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February 16, 2026

Happy New Year...plus another month or so! 2025 entered the history books with the S&P 500 index up +2.7% during the 4<sup>th</sup> quarter, finishing at +17.9% for the full year for its third consecutive year of double-digit gains<sup>i</sup>. The S&P closed at a new all-time high of 6,932 reached on Christmas Eve. Continuing the trend of the past few years, the top 10 companies of the index comprised over 40% of the index weighting, with the “Magnificent 7” mega-cap tech stocks contributing almost 46% to the total return of the index.

### Magnificent 7 performance in the S&P 500

Indexed to 100 on 1/1/2021, price return



Source: JPM Morgan Guide to the Markets 1Q 2026

2025 was also the third straight year of gains of at least +10% for the Dow Jones Industrial Average and the technology-heavy Nasdaq indexes. The only streak lasting as long or longer was the five years leading up to the dot-com bubble peak in years 1995 through 1999<sup>ii</sup>.

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Stocks outside of the US continued their strong returns through the 4<sup>th</sup> quarter. The MSCI EAFE Index (the benchmark for stocks in countries with more mature and developed economies) was up +4.9% during the final quarter of the year, delivering a +31.2% return for 2025. The MSCI Emerging Markets Index (measuring stocks in countries with smaller and still-developing economies) delivered a total return of +33.6% for 2025, including a gain of +4.7% for the 4<sup>th</sup> quarter<sup>iii</sup>. The overseas markets benefited from both the declining US dollar (down -9%<sup>iv</sup> in 2025 relative to other major currencies as measured by the DXY US dollar index) and much lower starting valuations than US stock indexes.

Bonds and fixed income also delivered solid returns in 2025, with the Bloomberg US Aggregate Index (the measurement for taxable bonds) up +1.1% in the 4<sup>th</sup> quarter and +7.3% for the entire year. While the super short-term Fed funds rate (set by our Federal Reserve Board) declined 0.75% to 3½-3¾% after three 0.25% rate cuts in 2025, the closely-watched US Treasury 10-year maturity bond closed at 4.18%. This was down from 4.58% at the beginning of 2025<sup>v</sup>.

Outside of traditional stock and bond markets, the Bloomberg Commodity Index, a broad measurement of a diversified basket of commodity prices, gained +5.9% during the 4<sup>th</sup> quarter, bringing its full year return up to +15.8%. The price of oil finished the year just above \$57/bbl, down from almost \$72/bbl at the beginning of the year. Our team's favorite investment area over the past few years has been gold, which continued to shine (pun intended) in 2025 climbing to \$4314/oz, a gain of +64% for the year after beginning 2025 at just \$2624/oz<sup>vi</sup>. The metal's move higher made the increases of many of the gold-mining stocks even more dramatic. Gold's parabolic move has continued into the new year, leaving it up more than the stocks on a 20-year basis. Through late January, gold has been up +11.3% per year since January 2006 compared to +10.9% for the S&P 500<sup>vii</sup>.

The US stock market continues to appear largely unbalanced, overpriced and risky. Not only have the returns and composition appear to be very top-heavy, but the 2025 return of the "high beta" (i.e., most volatile) stocks reached +33%, the "lowest quality" stocks returned +45%. Meanwhile, "high quality" stocks only delivered a gain of +6% with the "low volatility" stocks puttering to only a +4% return<sup>viii</sup>. Overall investor positioning has reached levels of exuberance that show a near-total disregard for risk, a classic hallmark of speculative complacency. It's certainly been an environment dominated by risk takers!

While there is a powerful psychological compulsion to “stick with what has worked” within an investment portfolio, this approach can end up being hazardous to one’s financial health, especially in the later stages of manias. There was a much celebrated and admired approach to focus on leading technology stocks and the S&P 500 index in the late-1990s and early-2000s (which was heavily promoted by Wall Street and other financial “advisors”) as the dot-com bubble and internet-hysteria were peaking. This certainly looked to be a “no-brainer” approach for a while, but the resulting -50% decline in the S&P 500 index and -80% decline in the Nasdaq index from March 2000-October 2002 thoroughly discredited that “stick with what has worked” investment approach! Not only were those declines significant, but it also took indexes 12 and 15 years, respectively, *just to get back and breakeven*.

Our team has always been a strong adherent to the “straw hats in winter” principle of bargains. To paraphrase John Templeton, who is considered one of the greatest stock pickers in the past century: Would you rather buy a stock at a discounted or at a premium price? If it seems *everyone loves* a stock or industry, do you think the price will be high or low? Conversely, if it seems that *nobody likes* a stock or industry, do you think its price will be high or low? Our team leans towards those overlooked and out-of-favor areas where we think the best bargains may hide.

In today’s challenging market environment, our team continues to favor exposure to overseas stock markets, hard assets such as precious metals, and a strong defensive foundation of short- to intermediate-maturity bonds. We have no qualms about investing in more mainstream areas such as technology and S&P 500-type stocks, but only when the deck isn’t stacked so heavily against the chance of favorable returns like it is today.

Please do not hesitate to reach out to us with any questions about any of these topics. We'd be happy to discuss how these points pertain to your personal portfolio and financial plans. As always, our entire team appreciates our relationship, and we thank you for the opportunity to be of service. We are readily available to help address any concerns that may be on your mind.



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All the best,



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- i Morgan Stanley GIC Weekly Update: The Only Thing in 2026, January 5, 2026
  - ii Beyond the News, January 5, 2026
  - iii All international equity index returns courtesy of Morgan Stanley Capital Markets Research
  - iv JP Morgan Guide to the Markets 1Q 2026
  - v All fixed income index returns courtesy of Morgan Stanley Capital Markets Research
  - vi JP Morgan Guide to the Markets 1Q 2026
  - vii Beyond the News, February 2, 2026
  - viii Scharf Investments, Market Outlook/Portfolio Positioning, Q4 2025

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Equity securities may fluctuate in response to news on companies, industries, markets conditions and general economic environment.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive to it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

A basis point is defined as one hundredth of one percent (1%), used chiefly in expressing differences of interest rates.

**An investment cannot be made directly in a market index.** For index and indicator definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

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CRC #5250174 2/2026