



Jan 15, 2026

Quarter Ending December 31, 2025

<u>Quarterly Performance</u>	<u>Q4 Index</u>	<u>YTD</u>	<u>Close</u>
Dow Jones Industrial Average	3.66%	12.97%	48,063.29
NASDAQ Composite Price	2.6%	20.4%	23,241.99
Standard & Poor's Averages	3.1%	17.3%	6,896.24

As 2025 came to a close, markets found themselves caught between two sharply opposing narratives. On one hand, optimism has reasserted itself: the Federal Reserve has ended quantitative tightening, liquidity conditions are improving, and key sectors remain well-capitalized. On the other, a growing list of structural and cyclical risks suggests that the foundation beneath this optimism may be less stable than recent market performance implies.

Despite a challenging backdrop, the fourth quarter finished on a constructive note. All major equity markets ended the period in positive territory, with the S&P 500 gaining approximately 3.1%, while the Aggregate Bond Index rose about 1%. This came despite notable disruptions, including the longest U.S. government shutdown in history, weaker labor market data, and rising concerns about the sustainability of massive investment in artificial intelligence.

Markets experienced elevated volatility in October and November, driven by incomplete economic data and uncertainty around policy direction. Ultimately, sentiment stabilized as investors gained greater clarity on Federal Reserve policy, including two rate cuts during the quarter and confirmation that quantitative tightening officially ended on December 1. The halt in balance sheet runoff removed a persistent liquidity headwind and reinforced expectations for a more accommodative policy stance in 2026.

The S&P 500 finished 2025 up over 17%, marking its third consecutive year of double-digit gains—an historically rare outcome. That said, at year-end, the index traded near 26x trailing earnings, with the CAPE ratio hovering close to 40x, levels seen only during past market bubbles. Total U.S. equity market capitalization now exceeds 217% of GDP, a metric long viewed as a warning signal by famed investor Warren Buffett.

While growth and technology dominated most of the year, the fourth quarter told a more nuanced story. Growth stocks underperformed value, and defensive sectors - particularly Health Care, which gained roughly 12% in Q4 - reasserted leadership as investors positioned more cautiously into year-end.

Importantly, 2025 marked a notable shift globally. For the first time in several years, non-U.S. equities materially outperformed U.S. markets for the full year, supported by more attractive valuations, fiscal stimulus abroad, solid earnings growth, and a weaker U.S. dollar. Europe,



Japan, Asia, and emerging markets delivered their strongest relative performance versus the U.S. since the early 1990s.

Beneath strong headline returns, several warning signs are becoming harder to ignore - household debt and delinquencies are rising across income levels, consumer confidence remains near cyclical lows, and private credit markets are flashing early signs of stress. At the same time, we are now more than 15 years removed from the last sustained market correction, meaning an entire generation of investors have never experienced a prolonged bear market.

The current cycle has been defined by extraordinary monetary and fiscal intervention, fostering an environment of moral hazard where leverage, speculation, and trend-chasing are widely accepted under the assumption that policymakers will intervene if markets falter. This belief, combined with automated capital flows, diminished valuation discipline, and the dominance of passive investing, has eroded traditional margins of safety and left markets increasingly driven by momentum and sentiment.

Markets enter 2026 on less stable footing than earlier in the year. Valuations are elevated, credit spreads are tight, earnings expectations are high, and much of the anticipated policy easing is already priced in. None of these factors alone signal an imminent downturn, but together they leave little room for positive surprises.

With dispersion widening and volatility likely to persist, we believe a balanced, diversified, and risk-aware approach remains essential. While near-term seasonality and liquidity may continue to support markets, long-term outcomes will ultimately be determined by earnings durability, valuation discipline, and the ability to navigate an environment where optimism and risk coexist uneasily.

We remain focused on protecting capital, identifying durable opportunities, and maintaining alignment with long-term objectives regardless of short-term market noise. As always, we appreciate your trust and partnership and will continue to monitor developments closely as the new year unfolds.

Have a great Winter and please reach out to us with any questions.

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