven the first one goes off it’ll blow da outhouse into da air, den ven da other one goes off it’ll blow all of da poop outta da hole and fertilize your fields. Den the outhouse vill fall back onto the empty hole and you got yourself a new outhouse.”

“By yiminy!” said Ole, “dat’s a good idea!” So they take two sticks of dynamite and put one under the outhouse and one down into the poop, light both sticks and run around the side of the house. Just at that moment, Lena runs out of the kitchen and into the outhouse before they can warn her. Boom! The first stick of dynamite blows the outhouse up into the air. Boom! The second stick of dynamite blows the poop out of the hole.

Crash! The outhouse falls back onto the empty hole. Sven and Ole stick their heads out around the corner just in time to see the outhouse door open. Out of the outhouse rolls a big cloud of smoke, and out of the smoke staggers Lena.

“By yiminy!” says Lena, “I’m mighty glad I did not let dat vun off in da kitchen!”

A drunk who smelled like beer sat down on a subway seat next to a priest. The man's tie was stained, his face was plastered with red lipstick, and a half empty bottle of gin was sticking out of his torn coat pocket. He opened his newspaper and began reading. After a few minutes the man turned to the priest and asked, "Say, Father, what causes arthritis?"

"My son, it's caused by loose living, being with cheap, wicked women, too much alcohol and contempt for your fellow man." "Well, I'll be darned," the drunk muttered, returning to his paper. The priest, thinking about what he said, nudged the man and apologized. "I'm very sorry. I didn't mean to come on so strong. How long have you had arthritis?"

"I don't have it, Father. I was just reading here that the Pope does."

A little boy opened the family Bible. He was fascinated as he fingered through the old pages. Suddenly, something fell out of the Bible. He picked up the object and looked at it. What he saw was an old leaf that had been pressed in between the pages. Mama, look what I found,' the boy called out." "What have you got there, dear?" With astonishment in the young boy's voice, he answered, "I think it's Adam's underwear!"

Sisters Margaret and Beatrice are standing at the side of the road right by a blind curve. They hold up signs that say, "Turn Back! The End is Near!" and "You are On a Dangerous Path!" They see a car coming, hold up their signs, and begin to shout.

The driver sees them, rolls his eyes, and speeds past them. They hear a loud crash and Sister Beatrice lowers her sign.

"That's the fourth one so far, Sister Margaret, don't you think we should just say, 'The Bridge is Out?'"

A man was about to enter a bar when he was approached by a nun waving a Total Abstinence banner. "Don't go in there" she said, "alcohol is the devil's work." "But I just want one drink, it's been a tough day and I need to unwind." the man replied. "'No, you mustn't, no good will come of drinking alcohol."

"Have you ever tried it?" the man asked. "No, certainly not." replied the nun. "Well perhaps you should try it just once. I'll get you a drink and if you don't like it fine, but at least you'll know what you're talking about." he said. "Well alright" said the nun, "just get me one small gin, but put it in a cup so people won't know I'm drinking alcohol."

The man walked into the bar and said to the bartender "A pint of bitter and a small gin please, and can you put the gin in a cup?" "Oh no" said the bartender, "is that nun here again?"