

MARKET REPORT FOURTH QUARTER 2025

Key Points

- Tariff policies were ever-changing.
- More than 91% of Buffett's Berkshire value came after age 65. Compounding can be magical.
- Average equity valuations remain lofty and credit spreads tight.
- We discuss the purpose of dollars and expiring vs. long-term knowledge.
- We strive to construct portfolios to mitigate potential curveballs.

A Review of 2025

In recent quarterly letters we have explored the challenges faced by many professional forecasters: producing accurate and therefore helpful forecasts.

Given the volume of communiques and variability of policy coming out of Washington and the government shutdown during the year, 2025 was likely challenging for prognosticators as base cases changed frequently and materially.

While Executive Orders played a role in the swift pace of change with 109 being signed during the first quarter and 225 for the year (Franklin D. Roosevelt still holds the record, signing 256 in 1937), the **ever-changing** tariff policies were likely some of the most difficult variables to attempt to handicap and the resulting economic impacts largely remain unknown. A **case in point** is Liberation Day, April 2, 2025, when the President announced high reciprocal tariffs on many imported goods causing the U.S. equity market (S&P 500) to retrench 12% from the April 2 close through the April 8 close.

Upon the news breaking, some forecasters promptly began reducing their expectations for economic growth and increasing inflation expectations, as well as the probability of a recession. Then, on April 9,

Total Return as of December 31, 2025						
	Annualized					
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
S&P 500	2.7%	17.9%	17.9%	22.9%	14.4%	14.8%
NASDAQ	2.7%	21.2%	21.2%	31.4%	13.4%	17.7%
Russell 3000						
Index	2.4%	17.2%	17.2%	22.3%	13.2%	14.3%
Value	3.8%	15.7%	15.7%	13.8%	11.2%	10.5%
Growth	1.1%	18.2%	18.2%	30.3%	14.6%	17.6%
Russell Mid Cap						
Index	0.2%	10.6%	10.6%	14.4%	8.7%	11.0%
Value	1.4%	11.1%	11.1%	12.3%	9.8%	9.8%
Growth	-3.7%	8.7%	8.7%	18.6%	6.7%	12.5%
Russell 2000 (Small Cap)						
Index	2.2%	12.8%	12.8%	13.7%	6.1%	9.6%
Value	3.3%	12.6%	12.6%	11.7%	8.9%	9.3%
Growth	1.2%	13.0%	13.0%	15.6%	3.2%	9.6%

2025, the President essentially said, “**just kidding**” and paused most tariffs above 10% for 90 days except for China’s which increased to 125%.

From that point forward, **bespoke** negotiations became the norm as did beginning nearly every negotiation with an incredibly **large ask** only to eventually settle on a number that was tolerable. Markets adapted to this new style of public, brass knuckles negotiating and began to take the highs and lows with a grain of salt believing a rational outcome was likely in the end.

Tailored tariffs coupled with exemptions resulted in **effective tariff** rates being much **lower** than forecasted in the spring, which helped shield businesses and consumers from the worst potential economic outcomes during the year: significantly higher inflation and slower economic growth.

U.S. equity market volatility was mostly subdued over the summer months but spiked again in the fall on concerns of a rekindled trade war with China as it placed new export restrictions on rare-earth materials (it produces around 90% of the world’s rare-earth materials), losses at U.S. regional banks, concerns over AI capital spending and a government shutdown lasting a record-setting 43 days. Ultimately, a dysfunctional air transportation network helped end the shutdown on November 12, 2025, in our view, as neither party could withstand the growing backlash from constituents who were having their travel plans disrupted. Can you imagine Thanksgiving air travel during a government shutdown?

While the U.S. equity market remained frothy and concentrated at quarter’s end, larger challenges may be found in areas of private equity where asset sales have been slower than expected in recent years and some valuations loftier. For example, Open AI’s (Chat GPT) most recent valuation in October 2025 was \$500B on an estimated run rate of \$13B in revenue – that’s **38 times revenue** (not earnings or free cash flow) – and it plans to spend an estimated \$1.4 **trillion** over the next eight years. How and when it will monetize its gargantuan investment and earn investors an acceptable return is still an open item.

U.S. manufacturing, as measured by the ISM manufacturing PMI index, contracted for the 10th consecutive month in December. In our view, high-earning and wealthy consumers, and AI capital spending disproportionately helped keep the economy advancing during the year.

In other news, we would be remiss to not acknowledge Warren Buffett’s retirement at year-end. With 55 years at the helm of Berkshire Hathaway (and controlling shareholder longer), Mr. Buffett holds a record for one of the longest serving CEOs of any S&P 500 company to date. In addition to being a legendary investor, he taught legions of investors through his writings, led by example, remained humble to the end, pledged in 2006 to give away 99% of his wealth, and reiterated that commitment along with Bill and Melinda Gates via The Giving Pledge in 2010. A paragon of a person!

Importantly, his creation of his net worth is the quintessential example of the power of long-term compounding with the estimated value of his Berkshire stock growing from \$12B at age 65 to around \$140B at age 95. More than 91% of the value came **after** age 65, a testament to the power of time in the compounding process.

U.S. Equities

Equities posted solid results for the year, and value-oriented issues fared the best in the final three months. Eight of 11 economic sectors logged positive returns for the quarter with healthcare leading the way, followed by communication services and technology. All 11 sectors were in the plus column for the year. Market performance was more balanced in the final stretch as some capital seemingly rotated out of mega-cap technology names to other areas of the market on growing AI capital spending concerns. We believe this is healthy.

While our absolute aggregate equity results were largely positive for the year, we experienced some stock weakness in a couple small / mid-cap companies. Stock prices can be more variable than underlying intrinsic values in the short-run. We believe constructing portfolios to mitigate potential curveballs is important and strive to do so. This often results in our equity portfolios looking and behaving differently than the market, especially during periods of elevated concentration and valuations.

Although Uncle Sam has taken equity (e.g., non-voting preferred) stakes in public companies during times of crisis, its activism during non-crisis times is something more recent. During the year, it took equity stakes in a chip company and a couple of mineral companies and struck deals with other chip companies for a percentage of revenue on certain product sales. The long-term impact of the government's increased involvement is unknown.

Fixed Income & Commodities

On the fixed-income front, yields decreased at the short-end of the yield curve during the quarter and across the maturity spectrum for the year. Credit spreads were little changed for the quarter and year and remain tight. As such, we increased Treasury exposure in our Income strategy.

Total Return as of December 31, 2025						
	Annualized					
<i>Fixed Income</i>	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
ML U.S. Corp. 1-10 Yrs	1.2%	7.9%	7.9%	6.6%	1.7%	3.4%
ML U.S. Tr./Age. 1-10 Yrs	1.1%	6.4%	6.4%	4.4%	0.7%	1.8%
<i>Commodities</i>						
Bloomberg Comm. Index	4.8%	11.1%	11.1%	-0.9%	7.0%	3.4%
Oil (WTI)	-7.9%	-19.9%	-19.9%	-10.5%	3.4%	N/A

The Federal Reserve (the "Fed") lowered overnight rates 0.25% three times during the year with two of those reductions occurring in the fourth quarter. Concerns about the Fed's independence intensified in the second half of the year, as a new Fed Chair will be appointed in 2026 and the President has stated that lowering interest rates will be a litmus test for the appointee. With any appointee's independence seemingly being compromised from the start, Senate confirmation may be challenging.

Commodities, as measured by the Bloomberg Commodity Index, rose during the quarter and year. Energy and agriculture components were generally weak while metals were up markedly. U.S. oil production remains near record levels, mitigating risks associated with global supply disruptions.

Multiyear soft commodity prices for corn, soybeans, etc. and increasing input costs are testing American farmers' mettle. Without relief soon, farm bankruptcies may continue to rise. A stable food supply chain, like a strong military and industrial complex are critical to America's success. It takes a lot of grit and sacrifices to get grains, vegetables, beef, pork and other agriculture commodities from the farm or ranch to the grocery store. If you know a farmer or rancher, be sure to thank them for what they do.

The Purpose of Dollars

Since 1900 (125 years) the dollar has lost an estimated 98% of its purchasing power. Sounds terrible, right? In the world of investing, statements of this nature are sometimes used to scare investors, sell questionable financial products and promote agendas. While mathematically correct, it is a misleading statement in our view. Why?

The U.S. dollar is not intended to be a long-term **store of value**, but rather a **medium of exchange**. As a refresher, a store of value is an asset that can be stored and retrieved at a later date without losing its value. A medium of exchange is a transitional instrument used to settle the trade of products and services among market participants.

In the U.S., employees are paid and transactions are settled in dollars. Dollars are widely accepted around the globe. Holders of dollars need them to be a store of value between the time they are received and when they can be spent, invested or given away. The greenback fills that role effectively.

Take for example, someone who works 40-50 hours per week and gets paid for their knowledge, effort and contribution to an organization. Their compensation is likely deposited via ACH to their bank account, where it is available for purchasing food, clothing, medicine, etc. and paying for shelter, as well as entertainment, travel and other fun stuff. And, of course, for paying taxes. Generally, dollars spent in 2025 were earned in 2025, not 1900.

Any earnings not immediately needed to support one's lifestyle can be invested in stocks for their appreciation potential, bonds for income, real estate for shelter or investment, or other investments likely to appreciate and/or produce income over time.

Let's walk through an **illustrative** example of that dollar which lost 98% of its purchasing power. In 1900 there were two lucky young women who each received \$100 (about 25% of someone's annual income then) for Christmas. Each took a different approach to handling their newfound wealth.

One buried the \$100 in a mason jar under the big oak tree on top of the hill and the other purchased, via her newly formed trust, a few stocks that survived the depression and produced returns in line with long-term market averages over the next 125 years.

If you inherited the map to the mason jar and found it, you got your \$100 (likely a moldy United States Note). Let's say it was worth face value which means it would purchase the equivalent of about \$2.22 worth of goods in today's dollars. In other words, it would have lost around 98% of its purchasing power. Not good!

On the other hand, if your ancestor invested \$100 in stocks and never sold any, you hit the jackpot. At a **hypothetical** 10% per annum for 125 years, that \$100 initial investment compounded its way to \$14,930,888. Returns over 125 years are exponential. Compounding can indeed be magical – it just takes time and avoiding the largest pitfalls. So, rather than losing roughly 98% of its purchasing power, the initial \$100 turned into a meaningful amount of money. (Note that this example is purely illustrative and does not represent actual investment results.)

Expiring vs. Long-Term Knowledge

The distinction between **expiring** and **long-term** knowledge can be attributed to Morgan Housel, author of *The Psychology of Money*, *Same as Ever* and *The Art of Spending Money* (a great series of short reads). His work offers valuable insights that can help inform investor thinking.

Much of what is pushed to society for daily reading has a **short** shelf life. Information that feels important in the moment is often forgotten within a year (or less) – this is expiring knowledge. In contrast, **long-term** knowledge endures. It can provide **timeless lessons** that help explain not only what happened, but why it happened and why it may occur again. Understanding the “why” enables insights to transfer across contexts and compound over time (knowledge, like money compounds).

Expiring knowledge is plentiful and **attention-grabbing**. It focuses on recent events and satisfies short-term curiosity. Long-term knowledge requires **deeper effort** and second-order thinking, distinguishing signals from noise and identifying information that remains relevant beyond the present moment. This enduring knowledge is typically found in books rather than headlines.

While staying informed about current events is important, we believe building a foundation of long-term knowledge provides a framework (filter) for interpreting daily news more effectively. Quarterly earnings reports illustrate this distinction well. They offer useful snapshots of recent performance, but their long-term value is limited. Few investors will remember whether a company beat earnings in a particular quarter years later. By contrast, understanding a company’s competitive advantages (moats) provides lasting insight. Sustainable returns on a company’s invested capital above its cost of capital stems from moats; financial metrics are merely the outputs. Without this context, short-term data is far less informative.

Relentless learning is a core value at EBS. We are committed to continuous improvement and lifelong learning as we strive to always expand and deepen our institutional knowledge. Our investment philosophy is grounded in long-term knowledge accumulated over more than three decades, draws on the timeless principles of Benjamin Graham and Warren Buffett and is reinforced through ongoing study.

In an environment saturated with information that is increasingly delivered by algorithms, the challenge is filtering out **noise**. Headlines, quarterly earnings results, and other short-term data points are quickly forgotten. Focusing instead on enduring principles and insights that remain relevant years into the future is far more valuable in our view.

Looking Ahead

We believe the Fed's independence is important. Given the rhetoric throughout 2025, naming an appointee who can, as previously mentioned, demonstrate independence and navigate Senate confirmation will be tricky. If markets lose confidence in the Fed, that lost confidence can contribute to higher yields in longer maturities. All things being equal, this would be an additional "tax" and potential drag on the economy – the opposite of the Administration's desire.

Effective tariff rates were lower than expected during 2025 and the economy, supported by higher-earning and wealthy consumers and AI capital spending, was resilient. As we think about the year ahead, it is unknown whether corporations will be willing to continue absorbing tariff costs or ultimately pass a higher percentage along to consumers. If additional tariffs are passed along, can they be absorbed by the average consumer? Tariffs can be instant while job creation from onshoring takes time, effectively creating an expense and income timing mismatch.

Given the many unknowns and inaccuracies in forecasts, we aim to continue structuring equity portfolios capable of mitigating potential curveballs: by owning shares of appropriately capitalized high-quality companies trading at discounts to estimated intrinsic value. Within our Income strategy, we can swap Treasuries for corporate issues to enhance yield if credit spreads become more attractive. While there is much chaos in the world, it is business as usual here as we go about our daily routine – applying filters to news and focusing on attributes that can drive long-term corporate value of portfolio companies.

Past performance is not indicative of future results and all investments involve some degree of risk. Market and economic data have been provided by third party sources. This data, while believed to be reliable, has not been independently verified by EBS.