ARPG
INTELLIGENT INVESTMENT

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Fourth Quarter 2025

S&P 500 - YTD 16.39%[2]

MSCI INTERNATIONAL - YTD 21.38%[2]

"Write this down
Take a little note
to remind you in case you didn't know "[1]…

Happy New Year! 2025 is in the rear view and… well, it went about how we thought it would with a price gain of 16.4%[3] along with inflation continuing to contract nearing the Fed's preferred 2% target. However, many investors and analysts were bearish on equities at the beginning of 2025 primarily due to significant uncertainty surrounding the new U.S. administration's aggressive tariff policies, which sparked fears of a potential recession coupled with higher inflation, ultimately leading to dreaded stagflation.

Mr. George Straight said it as good and anyone, "Take A Little Note"[1]. Precisely one year ago, ARPG published the following in our Fourth Quarter 2024 newsletter. "**Coming into 2025, with equities near all-time highs and many more folks in the bullish camp, new money may be more difficult find than in the previous two years. Coupled with higher-than-normal valuations, this may result in amplified volatility throughout the year. Although we believe 2025 will be a stronger-than-average year, potentially expanding 15-22% with the S&P 500 finishing in the 6800-7200 range, it may prove to be a bumpy one**."[2] Moreover, ARPG wrote that we were confident tariffs would not cause the runaway inflation consensus was predicting.

With the S&P500 finishing the year at 6845[3], core CPI coming in at 2.6% (through November)[3], along with the volatility in the early spring due to the market's tariff tantrum… "I Cross My Heart,"[1] we'll try to get it that close in 2026!

The broad market index closed the quarter near all-time highs, extending a year that saw the index price return of the aforementioned 16.4%[3]. The fourth quarter was largely a continuation of the positive momentum from the third quarter, which had already delivered solid performance off the early April lows. Strong corporate earnings, upward earnings revisions, and robust AI invested capital showed as the primary drivers of the equity rally. Outperformance of profits, particularly within the technology and communication services sectors, benefited from massive capital investment and innovation in artificial intelligence and data centers.

Investor optimism was also bolstered by the Federal Reserve's dovish pivot and its resumption of a rate-cutting cycle. The Fed executed three consecutive 25-basis-point cuts in September, October, and December 2025, bringing the Fed's policy rate range to 3.50%-3.75%. These cuts were aimed at stimulating the economy and supporting maximum employment amidst signs of a softening labor market. Despite job market issues and concerns about inflation driven partly by higher tariffs, the broader U.S. economy demonstrated resilience with strong GDP growth in the third quarter of an annualized 4.3%[3], supported by healthy corporate and household balance sheets along with robust consumer spending.

What could lie in store for investors in 2026? ARPG sees this year as a close companion, a "Lovebug"[1] to 2025. Very similar, just a little muted compared to last year in fundamentally every metric. In addition to the story of robust corporate earnings being the primary driver, with Wall Street analysts forecasting S&P 500 companies to boost earnings by an average of around 15% in 2026[3]. This growth is anticipated to be broad-based across sectors, though technology is expected to lead the way with consensus earnings growth estimates in the 20% range[3]. Companies like NVIDIA, Microsoft, and Alphabet are expected to drive a significant portion of this growth, as AI adoption improves productivity and creates new revenue streams across various industries. We believe this could expand the S&P 500 to the 7750-7850 range and the Nasdaq may close out the year around 28000, representing a 13-15% and 20-21% gain, respectively. Almost feels like "Love Without End, Amen"![1]

However, our 2026 equity targets require our old friend the Federal Reserve to "Check Yes"[1] on further rate reductions. Expectations of additional rate cuts will most certainly act as a market tailwind. The Fed making borrowing cheaper for businesses and consumers with a less restrictive monetary policy will likely stimulate economic growth as well as support equity valuations and the labor market.

Sustainable economic growth is the key theme for 2026. The U.S. economy is expected to remain a global growth engine with continued strong GDP growth, stabilizing labor markets, along with potentially large tax refunds for consumers are expected to support spending and overall economic health. In addition, a general trend of falling inflation is anticipated, which would alleviate pressure on corporate margins and potentially lead to more aggressive interest rate cuts from the Fed than currently expected. This environment of lower rates combined with solid fundamentals is a cornerstone of our bullish posture heading into the new year. While we remain optimistic, some risks exist, including high stock valuations, geopolitical tensions, and policy uncertainty could bring pockets of volatility.

It's still pretty cold out there, but with the holidays behind us its time to store away the decorations and look forward to the new year with hopes, plans, and resolutions. Before too long, it will be springtime, and hopefully all those good intentions won't turn into "Ocean Front Property in Arizona"[1]. In the meantime, try to stay warm. In any season or market, the best investors always focus on the long term, and ARPG will continue to practice our approach to value investing, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what we believe sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

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Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. George Strait
2. ARPG / Stockcharts.com
3. Factset