Dear xxxx;

Every December analysts across the financial services industry release their full year projections for the S&P 500. In 2024, no one was more bullish than John Stoltzfus at Oppenheimer, who expected the S&P 500 to close 2025 at 7,100. During the first quarter's tariff induced market meltdown, every analyst except for Stoltzfus lowered their prediction to a range of 5,500-6,000. Stoltzfus predicted a 20.7% gain, and the S&P 500 delivered a gain of 16.39%. This demonstrates that when it comes to predicting the future, patience is as important as intelligence.

During the fourth quarter all the benchmark indices tracked by GA Pincus Funds moved higher. US equities (Q: +2.04%), international equities (Q: +4.70%), commodities (Q: +0.97%), and US fixed income (Q: +1.10%) all delivered gains. Looking at the financial markets, all major indices traded within a range of about 5% and finished near the top of that range. This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the fourth quarter and our thoughts on 2026.

Federal Funds Rate

The Federal Open Market Committee (FOMC) held two meetings in the fourth quarter and cut rates by 0.25% during each of the meetings. For all the talk in 2025 about interest rates, the federal funds rate was only lowered three times in 2025, and these cuts took place in September, October, and December. The government shutdown prevented the release of many of the economic reports the Federal Reserve Governors use to determine rate policy. After lowering rates, Chairman Powell explained that rate cuts were deemed necessary due to a softening labor market and declining inflation even though overall growth has remained strong. About two weeks after the December meeting, the Bureau of Economic Analysis released the shutdown-delayed third quarter US GDP growth report. This report indicated that US GDP growth was 4.3% in the third quarter. Even without a full data picture in early December the governors were able to correctly analyze the US economy. Chairman Powell explained that the board remained in a "wait-and-see" approach and only expects one additional rate cut in 2026.

Mortgage Rates

The politicalization of the Federal Reserve has caused many Americans to believe that mortgage rates are determined by the federal funds rate, and a lower fed funds rate equates to a lower mortgage rate. This is incorrect. The federal funds rate is the interest rate at which banks lend money to one another overnight. Mortgage rates are determined by adding a "spread" to the rate of the US 10-year Treasury bond. The rate of the 10-year Treasury bond is determined by investors' expectations for monetary and fiscal policy, economic growth, and inflation. On average, the 10-year Treasury sits approximately 1% higher than the federal funds rate. From late 2022 until recently, the 10-year Treasury traded as low as 1.5% below the Federal Funds rate. This inversion typically precedes a recession.

The spread between the 10-year Treasury and the mortgage rate is determined by various factors including the lender's costs, prepayment risk, demand, and lender capacity. Historically, the spread averaged about 1.2%. However, it decreased to 0.7% from 2012-2019 and reached a high of 3% in June 2023. Today, this spread is 2%. If the broad economy continues to stabilize and we stave off the recession predicted by the 10-year Treasury fed funds rate inversion, we believe the current spread will contract. We predict mortgage rates will drop to an average of 5.00% by the end of 2026.

2025 Equity & Fixed Income Performance

2025 was a unique year because every index we track posted significant positive returns. Commodities were the only index not to exceed their annual average percentage gain. The performance of the commodities index was heavily driven by oil and gas, its largest component by weight.

Fixed income and US equities performed well, but world equities outside the US delivered stellar returns. After a lackluster return of 3% in 2024, the MSCI world Ex US Index had its best year since 2009, increasing by 29.20%. This index is comprised of 777 large cap and midcap companies across 22 developed countries excluding the US. This strong performance is even more exceptional considering technology companies comprise just 9% of the index. Unlike the S&P 500, where the top 10 companies have a combined market cap of $25.61 trillion and account for 39.27% of the index, the top 10 companies in the MSCI World ex US have a combined market cap of $2.6 trillion and account for just 11.47%. While the 2025 gains were excellent, we believe international stocks have more room to run.

Commodity Update

Oil prices continued their bumpy trek lower during the fourth quarter as prices declined by 7.86%. Luckily for investors, 2025 marks the first time this century that energy stocks increased in value while the physical commodity declined by more than 10%. Additionally, US consumers benefited as the price of a gallon of gas dropped from $3.04 to $2.84.

	2025 Gain
Uranium	13.88%
Uranium Miners	36.17%
Gold	65.29%
Gold Miners	153.98%
Silver	144.36%
Silver Miners	196.97%

While the price of uranium stocks and their miners have declined since reaching all-time highs in October, the price of gold, silver, and their respective miners have continued to soar. As previously discussed, uranium stocks have moved higher because uranium produces cheap clean energy that the AI industry needs to power their data centers. Gold has increased in value due to geopolitical risks. Finally, silver has increased in value due to increased demand by both retail and industrial players. This increased demand has led to a global shortage of silver. It is important to note that while silver broke the $50/ounce mark last reached in 1980, when adjusting for inflation, the true all-time high in silver is $200/ounce.

Cryptocurrency Update

As precious metals accelerated their gains during the fourth quarter, all major cryptocurrencies experienced significant losses.

	Decline From 2025 High
Bitcoin	-31%
Ether	-38%
Solana	-50%
XRP	-48%
BNB	-34%

The cause of this collapse was multifold. Initially, hawkish central bank signals and a rate increase in Japan caused a risk-off market shift and profit taking. However, thin trading volumes led to forced liquidations and increased volatility. As prices fell, institutions slowed their purchases and traders sold losses for tax purposes. Bitcoin closed the quarter at $87,600 down from an all-time high of $126,245 achieved on October 6^{th}.

Conclusion

We are thrilled both with our performance and the performance of the broader markets this year. We continue to believe there will be a global pullback in early 2026 largely due to the market's stellar performance in 2025. This drawdown will be short-lived as large tax refunds payable to high-net-worth individuals in the second and third quarters of 2026 will pump fresh capital into the economy. We do not expect that this downward revision will be long enough to affect policy decisions. We foresee mortgage spreads tightening, mortgage rates dropping to 5%, and the S&P 500 reaching new all-time highs by the end of 2026.

APPENDIX

2025 Taxes Due

- algorithm created to minimize taxes each year
- investments determined 6-18 months before catalyst is expected to alter price
- 2025 = perfect storm = everything went up
- Full year gains are much higher than expected with minimal losses during year

- Taxes owed will be higher than normal
- Our full year net performance (after fees and taxes) will far exceed market

Diversification

As you know, GA Pincus Funds uses a proprietary algorithm embedded within custom software to deliver tax-adjusted returns that aim to outperform your blended benchmark. We aim to use a broad set of asset classes so that each of your portfolios represents the global stock, bond, and commodity markets. Each year there will always be a best performing asset class and a worst performing asset class. Diversification ensures stability since your portfolios own a blend of the global market. Part of our investment strategy involves shifting portfolio weightings to minimize the exposure to the underperforming asset classes while maximizing exposure to the stronger asset classes. We will continue to monitor the changing ETF landscape to further diversify each of your portfolios when it is applicable.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures in your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns on the statements we deliver may be slightly lower than the statements you receive from Schwab due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. We are always available to answer any questions you may have.

Best regards,

Gabriel

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