Portfolio Advisor 2025 Review and Outlook February 5, 2026

Portfolio Advisor is a quarterly commentary for fiduciaries and individuals by John and Katherine Reitnouer, financial advisors with D.A. Davidson & Co. Wealth Management. We favor a proactive investment process that aligns a portfolio with long-term goals in light of economic and market conditions that may affect investment performance in the shorter-term. Volatile markets and conflicting information sources can cloud decision-making, causing many investors to get away from their original plans. We seek to simplify the complex through communication and sound investment management over time.

2025 in Review

The Dodgers cruised to win the pennant and survived a real threat from the Blue Jays to take the World Series, 4-3!

OK, we get it. This is a highlight better suited to the sports pages, but the Dodgers' conquest- like it or not, shows big budgets properly applied can do awesome things. Government and businesses take notice. The Dodgers reportedly generated over $1 billion in revenue by delivering an exciting product and turned a profit on the league-leading payroll of $417 million and luxury taxes of $169 million. Financial markets also contended with real threats last year and ultimately posted a very positive year.

Trade, tax and monetary policy changes, and a push to develop artificial intelligence were the driving forces behind financial markets in 2025. Investors were kept off balance by a flurry of foreign and domestic policy actions emanating from Washington. The year began with a near-bear market fall. Tariffs and falling interest rates undermined the dollar. A fraying of the employment picture induced the Fed to cut rates three times in Q3 and Q4 despite inflation fears. Federal fiscal profligacy has been criticized- Federal debt has risen to $38 trillion- but conveniently ignored as consumers continued to spend and corporate earnings continued to deliver during the year, beating consensus expectations. Through it all, the stock market posted all-time highs in the process, but growth was not uniform.

The Dow Jones Industrial Average was +14.9% in 2025. Respectable, but companies that benefit from a capital spending boom in the buildout of infrastructure to develop artificial intelligence as revenue-generating and profit-enhancing technology excelled. Most of these companies are not in the Dow but are components of the technology-heavy NASDAQ Composite Index, which had a total return of +20.4% last year. Most are also reflected in the S&P 500 Index of the largest companies, which posted a total return of +17.9%.

It is notable that just ten stocks represent 40% of the market capitalization (value derived by multiplying the total number of shares times the price per share) of the S&P 500 index. Just like the Dodgers, the rich got richer in that the biggest companies became an ever-bigger part of the capitalization-weighted index. That makes the whole market vulnerable to fortunes of just a handful of companies. Wall Street's consensus forecast for 2026 S&P 500 earnings growth is +13%. Volatility shows the market is intolerant of misses, particularly since there is a general feeling that the stock market is expensive. The S&P 500 is trading at nearly 23 times forward estimates, compared to roughly 19 times the trailing ten-year average.

The valuation gap between U.S. and foreign stocks combined with a weakening of the dollar through the third quarter stimulated investment in non-U.S. based equities. The MSCI EAFE index of developed markets was +31.2%, and emerging markets were higher yet, +34.4% YTD. Gold posted all-time highs and closed the year at $4,300 an ounce, which was +64% in 2025. The strategists at *Value Line* observed that such a move would historically suggest investors are worried about inflation or a slowing economy, but a great deal of the appreciation is likely due to central bank accumulation, notably China and Poland, to diversify foreign exchange reserves away from the dollar amid debt, global trade and regional sovereignty tensions. This has been called the debasement trade.

The aggregate bond index was + 7.3% in 2025. The 10-year Treasury bond yield was about 4.15% at the close of Q4. *Strategas Research* observed that the spread between the 2-and 10-year Treasuries was unusually narrow for the beginning of a Fed easing cycle, and relative to the recent strength of gold they concluded that either gold is over-bought, or the yield curve must steepen. The Fed's open market committee signaled the end of quantitative tightening in 2025, but the bond market took note of the cost-push inflationary tendencies of tariffs and moved long-term rates up even as the Fed cut short-term rates. Hence the steepening. Long rates could go even higher since the government must continue to borrow even with a debt-to-GDP ratio over 120%. Meanwhile, Bitcoin has been falling, but that is not a part of our portfolios.

Outlook

Momentum is a powerful phenomenon and growth stocks have had it for months. But future earnings are the key and high expectations are susceptible to disappointment. The impact of higher tariffs on consumption and profit margins has yet to be fully felt. Supply chains are being reworked. There is concern that higher-income consumers are carrying the load while the majority are struggling to keep up. This bifurcation has been referred to as the "K-shaped economy," which may not be healthy. Deceleration of economic growth rates would be concerning. The question is how long tax relief and monetary easing can offset any such slowing.

It appears that many investors are not waiting to find out. A shift in portfolio construction is underway, and it looks likely to persist through the first part of this year. The NASDAQ market peaked near the end of the third quarter. Investors began taking profits and moving allocations from the top 10 darlings in search of better value and growth. Widening breadth should be positive for the market. The rise in emerging market stocks reflects the increased flow of funds into the area as mega cap US growth has retreated. Themes such as nuclear energy to power AI datacenters, strategic minerals to support defense and technological capabilities, and precious metal as debasement hedges are a few such themes. A shift into cyclical stocks reflects the change in tax policy and efforts to onshore manufacturing. That is a work in process. Stay tuned.

We look for long-term interest rates to stay elevated even if short-term rates drop. That supports holding cash and short-duration bonds until signs point to a slowdown in the economy, which does not yet seem to be the case. It would be reasonable to expect P:E multiples to face compression pressure in the meantime, psychology to turn from greed to caution. We think a shift to option-income ETFs reflects that attitude adjustment and the challenge that holding bonds in this environment presents. If tax refunds this spring stimulate consumer spending across the board, the economy may get a boost. Midterm elections in the fall may have significant policy implications. Watch earnings results and guidance along the way.

There is a reasonable argument to be made that a private credit lending bubble is brewing, sparked by concern that too much money from the likes of *Apollo, Ares, Blackstone,* and *Blue Owl* is chasing too much market share. $200 billion has been raised for private debt funding each year over the last four years according to *PitchBook*. Traditionally illiquid credit and equity investments have been institutional asset classes but are moving toward the mainstream driven by the search for yield. New 1940 Act mutual funds are proliferating seeking to access 401(k) plans newly opened to alternatives as well as private wealth. As a result, underwriting criteria appear to be slipping and covenants weakening while spreads are tight. Two recent high-profile defaults are noteworthy. A dislocation in the direct lending market would rapidly have impact on the broad stock and bond markets. Capital calls could force the sale of liquid assets; credit spreads would widen. Through the ensuing volatility, the door would open for opportunistic lenders with capital.

Implications

Volatility is a natural byproduct of uncertainty. With midterm elections looming, valuations high and the impact of policy shifts still to be borne out, there is plenty of uncertainty. Traders welcome volatility because it creates opportunity in recovery, but investors tend to find it challenging. Strive to remember that short-term swings are normal and smoothed over time. Through it all we are attracted to stocks of companies that can manage through the challenges and deliver value for shareholders. We also recognize there is a tectonic shift emerging in the form of AI, which will create winners and losers. This is opportunity for investors. You may get tired of reading our mantra that we seek to structure portfolios to address your goals within the context of the environment we must navigate, but it is true. So, while we now favor shorter-duration fixed income, international exposure, and companies with proven ability to generate free-cash flow, we also keep in mind the timing of your need for liquidity. That reverts to your plan. So, let's be sure your budget is properly applied. And… Go Blue!

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