Quarterly Market Commentary

Fourth Quarter 2025

Embracing Change

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"It should be borne in mind that there is nothing more difficult to arrange, more doubtful of success, and more dangerous to carry through than initiating changes."

- Machiavelli, The Prince (1532)

In his 16th-century political treatise, The Prince, Niccolo Machiavelli stated, "The innovator makes enemies of all those who prospered under the old order, and only lukewarm support is forthcoming from those who would prosper under the new. Their support is lukewarm... partly because men are generally incredulous, never really trusting new things unless they have tested them by experience."

Coming into 2025, the U.S. economy rode more momentum than many expected. Growth proved resilient, the labor market remained robust, and consumer and corporate balance sheets held firm. This underlying strength mattered, because, as echoed by Machiavelli's warning, periods of transition are rarely smooth. Change invites uncertainty, skepticism, and resistance, particularly when the old order has worked well enough for long enough.

Change arrived almost immediately in 2025. Markets and businesses were tasked to digest a range of disruptions, from the policy overhang surrounding DOGE and "Liberation Day," to renewed concerns around fiscal brinkmanship, to shifting tax policy and government shutdown, and several hot military engagements around the globe. Each of carried the potential to undermine confidence, slow investment, or disrupt the burgeoning economic strength. At various points during the year, investors were forced to wrestle with the familiar question of whether policy and geopolitical noise would translate into real economic and market risk.

What proved decisive, however, was the economic and market fundamentals seeing through the commotion. Much of the resilience can be traced to the extraordinary pace of innovation — particularly in artificial intelligence. While the benefits of transformative technologies are often met with skepticism at first, AI is already moving beyond promise and into practice, driving productivity gains, reshaping capital investment patterns, and recalibrating long-term growth prospects. In that sense, the fourth quarter, and all of 2025 for that matter, served as a clear reminder that while change is difficult and often doubted, it is precisely what leads to growth.

Headwinds Persist Into 2026

Consumers have remained under pressure following the post-pandemic inflationary cycle and the Federal Reserve's subsequent interest rate hiking cycle. Roughly 45 million Americans carry federal student loan debt. Aggregate loan balances remain historically high, and delinquency rates are rising — particularly among lower-income and younger borrowers. This dynamic is quietly diverting disposable income away from discretionary spending on leisure, dining, and travel to spending on essential expenses and interest coverage, all while real wage gains, though positive, remain uneven.

Higher-income households continue to benefit from strong employment, elevated asset values, and residual savings accumulated earlier in the cycle. In contrast, lower- and middle-income households have largely exhausted their savings buffers and are far more exposed to rising debt service costs and everyday price pressures. The result is that the consumer economy has taken on a distinctly "K-shaped" profile.

While higher-income consumers account for a disproportionate share of total spending, they tend to spend more incrementally and less cyclically, limiting their ability to fully offset weakness at the lower end of the income spectrum.

As this divergence persists, the risk is not an abrupt pullback in activity, but a gradual slowing in consumption – and consumption is the primary engine of economic growth. Marginal consumers drive marginal changes in spending, and those households are increasingly constrained. Over time, softer discretionary demand, slower turnover in big-ticket purchases, and rising interest payments can dampen overall economic momentum, even as top-line data continue to suggest resilience.

Tailwinds Tell the Tale

Counterbalancing these consumer headwinds is a set of powerful tailwinds that more than offset consumer weakness, driving both economic momentum and strong market performance throughout 2025. One of the most underappreciated datapoints has been the steady decline in bankruptcy filings. After rising earlier in the cycle, filings have trended lower, suggesting that balance sheet stress among households and businesses has remained contained. This improvement reinforced confidence in the durability of the expansion, helped stabilize credit conditions, and reduced fears of a broader deleveraging event—allowing risk assets to continue climbing in spite of the macro uncertainty.

Fiscal policy also played a meaningful role. The passage of the "One Big Beautiful Bill" should lead to a measurable GDP boost in the near-term, driven by a combination of targeted spending, investment incentives, and support for domestic production. While the longer-term implications continue to be debated, markets responded to the near-term clarity and growth impulse.

Global capital flows also proved to be a decisive tailwind. In the wake of Liberation Day, foreign demand for U.S. assets strengthened materially, despite loud calls from many investors, economists, and politicians portending the converse. This strength reflected the relative stability of the U.S. economy, the depth of its capital markets, and continued leadership in innovation. The influx of capital continues to provide ongoing support for domestic equity and fixed income markets alike, compressing risk premiums and reinforcing the U.S. market's role as a global haven. Together, these forces translated economic resilience into exceptional market returns in 2025, even as investors navigated an unusually complex and headline-driven environment.

Finally, for the first time in several years, international equity markets outperformed the US, though both produced very strong returns. International markets entered the year at a stark valuation gap relative to the US, reflecting the prevailing "American Exceptionalism" narrative. However, that valuation gap narrowed, as investors took advantage of the relatively cheap prices abroad. Further fueling the gains were a weakening of the US dollar, which declined 10% in 2025, and structural corporate reforms and infrastructure and defense stimulus, ironically catalyzed by "Liberation Day", across developed markets in Europe and Asia.

Quarter To Date as of December 31, 2025[1]	
S&P 500 Total Return Index	2.7%
Dow Jones Industrial Average	4.0%
Nasdaq Composite Index	2.6%
Russell 2000 Index	2.2%
MSCI EAFE Index	4.9%
MSCI Emerging Markets Index	4.6%
Bloomberg Aggregate Bond Index	1.1%

[1] Black Diamond

Year To Date as of December 31, 2025[2]	
S&P 500 Total Return Index	17.9%
Dow Jones Industrial Average	14.9%
Nasdaq Composite Index	20.4%
Russell 2000 Index	12.8%
MSCI EAFE Index	31.9%
MSCI Emerging Markets Index	33.4%
Bloomberg Aggregate Bond Index	7.3%

Innovation and Progress

Despite the dramatic headlines that roiled markets at various points throughout 2025, the steady drumbeat of innovation and progress continued to move at blinding speed. Nvidia became the first company to attain a $5 trillion market capitalization – nearly equivalent to the size of Germany's GDP – with Apple and Microsoft following closely on their heels at $4 trillion. The adoption rate of artificial intelligence, enabled by these companies, among corporations is believed to be nearly 80%. Productivity enhancing technology has moved from theoretical to ubiquitous in an astonishingly short period of time.

During 2025, SpaceX launched its' 139th mission, which was more than NASA's space shuttle flew in the 30-year period of its' existence. SpaceX also launched its 10,000th Starlink satellite into orbit, despite very few of the world's population having gone through the efforts to utilize its staggering capabilities.

In 2006, Lockheed Martin flew its' first F-35 fighter jet. It took 3,287 days (almost 10 years) from design to flight. In November, Anduril flew America's first semi-autonomous fighter-jet (called the YFQ-44A) which only took 556 days from design to "wheels up."

These are the innovations that only happen when an economy compounds capital into ideas and inventions over decades. The advances not only accelerate, but surprise. While we are always wary of and focused on the risks that could derail the current trajectory, we also must acknowledge the historic changes that are advancing the human experience.

As always, we thank you for your trust and partnership. We wish you and your loved ones great health and happiness in the year ahead.

Respectfully,

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[2] Black Diamond

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