

Quarterly Recap

Q4 2025

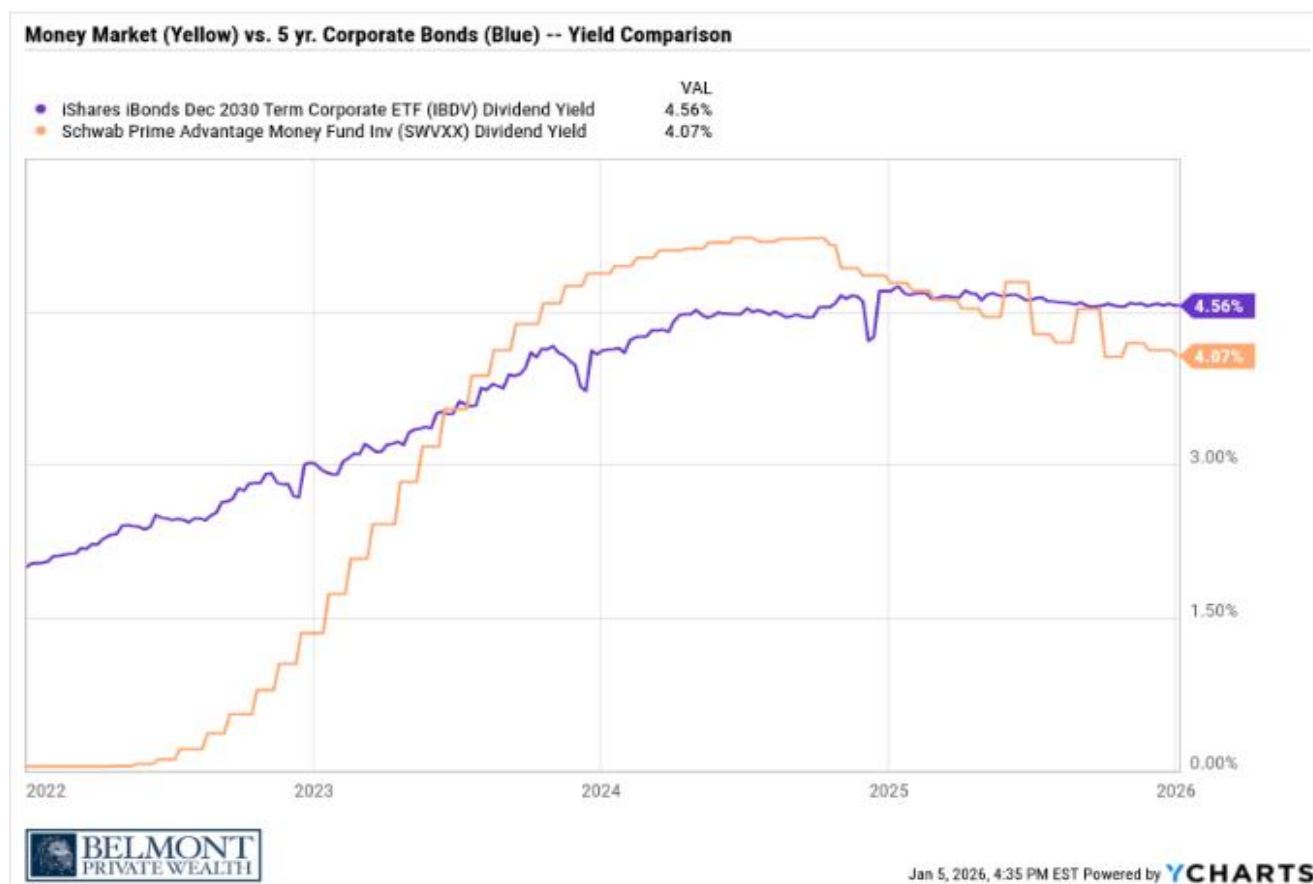


Summary: The final quarter of 2025 closed out the year with solid returns for US investors, becoming the third consecutive year of 16%+ returns for the S&P 500. This has happened only five times in the last 97 years and only four times since 1949. The famed Belmont Stakes provides an interesting comparison: Only 12 horses have won the Triple Crown in the last century, and just five since 1949. By that measure, three straight years of 16%+ performance is even rarer than winning the triple crown.^{1,2}

Key Things to Know About Q4 2025

1. Money market yields may no longer be enough

Money Market yields have been on a rollercoaster the past 3 years. During 2023 and 2024 they were an ideal vehicle to park idle cash, earning upwards of 5%⁴. Now that the Fed is decreasing rates, it may be time to look for alternative sources of income. Corporate bonds, although riskier, could be a suitable replacement if the goal is higher income. The bottom line is that with more rate cuts on the horizon, being intentional about where you hold cash could make a meaningful difference in your overall return. Seen below is an example of how money market yields are falling behind: a common money market fund yielding 4.07% today, vs. a basket of 5 year-long corporate bonds yielding 4.56%.



2. Diversification is missing in today's AI infrastructure investment

Only a handful of companies account for the vast majority of AI infrastructure investment. Total spending by the top five firms is projected to reach \$533B in 2026 and \$612B in 2027³. The closest comparison may be the telecom/internet build out in the 1990's, where hundreds of companies together invested billions into building out the early internet. A key difference today is that only a handful of firms are shouldering most of the costs and risks⁴. This concentration is concerning.

*Annual spending by Meta, Google, Microsoft, Amazon, and Oracle on AI is expected to eclipse **\$600B** by 2027.*

BofA Global Research

Where are these firms getting the cash? Mainly from their own cash flow... but more commonly, by going into debt. Goldman Sachs estimated that supply of new debt from AI related companies has doubled from 2024 to 2025. In our view, a surge in AI related bond issuance means two things: 1) It reinforces the need for a broad based portfolio whose stocks and bond holdings are *not* tied to the same small group of companies, and 2) It shortens the timeline for successful AI monetization, as rising debt levels increases financial pressure to deliver returns.

"A larger story in the AI space that warrants watching is the emergence of a debt-fueled capital cycle."

Kash Rangan - Goldman Sachs

3. Mega-Cap US stocks still look expensive

As we've commented on before, the top 10 S&P 500 companies continue to look expensive. In 2025 we watched earnings reports mostly exceed expectations, and share prices rise at a fast pace. As of 12/31, the top 10 companies were trading at 28.1 times earnings, notably higher than their long-run average of 20.7 but still far from the dot-com peak. However, rising share prices have pushed their combined value to an unprecedented 41% of the S&P 500⁵.

The goal isn't to call the top of the AI boom, but to avoid having too much of your portfolio invested in a small group of companies. In our model allocation, roughly a quarter of the stock exposure is in the top 10 US companies, meaningfully less than the broader index. This keeps enough invested to share in the gains, while limiting the downside.

4. Small Business Tax Changes

The One Big Beautiful Bill (OBBBA) brings some notable tax planning opportunities. For business owners, several provisions stand out:

- **The 20% Qualified Business Income (QBI) Deduction is Now Permanent** - QBI allows eligible business owners to deduct 20% of business income from federal taxes. Previously set to expire, it's now permanent. For small businesses, this is one of the largest tax benefits available.
- **Section 179 Expensing Doubles to \$2.5 Million** - Section 179 allows equipment, vehicles, and other qualifying assets to be fully depreciated in the year purchased, rather than over time. Business owners are now able to deduct twice as much as previously allowed.
- **Employer Childcare Credit Jumps to 40–50%** - The childcare credit rose from 25% to 40% (50% for small businesses), with maximum tax credits increasing to \$500,000–\$600,000. This makes on-site childcare and childcare subsidies far more attractive to business owners.

5. The Longest Government Shutdown in History

The 43 day government shutdown in Q4 was a popular of discussion among on-air personalities and in news coverage. Ultimately, most of the headline concerns did not materialize:

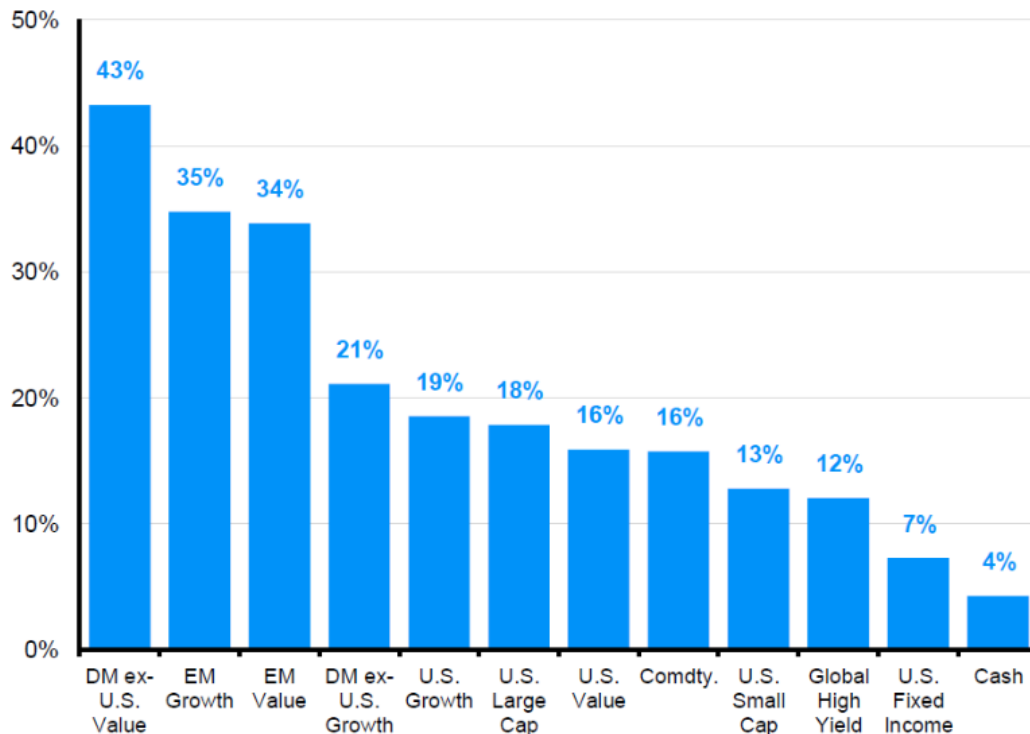
- Disruption of economic data – October’s inflation data was delayed but released in November, with no unexpected results
- GDP impact – The Congressional Budget Office estimated the shutdown reduced Q4 GDP by 1.5%. Despite this, the S&P500 still notched a 2% gain by the end of Q4⁶.
- Consumer Spending – despite roughly \$14B of wages not being paid to federal workers, consumers set a new online spending record during the 2025 holiday season with reports from Visa and Mastercard finding around a 4% increase in holiday spending year over year.^{7,8}

Chart of the Quarter: US stocks did well, but lagged global markets in 2025

Developed Markets (DM) and Emerging Markets (EM) both lead US stocks in 2025, providing a significant boost to globally diversified portfolios, and a great example of why we believe in investing across many countries. A weaker dollar, and lower valuations for overseas stocks played a big role in their outperformance.

2025 asset class returns

Total return, U.S. dollars



Source: Bloomberg, FactSet, FTSE Russell, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

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Sources

¹ Fact Set, ² Kentucky Derby, ³ BofA GLOBAL RESEARCH, ⁴ Goldman Sachs, ⁵ JPMorgan., ⁶ YCharts, ⁷ Adobe Analytics, ⁸ Deloitte,

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