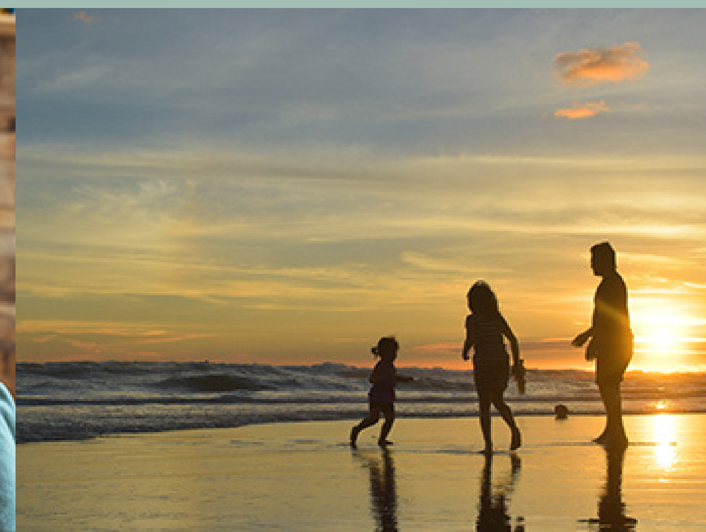
SCHNEIDER DOWNS

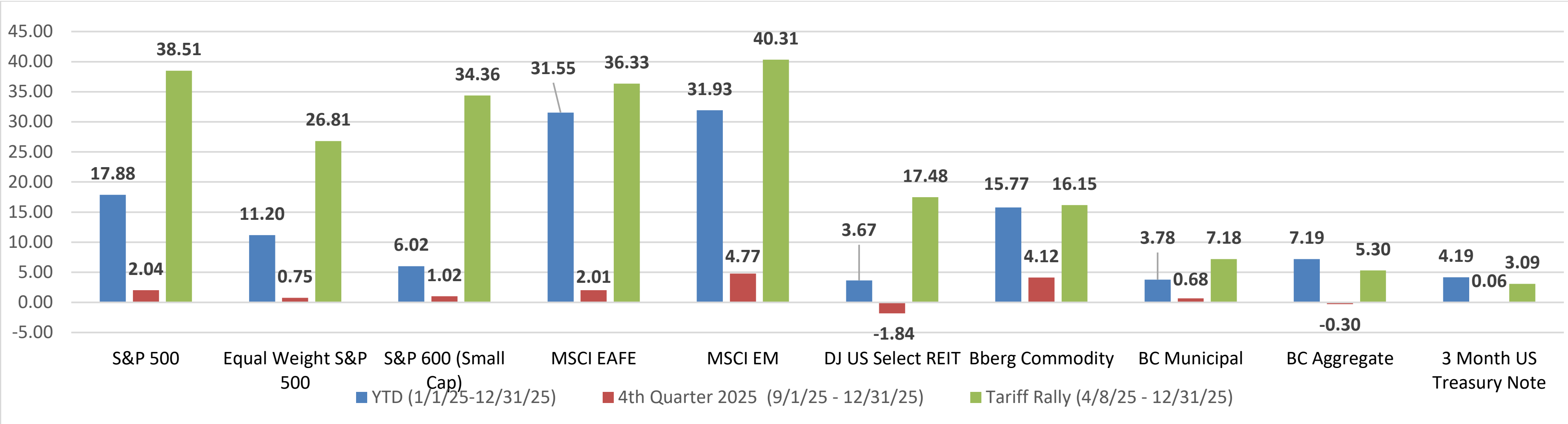
Wealth Management





Brevity Is the Soul of Wit: 2025 Explained in a Chart

Q4 2025 Market Commentary



"A picture is worth a thousand words," a phrase that almost everyone has heard and experienced trying to absorb an information or concept. The ubiquitous idiom draws its roots from early 20th century advertising executives Arthur Brisbane and Fred Barnard.[1] As I sat down to write this letter in between the Christmas holiday and New Years, the phrase kept popping into my head. Prior iterations of this letter were filled with far too many words to describe the frenetic, and at times schizophrenic, year in markets. Instead, I am going to take the advice of William Shakespeare, who wrote in Hamlet "brevity is the soul of wit,"[2] and discuss the above chart as concisely as possible.[3]

2025 was a terrific year in capital markets; yet most investors and market participants would tell you that they rarely felt terrific or even good for that matter. The blue bars in the above chart represent the full year performance for the major asset classes. International stocks, developed (MSCI EAFE) and emerging (MSCI EM), had 30%+ returns, U.S. large cap stocks were up almost 18%, and U.S. treasuries and agency securities (BC Aggregate) had its best year since 2020. Those are excellent returns for the diversified investors, and yet, it doesn't quite explain the sentiment many people had throughout 2025, which brings us to the green bars, and the source of most of the consternation market participants felt throughout the year. The green bar represents what we call the "tariff rally," the period where markets ceased their free fall following the Trump administration's economic/tariff policy announcement. The initial tariff policy was so draconian (e.g. it suggested that Vietnam, who has an income per capita of ~$5,000, to be trade neutral or have a trade deficit with the U.S.) that it caused markets to go into a downward spiral that was reminiscent of the Great Financial Crisis. After the administration charted a different course, one of negotiation and in some cases a complete reset, markets rallied hard. The green bars in the chart tell the story of 2025: if you stayed invested through the worst of the storm, you were able to earn the return in blue;

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[1] Thank you Google Search/AI Mode/Gemini for knowledge that I hope to be able to use when my family is playing jeopardy and I need a few bucks to beat my daughters!
[2] The character in Hamlet that says this quote is Polonius, who is a bloviating character of the highest order. As was the case with many of his masterpieces, Shakespeare drives his point home via irony.
[3] An irony in and out of itself as my treasured colleague and friend, Karen Werley, retired in December. She served as one of the principal reviewers of my writing and always condensed my words to make them more digestible. That I would choose to be concise only after she retired; well, I think Mr. Shakespeare would be pleased with that bit of dramatic irony.

if you were willing to lean into the volatility and "buy the dip," you earned a bit more in the asset classes you added to; if you decided the volatility was too much and sold all or some of your equities, you missed out on another terrific year in markets.

Looking forward to 2026, we expect several themes that began to express themselves in 2025 to carry into 2026. Starting with equities, we believe international equities, both developed and emerging, will continue to march higher. A combination of earnings growth, multiple expansion due to constructive monetary and fiscal policy, and a continued decline in the U.S. dollar are likely to move international stocks higher. Many investors remain significantly underweight international, which has the potential for a tailwind as investors increase their allocations, creating momentum for non-U.S. stocks. As Artificial Intelligence (AI) related capex continues to pour into the system, the demand for rare earth metals critical to data center and semiconductor infrastructure will likely continue its uptrend. Most of these rare earth metals and energy sources are located in emerging market countries (a fact many in the world are learning about after U.S. military action in Venezuela; more on that later) and serve as a specific tailwind for emerging market stocks.

While under the radar from the strong performance in international stocks, U.S. small and medium size stocks began to gain momentum in the second half of the year. Small cap stocks outperformed U.S. large cap stocks for the last six months of the year. We expect this trend to continue as investors scrutinize the earnings and the significant investment in capex of the large AI hyperscalers/"Mag-7" and the impact that investment will have on earnings and cash flow moving forward. Small caps are cheaper, having earnings momentum, benefit more from the decline in short term interest rates, and in somewhat of an irony, will be clear beneficiaries from an efficiency and profitability standpoint from the advancement in AI.

Real assets have been a core part of our client portfolios for the past 6 to 7 (or six sevvvvvvveeeeen as the young kids say[4]) years. The critical nature of these companies and exposures, inflation-adjusted yields, and attractive valuations were core principles of including them in our strategic allocations. We did not see the dramatic rise in AI coming, certainly not to this degree, but real assets are a clear beneficiary of the spending in AI. In addition, we have a strategy that incorporates gold, which we believe to be a great diversifier in a time of geopolitical and inflation uncertainty. Hard assets will continue to be consistent, and we believe valuable themes, in client portfolios.

The start of 2026 has gotten off to a concerning start on the geopolitical front. Wherever you stand on the military actions in Venezuela, they inject a new variable for investors to consider. The Trump administration has been vocal about annexing Greenland (not ruling out the use of force), how China proceeds with Taiwan, and how Russia reacts, not only in Ukraine, but other Baltic and Eastern European states bear watching. Taking a step back, while many of these variables are new, the theme of global instability is one that markets and investors have been grappling with since the attacks on 9/11. Taking it back to the beginning of this letter and the blue bars (2025 performance) and green bars (rally following the market bottom related to the Trump tariffs), investors are rewarded for being patient and not overreacting. The best way to deal with uncertainty and angst, as it relates to investing, is to have diversified portfolios and a cohesive and comprehensive plan. That is why the relationship we have with our clients is so integral to the outcomes and successes over time and in markets; coming up with a plan while you are in the thick of a storm is no plan at all.

As I wrapped the year up with my annual tradition of bringing my daughters, Caroline and Claire, into the office on the last trading day of the year, I spent time thinking about relationships. I came away, like I always do, grateful to our clients, grateful to my colleagues and partners, and most importantly, grateful to my family who are my inspiration in all that I do and accomplish. The SDWMA team and I are excited to see you all in 2026; here is to another year in markets, let the adventures begin!

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[4] My daughters just called me "cringe" as I read this to them.

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