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2025 Year End Commentary

A Year Defined by Volatility and Resilience

Investors enter 2026 happy to have participated in the continuation of a bull market that has now lasted three years. 2025 finished strong, but it was a year laden with a high degree of uncertainty and fraught with volatility. In February markets pulled back sharply, dropping 20% when reciprocal tariffs were first announced. Then the S&P 500 did something it hasn't done since the 1950s: it surged 38% off its March low¹ as threatening rhetoric was tempered and related concerns began to dissipate. As the year went along the anticipated impact of tariffs did not meaningfully materialize their "hit" seemingly spread between exporters, distributors, and consumers. Data suggests that the effective tariff rate has been hovering around 11% in recent months.² Overall, labor markets remained stable (though they showed signs of weakening in the fall), upper income households continued to spend, and corporate earnings remained resilient. Falling interest rates and lower energy costs were also helpful. Markets in the fourth quarter trended sideways, but more importantly, they managed to hold onto their gains. Looking back on 2025, our 100% equity ETF model portfolios performed in line with our benchmark, the S&P 1500, while portfolios that hold both stocks and bonds also enjoyed a year of outperformance attributed to strong returns coming from both asset classes.

Why the Backdrop Still Looks Supportive

We enter the new year cautiously optimistic for a variety of reasons that may favor a positive backdrop for the economy and stocks. We suspect oil costs will remain low, inflation won't "runaway," and a fallen dollar will keep exports competitively priced. Deregulation in lending standards and construction permitting should help expedite the buildout of data centers, energy infrastructure, chip manufacturers, and hopefully affordable homes. Fiscal thrust in the form of tax reform should benefit many households and businesses beginning as early as this spring. Interest rates are likely to drop further while the uptrend in the money supply continues to flow from banks into the hands of borrowers.³ These tailwinds should keep corporate earnings intact and may particularly benefit small companies and "old era" stocks. The broadening out of earnings beyond the mega cap growth names (remember the Mag 7?) showed signs of transition in 2025, but still just five companies were responsible for almost half the performance of the S&P 500.⁴

¹ Semenova, A., & Jaisinghani, S. (2025, December 29). *Every Wall Street analyst now predicts a stock rally in 2026*. Bloomberg. <https://www.bloomberg.com/news/articles/2025-12-29/bulls-only-every-wall-street-analyst-now-predicts-a-stock-rally>

² Capital Group. (2025). *2026 outlook: Long-term perspective on markets and economies* (p. 6). Capital Client Group, Inc.

³ YCharts. (2025). *U.S. M2 money supply* (USM2MSSM; November 2025). YCharts. <https://ycharts.com>

⁴ Semenova & Jaisinghani, *Every Wall Street analyst now predicts a stock rally in 2026*.

The Risks That Still Matter

Headwinds abound of course, any of which could help derail this current bull market. President Trump's second year in office could bring more unanticipated geopolitical shocks than his first, and as of this writing, the tariff uncertainty may not be behind us. The Federal Reserve could make fewer interest rate cuts than markets anticipate. We still have budgets to pass in Washington, midterms in the fall, and no one is certain what households will be paying for their health care, though there are encouraging signs of a bipartisan approach to solving the problems. Consumer confidence must improve; historical data shows confidence in the economy can be just as impactful to the stock market as company earnings.⁵ Inflation and particularly the unemployment rate will continue to drive the level of interest in stocks. Many Americans are also concerned that artificial intelligence is coming for their jobs. Interestingly, data compiled by Vanguard showed the 100 occupations most vulnerable to AI automation outperformed the rest of the labor market pre and post COVID in terms of both job growth and real wage increases.⁶

Staying Invested Through Change

Investors worry we may be in a “bubble” regarding stocks tied to artificial intelligence. It's a fair concern and risks are growing, which is one reason why value and international stocks are drawing attention. But unlike the dot-com bubble of the late 1990s, much of the expansion in stock valuations today is supported by equally strong earnings growth. Artificial intelligence as a general purpose technology or GPT is not a passing trend but a transformative economic force reshaping expectations for productivity, growth, and competitiveness across industries. It is driving a structural shift that demands massive capital investment to retool our society for a new era. As the economy swaps out its old tools for new tools, which Vanguard refers to as “capital deepening,” it will require and involve a wide variety of upfront financing channels including leases, public and private credit, circular financing, and other forms of creative funding. If history is any guide, there are several stages to the adoption of any transformative societal technology. We are still early in the AI transition, which makes the bubble scenario less likely. There is still much to be done building data centers, supplying AI chips, training skilled labor, retrofitting and providing new forms of power, and procuring the real estate necessary to build and operate the appropriate infrastructure, to name a few. All of this takes time and money, and a lot of it. For many companies the outlay of capital will be profitable (preferably sooner than later), but not for all of them. As a result, there will be winners and losers. It's one reason why stocks of large companies remain compelling even at their lofty prices; they are well funded and can continue to scale their business models with free cash.

Our exchange traded fund (ETF) portfolios remain fully diversified with exposure, albeit less than 2025, to large cap growth companies (SCHG, MGK, FFLC), and direct exposure to artificial intelligence, robotics, and quantum computing via AIQ and QTUM. We favor more reasonably priced old era value stocks (SPYV), dividend payors (CGDV, VIG), small caps (FSMD), and international holdings (SGIIX, FEGE, and AVDE). Our models are comprised of highly rated low-cost ETFs with partners at Vanguard, Schwab, Fidelity, State Street, Capital Group, BlackRock, Defiance, and

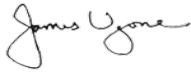
⁵ Paulsen, J. (2025, December 18). *Earnings or confidence?* Paulsen Perspectives. <https://paulsenperspectives.substack.com/p/earnings-or-confidence>

⁶ Vanguard Investment Strategy Group. (2025). *Vanguard economic and market outlook for 2026: AI exuberance, economic upside, stock market downside* (p. 12). The Vanguard Group. https://corporate.vanguard.com/content/dam/corp/research/pdf/isg_vemo_2026.pdf

GlobalX funds. Bonds have had several good years providing yield, stability, and a return to negative correlation, i.e., they went up when stocks went down. We rely on our actively managed PIMCO bond ETF, PYLD, which posted more than a 9% return. Our laddered approach of investment grade corporate bonds maturing from 2027 through 2030, returned approximately 5% (IBDS, IBDT, IBDU, IBDV). We expect similar performance for 2026, making the inclusion of bonds very constructive to those portfolios that hold them.

As advisors, we understand it is our job to manage the risk narrative with our clients and plan with them for dynamic and uncertain outcomes. We spend a great deal of time focused on what we can control. We take pride in low and transparent management fees, zero trading costs, minimal internal expenses, and tax awareness. We place high value on the selection of the best market instruments at the lowest cost to achieve the risk-adjusted long-term returns we expect, with as much predictability as we can. We use state-of-the-art financial planning software and artificial intelligence, paired with our in-house team of tax professionals and Certified Financial Planners to provide a complete and comprehensive approach to investing, saving, and spending. The end of a big year in the market is the perfect time for investors to step back and ask two important questions: what am I trying to accomplish, and what level of risk do I need to achieve those goals? We are here to help answer those questions and address the countless others that surround the inquiry.

Thank you,

A handwritten signature in black ink, appearing to read "Jim Ugone". The signature is fluid and cursive, with a large initial "J" and "U".

Jim Ugone, CEPA
Cynthia Deal, CFP®
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