

Enhanced Equity Income
Q3 2025 Commentary

Market Review:

The US equity market continued to surge in the 3rd quarter, as the S&P 500 returned 8.1% while the Russell 1000 Value was up 5.3%. The S&P 500 recorded 23 all-time highs in the quarter, extending the rally off the “Liberation Day” tariff-induced lows recorded in April. Generally positive economic data, greater clarity on tariff policy, and an interest rate cut from the Federal Reserve were the primary drivers of the rally.

On the July 4th holiday, President Trump signed the comprehensive budget package, the One Big Beautiful Bill Act, into law. The bill made permanent many of the 2017 tax cut provisions, imposed major spending reductions for Medicaid and other social programs, and included substantial increases in the Defense budget. Importantly, the bill included provisions that significantly reduced taxes on capital expenditures, including 100% bonus depreciation for capital assets in the year they are placed in service and immediate expensing for domestic R&D. President Trump’s so-called reciprocal tariffs took effect on August 7th, establishing broad baseline tariffs of 10% and ranging as high as 50% for individual nations. Tariff levels were reduced for some key trading partners from earlier proposed rates, including the European Union which was revised down to 15% from an earlier 20%. Trump also assessed a 100% tariff on semiconductor and pharmaceutical imports, with exemptions for technology and pharmaceutical firms that invest in US manufacturing.

Despite the tariff upheaval, the US economy appears to be holding steady, as 2nd quarter GDP grew at 3.8%.¹ Furthermore, the US unemployment rate remains at a relatively low 4.3%. However, signs of stress are beginning to appear in the labor market, as US payrolls declined by 32,000 in September, below consensus expectations of a 45,000 gain. The weakening employment picture opened the door for the Federal Reserve to cut interest rates by a quarter percentage point, while signaling two more possible cuts by the end of the year. Inflation is complicating the Fed’s decision; core PCE, the Fed’s preferred measure of inflation, ticked up to a 2.9% annual rate in August, still above their long-term target of 2%.²

Growth sectors outperformed in the quarter, while defensive, higher yielding sectors lagged. Information Technology (+13.2%) was the best performer, as bellwether technology companies reported strong earnings growth but sizeable increases in capital expenditures as AI data center spend continues to accelerate. Communication Services (+12.0%) was the 2nd best performer, with Media & Entertainment companies outperforming while Telecom stocks lagged. Consumer Staples (-2.4%) was the only sector posting a negative return, with several consumer packaged goods firms reporting rising production costs from tariffs on imports along with sluggish consumer demand. Real Estate (+2.6%) was the 2nd worst performer, although some prominent commercial REITs gained on the prospect of lower interest rates.

¹ Source: <https://www.bea.gov/data/gdp/gross-domestic-product>

² Source: <https://fred.stlouisfed.org/series/PCEPILFE>

Income and Options Summary:

At quarter end, the strategy's representative account continued to pay a 7.4% annualized total yield, which included 4.2% income from dividends. Call writing opportunities remained limited by both market sector preference and low volatility. The 34 call positions that were opened during the quarter exhibited strong characteristics, averaging more than 20% annualized premium and 80% called total return.

The positions that were written to be retained were assigned at one of the lowest rates since inception during the quarter, dropping the YTD rate to 28%. Dividend increases finished at 5.0% YTD, with 23 of 34 positions declaring.

Performance Analysis:

The quarter included a steady continuance of a long-term S&P 500 rally that began at the end of a market correction on 7 April. As the gains have mounted, the returns have reflected small, consistent gains with limited, brief pullbacks. This movement has impacted EEI's performance significantly, first by pressuring the highest dividend equities with the lowest valuations, and also by compressing volatility, and thus call premiums, significantly.

The YTD Russell 1000 Growth performance passed that of the Russell 1000 Value (R1V) on 30 June, and that outperformance steadily increased to its largest differential through quarter end. Within this growth rally, factor preferences remained inverse to those inherent in high dividend, low-volatility strategies. Although EEI underperformed the Cyclical improvement that moved dividend value names in the S&P 500 Index, its YTD performance remained in-line with the highest-dividend paying stocks in the large cap value universe, measured by the R1V.

Figure 1: S&P 500 Performance by Dividend Quintile

S&P Dividend Yield Quintiles		Q3	YTD	2024	2023	2022	BofA Adj Beta	Forward P/E Ratio	Dividend Yield
Low Yield ↓	0.00 To 0.00	4.5	9.9	32.7	51.0	-37.2	1.26	30	0.0
	0.02 To 1.07	11.4	18.0	32.2	39.8	-25.0	1.18	28	0.5
	1.07 To 1.91	6.4	11.6	17.1	14.1	-10.3	1.00	19	1.5
	1.91 To 3.22	2.8	9.0	9.4	2.6	-11.5	0.89	17	2.5
High Yield	3.22 To 11.17	5.2	9.4	14.5	-0.8	6.9	0.80	14	4.2
S&P 500		7.8	13.7	23.3	24.2	-19.4	1.10	23	1.1

Source: BofA/ML, US Performance Monitor, 9/30/2025. **Past performance is no guarantee of future results.**

Distribution of S&P 500 as of 9/30/2025 (Quintiles are held and re-balanced monthly).

Investors cannot invest directly in an index.

The strategy returned 0.9% (net) for the quarter, compared with a 3.5% return by the S&P 500 Buy/Write Index (BXM) and 2.5% by the SPDR Bloomberg High Yield Bond ETF (JNK). Reflecting the longer-term pressure on some call-writing strategies, the EEI strategy returned 5.4% YTD, compared with 2.2% by the BXM and was nearly inline with the CBOE S&P500 2% Buy/Write Index (BXY), despite the strength of the S&P 500. The JNK returned 7.1% for the year so far.

Figure 2: Enhanced Equity Income Returns vs. Benchmark

September 30, 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
SCCM Enhanced Equity Composite (gross)	1.1	6.3	1.8	10.6	10.8	8.7	8.7
SCCM Enhanced Equity Composite (net)	0.9	5.4	0.7	9.3	9.6	7.5	7.5
S&P 500 Buy-Write Index (BXM)	3.5	2.2	8.1	13.6	9.5	7.1	6.9
SPDR Bloomberg High Yield Bond ETF (JNK)	2.5	7.1	7.1	10.7	4.7	5.1	4.9
Russell 1000 Value Index	5.3	11.7	9.4	17.0	13.9	10.7	10.7

**12/31/2010. Performance for periods greater than 1 year is annualized. Past performance is no guarantee of future results. Value of portfolio will fluctuate based on underlying securities. Current performance may be higher or lower than stated returns. Fees vary by size of account. Please see ending page for complete performance disclosures.*

The strategy's returns were impacted by both defensive stock selection and sector allocation. Compared with the S&P 500, the underlying security of the BXM, under-allocations to the Information Technology and Consumer Discretionary sectors during the market's growth momentum were drivers of underperformance. Also, higher-dividend equity positions in the Consumer Staples and Communications Services sectors underperformed significantly. The strategy's strongest outperformance during the quarter was fueled by allocations to the Financials sector.

Portfolio Changes:

Purchases/Additions

Becton, Dickinson (BDX) was purchased during the quarter. BDX is a global medical technology company engaged in the development, manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by hospitals, medical offices, physicians, clinical laboratories, the pharmaceutical industry and the general public. BDX has historically been a consistent mid-single-digit top-line growth company given its leadership in medical device categories that are essential to hospitals and medical offices, including syringes, pre-filled syringes, infusion pumps, and other products. However, the company has faced a number of short-term headwinds in recent years: exiting the Covid pandemic in 2022-2023 and the associated inventory destocking dynamics, a slowdown in China's demand for medical supplies, and more recently the Trump Administration's cuts to NIH funding and the negative impact on demand for research instruments and supplies. The end result has been choppy top-line growth, below BDX's long-time mid-single-digit growth average.

While BDX has faced short-term headwinds, we believe there have been no long-term impairments to the company or its business model and, as an essential supplier of medical devices to hospitals, it should return to consistent MSD top-line growth over time. Opportunities exist across the portfolio for management to accelerate growth via new product launches. Furthermore, in February of 2025, BDX announced its intention to separate, through a sale or spin-off, its Biosciences and Diagnostic Solutions businesses within its BD Life Sciences segment. Products within this unit trail behind competitors, and we believe a separation of this business will result in a stronger business mix and allow BDX to de-lever the balance sheet and repurchase shares. This shift in business mix to higher growth segments, along with BDX's position as a top-tier supplier with significant scale advantages over smaller competitors, should also result in operating margin expansion over time. Shares of BDX were purchased at a P/E of 12.0x with a 2.5% dividend yield.

Smurfit WestRock (SW) was purchased in the EEI strategy during the quarter. The company is well positioned as a global leader in paper-based packaging following the merger of Smurfit Kappa and WestRock in 2024. The combined company benefits from scale across North America, Europe, and Latin America, which provides both market presence and cost advantages. A central catalyst for the investment case is the ongoing integration of the two businesses, with management already demonstrating early progress on synergies that should drive efficiency and earnings growth. Another important driver is the opportunity for margin expansion, as Smurfit WestRock seeks to close the gap with US peers through better pricing discipline and operational improvements. The shift to a regional structure is also a catalyst, since it gives management clearer accountability and the ability to tailor strategies to local demand and pricing conditions. In addition, the company is well positioned to benefit from the secular growth in e-commerce, which drives box demand, and from rising consumer and regulatory interest in sustainable packaging solutions. A further catalyst is the potential for commercial improvements beyond cost synergies, as the business leverages its scale and customer relationships to enhance pricing power and mix. Investor sentiment could improve as Smurfit WestRock demonstrates consistent execution on these initiatives, reinforcing confidence in management's ability to deliver. Over time, the narrative should shift from integration to growth, as the company capitalizes on its global footprint and innovation pipeline. Smurfit WestRock also has the potential to generate stronger cash flows as capex moderates, opening the door for increased shareholder returns. A rerating of the shares is likely if the company narrows its valuation gap to peers while delivering on execution milestones.

Sales/Trims

Our position in **Baxter Int'l (BAX)** was sold in the quarter. While Baxter has historically provided strong returns to shareholders, its shares have significantly lagged since the onset of the Covid pandemic in 2020. Although management had a plan to recover from Covid era challenges and improve its profitability, including the sale of its underperforming Kidney Care business to private equity, margin pressure continued in 2024. Management cut the dividend by 40% in early 2025 to improve its financial strength and announced a CEO change in July. However, Baxter faced ongoing pricing pressure from hospital Group Purchasing Organizations (GPOs) in 2025, and faced operational challenges including safety incidents with its Novum IQ large volume pump that forced management to cut the full year earnings outlook. Although Baxter still has recovery potential in over the long-term, we decided to exit the position given the multiple near-term headwinds.

Our position in **Conagra (CAG)** was sold during the quarter. Conagra has bolstered its food portfolio over the years through M&A, however industry challenges impacting leading traditional brands have yet to abate. The frozen food category, approximately 1/3 of CAG's sales, has struggled amidst intense competition from challenger brands while volumes continue to decline following inflationary price increases. While the stock's valuation is attractive at 11x forward earnings, the entire food industry has de-rated over the past several years. In addition, the current dividend payout ratio is 80% versus the company's target of 50-55% which places the dividend at risk.

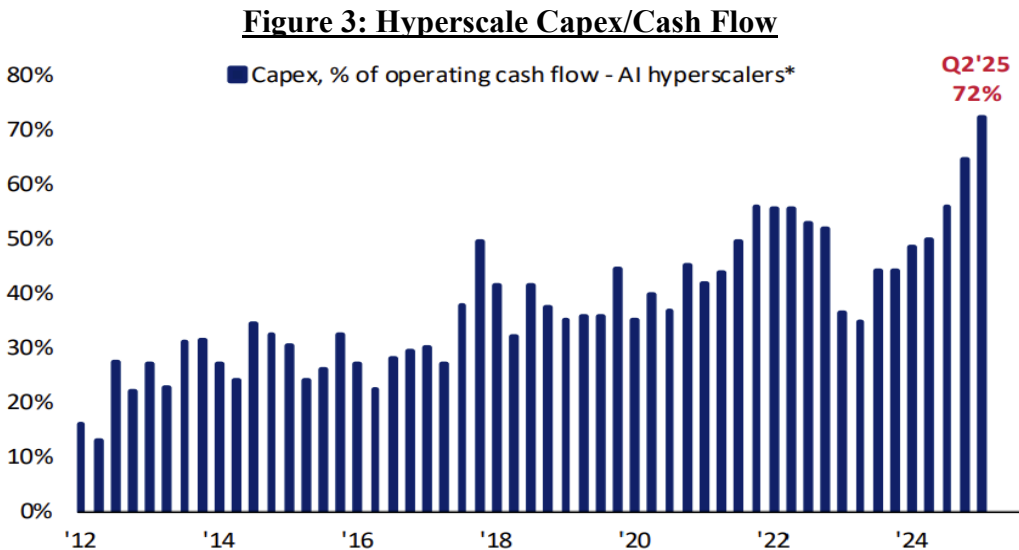
Our position in **Rio Tinto plc (RIO)** was sold in the quarter. As the world's largest producer of iron ore and one of the largest producers of aluminum, copper, and other commodities that are vital to global GDP growth, Rio Tinto has strong long-term growth potential. However, we exited the position due to a number of challenges in the near and medium term, including a potential state of global oversupply of iron ore, which could lead to declining prices in the coming quarters and years. Additionally, with over half of total company revenue from China, declining iron ore demand from the Chinese construction and property sectors could continue to weigh on sales.

Market Outlook:

The economic outlook improved over the third quarter as policy-related uncertainty, which had weighed on sentiment, eased further. Companies and markets grew more comfortable digesting tariffs, while multiple trade negotiations moved forward. The resumption of the Fed’s easing cycle has lifted optimism that economic growth could rebound from muted levels, even as ISM and PMI figures have remained relatively flat for the past two years. However, with credit spreads at multi-year lows, there is little risk priced into the market. Meanwhile, private credit has ballooned to nearly \$2T, and investors are beginning to see a rise in payment-in-kind distributions and outright defaults. From a sentiment perspective, the II Bull/Bear survey sits in the top decile of readings over the past decade, underscoring elevated market enthusiasm. The US stock market has become an increasingly important driver of consumption and sentiment, with the wealth effect from rising equities reinforcing confidence and spending – creating, for now, a self-reinforcing feedback loop.

Euphoria around AI investments has propelled markets higher, with the rebound in the Magnificent 7 pushing the group’s valuation back to record highs and market concentration to extreme levels. Speculative trading activity is at multi-year highs while flows into the Technology sector have reaccelerated to record levels. AI-focused ETFs – now numbering more than 20 – are channeling additional funds into the same group of companies. The trillions of dollars being invested into agentic AI will eventually need to be monetized. Capital expenditures among the top five hyperscalers – Meta, Google, Amazon, Microsoft and Oracle – have surged in recent years as these companies race to establish leadership in generative AI. This aggressive spending has driven the hyperscale capex-to-cash flow ratio to 72% in the second quarter of 2025 (Figure 3), leading to a significant slowdown in both free cash flow and earnings growth, and raising questions about the sustainability of their historically superior growth profiles. Additionally, without a clear short-term path to monetize AI investments, many players in the ecosystem must turn to capital markets to fund their initiatives.

At the same time, the increasingly circular nature of capex spending highlights how interconnected these companies have become. Chipmakers like Nvidia are financing customers such as OpenAI, which in turn fuels demand from cloud providers like Oracle to purchase additional Nvidia chips for their data centers – reinforcing a self-perpetuating cycle of investment. Nvidia’s vendor financing model has extended to other customers, including CoreWeave, whose business model is largely built on purchasing Nvidia GPUs and renting them out.



Source: BofA/ML, The Flow Show, 09/11/2025. *MSFT, GOOG, META, AMZN, ORCL

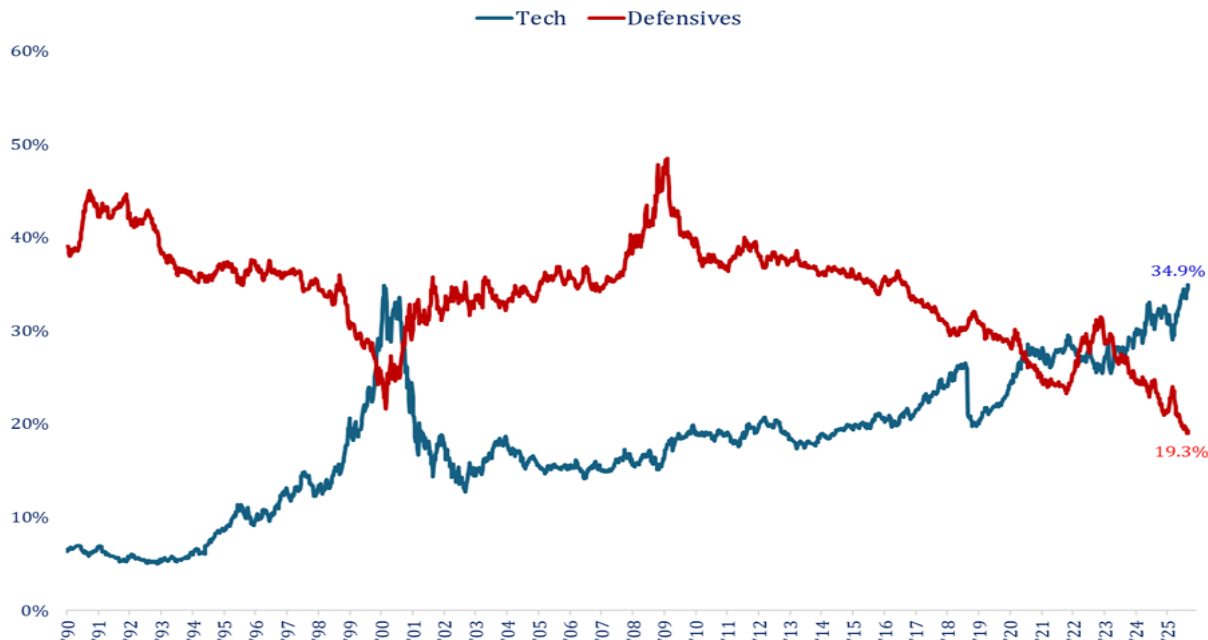
The rally in the Magnificent 7 has pushed market concentration to new extremes, with the top 10 stocks in the S&P 500 now comprising a record-high 39% of the index (Figure 4) – a level not seen in over five decades – and well above their share of S&P 500 earnings. The combined weight of the Technology and Communication Services sectors has climbed to nearly 50% of the S&P 500, an all-time high. In contrast, the combined weights of Defensive sectors (Consumer Staples, Healthcare, Utilities, and REITS) have fallen to just 19%, a multi-decade low and less than half their weight in 2009 (Figure 5). This rotation has been driven largely by sector ETF flows, which have heavily favored Technology and, more recently, Cyclical sectors such as Financials and Industrials, at the expense of Defensive sectors including Staples, Utilities, Real Estate, and Healthcare. Investor interest in dividend and defensive value strategies is now near record lows, creating a compelling buying opportunity.

Figure 4: Top 10 Largest S&P 500 Weights



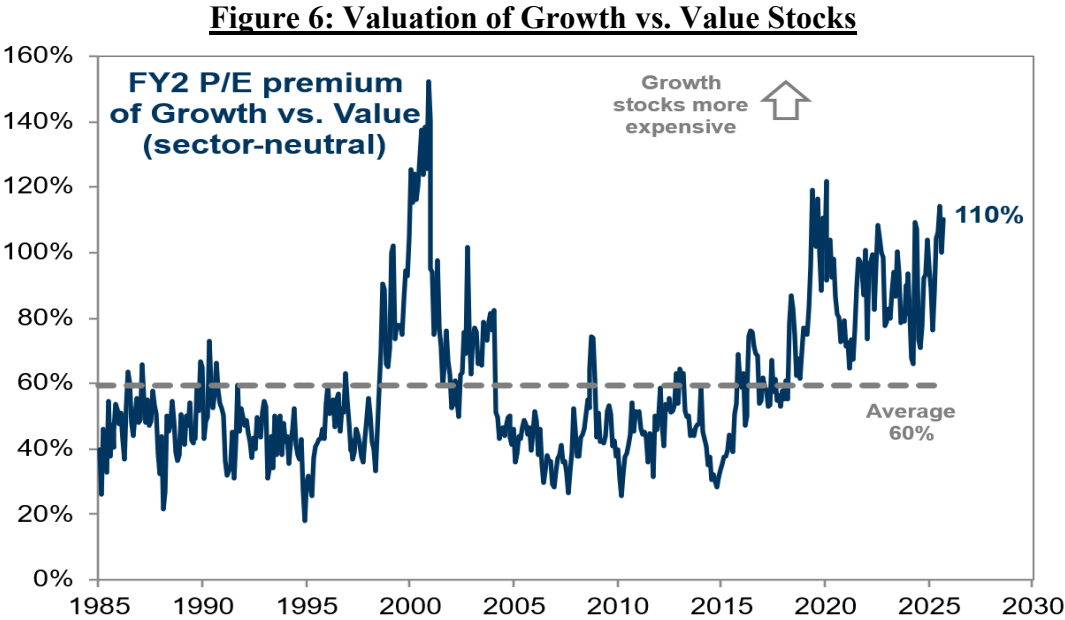
Source: Goldman Sachs Investment Research, 09/30/2025.

Figure 5: S&P 500 Sector % Weight – Technology vs. Defensive Sectors



Source: Strategas Research, ETF Research, 09/30/2025.

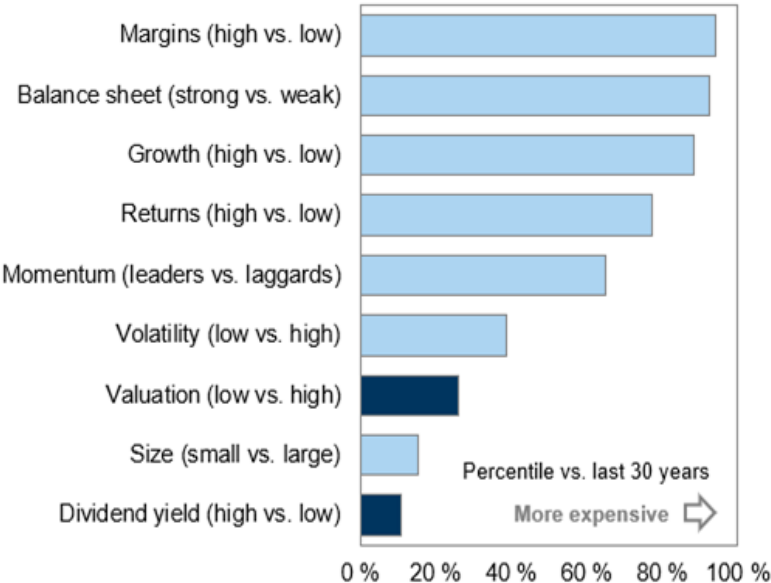
Market valuations have returned to extremely elevated levels, with broad-based valuation metrics now sitting at multi-decade highs. The forward price-to-earnings (P/E) multiple of the capitalization-weighted S&P 500 now stands at nearly 25x 2025 earnings – its second-highest valuation level in over thirty years – marking a significant divergence from the equal-weighted S&P 500, which trades at 19x. Importantly, the valuation gap between Growth and Value stocks has reached historically extreme levels. Growth stocks currently trade at a 110% premium to Value stocks – more than double the long-term historical average of 57% and near the last peak seen during the speculative surge of 2020 (Figure 6).



Source: Goldman Sachs Global Investment Research, 09/30/2025.

In terms of equity factors, High Quality (strong margins, balance sheet strength) and Growth are now trading at historical extremes – around the 90% percentile of observations (Figure 7). The market has become increasingly crowded in Quality and Growth, while Value and Dividend Yield continue to trade at relatively cheap valuations compared to their long-term history.

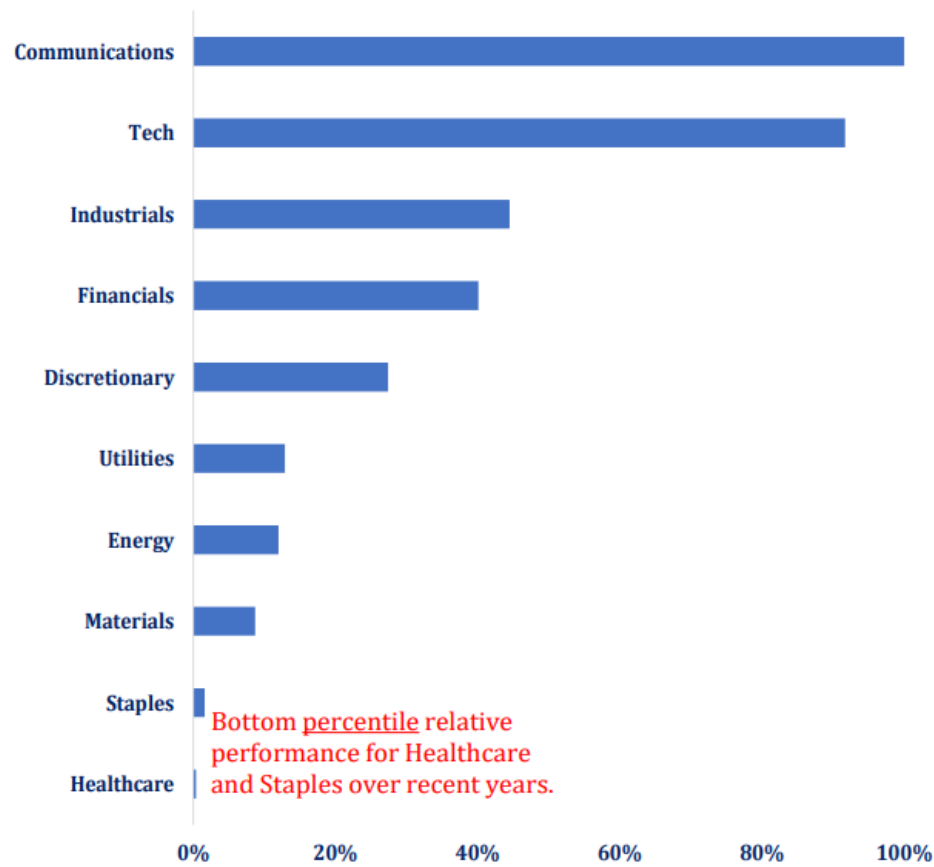
Figure 7: Equity Factor Valuation Percentile Relative to the Past 30 Years



Source: Goldman Sachs Investment Research, 09/30/2025.

The outperformance of the Communication Services and Technology sectors over the past three years relative to the past 50 years has rarely been better (Figure 8). In contrast, the relative performance of the Staples and Healthcare sectors over the past three years has rarely been worse. The combination of extreme pessimism, underweight positioning and attractive valuations in these lagging sectors creates favorable starting conditions for potential mean reversion – particularly in Healthcare, which has historically outperformed the S&P 500 in 11 of the past 13 midterm election years (next midterm year - 2026).

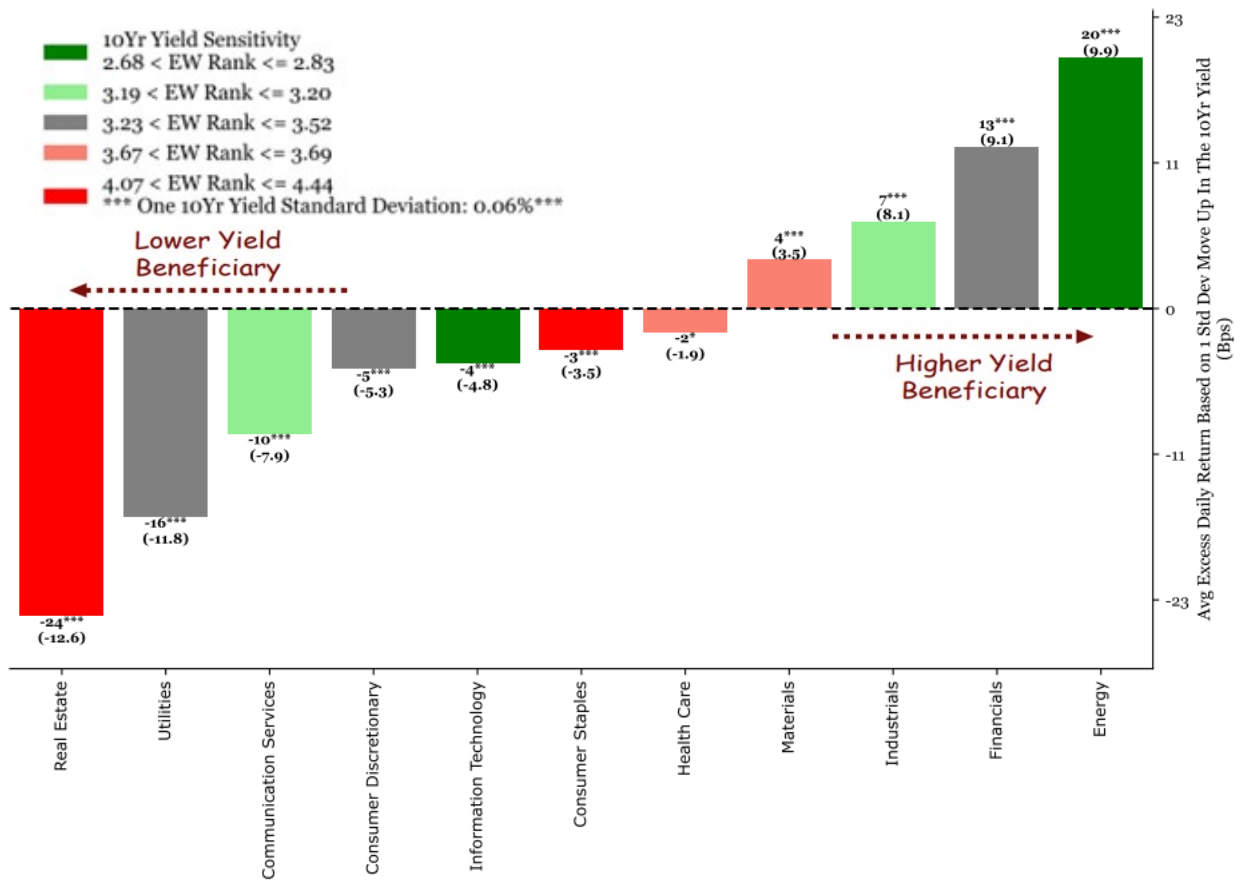
Figure 8: S&P 500 Sector Relative Performance Percentile



Source: Strategas Research, 10/01/2025. Last 3 years vs. History, data since 1972.

The back-up in long-term interest rates over the past several years has been a headwind for high dividend stocks, as capital flowed towards higher-yielding money markets, CDs and fixed income. With the Fed now embarking on a rate-cutting cycle, the projected decline in short-term rates should make equity dividend yields relatively more attractive – especially when considering the growth of dividends over time. In addition, several high-yielding sectors (REITs, Utilities, Communication Services) have historically outperformed when long-term rates fall (Figure 9), having a higher negative yield sensitivity to a one standard deviation move higher in the 10-year. This dynamic reflects both reduced competition for yield and the earnings benefit that lower interest rates provide to certain rate-sensitive sectors.

Figure 9: S&P1500 Sector 10-Yr Yield Sensitivity



Source: Renaissance Macro Research, Weekly Survival Guide, 09/09/2025. 01/01/2009-10/06/2025.

As discussed, multiple tailwinds support Value and Dividend stocks ahead. The broadening of profit growth from lower interest rates and greater policy certainty (tariffs) provide a favorable backdrop for Value. Historically, Value and Dividend strategies have delivered strong risk-adjusted returns, and current valuations remain attractive amid light positioning and muted sentiment. As these factors normalize over time, we believe Value and Dividend stocks are well positioned to deliver improved relative performance versus the broader market and Growth stocks.

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best Regards,

Schafer Cullen Capital Management, Inc.

All charts included are for illustrative purposes only and there is no assurance any trends will continue.

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The **Standard & Poor's 500 Buy-Write Index** is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The **SPDR Bloomberg High Yield Bond ETF** seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Bloomberg High Yield Very Liquid Index. The **Standard & Poor's 500 Index** is the commonly used measure of the broad U.S. stock market. The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the US equity universe. The **Russell 1000 Growth Index** composite includes large and mid-cap U.S. companies that exhibit a growth probability. The **Russell 2000 Value Index** measures the performance of the small-cap value segment of the US equity universe. The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the US equity universe. The **S&P 1500 Index** combines three indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600, to cover approximately 90% of U.S. market capitalization. The **Choe S&P 500 BuyWrite Index (BXY)** is a benchmark index that tracks a hypothetical investment strategy involving the S&P 500 Index. The strategy involves holding a portfolio of S&P 500 stocks and selling monthly call options on the S&P 500 (SPX) that are 2% out-of-the-money. Comparisons to indices are inherently unreliable indicators of future performance. The strategies used to generate the performance may vary from those used to generate the returns depicted in the indices. An individual cannot invest directly in an index.

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