

January 15th, 2026

Winter Quarterly Commentary



"To be ignorant of what occurred before you were born is to remain always a child."

Marcus Tullius Cicero

Rome's greatest statesman, lawyer, scholar,
orator & writer

106 BC – 43 BC

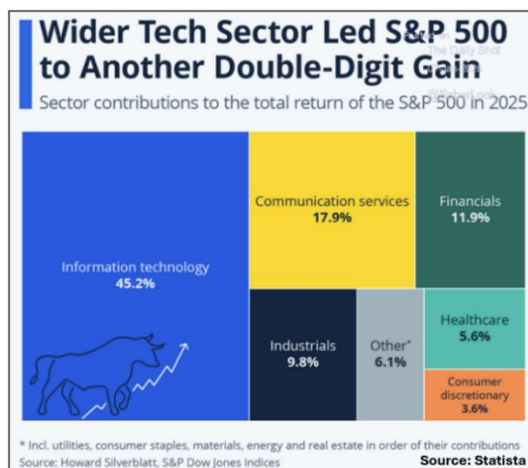
Last year was a reminder that history often rhymes, and that panic is rarely rewarded. Early in the year, stocks stood at the precipice of a bear market, as consensus expectations centered on tariffs triggering a recession,¹ persistently high inflation... or both. Market sentiment deteriorated quickly as investors tried to assess how policy changes might affect the economy.

¹ In an April WSJ survey, 45% of economists saw a recession coming, up from 22% in January.

As the year progressed, economic conditions and corporate earnings proved more resilient to evolving tariff announcements than anticipated. Following a path similar to 2020, as uncertainty began to fade, markets responded quickly, retracing earlier losses and ultimately delivering a strong full-year return.

The U.S. economy, with an estimated 70% of growth coming from consumption and artificial intelligence (AI), managed to deliver 2.5% annual growth during Trump's first year, in line with Biden's final year in office. We are reminded of all-star fund manager Peter Lynch's observation that "far more money has been lost by investors trying to anticipate corrections, or trying to time the market, than has been lost in the corrections themselves." The experience of the past year fits closely with that view. Investors who tried to react to market-tanking tariff news early in the year likely found themselves waiting for an opportunity to re-enter that never clearly presented itself.

Technology stocks continued their dominance last year, accounting for nearly half of the S&P 500 Index's total return. Late in the year, several of the year's strongest sectors began to lag, even as broader index performance remained resilient. By year-end, questions were emerging around whether the pace of AI-related investment, and the power generation required to support it, were beginning to outrun the sector's ability to deliver near-term economic results.

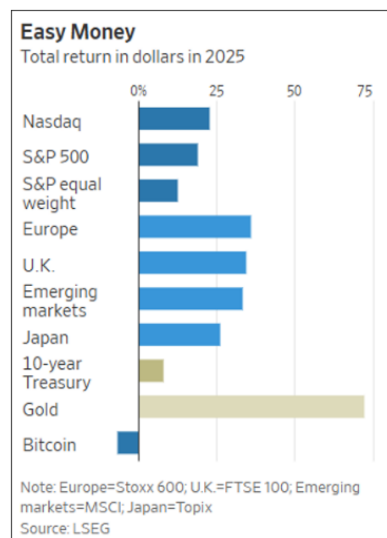


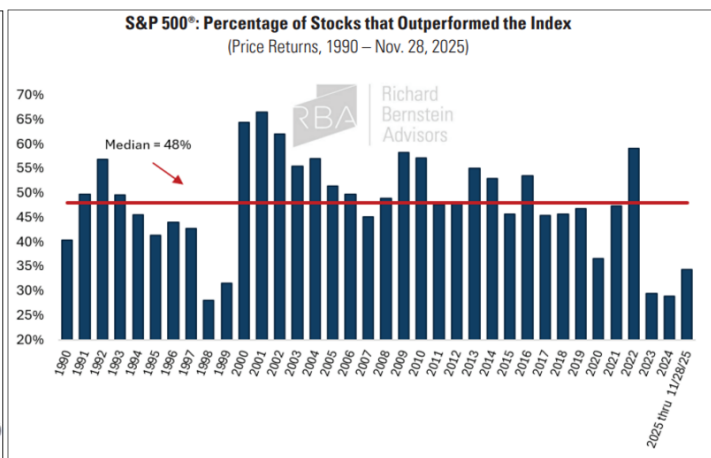
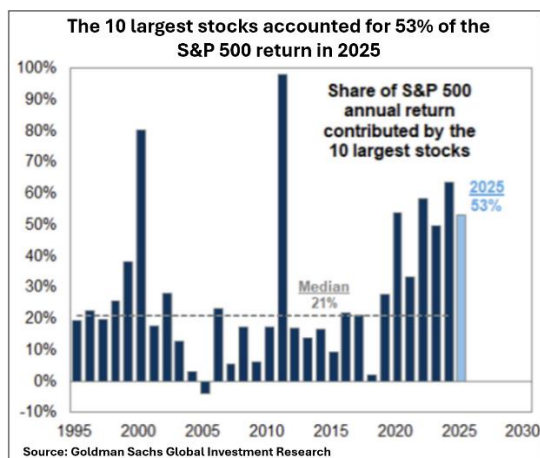
SPX Sectors – Recent Rotation Away from Prior Leaders

SPX Sector	Perf Through Oct 31	Perf Since Nov 1
Health Care	4.7	6.4
Materials	2.2	5.1
Financials	8.2	4.1
Consumer Staples	-0.6	3.9
Communication Services	25.8	1.8
Energy	3.0	0.9
Real Estate	0.7	-0.9
Industrials	17.6	-1.2
Consumer Discretionary	7.2	-1.8
Utilities	17.5	-4.6
Information Technology	29.3	-8.0

Source: Bloomberg as compiled by Citadel Securities, GMI, as December 18th, 2025. Figures are for illustrative purposes only.

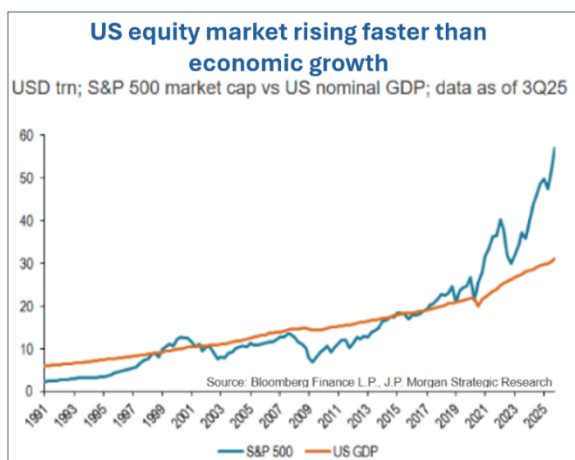
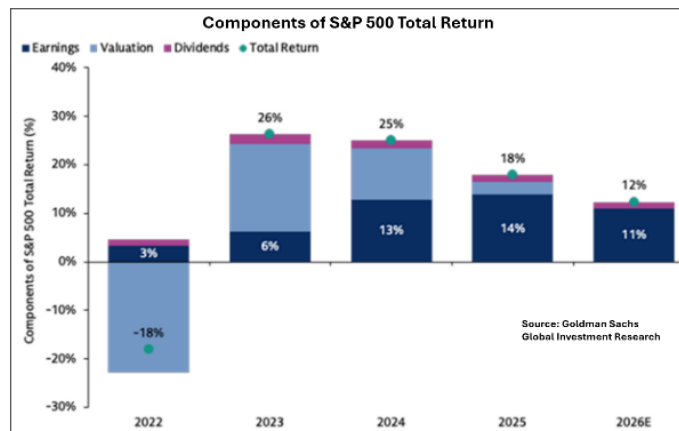
While it was a good year for just about anything not named Bitcoin, beneath the surface of the stock market, participation narrowed considerably. Continuing a multi-year trend, fewer than 35% of S&P 500 Index constituents outperformed the headline index, with the ten largest stocks accounting for the bulk of that return.



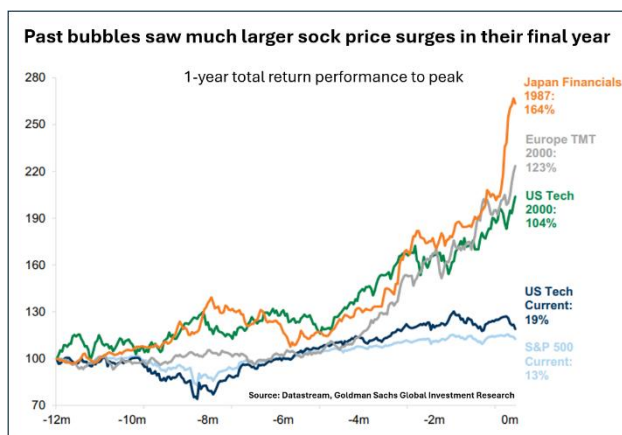


Despite strong market gains last year, equity valuations did not expand meaningfully. Unlike 2023 and 2024, when returns were driven largely by rising multiples, last year's advance was supported primarily by fundamentals. The market moved higher on the back of revenue growth and improving profit margins, with earnings increasing approximately 14% for the year.

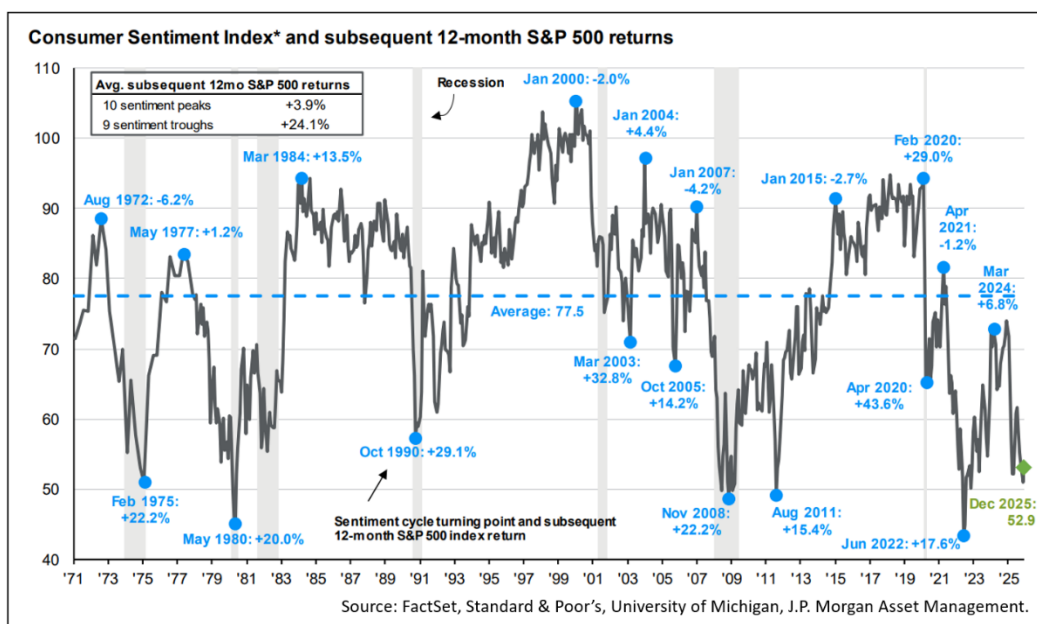
Returns driven by earnings growth tend to be more durable than those driven by multiple expansion, as the latter depends on investors paying progressively higher prices for the same amount of cash flow. Valuations remain elevated by historical standards, but last year's gains were largely earned rather than bid up. That distinction becomes more important as expectations rise.



With the value of U.S. stocks rising well beyond that of the underlying economy, we are often asked if we are in a market bubble. We don't think the evidence supports that conclusion, even if stocks are historically expensive. While enthusiasm around artificial intelligence has clearly influenced market leadership, recent stock market gains remain modest when compared to prior episodes of speculative excess, including the dot-com technology boom and Japan's equity bubble of the late 1980s.



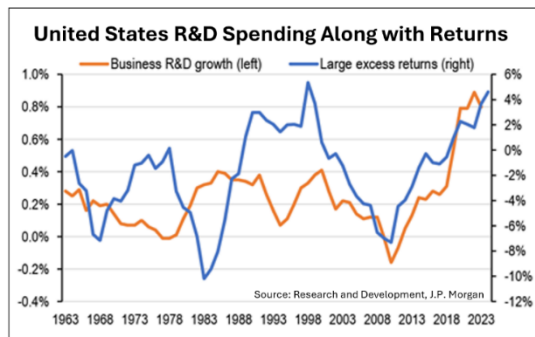
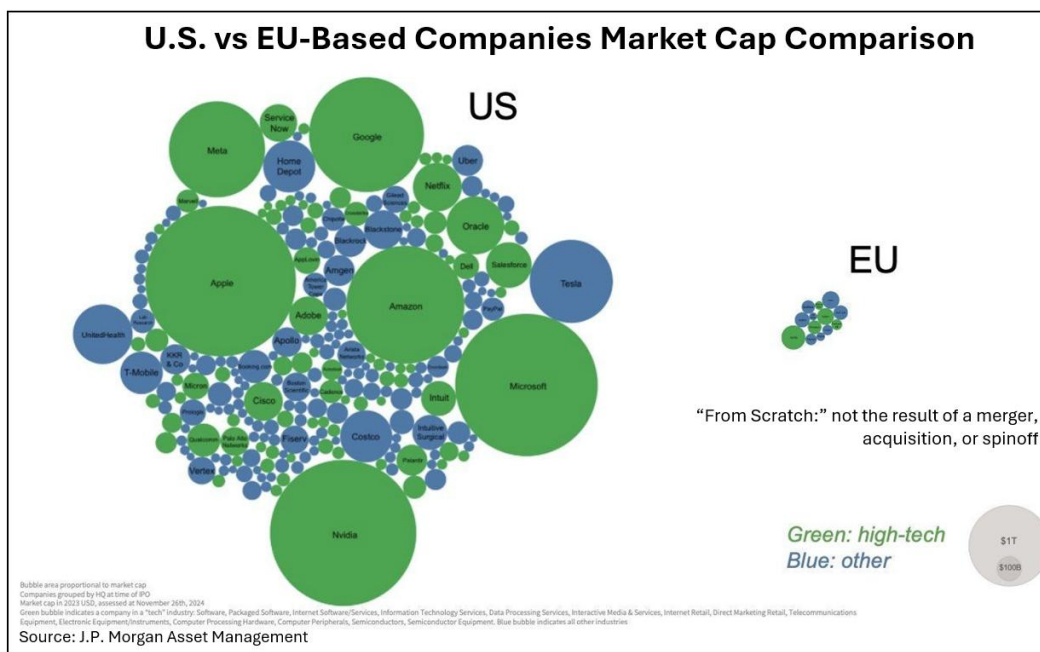
Investor sentiment also provides useful context for assessing risk. Periods of widespread caution have historically been associated with lower market vulnerability, while bubbles tend to form when enthusiasm becomes universal. Today, consumer sentiment remains subdued and stands in sharp contrast to the broad-based optimism that characterized the late-1990s technology boom leading up to the market peak in 2000.



Our society is making a significant, AI-fueled leap forward. Today's higher valuations may be justified if our economy is poised for years of above-average growth driven by this transformational technology. The stock market looks forward and is already pricing in much of that bright future.

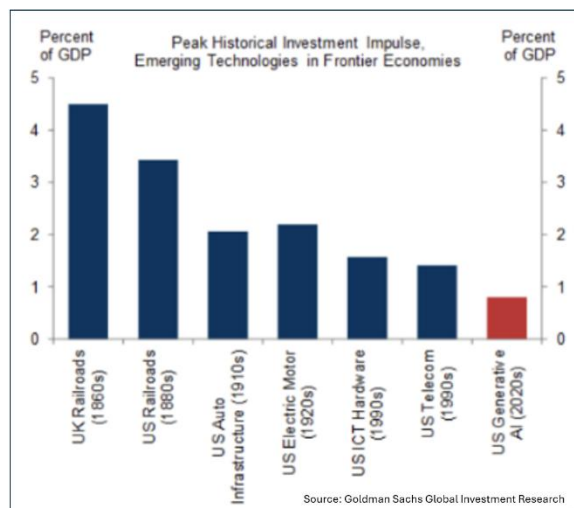
Consider how markets have rewarded innovation in the U.S. vs. Europe. Our market trades at a whopping 50% premium to Europe on a forward price to earnings basis. That gap is often cited as evidence of excess, but it also reflects very different growth trajectories. The U.S. has created 240 or so companies worth at least \$10 billion compared with just fourteen in Europe. Not a single European company worth €100 billion or more was created "from scratch" over the past fifty years, and only four of the world's fifty largest technology companies are European.² The U.S. has been the land of growth, and with AI, that appears unlikely to change.

² All according to Andrew McAfee, Principal Research Scientist at MIT.



Research shows that the biggest companies have tended to outperform in countries where private-sector research and development (R&D) spending makes up a larger share of the economy.³ The U.S. leads the world on this measure, helping to explain the dominance of its largest technology firms. We don't see this comparative advantage in innovation changing. The U.S. remains home to most

of the well-capitalized tech companies that generate the cash needed to pursue AI and operate in a country that supports innovation.

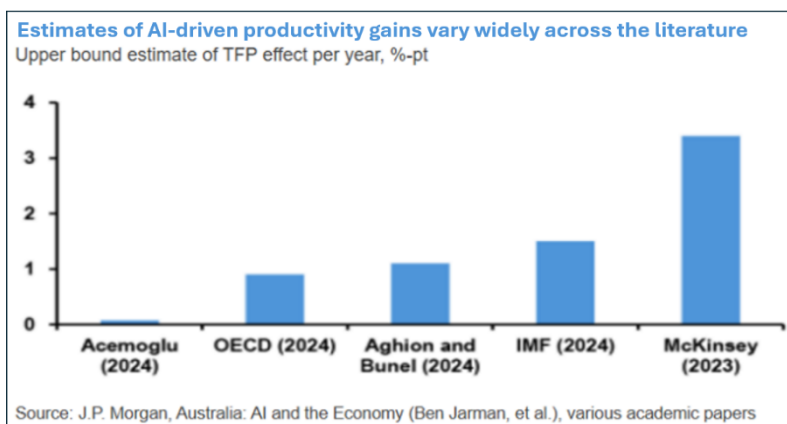


But are these U.S. companies overdoing it with all the AI spending? Given AI's potential, probably not. The tens of trillions U.S. companies are likely to spend this decade on AI would still amount to less than one percent of GDP, well below levels associated with major boom-bust cycles of the past 150 years. And the payoff may be greater. The economy usually grows by a low single-digit rate every year. While we think this is overdoing it, some notable voices are suggesting that high single-digit

or even double-digit annual growth is possible.

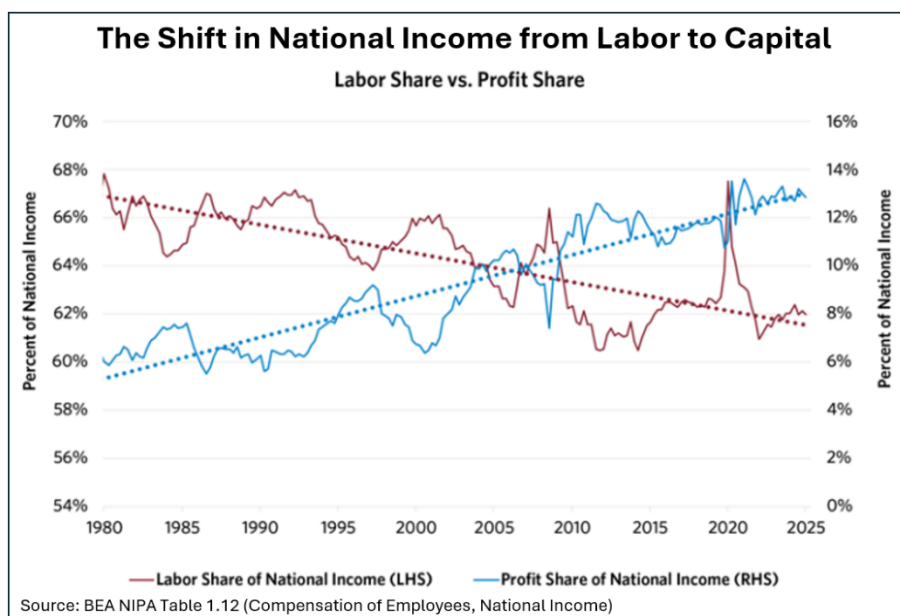
³ This chart compares, from 1963-2024, the 10-year change in business-funded R&D as a share of GDP relative to the excess return over that period by the top-decile largest stocks in that country.

The economic implications of AI extend well beyond corporate earnings. Artificial intelligence is widely expected to raise labor productivity over the coming decade. Estimates vary, but the direction is consistent. The IMF projects annual productivity growth of 0% to 1% over the next 5-10



years, while White House officials say it will run closer to 2%. Academic studies point to 1% to 3% annual growth. Even at the lower end, these gains imply a meaningfully larger U.S. economy over time and help explain why our stock market has been so strong.⁴

Economic growth driven by technological change, however, rarely benefits everyone equally. Throughout history, the economic spoils of progress have been divided between labor and capital. Back in hunter-gatherer times, all the spoils went to labor, as there wasn't much 'capital' to speak of. As technology advanced, and we created more infrastructure and tools, that balance shifted. In a future where robots can perform an increasing share of human tasks more efficiently and at greater scale, what is the value of labor? To simplify greatly: the economic spoils are likely to accrue largely to those with the capital to own the robots.

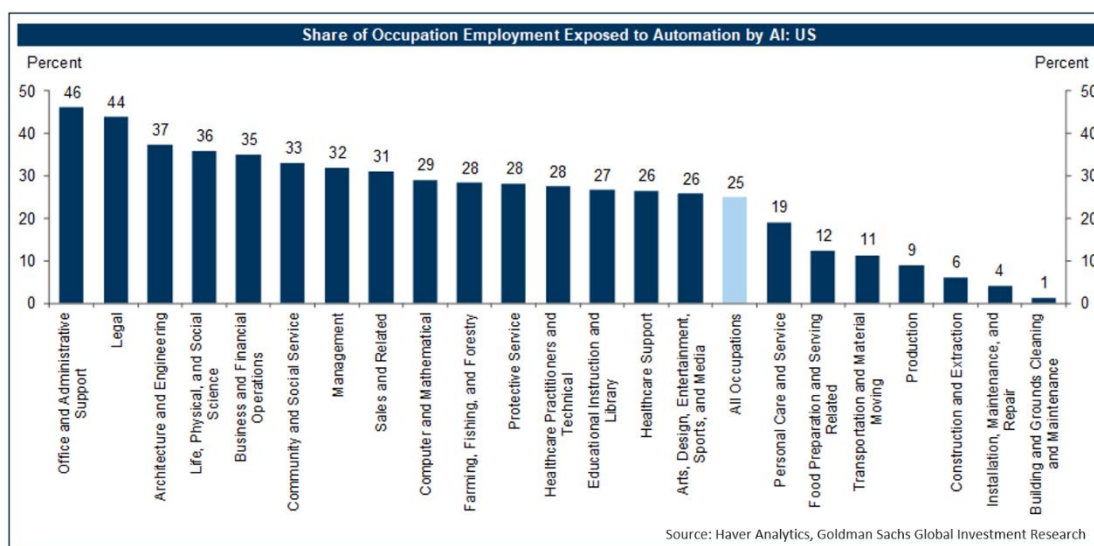


Goldman Sachs recently used a Department of Labor database to estimate the percentage of work tasks which could be fully automated following complete adoption of generative AI... arriving at 25% of all occupations.

⁴ The global dominance of U.S. tech firms also helps explain why our stock market has outpaced U.S. GDP growth. These firms are deploying their technologies and reaping the benefits all over the world, not just in the U.S.

The CEO of Anthropic, a leading AI developer, recently suggested that AI could eliminate as many as *half* of all entry-level, white-collar jobs, potentially spiking overall unemployment to 10% or 20% over the next five years. We are already seeing signs of coming job market upheaval:

- Financial anxiety is falling disproportionately on young knowledge workers. Since the introduction of ChatGPT, unemployment among college-educated 20-24-year-olds has risen to equal the level for those without a college degree. Meanwhile, those age 50-54 have seen unemployment rates decline and net worth rise as AI boosts the value of their stock portfolios.
- A recent Pew Research Center poll found that 52% of workers are worried about AI's impact on the workplace, while 36% are hopeful. Only 5% of workers believe AI will create new opportunities for them, compared with 64% who expect fewer opportunities.
- A 2025 NY Fed survey showed that confidence in finding a new job within three months after a job loss fell to the lowest level since the survey began in 2013... even lower than that seen during COVID.



Against the backdrop of rapid technological change fueling rising but uneven economic outcomes, market conditions have become increasingly frothy. Valuations are elevated, positioning has grown more aggressive, and several indicators that tend to rise late in market cycles have moved sharply higher. Thus, it is far from clear that recent, above-average equity returns will continue.

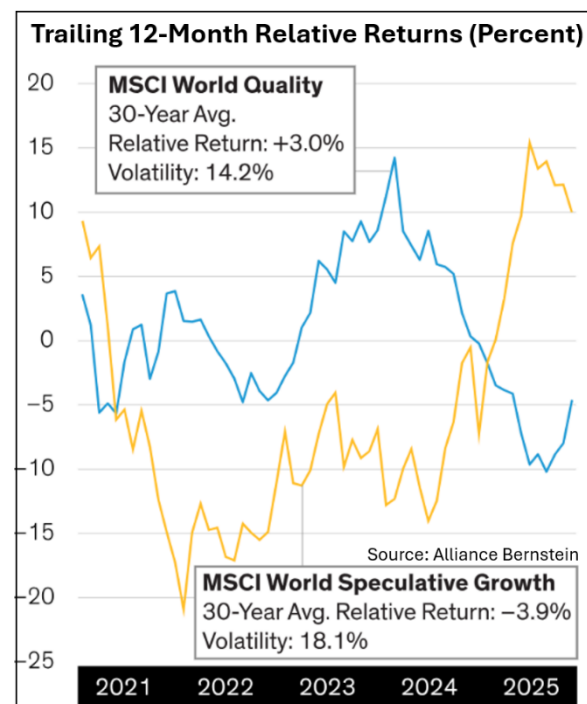
One concerning indicator is margin debt. Borrowing against investment portfolios has increased rapidly, reaching levels that have historically coincided with heightened market vulnerability. Similar surges were evident ahead of the 2008, 2020 and 2022 bear markets. Leverage does not cause market declines on its own, but it has a long history of making them more severe once conditions begin to turn.

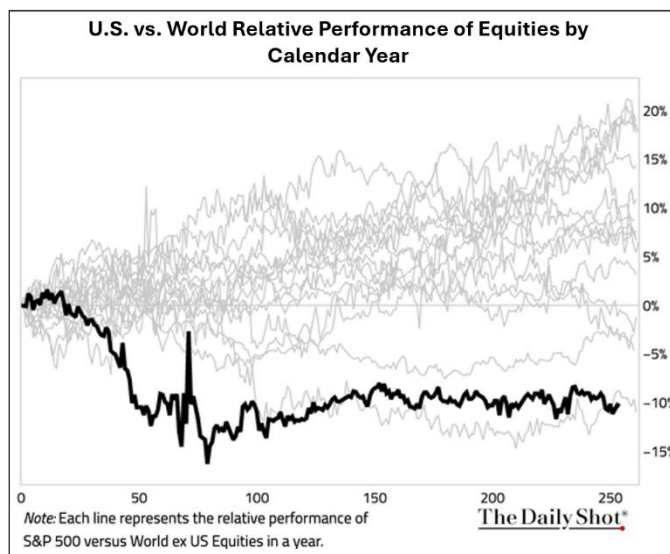


Recent equity market leadership is also a concern. Over the past 30 years, high-quality companies have tended to outperform with lower volatility, delivering better risk-adjusted returns globally across market cycles. Recently, leadership has tilted toward more speculative growth stocks. That pattern reflects a greater willingness to pay for distant or uncertain cash flows, and it has typically appeared later in market advances rather than earlier.

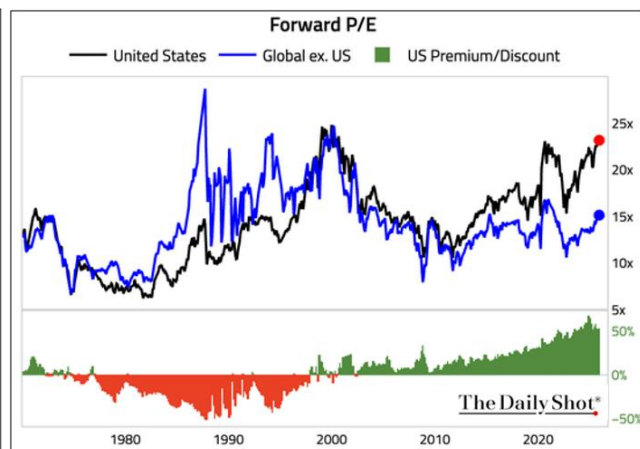
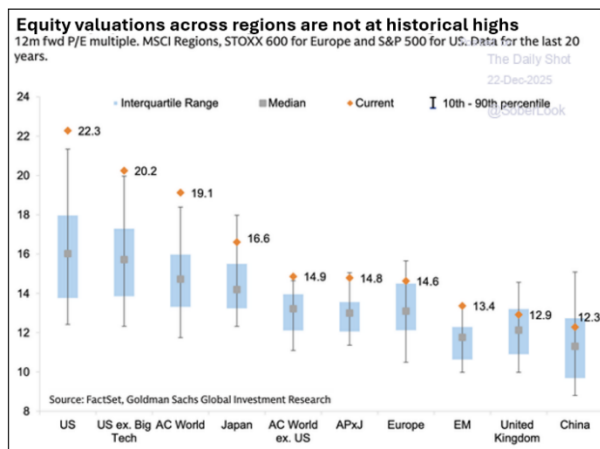
The magnitude of recent gains also warrants attention. Three-year returns for the S&P 500 recently touched two standard deviations above long-term rolling three-year average returns, a condition that has occurred only five other times in modern market history. In those instances, subsequent returns were notably poor, with average forward 12-month returns of -2.7% and median returns of -9.3%.

Perhaps the above helps explain why, after a long period of dominance and despite increasing profits, U.S. equities began to lose momentum relative to the rest of the world last year. International stocks outperformed meaningfully, marking one of the weakest years of relative performance for U.S. equities since the global financial crisis. A single year does not make a trend, but the shift is notable given how extended U.S. leadership has become.





Over the past fifteen years, U.S. stocks have steadily gained global share, rising from roughly one-third of the world's equity market to nearly two-thirds today. That concentration reflects genuine strengths, including superior profitability, strong balance sheets, and a deep technology sector. It has also widened the valuation gap between U.S. equities and international markets. Eventually, embedded expectations and starting prices do matter. Perhaps unsurprisingly, global leadership is beginning to broaden, and international markets are once again playing a more meaningful role in driving equity returns.



Returning to the question of whether we are in an investment bubble, it depends on one's definition. In 2017 we wrote about Bitcoin, saying it was in a bubble but that it could also reach \$300,000 one day. As we put it, "A bubble is when people are buying something because it has been going up." We do not think the U.S. market or technology stocks are in a bubble by that definition, even if they are historically expensive relative to earnings. We would argue these companies are often being bought because they are incredibly profitable, not just because they went up in the past due to multiple expansion.

If you want to see a bubble, look at silver. *Everyone* is asking us about it. Why? Because it's gone up... to the tune of 140% in 2025, more than any other major asset. While we don't know if silver will fall or continue to rise, we believe it is in a bubble because people are buying it *because it's been going up*.

We do know the U.S. equity market is expensive and we are investing accordingly. By incorporating foreign stocks and other resilient investments which deliver a healthy level of income to portfolios, we are positioning client portfolios for what will likely be lower stock market returns in the next three years versus the past three years.

Sincerely,



John G. Prichard



Kurt Beimfohr



Miles E. Yourman

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