PAPAMARKOU WELLNER PERKIN

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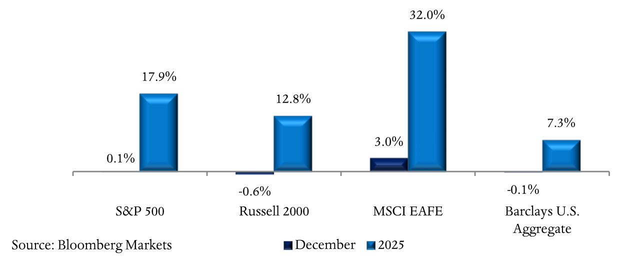
2025 Year-in-Review

The S&P 500 index ended up strongly for the third year in a row (+17.9%). Stock markets were led by technology and growth (Magnificent Seven +24.9%), while large capitalization stocks outperformed smaller ones (Russell 2000 index +12.8%). All eleven S&P 500 sectors posted positive returns. Communications (+33.6%), Technology (+24.0%) and Industrials (+19.3%) led the way, with Discretionary (+6.0%), Staples (+3.9%) and Real Estate Investment Trusts (+3.1%) bringing up the rear.

Markets opened 2025 with optimism about the new administration's tax cuts and deregulation plans. However, the White House shifted its focus to tariffs and deportation. Markets reacted negatively, with the S&P 500 correcting -19%, leading Washington to adjust its agenda. Fueled by resilient consumer spending and business-sector data, easing inflation, rate-cut expectations and renewed optimism around productivity gains, risk assets rebounded from April onwards. AI infrastructure spending surprised to the upside, significantly boosting economic growth. Over the latter part of the year, with a government shutdown looming and labor markets weakening, the Federal Reserve began to reduce interest rates and increase liquidity.

International stocks had a very strong year, catching-up after underperforming for more than a decade. The MSCI EAFE index ended the year higher by +32.0%. Regional advances were broad based, between 20% and 35%, stellar across developed and emerging markets.

Bond markets were also strong as US Treasury yields declined meaningfully over the year, with the 10-year yield falling 40 basis points to 4.17% and the 2-year yield dropping 77 basis points to 3.47%. This move reflected the Federal Reserve's pivot toward policy easing, amid softer inflation data, and a moderation in growth expectations (which has not yet come to pass). In this context,



the Bloomberg Barclays US Aggregate bond index posted a solid +7.3% annual return.

Signs of diversification away from US assets appeared in the falling value of the Dollar which experienced its worst annual decline since 2017 (DXY index -9.9%). Flows into gold sent the precious metal surging +64.6% its strongest annual return since 1979, driven by geopolitical uncertainty and the appeal of safe haven hard assets as an inflation hedge. Industrial metals also produced strong performance. Copper climbed +50% to record highs, supported by persistent supply constraints, and rising demand linked to electrification, grid investment and data-center expansion. Conversely, in energy markets, WTI crude oil declined -19.9% to 5-year lows, reflecting a combination of oversupply, and subdued demand growth. Bitcoin, meanwhile, declined -6.5% pausing after a terrific multi-year advance.

Geopolitics

International politics was dominated by the return of Donald Trump to the White House and the associated blizzard of activity. An initial rift in the Western alliance was followed by fears that the US was poised to abandon Ukraine and side with Russia. The war persists with the While House alternating between echoing elements of Russia's demands and acknowledging Ukraine's non-negotiables, objectives that remain fundamentally incompatible. "Liberation day" on April 2 unveiled US tariffs on virtually the entire world, pushing the average import tax rate to its highest levels since the 1930's.

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These duties were subsequently negotiated and modified after negative financial market reactions. In the middle east, Israel's multi-pronged military offensives against adversaries throughout the region encouraged President Trump to order US bombers to target three of Iran's hardened nuclear sites, delaying the country's quest to obtain nuclear weapons. The subsequent implementation of the initial phase of the Gaza peace plan drew a line under a conflict that began after the Hamas attacks on Israel, two years earlier, on October 7, 2023. Later, the Trump-Xi meeting in Seoul marked a de-escalation of the trade war. The significance of the accord was that China's grip and export-controls of strategic minerals, which western industries lack, necessitated the US to scale back tariffs.

US

Subsequent to the first quarter's tariff-related economic contraction, the One Big Beautiful Bill Act's permanent corporate tax cuts and capex incentives stimulated long-term strategic planning and increased domestic investment. Meanwhile, individual tax refunds boosted consumption, accelerating economic growth. The Atlanta Fed is now projecting that Q4 GDP will be 5.1%, leading to 3.0% annual growth, normalizing to 2.0% in 2026.

Inflation gyrated during the year, having to contend with higher import prices, finally decelerating to 2.7% from 3.0% at the start of the year. Expectations are for a further drop to 2.4% in 2026, driven by energy and housing. Tariffs impacted US consumers far less than anticipated as costs were primarily absorbed by exporters, importers and intermediaries along the supply chain, as companies concluded that consumers were unable to absorb increasing prices without affecting demand. Meanwhile, tariff revenues surged past $500 billion. Trickle-down effects included reshoring orders rising 8% amid factory expansions. Looking forward, the next stage may involve upward price adjustments.

The labor market turned out to be the soft spot in the economy, with full time and temporary help employ-

December 2025 Economic Statistics

	Dec-25	Dec-24	Dec-23
Federal Funds Target Rate	*3.50 - 3.75%*	*4.25 - 4.50%*	*5.25 - 5.50%*
Consumer Confidence Index	*89.1*	*104.7*	*110.7*
Manufacturing PMI Index	*47.9%*	*49.3%*	*47.4%*
Unemployment Rate	*4.4%*	*4.2%*	*3.7%*
JPY / USD	*156.65*	*157.18*	*141.06*
USD / EUR	*1.1745*	*1.0353*	*1.1036*
Gold / oz.	*$4,314.12*	*$2,623.81*	*$2,062.59*
Oil (WTI) / bbl	*$57.42*	*$71.72*	*$71.65*

Sources: see disclosure *

ees declining by 681,000 and 91,000, respectively over the past 12 months. This led the Federal Reserve to reduce interest rates in three quarter-point increments, from 4.50% to 3.75% post-summer.

Europe

Economic conditions across the eurozone remained mixed. Manufacturing activity continued to contract, with export focused sectors increasingly competing with China. Services activity stayed strong, however, helping overall business activity expand modestly. Employment trends were generally stable, with hiring remaining strong in services even as the manufacturing jobs market softened. Inflation pressures eased to 2.0%, allowing the European Central Bank to reduce interest rates four times to 2.15%, while vowing to maintain a careful watch on growth and price trends. The ECB recently upwardly revised its GDP growth forecast for the eurozone to 1.4% for the full year 2025, 1.2% in 2026 and 1.4% in both 2027 and 2028.

Asia

In China, targeted stimulus measures aimed at upgrading the industrial and green sectors provided selective support despite persistent challenges in property and household demand. The economy is estimated to have grown approximately 5.0% in 2025, despite the trade wars, with a 4.5% projection for 2026. After the four rounds of China-US negotiations and the optimistic Xi-Trump South Korea meeting, the two countries reached agreements surrounding moderation of tariffs and trade of strategic minerals, among others. The country's 15th Five-Year Plan (2026-2030) sketched the blueprint of the economic and social development of the next five years aiming for "socialist modernization" in 2035. Beijing's top priority is the high-quality and self-reliant advancement of the country's technological and scientific abilities, which is views as inseparable from military development.

In Japan, expectations of strong growth stemming from generative AI and defense spending lifted the economy and broad sentiment. Domestically, Sanae Takaichi's election as prime minister and the formation of a coalition government between the Liberal Democratic Party (LDP) and the Japan Innovation Party (JIP) were interpreted as signs of greater political stability and more proactive fiscal stimulus. As a result, the Bank of Japan raised interest rates twice (to 0.75%) and signaled possible further hikes in 2026. That added to optimism about domestic economic growth amid tapering inflation (currently 2.9%, down from 4.0%).

Outlook

The S&P 500 is on a run, likely elevating the fear of volatility in investor psyche's. However, consecutive annual gains (including dividends) are historically common, evidenced by five streaks lasting between five and nine years throughout the 20th and 21st centuries. At the risk of being labeled as perma-bulls, we see a positive environment for equities in 2026, featuring a broadening of stock participation, both domestically and abroad. While valuations are a limiting factor (S&P 500 P/E 22x), earnings should accelerate from 11.5% in 2025 to 14.4% in 2026, with more sectors of the economy improving. Volatility will likely present itself and offer buying opportunities.

Economic fundamentals indicate the likelihood of strong GDP growth in 2026. With the caveat that while US consumer income and spending remain steady among higher income cohorts, lower income consumers are under increasing strain, with affordability becoming a political focus.

With regard to monetary policy, Federal Reserve Chair Jerome Powell's term expires in May, with four finalists under consideration, all of which share the desire to reduce interest rates. Further, after years of Quantitative Tightening, the central bank is pivoting to buying Treasury bills to maintain "ample reserves." As financial system liquidity has become strained, and in order to preempt funding issues, the Fed's balance sheet will begin expanding again, supporting markets. In addition, the US Treasury is targeting $200 billion of mortgage backed security purchases intended to drive down borrowing rates.

From a fiscal perspective, the Trump administration is targeting a one-third increase defense spending, which will likely lead to a bulging 6% annual fiscal deficit. Coupled with lower taxation, incentivizing capital expenditures, especially the massive buildout of Artificial Intelligence data centers, the economy has significant tailwinds. In addition, the trends towards re-shoring and deregulation continue. Given the approaching mid-term elections, we expect stimulative proposals from the Trump administration to be more pronounced, focusing on housing and healthcare.

In summary, investors may be underappreciating the potential for monetary as well as fiscal tailwinds. As a result, the US Dollar may remain under pressure, especially versus precious metals. Other potential risks include higher long-term interest rates and a technology-unwind due to lofty investor expectations and AI fatigue.

Alternative asset diversification has served us well over the past several years, a trend that our analysis indicates should continue in 2026. Unique investments in cybersecurity, water infrastructure, and natural resources offer compelling opportunities to deploy capital into the private markets. Liquid software-related equities offer an attractive entry point given highly publicized investor fears of the disruptive nature of AI. Lastly, our proprietary efforts to source direct investments are gaining traction, with several compelling small and middle market prospects.

We wish you all a Happy, Healthy and Prosperous New Year and thank you for your continued trust and support.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.