

January 2026

Dear Donor,

Fourth Quarter Review and First Quarter Outlook

2025 was the year when everything changed, and at the same time nothing changed. Financial markets ended a tumultuous year by reprising one of the tag lines of the rock band The Who: Meet the new boss, same as the old boss. The highest tariff regime since the disastrous Smoot-Hawley tariffs that added to the pain of the Great Depression; the longest government shutdown on record; an apparent end to a global order that has, more or less, maintained relative peace and stability since the end of the Second World War – all of this happened and yet the S&P 500 stock index closed out the year with a 17.9 percent gain, the 10-year Treasury yield gently drifted down from 4.6 percent at the beginning of the year to 4.1 percent at the end, and there were no obvious air pockets of danger among major asset classes. Curiously both stocks, a risk-on asset, and gold, a typical defensive hedge, soared to new record highs in 2025. While much brainpower was expended by market observers on teasing out the technical “whys” of this strange outcome, it probably boils down to nothing more than the dominance of speculation as the driving force in financial markets today. Speculators can take massive long positions in two normally non-correlated assets, without thinking about much more than the sugar rush of near-term gains. In markets, as in most walks of life these days, apparently, it’s all about the thrill of those near-term gains.

The economy, too, managed to defy predictions for a rough landing. Runaway inflation brought about by the tariffs didn’t happen, although consumer prices, to the consternation of many Americans who were looking forward to a new world of greater affordability, continued to rise at a quicker pace than the Fed’s two percent target rate. We witnessed a definite softening in the labor market, with average monthly payroll gains falling below the trend of recent years while the unemployment rate ticked steadily higher and career opportunities look particularly challenging for young job-seekers right out of college. But again, the numbers are far away from what we would expect to see if we were on the cusp of a recession. As for economic growth, it has kept going up at a decent pace largely due to two factors: first, the seemingly bottomless resilience of American consumers, particularly those in the upper reaches of the income distribution; and second, the equally bottomless thirst for the infrastructure of artificial intelligence, meaning in practical terms hundreds of billions of dollars spent, and planned to be spent over the next several years, on data centers, large language modules and all the accompanying enabling platforms, devices, connectors and storage facilities. We may still not know what the actual impact of artificial intelligence is going to be on economic productivity, or how long it will take to get there (if at all), but we do know with a fairly high degree of probability that this infrastructure spending spree will continue.

There was one notable twist to financial market performance in 2025 that we think carries longer-term implications. For the first time in many years, non-US risk assets outperformed domestic shares. The MSCI World Index ex USA finished the year up 32.6 percent, close to double the return for the S&P 500. Now, a not inconsiderable chunk of that outperformance – around 12 percent by year-end – was due to the strength of the euro, the pound sterling and other currencies against the US dollar. The remainder of the outperformance reflected a stated preference among investors to be holding a larger portion of their portfolios in the cash flows of non-US equities (that preference, really, is also part of the reason why other currencies did better than the dollar, as well). And the international gains were not isolated to one or two markets. Europe did well, as did China and also Japan, even while being on the receiving end of the US tariffs and other protectionist policies pursued by this administration.

We expect this geographic diversification trend is going to continue. As we noted above, the geopolitical order of the world is in a very different place today from where it was twelve months ago. The stability of the alliances and procedural norms that persevered through the Cold War and its aftermath are being replaced by something else, and the contours of this new world are only just starting to come into focus. What effect that will have on the economic fortunes of any individual country or region remains unclear. When in doubt, it is better to be diversified.

With warm regards,

Masood Vojdani