



# 2025 Year-End CIO Market & Economic Perspectives

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## SECTION #1

# 2025 Economic and Market Recap

The year 2025 offered a reminder of just how complex — and resilient — the global economy and financial markets can be. Growth held up better than many expected during the later stages of the first quarter and into the early part of the second quarter as trade tensions flared, supported by strong consumer spending, a still fully employed labor market, and an ongoing surge in AI-related capital investment. At the same time, markets experienced meaningful volatility, driven in large part by policy uncertainty and trade tensions. Global stocks delivered strong gains for the year through November, and bond markets registered broadly positive returns as interest rates fell.

Below I recap the major themes that shaped the year.

## A Resilient but Uneven Economy

The U.S. economy continued to expand in 2025. Real GDP growth is expected to come in around 1.5–2.0% for the full year — a slower pace than the immediate post-pandemic period, and what was broadly expected coming into the year, but still solid given the backdrop of elevated geopolitical and policy uncertainty. The consumer remained the backbone of the economy, supported by ongoing modest job creation and real wage gains. The labor market softened modestly as hiring materially slowed, but not in a way that fundamentally altered household spending patterns as layoffs also remained at low levels.

Inflation, while significantly improved from its 2021–2023 highs, remained above the Federal

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Reserve's 2% target. This stubborn persistence served as a reminder that the final stretch of disinflation is often the most challenging.

## AI Investment Boom Provided a Tailwind

One of the most notable economic dynamics in 2025 was the continued acceleration of investment tied to artificial intelligence. Companies across technology, energy, and communications infrastructure spent aggressively to expand capacity and build the foundation for future AI-enabled capabilities. While the long-term productivity benefits will take time to unfold, the immediate impact on economic activity was significant. Corporate capex related to AI acted as an important counterweight to softening in other areas of the economy and contributed to the year's modest growth.

## Policy Uncertainty and Tariff-Driven Volatility

In contrast to the strength delivered by AI-related capex, policy uncertainty weighed on markets, particularly during the first half of the year. The most disruptive event came in the spring, when an unexpected barrage of tariff announcements triggered a sharp global selloff. Global stocks declined by 10-20% or more in a matter of weeks, with the S&P 500 briefly approaching bear-market territory.

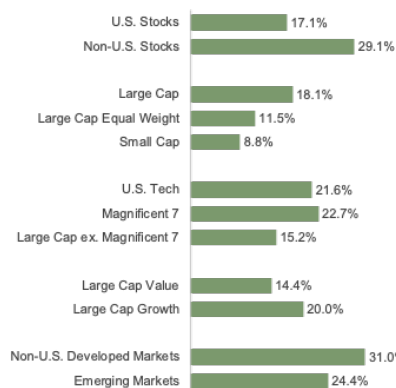
As the administration subsequently paused or softened certain measures, markets rebounded quickly. The episode highlighted both how sensitive markets can be to policy developments and how underlying economic resilience can help buffer these shocks.

## Equity Markets: Strong Gains Globally with Leadership Shifting Beyond the U.S.

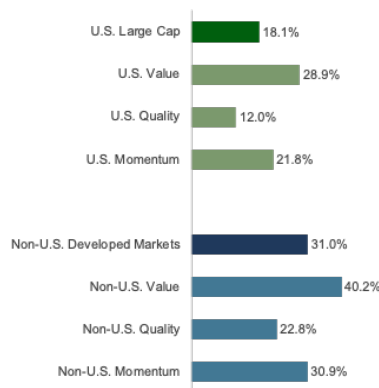
Equity markets globally delivered solid gains in 2025, with foreign markets materially outperforming domestic stocks. Foreign stocks were aided by more attractive starting valuations, strong earnings growth in several regions, and a weakening U.S. dollar.

From a style and factor perspective, traditional stock selection signals generally added value during the year as value and momentum strategies outperformed the broad market within the U.S., while value materially outperformed beyond U.S. borders within developed markets and momentum performed in-line with the broad market benchmark.

**Global Stock Market Year-to-Date Performance**  
2025 Year to Date Total Returns as of November 30, 2025



**Global Stock Factor Year-to-Date Performance**  
2025 Year to Date Total Returns as of November 30, 2025



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Investing involves risks such as fluctuating value and potential loss of principal value. There is no guarantee strategies will be successful. Index representation as follows: U.S. Stocks (Vanguard Total Stock Market Index ETF; VTI), Non-U.S. Stocks (Vanguard Total International Stocks Index ETF; VXUS), Large Cap (Vanguard Large Cap Index ETF; VV), Large Cap Equal Weight (Goldman Sachs Equal Weight U.S. Large Cap Equity ETF; GSEW), Small Cap (Vanguard Small Cap Index ETF; VB), U.S. Tech (Invesco QQQ Trust; QQQ), Magnificent 7 (Roundhill Magnificent Seven ETF; MAGS), Large Cap ex. Magnificent 7 (Defiance Large Cap ex-Mag7 ETF; XMA7), Large Cap Value (Vanguard Value Index ETF; VTV), Large Cap Growth (Vanguard Growth Index ETF; VUG), Non-U.S. Developed Markets (Vanguard Developed Markets Index ETF; VEA), Emerging Markets (Vanguard Emerging Markets Stock Index ETF; VWO), U.S. Large Cap (Vanguard Large Cap Index ETF; VV), U.S. Value (iShares MSCI USA Value Factor ETF; VLUE), U.S. Quality (iShares MSCI USA Quality Factor ETF; QUAL), U.S. Momentum (iShares MSCI USA Momentum Factor ETF; MTUM), Non-U.S. Developed Markets (Vanguard Developed Markets Index ETF; VEA), Non-U.S. Value (iShares MSCI International Value Factor ETF; IVLU), Non-U.S. Quality (iShares MSCI International Quality Factor ETF; IQLT), Non-U.S. Momentum (iShares MSCI International Momentum Factor ETF; IMTM). Source: Ycharts.

Although not a central theme of this section, it's worth noting that U.S. market performance remained heavily influenced by a small number of large technology and AI-linked companies, and valuations.

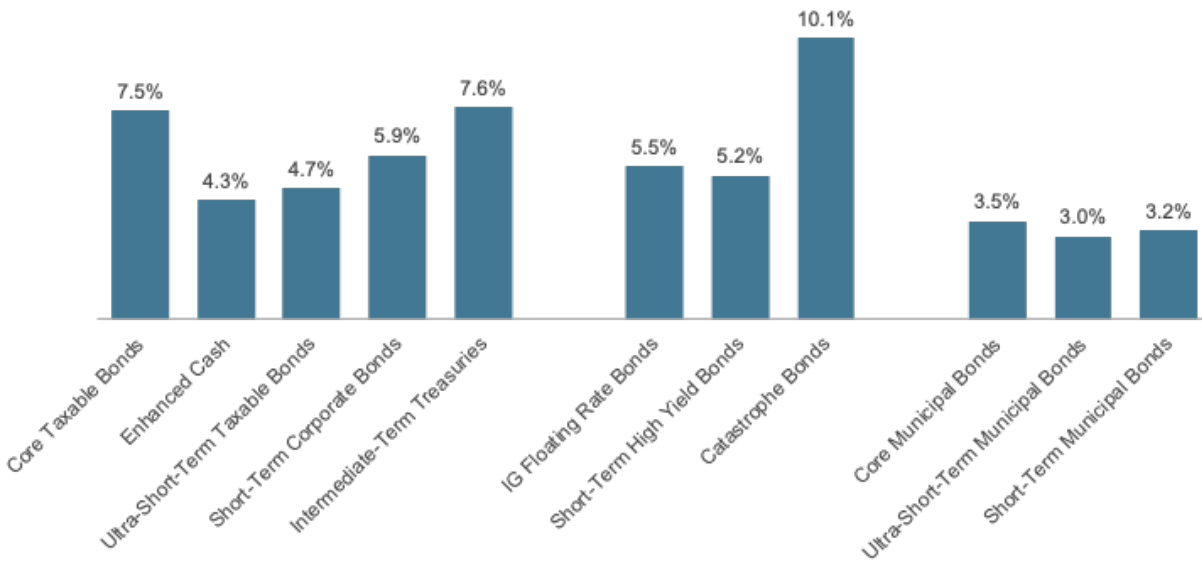
Valuations in certain parts of the market remained elevated relative to history and global peers. These dynamics are explored in greater depth later.

## Bond Markets: A Constructive Year as Interest Rates Declined

Bond investors experienced a broadly positive year in 2025 as interest rates, while volatile, ultimately shifted lower and credit conditions remained supportive. For the year-to-date period through the end of November, investment-grade taxable bonds posted mid-to-high single digit gains while investment-grade municipals delivered low-single-digit total returns.

Short-duration strategies lagged their intermediate-duration counterparts somewhat amid generally declining rates but continued to provide stability and liquidity for portfolios. Credit spreads widened some during the equity market sell-off during the first half of the year but ultimately settled back down to the historically tight levels they began the year at, providing support for both investment-grade and high-yield corporate bonds.

**Global Bond Market Year-to-Date Performance**  
2025 Year to Date Total Returns as of November 30, 2025



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Investing involves risks such as fluctuating value and potential loss of principal value. There is no guarantee strategies will be successful. Index representation as follows: Core Taxable Bonds (iShares Core US Aggregate Bond ETF; AGG), Enhanced Cash (PIMCO Enhanced Short Maturity Active ETF; MINT), Ultra-Short-Term Taxable Bonds (Vanguard Ultra-Short Bond ETF; VUSB), Short-Term Corporate Bonds (iShares 0-5 Year Investment Grade Corporate Bond ETF; SLQD), Intermediate-Term Treasuries (Vanguard Intermediate-Term Treasury Index ETF; VGIT), IG Floating Rate Bonds (Lord Abbett Investment Grade Floating Rate Fund; LGRYX), Short-Term High Yield Bonds (CrossingBridge Low Duration High Income Fund; CBLDX), Catastrophe Bonds (Ambassador Fund; EMPIX), Core Municipal Bonds (iShares National Muni Bond ETF; MUB), Ultra-Short-Term Municipal Bonds (JPMorgan Ultra-Short Municipal Income ETF; JMST), Short-Term Municipal Bonds (iShares Short-Term National Muni Bond ETF; SUB). Source: Ycharts.

# Economy: A Longer-Term Look Ahead

Over the decade-plus period between the end of the Global Financial Crisis and the onset of the pandemic in 2020, the U.S. economy operated within a relatively stable range: modest real GDP growth, low and stable inflation that rarely strayed far from target, and interest rates that hovered at historically low levels. Most long-term forecasts today broadly assume that this general pattern will largely continue in the decade ahead. In many ways, the consensus expectation is that the next decade will look much like the period we've just lived through.

Yet beneath that surface-level stability, the U.S. economy is being reshaped by several powerful, slow-moving forces. Economic research often refers to these structural forces as megatrends — shifts that unfold over decades and meaningfully influence the long-term trajectory of growth, inflation, and financial markets. Three stand out today as particularly important:

- **Technology:** Rapid advances in artificial intelligence
- **Demographics:** Aging demographics and slower labor force growth
- **Fiscal Policy:** A fiscal environment shaped by persistent deficits and rising interest costs

Crucially, these forces do not all push the economy in the same direction. Some point toward faster productivity growth; others point toward slower trend growth and heavier structural pressures. Together, they widen the range of plausible economic paths over the next decade — much wider than any single baseline forecast might suggest.

Understanding these megatrends isn't about predicting exactly which future will unfold. It's about acknowledging the structural pressures

at work and preparing for a wider set of possible outcomes than we've faced in years past.

Below, I outline each megatrend and why it matters before turning to three broad paths the economy could follow.

## Megatrend 1: Technology — AI-Powered Technological Advances

Recent advances in artificial intelligence represent one of the most significant technological developments in decades. It's widely acknowledged that AI could function as a general-purpose technology — a category that includes breakthroughs like electricity, the internal combustion engine and the personal computer, each of which has historically been associated with major periods of economic transformation.

Technologies in this category tend to:

- Raise output per worker and drive long-term productivity gains
- Change how work is performed and organized
- Transform multiple industries simultaneously
- Enable new business models and complementary innovations

AI's potential economic impact is not limited to automation (i.e., machines replacing manual tasks and the humans that perform them today). Critically, it is also about augmenting human capabilities thus enhancing their productivity. Augmentation refers to the fact that humans benefit from machines, loosely speaking. Historically, augmentation has raised the productivity of the labor force in aggregate and ultimately led to an increased demand for labor

which has more than offset job losses caused by automation. Historical examples include the personal computer and power tools.

If AI is widely adopted and integrated effectively into business processes, it could:

- Lift trend productivity growth, a central driver of long-run economic prosperity
- Support higher wage growth without fueling inflation
- Improve living standards
- Strengthen the nation's long-term fiscal position by expanding the tax base

Still, the timing, scale, and diffusion of these benefits are highly uncertain. Productivity transformations often unfold gradually and unevenly, depending on organizational readiness, complementary skills, regulatory environments, and capital investment. AI's promise is considerable, but its economic impact remains one of the biggest unknowns of the coming decade and beyond.

## Megatrend 2: Demographics — An Aging Society and Slower Population Growth

While AI points to productivity upside, demographic trends point in a different direction. The U.S. population is aging, and the growth of the working-age population has slowed meaningfully and is expected to remain subdued in the years ahead. Economic studies have consistently shown that demographics influence:

- The size and growth of the labor force
- The balance between workers and retirees within the broader population
- Investment patterns and consumption behavior

- The trajectory of public spending (i.e., entitlement) programs

As the U.S. population ages and large segments of the population retire, the economy faces:

- Slow labor force growth
- A rising dependency ratio (i.e., more retirees relative to workers)
- Shifts in savings and consumption patterns
- Increased pressures on entitlement programs

Because economic growth is ultimately a function of labor force growth plus productivity growth, slower labor force growth places greater pressure on productivity to do the heavy lifting of driving economic growth in the future.

However, it's important to recognize that demographics is not destiny. Demographics is but one factor impacting the growth equation. It is not fate. While demographics can affect an economy's growth potential, other megatrends like technology and fiscal policy exert a large influence too.

Vanguard's Global Chief Economist, Joe Davis, highlighted two key facts about the empirical relationship between population growth and the economy in a recently published book<sup>1</sup>:

1. Technology (i.e., productivity) has a far greater influence on GDP growth than does population growth.
2. Population growth has a negligible observable impact on inflation.

Demographic change in the years ahead is highly likely to affect specific sectors, particularly healthcare, and will very likely continue to weigh on our nation's fiscal budget, but it won't predetermine the fate of the U.S. economy. According to Joe Davis "Demographics is not destiny. It's just demographics."

<sup>1</sup> *Coming Into View: How AI and Other Megatrends Will Shape Your Investments*. Joseph H. Davis. 2025.

## Megatrend 3: Fiscal Policy — High Government Debt Levels and Persistent Deficits

A third structural force shaping the long-term outlook is the nation's fiscal trajectory. Prior to the pandemic, long-term budget projections already pointed to rising deficits driven by an aging population and rising entitlement program costs. Recent years have added to this pressure as structural fiscal deficits (i.e., the recurring imbalance between spending and taxation) have continued to increase. In addition, higher interest rates have increased the cost of servicing the existing federal debt, further aggravating the situation.

Research highlights several important ways fiscal conditions influence the broader economy:

- Higher debt levels increase sensitivity to changes in interest rates
- Rising rates lead to higher debt service expenses
- Large structural deficits reduce the government's ability to respond to future recessions or crises
- Over long horizons, the interaction of fiscal and monetary policy can shape inflation expectations and investor confidence

Importantly, these pressures do not imply an imminent crisis. The U.S. has deep capital markets, a strong institutional framework, and the advantage of issuing debt in the world's reserve currency. However, fiscal dynamics are increasingly relevant to the long-term economic outlook, represent a meaningful constraint on the policy environment going forward, and widen the range of potential economic outcomes in the years ahead.

### Why These Megatrends Matter

Each megatrend — AI, demographics, and fiscal policy — influences the economy's long-run

trajectory. Together, they create a more complex environment than the steady-state conditions many investors became accustomed to over the past decade.

- If productivity accelerates meaningfully, it could offset demographic and fiscal pressures.
- If productivity disappoints, demographic and fiscal headwinds may weigh more heavily.
- If no single force dominates, the economy could simply continue along its recent path.

Because we cannot know in advance which of these forces will ultimately prevail, it's helpful to consider three broad paths the economy may follow. These scenarios are not predictions — they are frameworks to help investors understand the range of plausible outcomes.

### Three Possible Paths for the Decade Ahead

As noted earlier, real life will not conform neatly to any single scenario. The coming decade will likely blend elements of all three. Still, thinking in terms of distinct paths helps clarify the underlying economic forces and their potential effects.

I present the three paths below.

#### Path #1: A Continuation of the Recent Status Quo

Under this scenario, the decade ahead broadly resembles the period between the Global Financial Crisis and the Covid pandemic. Real GDP grows modestly, inflation remains generally contained, and interest rates settle at levels above the immediate post-financial-crisis period but below the peaks seen in the early 2020s.

AI adoption progresses steadily but gradually, improving efficiency without radically altering the growth rate of the overall economy. Demographic aging continues to exert downward pressure on labor supply, but not so severely as to cause

recession or crisis. Fiscal pressures persist, yet remain manageable, with debt service costs rising but not spiraling.

This path represents the consensus expectation today: no major boom, no major bust — just a continuation of familiar conditions.

## Path #2: An AI-Driven Productivity Boom

In this more optimistic scenario, AI continues to advance at a nonlinear pace and evolves into a true general-purpose technology that materially improves productivity across a wide range of industries. Businesses successfully integrate AI into their workflows, achieving meaningful efficiency gains. Innovation becomes self-reinforcing as AI accelerates software development, scientific research, logistics, and professional services.

As a result, GDP growth accelerates, living standards continue to improve, inflation remains well in-check and fiscal deficits cease to climb due to higher tax revenues from stronger economic growth.

Importantly, this path does not assume AI replaces entire swaths of human labor. It only assumes AI makes workers more effective and accelerates innovation — conditions that have historically powered some of the most productive eras in economic history.

## Path #3: A Demographic and Fiscal Drag Scenario

In this more challenging scenario, the promise of AI as a general-purpose technology is unfulfilled. Worker productivity remains sluggish due to a continued lack of augmentation and automation.

At the same time, demographics exerts its gravitational pull in the form of slower labor force growth and government deficits keep rising due to ever increasing entitlement spending costs.

Persistent deficits and higher interest costs begin to limit fiscal flexibility. Higher debt service requirements crowd out public investment or require politically difficult adjustments. Inflation becomes more sensitive to fiscal conditions, complicating monetary policy.

This scenario does not imply crisis, but it presents a less appealing economic environment — one where long-term growth is slower and incomes and living standards improve at a far more gradual pace. In many respects, U.S. economic growth becomes less exceptional and more European.

## **Bringing It All Together**

The coming decade will not unfold exactly like any single scenario described here. Elements of all three paths are likely to appear at various times. AI may deliver bursts of productivity improvement; demographics and fiscal realities may continue to exert pressure; and long stretches may feel much like the steady conditions of the recent past.

For investors, the lesson is not to bet on one path over another. Instead, it is to prepare thoughtfully for all of them — to build portfolios that are diversified, resilient, and grounded in fundamental principles rather than narrow forecasts. These megatrends underscore why we focus on long-term preparation rather than short-term prediction.

# Investing Amid an AI Boom, High Concentration and Expensive Valuations

The investment landscape today is shaped by two powerful realities. First, AI is an extraordinary technological development with the potential to reshape the economy over time. Second, a small handful of companies tied to that theme (although not entirely dependent on it either) now dominate the U.S. stock market to an extent rarely seen in history. In recent years, these companies have delivered remarkably strong fundamental performance, and the market has rewarded them accordingly. At the same time, the prevailing combination of enthusiasm, concentrated leadership, and rich valuations introduces a set of risks that investors need to recognize and contend with.

I do not say this to imply that I — or anyone else — can predict precisely how the AI story will unfold or when market leadership might shift. Markets are forward-looking and incorporate new information quickly, making market timing a losing proposition. Rather, I simply believe that it's critical to recognize that concentration introduces portfolio fragility. The good news is that investors have a multitude of opportunities within and beyond the U.S. equity market to move from concentration to diversification and add resiliency to portfolios thus reducing that vulnerability.

Below, I outline four key considerations.

## 1. A Narrow Market Concentrated in a Handful of Mega Caps Carries Risk

The U.S. equity market has become increasingly concentrated in a small group of mega-cap companies. Currently, the ten largest companies

in the S&P 500 Index account for roughly 40% of the index according to data from S&P Global. Today's largest firms have earned their position through innovation, scale, diversity of their businesses (generally) and remarkable profitability. But from a portfolio perspective, there is a difference between acknowledging their present strength and allowing them to dominate one's long-term investment outcomes.

Periods of narrow leadership are not unusual, but they do come with heightened uncertainty. Mechanically, when a small number of companies comprise a disproportionate share of the overall market, future market performance hinges disproportionately on those companies meeting or exceeding the expectations embedded in their prices. The valuations attached to these companies today suggest that these expectations are high. If today's largest companies continue to execute flawlessly as they have in the recent past, investors are likely to be rewarded. If growth slows, competition intensifies, or sentiment shifts, the downside impact on the overall market can be material.

Without making predictions, it's important to acknowledge that concentration amplifies both upside and downside potential. A more broadly diversified portfolio, on the other hand reduces the reliance on a specific set of outcomes and is inherently more resilient. This is because it has exposure to a greater diversity of themes, geographies, sectors and individual companies whose fortunes do not depend on the same narrow selection of current market leaders.

## 2. AI's Promise Is Real — But Market Pricing Reflects Very Optimistic Assumptions

There is no question that AI represents an important technological advancement with the potential to lift productivity, create new winners across a range of industries and enable new business models. I believe we are still in the early stages of what may prove to be a multi-decade innovation cycle. Some companies will harness these tools effectively; others may not. Innovation of this magnitude rarely unfolds in a straight line.

At the same time, the stock market has already priced in significant optimism regarding both the magnitude and timing of AI-driven growth. Many of the companies tied most directly to the AI narrative now appear to trade at valuations that imply continued rapid adoption of AI, durable competitive advantages and ultimately strong future profitability and cash flow generation. While this view may prove correct over time, it represents but one of a wide range of possibilities.

Students of market history will recognize that technological progress does not guarantee corresponding investment success. Throughout history, profound innovations — railroads, automotive manufacturing, telecommunications, early internet infrastructure — created enormous economic value but often generated uneven, volatile, or disappointing returns for the companies investing most heavily in those breakthroughs. Historically, the main beneficiaries of technological innovation have been the consumers of innovation, not necessarily the innovators themselves. AI may very well buck this trend and “this time may be different,” but investors should recognize the difference between believing in a technology and its potential and assuming that current market leadership will remain permanently unchallenged.

## 3. Today's AI-Driven Investment Boom Resembles Earlier Capital Cycles

Another aspect of today's environment that deserves attention is the scale of investment taking place across the AI ecosystem. Companies tied most directly to AI infrastructure — the hyperscalers, semiconductor firms, data center operators, and energy providers — are investing aggressively to build out capacity. These investments may ultimately prove wise, productive, and financially profitable. But historical patterns suggest that rapid investment growth often brings risks.

Economic and market history is rich with examples of periods in which companies poured capital into transformative technologies: American railroads in the 1800s, global telecom networks in the 1990s, and various commodity extraction booms in more recent decades. In many of these cases, the technologies themselves were unquestionably important, but the companies investing most heavily often struggled to earn adequate returns because competition intensified, supply ultimately exceeded demand, or projected revenue growth took longer than expected to materialize. The “asset growth anomaly” is widely studied in academic finance literature and shows that historically companies that aggressively grew their balance sheets have underperformed their more conservative peers. Relatedly, research has also demonstrated that companies spending the most on capex have historically tended to underperform their lower spending peers.<sup>2</sup>

None of this means the current AI cycle is destined to follow the same script. But it does remind us that strong long-term themes can coexist with near-term risks, and that the companies funding the most aggressive expansion are not always the best-positioned investments. A sober appreciation of this pattern supports a balanced approach to portfolio

<sup>2</sup> See “Surviving the AI Capex Boom.” Sparkline Capital. October 2025 for a fuller discussion on this.

construction — one that allows investors to participate in AI-related growth without depending exclusively on its most expensive or most celebrated purported beneficiaries.

## 4. Potentially Attractive Opportunities Available Beyond U.S. Mega-Cap Growth

To the extent we have concerns about the future outlook for U.S. mega-cap growth stocks — not because they are flawed companies, but simply because expectations are high and valuations are elevated — there is good news: there are still compelling opportunities elsewhere.

**U.S. value and small-cap stocks** offer a combination of attractive valuations, and in my perspective, potentially stronger relative long-term returns. In the past, periods of historically rich valuations have often been followed by stretches where value-oriented and smaller companies delivered meaningful outperformance relative to the broader market. These parts of the market also tend to be less dependent on a single narrative and more of their future performance will be tied to their fundamental performance as opposed to changing valuations driven by shifts in sentiment.

Importantly too, while the market leaders of the past few years have broadly been AI “infrastructure” companies involved in building the groundwork for AI (e.g., semiconductors, cloud providers, hardware and equipment, security software), a whole host of other companies stand to potentially benefit from AI either by incorporating it into their product offerings to boost revenue or by leveraging it to improve productivity and realize efficiency gains. Many labor-intensive, “boring” old companies across industries like banking, insurance, capital markets, insurance as well as consumer, health care and professional services are poised to significantly improve profitability if AI delivers on its promise and these companies can successfully integrate it to reduce costs. Many of these types

of companies fit squarely into value and small cap strategies today.

**International and emerging market equities** remain another important area of relative opportunity. Markets outside the U.S., while modestly expensive relative to their own histories over the last three decades, currently trade a historically wide valuation discount relative to U.S. stocks. The premium valuations on U.S. stocks today may be justified by their superior fundamental performance over the last 15 or so years. However, the question going forward will be whether the U.S. can sustain its superior performance in the years ahead. To this point, it’s notable that Eurozone and Japanese companies in aggregate have grown their earnings faster than U.S. companies since January 2020 according to data from J.P. Morgan.

While no region is without its challenges and risks, global diversification has historically improved portfolio resilience and broadened the investable opportunity set — especially in environments where U.S. leadership becomes concentrated in a small group of companies.

**Beyond public equities, alternative investments** such as private credit, private equity, private real estate, private infrastructure, and reinsurance offer return sources that are less dependent on public market cycles. These assets can provide exposure to different economic drivers, often with lower or no correlations to U.S. large-cap equities. In a world where the public markets are dominated by a narrow group of companies largely tethered to a single powerful theme, the role of alternatives in building durable, resilient portfolios becomes even more important.

## Bringing It Together

AI may prove to be one of the most important technological developments of our lifetimes. Some of today’s leading companies may continue to thrive as AI reshapes large parts of the economy. But the concentration of market leadership, the enthusiastic valuation of AI-linked

companies, the scale of investment across the AI ecosystem, and the wide range of outcomes inherent in any technological boom all point to the same conclusion: relying too heavily on a single theme or a small handful of companies introduces risks that investors do not need to bear.

Diversification is not a prediction about which companies or regions will lead next. It's a recognition that no investor can know in advance which parts of the market will drive returns over the coming decade. By broadening

exposure across asset classes, geographies, and market segments, investors can participate in the opportunities ahead while reducing the vulnerability that comes from concentration.

This philosophy naturally leads to the next section: the importance of preparation over prediction. In a world of uncertainty, resilience — built through thoughtful diversification — is what allows investors to navigate whatever future unfolds.

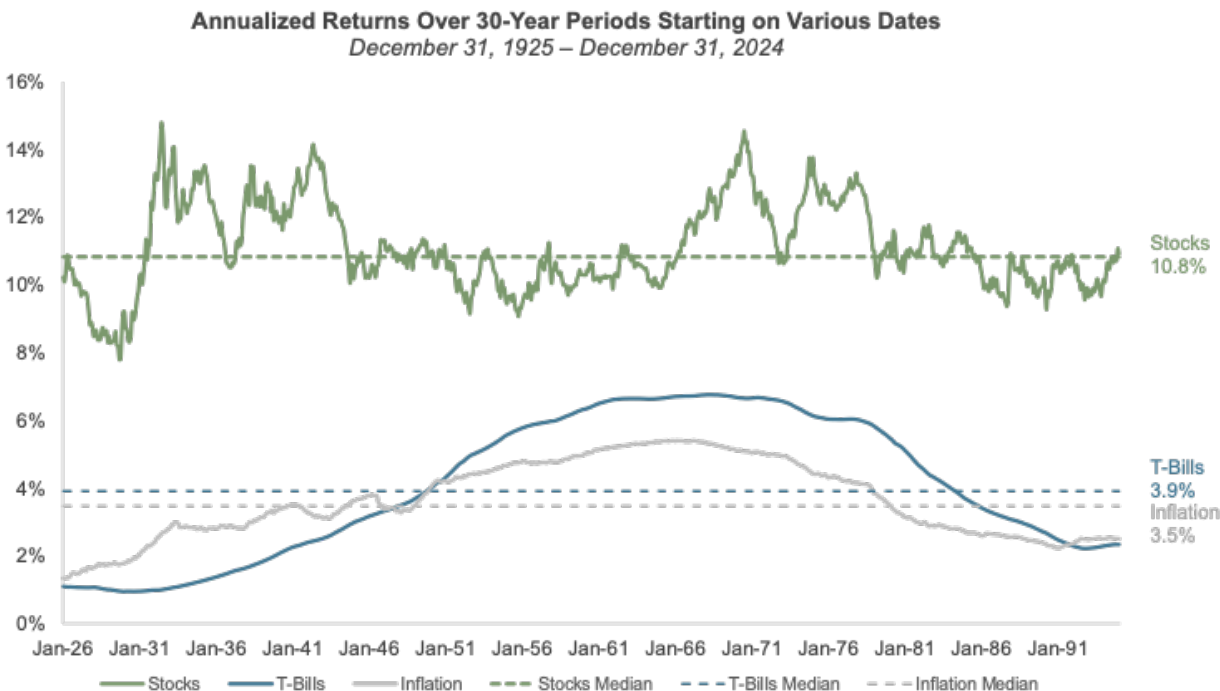
## SECTION #4

# Preparation, Not Prediction

I've spent a lot of time in this letter discussing what may happen in the economy and markets in the years ahead—and rightly so. But at the heart of Kathmere's investment philosophy is a simple truth: no one has a crystal ball, and no investor can reliably predict the timing or magnitude of the market's ups and downs. For this reason, we build our clients' portfolios the way we do—diversified, resilient and designed to weather the full range of short-term performance that long-term investors inevitably face on their journey to long-term investing success.

## Markets Have Rewarded Long-Term Investors

For nearly a century, markets have rewarded disciplined investors who were willing to stay the course. That is not a guarantee about the future, but rather a reminder of how markets have historically compensated investors for their ownership interests in profit-making enterprises and for bearing uncertainty and volatility along the way.



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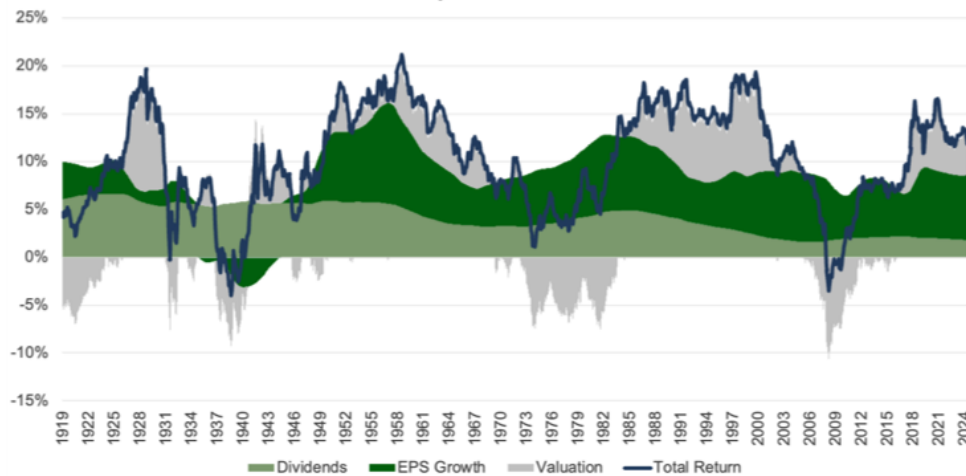
Market representation as follows: Stocks (S&P 500 Index), Bonds (Five-Year US Treasury Notes), T-Bills (One-Month US Treasury Bills) and Inflation (US Consumer Price Index).

Dashed line median figures represent the median 30-year annualized return.

Source: Kathmere calculations using data from Returns Web.

Over the long-term, fundamentals (i.e., dividends and earnings growth) have been the primary driver of stock market returns. On the other hand, over shorter-term periods, valuations (i.e., the price investors collectively are willing to pay for \$1 of earnings) will often have an outsized influence on market performance.

**Annualized Rolling 10-Year S&P 500 Index Returns**  
Returns Broken Down by Dividends, Earnings Growth & Valuation Change  
January 1900 – June 2025



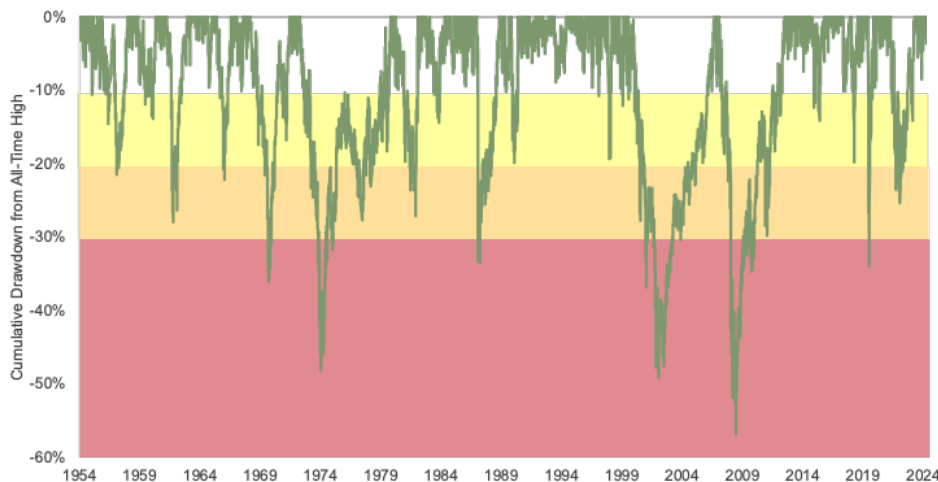
Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. EPS Growth defined as change in trailing ten-year average earnings. Valuation change derived from changes in trailing ten years price-to-earnings ratio.  
Source: Kathmere calculations using data from Robert Shiller.

## Market Selloffs and Corrections Are Common, Not Rare

What often catches investors by surprise is just how frequently markets experience meaningful pullbacks. Corrections of 10% or more happen regularly. In fact, the market has spent more than a third of its time in correction territory over the

past seven decades. Volatility isn't an exception — it's the price of admission for the opportunity to capture the market's long-term compelling returns.

**U.S. Stocks (S&P 500 Index) Drawdowns**  
9/24/1954 – 12/31/2024



Investing involves risks such as fluctuating value and potential loss of principal value. There is no guarantee strategies will be successful. You cannot invest directly in an index. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year.  
Source: Kathmere calculations using daily index values from YCharts. Data as of 12/31/2024.

## Bear Markets Are a Normal Feature of Investing

Sometimes, these corrections turn into something even more painful and disquieting — a bear market. Since 1954, investors have faced 11 bear markets (as defined by the market declining 20% or more from an all-time high), each brought on by different catalyst or set of catalysts — recessions,

inflation shocks, wars, pandemics, credit stress, policy tightening, and more. Each one felt unique as it unfolded, yet all were eventually followed by recoveries. Bear markets are not anomalies. They're part of the landscape.

## Market Timing Is a Risky and Often Costly Endeavor

Given this backdrop, trying to perfectly sidestep the next downturn or bear market is both tempting and dangerous. Consider two realities:

- Late-cycle returns can be very strong. Periods that feel “long in the tooth” have historically delivered meaningful gains before the cycle turns. The market has gained 20%, on average during the year leading up to the market peak preceding the 11 previously mentioned bear markets. Exiting too early can be costly.
- Recoveries often begin before the economy “feels” good again. Some of the most powerful rallies occur in the early months of a bear market recovery — long before the news and economic data have improved. Going back again to those same 11 bear markets since 1954, the market has gained 22% on

average during the six months following the bear market low. Missing just a few of those strong months can have a lasting impact on long-term returns.

Timing cycles consistently is extraordinarily difficult, and even small mistakes can compound into significant opportunity costs in terms of missed returns.

## Even the World’s Worst Market Timer Has Ultimately Been OK

One of the most powerful illustrations of long-term investing is that even someone who invested only at market peaks — the very worst moments in hindsight — still achieved meaningfully positive long-term results so long as they stayed invested. This doesn’t diminish the discomfort of volatility, but it underscores the durability of long-term compounding.

**Annualized Total Returns Following Stock Market Peaks Prior to Bear Markets**  
*Bear Markets Defined as a Decline of 20% or More From All-Time High, Monthly Observations*

Market Peak	Subsequent Drawdown	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
August 1929	-83.4%	-17.4%	-4.9%	-0.4%	1.9%	5.6%	7.8%
May 1946	-21.8%	9.1%	15.5%	14.3%	12.9%	11.6%	10.2%
December 1961	-22.3%	5.7%	7.1%	6.3%	6.8%	9.3%	10.3%
November 1968	-29.2%	0.8%	2.6%	7.4%	9.2%	10.3%	12.3%
December 1972	-42.6%	-0.2%	6.7%	9.9%	11.3%	13.1%	10.7%
August 1987	-29.5%	8.3%	13.9%	9.7%	10.3%	8.4%	9.4%
August 2000	-42.5%	-2.7%	-1.8%	3.8%	6.3%	?	?
October 2007	-50.9%	0.4%	7.5%	8.5%	?	?	?
December 2021	-23.9%	?	?	?	?	?	?
<b>Median</b>	<b>-29.5%</b>	<b>0.6%</b>	<b>6.9%</b>	<b>8.0%</b>	<b>9.2%</b>	<b>9.8%</b>	<b>10.2%</b>

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.  
 Stocks represented by S&P 500 Index.  
 Source: Kathmere calculations using data from Returns Web.

## Our Clients’ Portfolios Are Built for This Reality

Our clients’ portfolios are not a collection of investments assembled in response to headlines, short-term market movements or predictions about the future. Each portfolio is the product of a deliberate planning process — one that begins

with each individual client: their goals, their time horizon, their risk tolerance, their liquidity needs, and their personal preferences among other factors. These are the anchors that shape not only the structure of each of our client’s portfolio

but also the expectations we set around how it should behave in a variety of market environments through the economic and market cycle.

We design portfolios with a fundamental truth in mind: markets are unpredictable in the short run, but broadly rewarding over time. Because we cannot know which year will bring a correction, a bear market, or a rally, our clients' portfolios are constructed to be resilient across a wide range of economic and market environments.

The objective is not to avoid volatility — that is neither possible nor necessary. The objective is to ensure that when volatility arrives, it does not jeopardize our clients' ability to achieve the long-term outcomes that matter most to them. That is why each of our client's portfolio is built to balance growth with stability, long-term opportunity with near-term needs, and upside potential with prudent risk management.

We also design each of our client's portfolio with the realities discussed earlier firmly in mind:

- Economic cycles will ebb and flow.
- Markets will experience downturns.
- Leadership will shift in ways that no one can reliably predict.

Our clients' portfolios account for these truths, rather than assuming they can be avoided. Its strength comes from its alignment with our clients' personal goals and its capacity to withstand uncertainty — not from any attempt to foresee short-term market movements. This is preparation in the deepest sense: a portfolio aligned to your life, able to navigate uncertainty without requiring you to react to every twist and turn in the markets. That's preparation, not prediction.

## Important Disclosures

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The opinions expressed herein are those of Kathmere and may not actually come to pass. This information is current as of the date of this material and is subject to change at any time, based on market and other conditions. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees. An investor is unable to invest in an index. Past performance is no guarantee of future results.

The mention of specific securities and sectors illustrates the application of our investment approach only and is not to be considered a recommendation by Kathmere Capital Management. The specific securities

identified and described above do not represent all of the securities purchased and sold for the portfolio, and it should not be assumed that investment in these types of securities were or will be profitable. There is no assurance that securities discussed in this article have been purchased or remain in the portfolio or that securities sold have not been repurchased. It should not be assumed that any change in investments, discussed in this article have been applied to your account. Please contact your investment adviser to discuss your account in detail.

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All investment strategies have the potential for profit or loss. Different types of investments involve higher and lower levels of risk. There is no guarantee that a specific investment or strategy will be suitable or profitable for an investor's portfolio.

Historical performance returns for investment indexes and/or categories, usually do not deduct transaction and/or custodial charges or an advisory fee, which would decrease historical performance results. There are no guarantees that a portfolio will match or outperform a specific benchmark. Index returns do not represent the performance of Kathmere Capital Management or any of its advisory clients.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk. Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses.

Tactical allocation may involve more frequent buying and selling of assets and will tend to generate higher transaction cost. Investors should consider the tax consequences of moving positions more frequently.

### Stock Investment Risk

Stock investing involves risk including loss of principal.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

### Bond Investment Risk

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

### Alternative Investments Risk

Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Alternative investments involve unique risks, including illiquidity, complexity, limited transparency, and the potential for significant loss, and are not suitable for all investors. Any consideration of such investments depends on individual circumstances and objectives.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

The fast price swings of commodities may result in significant volatility in an investor's holdings.

There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.



## 2025 Year-End CIO Market & Economic Perspectives