

## 4Q 2025 Commentary

January 9, 2026

### PSG'S PERSPECTIVES

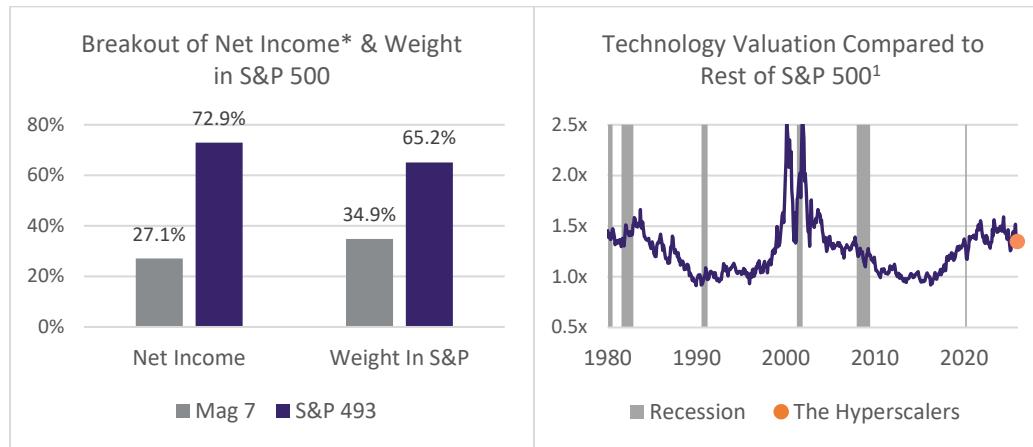
#### Are We In A Bubble?

We do not believe today is comparable to the dot.com bubble.

We believe artificial intelligence (AI) remains in the early stages of both development and adoption. Its ultimate impact on businesses and society could be profound, but it is still too early to know whether the substantial capital currently being invested will generate returns commensurate with that spending. This uncertainty represents both a risk and a potential opportunity. The key question for today's AI market leaders, many of which are highly profitable and financially strong, is whether AI becomes a catalyst for higher returns, or a force that merely preserves, or even erodes, past success.

Many of you have asked whether the current market environment (particularly within technology stocks) resembles a bubble, often drawing comparisons to the late 1990s. We do not believe the parallels are especially strong. During that period, many companies with minimal revenues and unproven business models went public at unrealistic valuations simply by adding ".com" to their names; most of them are not around today. Even established businesses such as Cisco traded at extreme multiples, peaking at roughly 200 times earnings. Cisco's stock price only recently surpassed its 2000 peak, even as sales have more than doubled since that time.

Today's leaders are more expensive than the broad market, but not unreasonably so.



\* Trailing 12 months of Net Income; Source: FactSet

Source: Empirical Research Partners Analysis

Today's leading AI-related companies (Nvidia, Microsoft, Meta, and Alphabet) trade at valuation multiples in the range of 23 to 31 times next year's earnings. (Walmart and Costco trade at more than 40 times next year's earnings.) While these AI stocks are not

<sup>1</sup> Large Cap Technology and Interactive Media Compared to the Rest of the Market Ratios of Forward P/E Ratios, capitalization-weighted. The "Hyperscalers" are Meta Platforms, Alphabet (Google), Amazon, and Microsoft. Source- Empirical Research and National Bureau of Economic Research.

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We question enthusiasm in parts of the market.

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The net impact to the economy from AI is still unknown, but higher efficiency and profits are promising.

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Equities, bonds, and alternatives (including gold) had positive performance for the quarter and year.

inexpensive, they are supported by significant profits, strong cash flows, robust balance sheets, and meaningful growth, even at their already large scale.

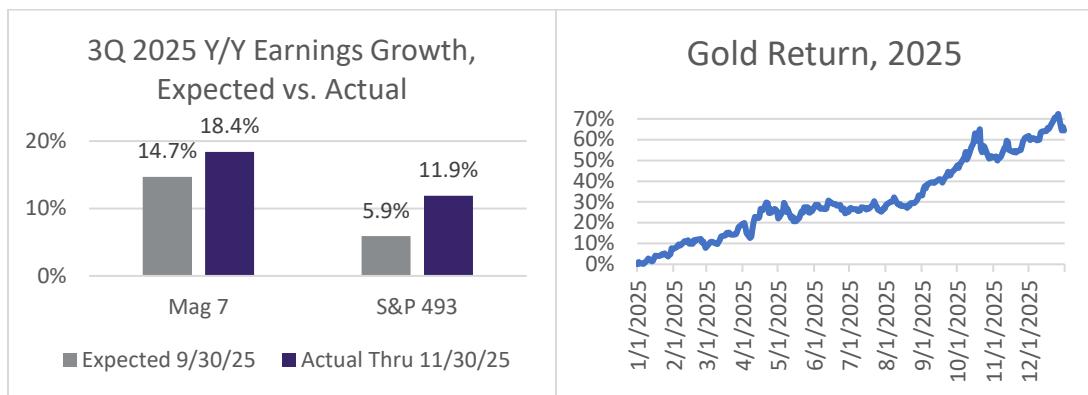
We believe there is unbridled enthusiasm for stocks involved in the data center buildout. These types of investments warrant closer scrutiny. There are also smaller and more speculative companies—such as certain uranium-related stocks—that are benefiting indirectly from AI enthusiasm despite being unprofitable or only marginally profitable. We believe many of these companies will come back to earth.

From a labor perspective, the buildout of AI infrastructure is likely to support job creation in certain areas, even as broader adoption may lead to job displacement in others. The net effect remains difficult to quantify. For many businesses, AI may translate into improved efficiency and higher profit margins, while for society it could result in structural shifts in employment across industries.

Enthusiasm around AI has clearly influenced the stock market. Many AI-related stocks may be fully valued, but we do not view the current environment as comparable to the speculative excesses of the late 1990s. That does not mean they cannot go down if they miss expectations. We believe well-diversified equity portfolios should maintain exposure to these companies, with the understanding that higher volatility should be expected. Investors with higher risk tolerance may have a larger allocation, recognizing both the potential rewards and the associated risks.

## FOURTH QUARTER REVIEW

Stock markets hit all-time highs in the quarter, led by international stocks. US earnings continued to surprise to the upside. Positive impacts from the One Big Beautiful Bill Act (OBBBA) are being incorporated into future earnings. Neither the government shutdown, loss of immigrant labor, nor tariff policies seem to have derailed strong GDP growth. There have been few job losses, though hiring has slowed and unemployment has ticked up. The Federal Reserve (“The Fed”) cut interest rates 0.25% in both October and December and announced they will no longer shrink the balance sheet (i.e. Quantitative Tightening is over). This has added credence to the view outlined in our 3Q 2025 Commentary that The Fed will capitulate to easy monetary policies despite higher than target inflation, which is a positive in the short term for precious metals and earnings growth. Interest rates fell for short-term Treasuries and were relatively stable for long-term Treasuries. Most alternative investments also delivered positive returns in the quarter.



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All meaningful asset classes were up in 2025.

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Most areas of the market generated positive returns in 4Q.

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The Fed cut rates two times in 4Q; short-term rates fell while the 30-Year Treasury did not.

## 2025 REVIEW

Almost all asset classes were up in 2025. Equities were up double digits across all major US and foreign indices (except Mid Cap Growth, +9%). Non-dollar denominated assets performed well, such as developed and emerging market indices +30%, and gold +64%. Bond returns were positive, interest rates were lower, and most alternative investments had positive returns. Concerns around tariff and immigration impacts were muted in the year. Artificial Intelligence (AI) was the main story driving the Magnificent 7 and other parts of the market.

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### Quarter and Year Review

#### EQUITIES

##### 4<sup>th</sup> Quarter – Value Outperformed Growth

- ❖ International and Large Cap Value were up ~4-5%.
- ❖ The S&P 500 was up 2.7%.
- ❖ The only major index that declined was Mid Cap Growth (-4%).
- ❖ Gold, up 12%, continued to rally; Bitcoin fell (-24%).

##### Year To Date – All Indices Now Positive

- ❖ International stock indices were the best performers, up over 30%.
- ❖ Large cap indices were the best US performers, up 16-19%.
- ❖ The S&P 500 was up 18%.
- ❖ Gold, up 64%, returned more than equities; Bitcoin fell (-7%).

#### BONDS

##### 4<sup>th</sup> Quarter & Year to Date

- ❖ The Federal Reserve cut interest rates by 0.50% in the quarter, with 0.25% cuts in both October and December.
- ❖ Short-term interest rates, which are very sensitive to Fed actions, fell. (*See Table 1, next page*)
- ❖ 10-Year Treasury interest rates declined slightly during the quarter and 30-Year Treasury rates rose despite the Fed's cuts, an unusual departure from the recent historical pattern in which easing cycles have coincided with declines in long-term interest rates.
- ❖ Interest rates on high-quality investment-grade bonds were slightly higher compared to Treasuries on September 30, but lower when compared with year-end 2024.
- ❖ Bonds offered steady returns and a source of income in the quarter and offer returns roughly in line with current inflation (after taxes).

**Table 1**

**US Treasury Yields** (source- FactSet; numbers may not sum due to rounding)

Maturity	12/31/24	9/30/25	12/31/25	4Q25 Yield Change	2025 Change
3 Month	4.3%	3.9%	3.6%	(0.4%)	(0.7%)
2 Year	4.2%	3.6%	3.5%	(0.1%)	(0.7%)
5 Year	4.4%	3.7%	3.7%	(0.1%)	(0.7%)
10 Year	4.6%	4.2%	4.2%	(0.1%)	(0.4%)
30 Year	4.8%	4.7%	4.9%	+0.2%	+0.1%

## SUMMARY

Diversified portfolios fared well in 2025.

Markets have generated above-average returns for three straight years as earnings continued to grow. Gold was a huge winner in 2025, and there are few indications that structural underpinnings of the rally (higher deficits, easy Fed) will weaken. The January 2026 US military actions in Venezuela, with threats of further actions and elsewhere, increase geopolitical uncertainties and further reinforces our current positioning in gold. That said, the lack of a firm valuation rationale makes markets vulnerable to a selloff. International stocks had a strong year; the structural support for gold also supports non-US assets. We do not believe AI is in a bubble, though the stocks will bounce around with news flow; selloffs can be used to increase positions in higher-quality assets. Bonds performed well and offered stability and income, though the (slight) backup in 30-Year Treasury yields despite three cuts from the Fed is worth monitoring.

## FUN FACTS

- ❖ The S&P 500 has returned more than 17% each of the last three calendar years. There have only been four other runs when the S&P 500 returned more than 17%:
  - 1942-1945 (4 years in a row)
  - 1949-1952 (4 years in a row)
  - 1995-1999 (5 years in a row)
  - 2019-2021 (3 years in a row)
  - In each year after the run (1946, 1953, 2000, 2022), the S&P 500 was down.
- ❖ There were three dissenting votes to lower interest rates at the December Federal Reserve Board Meeting, the most since 2019.
- ❖ The CME Group (Chicago Mercantile Exchange) raised margin requirements for silver (and other precious metals) twice in the last week of December to reduce the risk of losses from margin calls after silver surged 53% following Thanksgiving.

## DISCLOSURE

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