

## Quarterly Market Review

2025 was a strong year for global markets, characterized by an "everything rally" where nearly all major asset classes delivered positive returns. The U.S. stock market, as measured by the S&P 500, saw a total return of 17.9%. This performance was primarily driven by strong corporate earnings growth and the continuing artificial intelligence (AI) investment boom, despite significant volatility earlier in the year due to trade policy uncertainty and a U.S. government shutdown.

### Key Market Themes and Economic Indicators in 2025

**Strong Equity Performance:** The S&P 500 closed the year at approximately 6,845.50. The Dow Jones Industrial Average surpassed 48,000, and the Nasdaq also performed well. This was the third consecutive year of double-digit gains for U.S. equities. Notably, international stocks, particularly emerging markets, outperformed U.S. equities, with the MSCI World ex USA Index gaining roughly 30%.

**Earnings-Driven Gains:** Over 75% of the S&P 500's gain came from higher earnings-per-share (EPS), making it a fundamentals-driven year rather than one fueled by valuation expansion. The "Magnificent Seven" tech stocks continued to contribute significantly, although the market began to broaden out somewhat in the 4<sup>th</sup> quarter.

**Federal Reserve Policy:** The Federal Reserve initiated a series of rate cuts in the second half of the year, bringing the federal funds rate to a range of 3.5%–3.75% by December. This easing cycle was a response to a softening labor market but was implemented cautiously due to persistent inflation concerns.

**Inflation and Tariffs:** The annual U.S. inflation rate (CPI) remained around 2.7% by year-end, still above the Fed's 2% target. New tariffs imposed by the U.S. administration in April 2025 caused significant market volatility and contributed to elevated consumer prices, but widespread global trade war fears largely abated.

**Commodities and Currencies:** Precious metals were a standout asset class, with silver more than doubling and gold rising over 60% in price as investors sought stores of

value amidst global uncertainty. Oil prices, however, fell. The U.S. dollar weakened by 7.0% on a trade-weighted basis, benefiting other currencies like the Euro and the Pound.

## **U.S. Bond Market Summary**

The U.S. bond market delivered strong positive returns in 2025, with the widely followed Bloomberg U.S. Aggregate Bond Index returning approximately 7.3% for the year, its best annual return since 2019. Performance was largely driven by a shift in U.S. Federal Reserve policy, which implemented three interest rate cuts in the second half of the year.

The Fed cut its target federal funds rate by 25 basis points three times in the second half of 2025, bringing the range to **3.50%-3.75%**. This easing cycle lowered short-term yields and provided a significant tailwind for bond prices, especially in rate-sensitive funds.

The yield on the 10-year U.S. Treasury note traded in a range and ended the year at **4.17%**, while the front end of the curve (e.g., 2-year yields) fell more significantly. This led to a "bullish steepening" of the yield curve in the latter part of the year.

Corporate bonds performed strongly as default rates remained low and spreads (the extra yield over Treasuries) stayed tight. Strong corporate earnings helped underpin credit fundamentals.

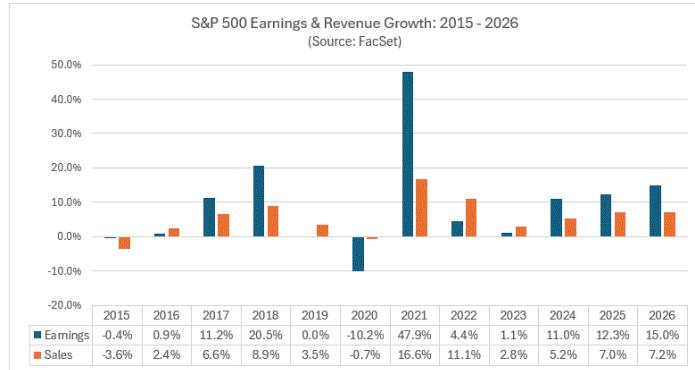
Emerging market debt was the top performer across all fixed-income sectors, driven by the weakening U.S. dollar and a pursuit of higher-yielding assets by investors.

After a challenging first half marked by tariff concerns, municipal bonds rallied strongly in the second half of the year, finishing with a solid gain as interest rates eased and demand picked up.

## Investment Strategy & Outlook

At the end of each year, Wall Street analysts and market gurus take center stage to provide investors with their price targets and outlook for the financial markets in the new year. A ritual that is rooted in fundamental analysis.

Industry analysts in aggregate predict the S&P 500 will have a closing price of 7,968 in 12 months, which is 16% above the 2025 closing value of 6,845. This bottom-up target price for the index is calculated by aggregating the median target price estimates (based on the company-level target prices submitted by industry analysts) for all the companies in the index.



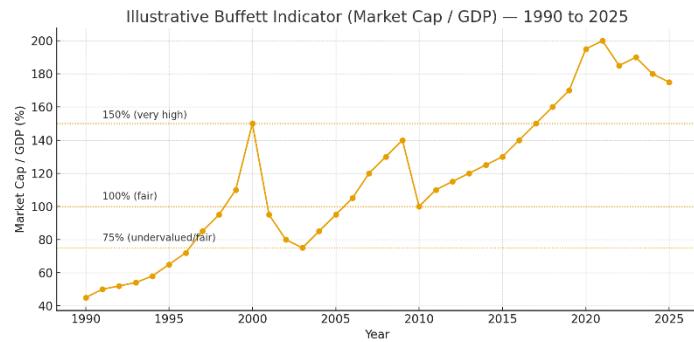
If the forecast comes to pass, 2026 will mark the third consecutive year of double-digit earnings growth for the S&P 500, a streak not witnessed since the 2003 – 2005 run. The strong earnings growth has transmitted into strong equity market performance since 2023, however a deeper dive into the drivers of earnings growth over the last three years and you find that almost 50% of the growth came from the MAG 7. As a result, the broader market as measured by the S&P 500 is now concentrated in just 10 names. Removing the top 10 names from the index, the returns for 2025 look very different from the headline number. (see below)

Symbol	Description	Avg % Wgt	2025 Total Return
NVDA	NVIDIA Corp	7.37%	38.92%
AAPL	Apple Inc	7.07%	9.04%
MSFT	Microsoft Corp	6.24%	15.59%
AMZN	Amazon.com Inc	3.86%	5.21%
AVGO	Broadcom Inc	3.24%	50.65%
GOOGL	Alphabet Inc Class A	3.18%	66.00%
GOOG	Alphabet Inc Class C	2.55%	65.43%
META	Meta Platforms Inc Class A	2.40%	13.09%
TSLA	Tesla Inc	2.06%	11.36%
BRK/B	Berkshire Hathaway Inc Class B	1.61%	10.89%
		39.58%	
<b>S&amp;P 500 Index</b>			<b>17.88%</b>
<b>S&amp;P 500 Less Top Ten</b>			<b>7.07%</b>
<b>S&amp;P 500 Less MAG7</b>			<b>8.88%</b>

This is not the first time we have seen such a dominant performance from a select few companies. The tech boom during the late 1990s was similar, often referred to as the “dotcom bubble”, pushed equity valuations to

unsustainable levels. A warning of “irrational exuberance” was issued by then Federal Reserve Chair, Alan Greenspan and the bubble popped. It took the NASDAQ 12 years to recover, leaving a lost decade for the broader equity market which was compounded by twin negative tail events of September 11<sup>th</sup> terrorist attacks and the great financial crisis of 08-09.

So, while Wall Street’s optimistic 2026 forecast for earnings and subsequent market returns may be reasonable when looking at the fundamental analysis, investors should exercise caution as we enter the third year of a bull market. Valuations are stretched by historical standards and earnings growth remains concentrated in just a few names. The Oracle of Omaha, Warren Buffet is holding over \$300 billion in cash at Berkshire Hathaway, a record percentage for the investment titan who prefers owning good companies at GREAT prices. His valuation indicator which compares the total market capitalization with GDP is flashing caution. What does Uncle Warren see that the rest of the market is currently ignoring? Hmmm.



## Capital Markets Scorecard

Benchmark Description	Q4	YTD
U.S. Treasury 3 Month T-Bill	0.98%	4.23%
Barclays Aggregate Bond Index	0.85%	7.30%
Bloomberg US High Yield Bond	1.23%	8.62%
S&P 500 Index Total Return	2.30%	17.88%
S&P 500 Equal Weight Index Total Return	1.18%	11.43%
NASDAQ Composite Total Return	2.29%	21.14%
S&P U.S. Dividend Growers Total Return	1.72%	14.18%
Russell 2000 Index Total Return	1.94%	12.81%
Alerian MLP Index Total Return	4.05%	9.76%
MSCI Emerging Markets Index	5.21%	31.93%
China SCI 300 Index Local Currency	0.32%	22.95%
U.K. FTSE 100 Index Local Currency	5.78%	25.82%
Japan Nikkei 225 Index Local Currency	13.15%	28.65%

Performance data as of 12/31/2025. Stokes Capital Advisors, LLC is a Registered Investment Adviser. This market commentary is solely for informational purposes. Advisory services are only offered to clients or prospective clients where Stokes Capital Advisors, LLC and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stokes Capital Advisors, LLC unless a client service agreement is in place.