BH | Beech Hill Advisors

December 31, 2025

Dear Clients,

As we close the chapter on 2025, equity markets have proven remarkably resilient, rising in the face of high stakes trade policy shifts, higher for longer interest rates and significant geopolitical events. Countering these head winds, the secular growth themes in the technology sector, and particularly the AI revolution, provided robust appreciation for both the indexes and our managed portfolios. Although flattish in December, equities provided above average performance for the third consecutive year with the NASDAQ, the S&P 500, and the DJIA, up 20.35%, 16.38% and 12.97%, respectively.

The first half of 2025 was dominated by the "Liberation Day" tariff policy shifts, which introduced the most significant increases since the 1930s. This initially triggered a sharp selloff in April as investors feared stagflation as the most probable outcome. However, as the year progressed, markets stabilized, as ongoing trade agreements neutralized the most aggressive proposals, thereby shifting the focus back to corporate fundamentals. Artificial Intelligence, the most dominant investment theme, moved from hype to infrastructure and implementation. Additionally, the AI theme progressed from simply software and computer chips to ancillary industries including energy, data centers, and industrials, creating a massive surge in capex, supporting improved earnings growth. As noted in most all commentaries in 2025, information technology and communication services led the market as these segments included the mega cap technology leaders, followed by the industrial sector in their support role in the AI infrastructure build out. Lagging were consumer cyclicals as high debt loads and cooling labor markets dampened discretionary spending, particularly in the lower economic demographic, materials, as global manufacturing slowed, and interest rate sensitive groups such as REITS and Utilities. The latter portion of the year also had sector gains broaden as underperforming groups such as healthcare improved, a positive signal as we enter 2026.

After a prolonged tightening cycle, the Federal Reserve remained in a "wait-and-see" posture for much of the year, holding rates steady at 4.5% through the first half. As inflation stabilized near 2.4% and the labor market showed signs of cooling (unemployment reaching 4.4%), the Fed pivoted. By year-end, they delivered three 25-basis-point cuts, bringing the target range to 3.50%–3.75%, a tailwind for investors, supporting equity multiple expansion and improved valuations, buoying risk assets. At the December meeting Chair Powell provided cautious forward guidance, emphasizing there's no risk-free route for policy, signaling careful balancing between inflation, growth, and employment signaling fewer and more data-dependent future cuts than markets had previously expected, temporarily dampening market spirits. Also noted was higher than normal internal Fed divergence, and a discussion of Fed independence, adding nuance to market expectations and increasing sensitivity to economic data releases. Nonetheless, investor continue to anticipate an ongoing easing cycle, historically favoring stock returns by enhancing liquidity and reducing borrowing costs.

Although the calendar has turned our guiding investment tenets remain constant. The economy remains in expansion mode, interest rates are expected to trend down, and our portfolio positions in the aforementioned secular growth themes continue to execute. Our ongoing invested posture has served our clients well in 2025 as we prefer to ignore the market "noise" and rather position ourselves as business owners when we evaluate portfolio positions, focusing on their underlying fiscal performance, their long-term potential, and their ongoing execution. That said, we will continue to diversify and trim overweighted positions, particularly in the technology space, to reduce volatility and single security risk, and to add positions in undervalued segments poised to benefit from sector rotation. We believe investors will benefit with a balance of secular growth exposure and conservative diversification against macro and valuation risks. Risk wise, equity markets will remain sensitive to Fed policy, earnings growth, and geopolitical risk, including developing events in Venezuela and Iran. Although the bull market is aging, we believe the current environment continues to offer upside and merits an invested posture, although not without expected volatility.

As always, please don't hesitate to reach out with any questions. As we start the new year, this is also a good time to review your current financial position, investment strategy, and any ongoing concerns — we'd be happy to schedule time to do so.

Wishing everyone a healthy and prosperous new year!

Warmest regards,

Will Wurm
Beech Hill Advisors