



# Market Outlook

December 31, 2025

US and global risk assets delivered strong gains in 2025, supported by decelerating inflation, easier financial conditions, and a renewed Federal Reserve (Fed) easing cycle. Stocks broadly outperformed bonds with notable leadership from emerging markets and US large cap growth, both of which are heavily exposed to the still-dominant stock market driver, artificial intelligence (AI).

Read on for in-depth discussions of the equity, fixed income, and international markets, as well as what's going on with shifting energy policy.

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Solid economic growth in 2026, tempered by a possibly weaker labor market

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### **Energy Transition**

Policy shifts have negatively impacted the renewables industry, yet new investment opportunities have emerged

Overweight

Neutral

Underweight

No Exposure

## EQUITIES

US Large Cap	We are overweight US large-cap stocks, as the Magnificent 7 regained market leadership on premium 2025 earnings and forward outlooks. Further, the "Other 493" in the S&P 500 represent high-quality companies with diversified operations, strong balance sheets, and less volatility than smaller firms. Finally, relative earnings growth for the Other 493 is picking up just as the Fed seems ready to cut interest rates again.
US Mid Cap	We are underweight US mid-cap stocks, having swapped a portion of our exposure into developed market international equities. US mid-cap companies - like US small-caps - have struggled with both the higher interest rates and recession risks associated the recent changes to tariffs. Mid-caps continue to offer diversification value, as they trade at a significant discount to large-caps, and they'll likely benefit from any Fed rate-cuts on the way.
US Small Cap	We have no current allocation to US small-cap stocks, as small companies tend to struggle with consistent profitability and rely on debt to fund operations. These characteristics make them more vulnerable to high interest rates and more susceptible to economic downturns and unexpected shocks. Like mid-caps, small-caps trade at a significant discount to large-caps; however, the new tariffs materially increase the chances of a downturn / shock, which would be more damaging to small-caps.
Int'l Developed Large Cap	We are equal weight developed market international equities, as they appear attractive on a relative valuation basis and Trump is encouraging foreign allies to invest in their own protection and economic well-being. Further, Trump's unpredictable governance style and tariff policy has sent the US Dollar into a negative trend, a substantial positive for all international exposures.
Int'l Dev Small Cap	We have no exposure to international small-cap stocks, consistent with our preference for large-caps worldwide.
Emerging Markets (EM)	While we have no current exposure to emerging market equities, that position is under review given still-attractive valuations and a persistently weaker US dollar. China remains our primary concern, given significant governance risk and a fraught relationship with the US. Importantly, our preferred developed markets exposure is performing essentially in-line with emerging markets, while offering better diversification to the US AI-trade.

## FIXED INCOME

US Treasurys	Treasury rates have decreased from their 2023 peak but are still at higher levels than at many times in the last 20 years. They are an effective hedge against volatility and provide a source of liquidity for client portfolios. We are maintaining our current exposure but would increase our allocation opportunistically, if needed.
US TIPS	We have an allocation to short-term TIPS to hedge against higher, more persistent inflation. Inflation pressures are gradually easing, but upside risks remain in an economy that could potentially accelerate in 2026. TIPS remain attractive as a diversifier and an inflation hedge, and we are maintaining our current exposure.
US Securitized	US securitized bonds offer attractive yields, limited interest rate risk, and stable cash flows backed by consumer-focused collateral. They also increase diversification with risk characteristics that differ from traditional corporate credit.
US Corporates	Investment-grade credit spreads are back to multi-year lows, but we continue to favor corporate bonds due to their strong fundamentals and the incremental yield they offer compared to US Treasurys. We are selectively investing in the bonds of issuers that are well-equipped to handle any softening in the US economy.
High Yield	We currently have no exposure to the traditional, syndicated High Yield asset class. Within this sector, credit fundamentals remain solid, and funding conditions remain favorable for companies. Spreads have mostly been below their long-term median values, so we intend to allocate to this sector in the future at wider spreads.
Floating Rate	Bank stress ramped up sharply in March 2023 and, given tightening financial conditions and banking sector issues, we eliminated our exposure to floating-rate bank loans. We hold an allocation to investment-grade floating rate notes for their attractive yields and ability to preserve principal in any interest rate environment.
Emerging Markets	With domestic credit spreads that are tight and the US dollar in a negative trend, emerging market debt looks increasingly appealing. The sector has an attractive yield and a risk profile that is differentiated from the US and the traditional corporate credit cycle. We are looking at investment opportunities in this area.

ALTERNATIVES *(Allocations are client-specific based on long-term strategic objectives)*

Private Credit	Private credit offers an attractive yield, and benefits from major banks' recent exit from various credit businesses. Characteristics include strong underlying issuer credit quality, a primarily floating-rate yield, and collateralized cash flows.
Private Equity	Private equity can deliver attractive long-term returns, lower volatility, and diversification benefits by allocating to opportunities not available in public markets. An allocation to private equity may be appropriate for investors looking to maximize growth while gaining access to high-potential companies.
Real Assets	Real assets can offer an attractive risk-return profile and diversification benefits, especially in an inflationary environment. We favor investments in timberland, farmland, and infrastructure over commodities at this time.

Historically, after consecutive 20%+ return years as happened in 2023 and 2024, the S&P 500 Index has produced subpar returns in the third year. The big exception was the five-year melt-up associated with the dot-com mania (1995 – 1999) when the S&P 500 notched five consecutive 20%+ annual returns. As we had long suggested it might, 2025 followed the 1990s analog, with the S&P 500 adding another 17.9% and posting 39 record highs. Like in the 1990s, the catalyst was technological innovation – this time AI – which had bulls and doomsayers alike making comparisons to the 1990s and its harsh aftermath.

The US economy slowed but avoided recession in 2025, with real growth easing under the weight of earlier tightening and new tariff costs, while inflation drifted closer to the Fed's target. Labor market indicators softened, and forecasts showed a gradually weakening labor force in 2025, giving the Fed room to continue a cautious rate cutting cycle. Financial conditions eased, as long yields declined and credit spreads tightened, reinforcing the risk on tone across equity and credit markets.

As previewed above, though US equities couldn't match the 1990s with their third consecutive annual advance of greater than 20%, they came close. Large-caps (17.9%) outperformed both mid-caps (7.5%) and small-caps (6%) once again, as AI-exposed mega cap growth and quality balance sheets remained in favor. Large cap growth outpaced large cap value by a wide margin in the US, underscoring the continued premium placed on secular growth and AI related earnings visibility in domestic markets. Value's relative headwinds in the US, however, contrasted with stronger value leadership in foreign markets.

International equities registered eye-popping returns in 2025 – and outperformed the US by the most since 2009 – partly due to the US Dollar's 9% depreciation. Developed markets (MSCI EAFE) returned 32%, with value-oriented indices in EAFE posting some of their best results in decades, helped by banks and cyclicals as rates drifted lower from restrictive levels. Emerging markets (MSCI EM) performed even better, vaulting 33.6% in US Dollar (USD) terms, driven by broad based strength, AI linked technology supply chains in Asia, and currency gains in Latin America off of depressed 2024 levels. China rebounded on resilient exports and domestic AI progress, while Korea and parts of Latin America produced outsized triple and high double digit gains, respectively.

While paling in comparison to stocks, bonds posted their best year since 2007 as falling yields and tighter credit spreads boosted total returns. The intermediate-term investment-grade bond market, as measured by the Bloomberg Intermediate US

Government / Credit bond Index, delivered a solid 7% total return, finally making bonds great (or at least, good) again. Treasury returns were positive but trailed credit returns, as narrowing differences in yields (tightening spreads) and increased income from holding bonds (higher carry) allowed high-quality corporate bonds to modestly outperform government bonds.

As for our 2026 expectations, we generally expect more of the same, though with lower total returns and more volatility, given the expensive starting point (especially for US stocks). The US economy remains solid, with reasonably strong economic growth set to accelerate further on the back of the *One Big Beautiful Bill Act* (OBBBA) in 2026, relatively low unemployment despite AI-related fears, relatively low inflation despite tariff fears, and very strong corporate earnings. Interest rates thus far have remained well-behaved with the Fed cutting short-term rates and longer-term yields appearing well-contained just above 4%.

With this as the backdrop, the AI-driven bull market continues, suggesting stocks remain the asset class of choice, over bonds and cash. Equity returns in 2026 are likely to be positive once again, although volatile around issues like employment (if the unemployment rate ticks up materially), inflation (if it remains sticky and/or rises from here) and interest rates (if the US 10-year yield rises materially on fiscal deficit / debt / capital flight fears and/or a perceived loss of Fed independence in May). Historically, high valuations in the US are the major risk, but we do not believe this is a bubble...yet. It may become one, but at present we want to stay invested and ride the wave until more definitive problem signs emerge.

We still like large-caps over mid- and small-caps in the US, due to AI leadership, and are currently targeting 20% of equity exposure to developed market international equities on expectations that the US dollar will remain in a negative trend. Potential emerging market equity exposure is under review, given the US dollar set-up, though we continue to have concerns about China. ■

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2025 was the third year in a row of robust equity returns despite slowing economic growth thanks to the massive investment cycle in AI capabilities. The S&P 500 stock market index total return of 17.9% in 2025 brings total returns to nearly 100% in just over 3 years since the October 2022 market bottom when the Fed was rapidly increasing interest rates to combat inflation. While risks abound after this unusually strong run, our overall assessment of equity market prospects for 2026 is cautiously optimistic as the macroeconomic backdrop looks increasingly benign and AI spending remains robust.

In recent years, the macroeconomic backdrop has been a consistent headwind for equities as monetary and fiscal stimulus that were implemented during the pandemic was gradually reduced. As we begin 2026, monetary and fiscal restraints appear set to loosen although inflation continues to simmer at levels slightly higher than those that persisted in the 20 years prior to the pandemic. Accelerated depreciation and other tax benefits contained in OBBBA are likely to stimulate economic activity in 2026 while the Fed is likely to continue cutting short-term interest rates towards its estimate of a neutral policy setting, which we expect is around 3-3.5%. These shifts in monetary and fiscal policies should support economic growth following a noticeable slowdown in 2025. Bloomberg's average of economists' estimates for 2025 economic growth stands at 2.0% and is well below the average of 2.7% over the prior 3 years. If real GDP growth begins to return to trend, 2026 may prove to be a turning point where US economic acceleration becomes a tailwind for earnings growth.

In addition to a more benign macroeconomic environment, AI spending remains intact. Capital expenditures among the four largest hyperscalers (Amazon, Alphabet, Meta, and Microsoft) are expected to grow by 33% to \$465 billion in 2026 following growth of 61% in 2025 and 55% in 2024. The scale of these investments is hard to overstate – aggregate AI spending is more comparable to massive government programs than anything ever undertaken by private enterprise. The technology remains promising and the impact of this investment cycle still seems underestimated in many parts of the market. Nonetheless, some worrisome financial structures have begun to appear, featuring more debt financing paired with creative accounting. These practices limit the short-term impact on financial statements of massive investments with uncertain payoffs. While we eventually expect these practices to become problematic, they do not yet seem to have the scale or catalyst to disrupt the AI investment cycle.

While AI spending and fiscal and monetary policy should support economic activity in 2026, it is worth noting that we are entering the second year of the presidential cycle. This is not a robust data set given the limited number of presidential cycles within modern financial market history, but the second year of the cycle has historically been the weakest with a 4.6% average return (Ned Davis Research). That said, this administration is

often difficult to compare with its predecessors, and it may be more important to note that looming midterms could reduce their willingness to tolerate a significant downturn in equity markets. While we expect heated political rhetoric in 2026 and associated market volatility, a surprise similar to the tariff announcements last spring that threw markets into a tailspin seems unlikely.

Based on the facts at hand, we are optimistic that equities can generate another year of attractive returns in 2026, but there are meaningful risks to this base case. The labor market softened noticeably in 2025, and further deterioration could overwhelm monetary and fiscal support. Alternatively, labor markets may have only been temporarily disrupted by policy uncertainty and rapid economic acceleration could rekindle inflation, shifting long-term interest rates higher. We are more concerned about the latter at the moment. Domestic and global politics are also likely to continue to generate volatility in 2026. This volatility could also be exacerbated by current market conditions as years of strong returns and narrow market leadership have left US equities unusually concentrated and expensive by most valuation measures.

Ultimately, we expect equities to follow corporate earnings, and the outlook for corporate profits remains strong. Bloomberg currently calculates 13% earnings growth is expected for the S&P 500. This is an impressive rate of growth on its own, but it also represents acceleration from the 11.7% estimated growth rate in 2025. This acceleration of earnings growth is also broad as it is reflected in earnings estimates for every sector outside of technology and communications, as shown in the table below. The combination of continued AI investment and broadening earnings acceleration could prove a powerful one, especially within the context of easing fiscal and monetary policy. As a result, we remain optimistic on equity markets, but with an eye toward areas where high-quality companies with attractive growth potential appear underestimated or undervalued and with a watchful eye on emerging risks to our outlook. ■

EPS Growth Rate	2025	2026	2027
<b>S&amp;P 500 Index EPS</b>	<b>11.7%</b>	<b>13.0%</b>	<b>14.4%</b>
Communication Services	18.7%	6.9%	12.8%
Consumer Discretionary	7.4%	7.4%	16.6%
Consumer Staples	-1.1%	6.7%	8.0%
Energy	-10.7%	7.5%	19.8%
Financials	9.3%	8.9%	10.6%
Real Estate	0.9%	3.8%	7.0%
Health Care	12.9%	8.7%	12.8%
Industrials	9.0%	13.3%	15.4%
Information Technology	27.7%	26.0%	18.7%
Materials	2.8%	20.1%	14.3%
Utilities	7.3%	8.7%	9.2%

International equities delivered a decisive year of outperformance relative to US equities, with the MSCI ACWI ex-US Index up 33.1% versus 17.9% for the S&P 500 Index. While the USD decline of 9.4% provided a meaningful tailwind earlier in the year, the fourth quarter was more revealing from a fundamental perspective. Despite modest 0.6% USD appreciation in Q4, international leadership persisted, with ACWI ex-US advancing 5.1%, compared with 2.7% for the S&P500. This underscored that international equity outperformance increasingly reflected underlying fundamental strength rather than currency translation effects alone.

Beyond currency, international outperformance was driven by a combination of attractive valuation, an improving earnings outlook and global capital reallocation. International stocks continue to trade at a roughly 32% forward P/E discount to US stocks, nearly the largest in two decades, providing a wider margin of safety as US multiples remain elevated. Earnings expectations improved across key regions, particularly in Japan, Europe, and emerging markets (EM), where corporate profitability benefited from operating leverage, cost discipline, and gradually improving global trade. In the meantime, investor positioning shifted away from highly concentrated US mega-cap technology stocks toward international markets with broader sector participation and less crowded positioning.

Developed international markets delivered the largest gain in two decades, with the MSCI EAFE Index up 32% (4.9% for Q4). Europe led the outperformance, with MSCI Europe ex-UK rising 36.6% while the UK rose by 35.1%, supported by stronger currencies (euro 13.5%, pound 7.7%) and, more importantly, a powerful rally in the banking, utilities, and industrials sectors.

European banks benefited from a supportive interest rate and economic growth backdrop, utilities gained from AI-related data-center electrification and grid investment, and industrials were boosted by rising defense and infrastructure spending across the region. Looking into 2026, we remain constructive on Europe. Germany's upcoming fiscal stimulus and a dovish European Central Bank monetary policy provide a favorable policy mix. Earnings growth is projected to exceed 13% in 2026, driven by operating leverage, easing FX and tariff headwinds, and improving financing conditions. Additionally, the Japanese market also closed at a record high, surpassing its 1989 peak, driven by ongoing corporate governance reforms, improving shareholder returns and rising global capital inflows. However,

Japan (25.1%) lagged other major markets, mainly due to limited Yen appreciation (0.3%) against USD. Entering 2026, we remain positive on Japan, supported by a more reflationary domestic backdrop and renewed fiscal stimulus from the new Takaichi-led government.

Emerging markets outperformed developed international markets in 2025, with the MSCI EM Index rising 34.4% (4.8% in Q4). The strong performance was driven by a rare alignment of USD weakness, improving earnings momentum, supportive commodity dynamics, and attractive valuation. Within EM, commodity-rich Latin America markets such as Colombia (115.8%), Chile (73.6%), and Peru (73.6%) surged alongside strong precious-metals pricing (gold 65%, silver 128%), while oil exporters like Saudi Arabia (-4.9%) lagged amid softer crude pricing (-20%). Emerging Asia also benefited from AI infrastructure capital expenditure (CapEx) and supply-chain reconfiguration, with South Korea (78.7%) benefiting from the AI-driven semiconductor upcycle and Taiwan (40%) gaining from its central role in global chip manufacturing. Notably, China (31.4%) also delivered solid returns for the year, driven by valuation re-rating, policy support, and an emerging AI upgrade cycle. Looking into 2026, further upside hinges on sustained policy support, improving profitability, and a shift in global perception from "un-investable" to "selectively investable." India (4.3%) lagged within EM due to initially stretched valuations, softer earnings growth, and US trade friction. However, India could rebound in 2026 if trade visibility improves under the Modi government.

Heading into 2026, we expect global economic growth to continue broadening, with EM, Europe, and Japan gaining greater traction. International equities remain well positioned, supported by solid earnings growth and still-attractive valuations. The broadening of economic growth and ongoing USD depreciation could lead to further global capital reallocation away from the US-centric positioning and provide another year of attractive risk-adjusted returns for international equities in 2026. Key swing factors remain the pace of AI infrastructure investment and shifts in the global geopolitical landscape. Overall, we expect 2026's returns to be driven less by valuation expansion and more by earnings growth, market breadth, and sector diversification, with improving momentum in pro-cyclical sectors complementing longer-term structural themes. ■

Forward 12-month Price-to-Earnings Ratio for S&P 500 and MSCI All-Country World ex-US



Source: Bloomberg Finance LP

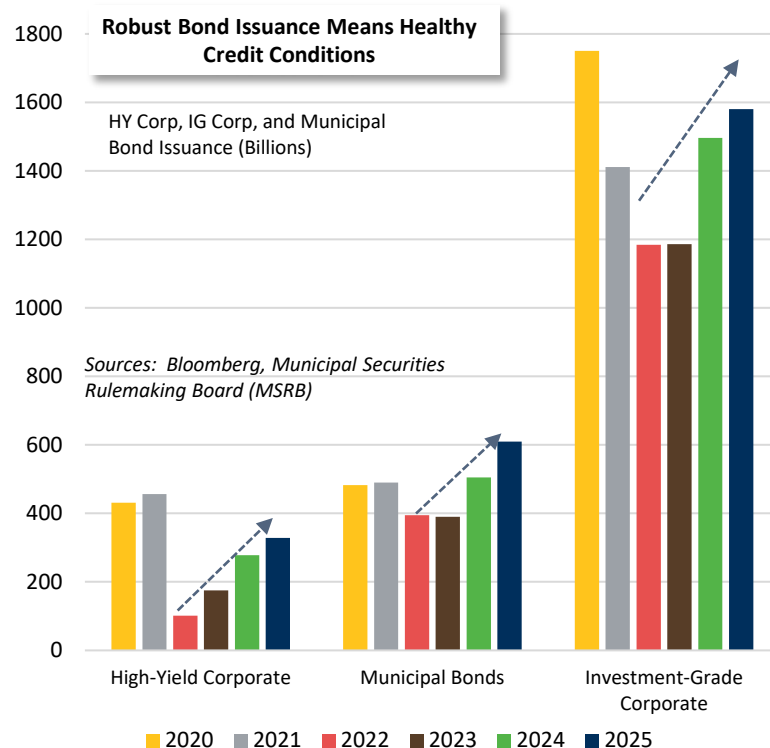
Fixed income markets navigated several risks in 2025 to deliver another year of solid performance. Heading into the year, the main risk to bond returns was rising interest rates from a combination of elevated inflation, increasing government deficits, and reduced foreign demand for US Treasuries. Looking back, none of those risks fully materialized. Instead, it was the expansive tariff announcement in April that caused the most volatility in bond markets. From April 2 to April 9, a span of only eight trading days, the 10-Year Treasury yield plummeted by 0.30% and then swiftly increased by 0.70%. Credit spreads, a key measure of default risk, widened dramatically over the same period. Another notable bout of credit spread widening occurred in the fourth quarter as investors gauged risks tied to the sudden bankruptcies of Tricolor and First Brands. Ultimately, the market looked past these events, as well as lingering inflation, global geopolitical conflicts, and the US government shutdown. When all was said and done, 2025 resulted in lower interest rates and tighter credit spreads, leading the Bloomberg Intermediate Gov/Credit Index to a 6.97% total return, its highest since 2007.

In 2026, fiscal stimulus from the OBBBA and monetary stimulus from the Fed rate cuts may lead to economic growth that surprises to the upside. With these two tailwinds, inflation may accelerate and the yield curve could steepen, with short-term rates declining and longer-term rates staying stable or even rising. In this environment, credit-sensitive sectors will remain in favor and holding cash will become less attractive. In a scenario where short-term rates decline, extending maturities to lock in yield may prove advantageous. The market has plenty of risks to contend with, especially as it pertains to government policy. In addition, economic growth has been narrow and could prove tenuous. Any threat to the growth outlook could send interest rates sharply lower, although that is not our base case.

Our constructive outlook for the year ahead is also shaped by the strong funding conditions and stable fundamentals of both the corporate and municipal bond markets. Evidence of strong funding conditions is visible in healthy new issue volumes and narrow credit spreads. Corporate bond issuance has been robust, especially in investment-grade markets where over \$1.5 trillion was issued in 2025, the second highest yearly total ever behind a COVID-affected 2020. Borrowing for AI investments was a major contributor and four of the largest deals of the year were from Meta, Oracle, Alphabet, and Amazon. In municipal bond markets, issuance was the highest in the last ten years, giving borrowers the flexibility to invest in schools, healthcare, and infrastructure improvements. High-yield credit spreads started 2026 at 268 basis points (2.68%) and investment grade spreads started at 78 basis points (0.78%), numbers that are well below their long-term averages and reflect the market's optimistic outlook. In fact, these spreads have been lower only 7% of the time in the last five years. 2025 was also the third straight year in which credit spreads ended the year lower than where they started, which shows the durability of the trend. We

expect that strong company earnings will sustain the fundamentals of corporate bonds, but the credit health of municipal issuers is more nuanced and depends on the growth of property, income, and sales tax revenue. A broad characterization of municipal fundamentals is that existing balance sheets are strong, but tax revenue growth is slowing, an environment that we view as stable rather than improving. In 2021 through 2024, credit upgrades by rating agency Moody's far outpaced downgrades, but 2025 will be the first year in the last five in which upgrades and downgrades are roughly balanced. As always, within corporate and municipal credit, it is important to know what you own and invest in credits that can withstand economic softening.

An examination of inflation, growth, Fed policy, and credit conditions is crucial for constructing fixed income portfolios. Our view that economic growth and inflation could be higher than expected leads us to build portfolios with conservative durations that can withstand potential increases in interest rates. In addition, utilizing Treasury Inflation Protected Securities (TIPS) is our preferred way to hedge against inflation. Diversification by fixed income sector is also critical in this environment. We view sectors such as securitized bonds and emerging market debt as having differentiated risk-return profiles compared to traditional corporate credit. Finally, while we are constructive on corporate bonds, there is limited scope for spreads to tighten further, and their expected returns are dependent on coupon and starting yield. With current taxable yields close to 4%, the environment is still suitable for fixed income to generate solid returns in the years ahead. 2026 is sure to bring unexpected volatility, so owning a resilient, balanced fixed income portfolio is more important than ever. ■



Looking back on 2025, many of the risks we [highlighted](#) a year ago have become reality. The policy shift in Washington was dramatic and fast-paced. The Trump administration rolled back environmental regulations, incentive programs supporting climate transition, and corporate sustainability programs. In addition, tariff negotiations were used to persuade allies to soften or delay sustainability frameworks and legislation in Europe and other places. These actions have had a dramatic effect on sustainability initiatives broadly and as envisioned, “greenhushing” – communicating less about active sustainability efforts – has become pervasive. This is the new operating environment.

Despite anti-green environmental policy in Washington, the worst-case scenario for legislative reform did not come to pass. Instead, as we [discussed](#) in July, Inflation Reduction Act (IRA) adjustments in the OBBBA were broadly manageable for the energy transition industry. Capital formation in Republican-led states and a clear need for new power generation were the primary drivers of a somewhat less draconian approach. Residential and EV credits were cut, utility-scale renewable power development captured a 12-month safe harbor period that enables 4 years of runway, and a handful of areas maintained or captured more support, including energy storage, critical minerals, geothermal, nuclear, fuel cells, and some manufacturing.

The combination of policy clarity and revised guidance on safe harbor rules created a more stable business environment. For investors, a reduction in uncertainty along with valuations at depressed levels sparked a turn in energy transition equity performance. The S&P Clean Energy Transition Index bottomed near 10x forward earnings in early 2025 and after passage of the OBBBA, the index returned 20% through yearend, double the MSCI World Index return.

Now, in early 2026, the broad sustainability outlook is for more of the same. We expect continued pushback out of Washington, corporate greenhushing, and a generally positive environment for energy transition businesses outside of EVs. With some level of clarity around the playing field, our primary goal as investors is the assessment of fundamental value creation. Businesses and technologies that can scale with clear demand drivers, opportunities to reduce costs, and tailwinds from tax policy should yield an attractive set of opportunities in the year ahead.

As our prior work on [power demand](#) and hyperscaler climate [commitments](#) has highlighted, there is a clear upward inflection in demand for clean baseload electricity. Higher power prices should support continued,

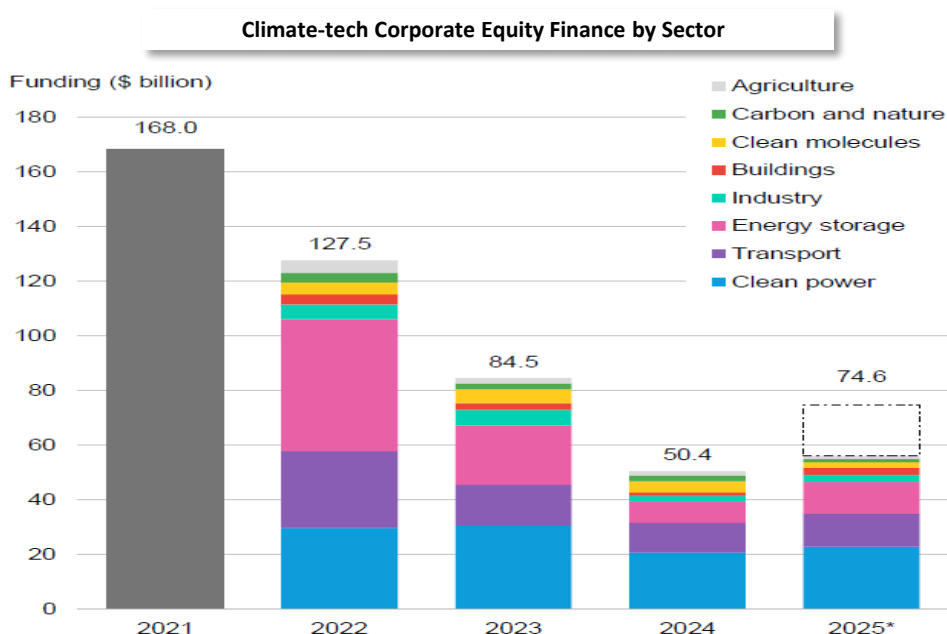
though likely somewhat diminished, growth in mature renewables. A rising power price environment with OBBBA tailwinds should create a more dynamic and higher growth set of opportunities in areas outside of mature renewables. As the chart below shows, financing for energy transition businesses is on track to increase by about 50% in 2025 based on Q4 estimates, clearly supportive of growth.

The investment themes we will explore in more detail in letters through 2026 include:

**A Nuclear Renaissance** – Capital is being deployed across a diverse set of assets and technologies in the US and globally. Existing nuclear generation asset owners are investing in capacity expansion and restarts of mothballed facilities. The US government is partnering with private businesses to jumpstart the buildout of new large-scale reactors. Companies pursuing new advanced reactor technologies and SMRs (small modular reactors) have raised significant private capital and are increasingly supported by government efforts to fast-track testing and streamline permitting.

**Geothermal Advancements** – As a clean baseload source of energy, geothermal maintained tax credits in the OBBBA for projects starting construction by 2033. New geothermal technologies, generally referred to as enhanced geothermal systems or EGS, enable a potentially significant expansion in site availability. Traditional hydrothermal development requires very specific geohydrological conditions, while EGS creates necessary conditions through drilling techniques. The National Renewable Energy Laboratory estimates as much as 7.4 terawatts of resources, more than 5x installed US power capacity, could be made available through EGS.

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Source: BloombergNEF, Bloomberg Terminal MA <GO> and IPO <GO> and Pitchbook. 2025 includes data up to September 30<sup>th</sup>. Dashed bar indicates implied total if funding continues at current pace.



## ◀ Energy Transition, continued from previous page

Power Grid Modernization – The existing power grid is straining as demand increases and supply solutions are progressively diverse, intermittent, distributed, and bidirectional. Delays are mounting, interconnection times for new supply and new demand are lengthening, and traditional expansion and upgrade projects take many years. Solutions include behind-the-meter generation and storage, software optimization of distributed resources, demand flexibility, advanced metering and other technologies. BNEF estimates that US grid investment will rise

19% from 2024 through 2027 as demand for electricity surges.

In all of these research focus areas, there are direct beneficiaries and then many secondary beneficiaries in underlying supply chains. It is in these “picks and shovels” areas that the most attractive investments are often found. As growth accelerates, supply chains often become bottlenecks, creating pricing power on constrained supply. Despite political headwinds, opportunities remain for sustainable investors. ■

## GLOBAL MARKET RETURNS

		Last 3 Months	Last 12 Months*	20-Year Annual Return**
US Equities	S&P 500 (Large US Companies)	2.65%	17.88%	10.88%
	S&P 400 (Mid-size US Companies)	1.64%	7.48%	9.32%
	S&P 600 (Small US Companies)	1.69%	5.99%	8.68%
	Russell 3000 (All US Companies)	2.40%	17.13%	10.64%
	Dow Jones US Real Estate Index	-2.32%	3.78%	5.94%
International Equities	MSCI World Index ex US (Developed Markets)	5.26%	32.55%	6.39%
	MSCI EAFE (Developed Markets)	4.91%	32.03%	6.40%
	MSCI Emerging Markets (Emerging Markets)	4.78%	34.36%	6.61%
	MSCI World ex US Small Cap (Developed Markets Small Companies)	3.56%	34.75%	6.82%
Fixed Income	Bloomberg Intermediate US Government/Credit TR	1.20%	6.97%	3.18%
	Bloomberg US Corporate High Yield Total Return	1.31%	8.62%	6.75%
	Bloomberg Intermediate Corporate Total Return	1.29%	7.95%	4.16%
	Bloomberg US Intermediate Treasury TR	1.16%	6.51%	2.77%
	Bloomberg US Treasury Inflation Notes TR	0.13%	7.01%	3.56%
	Bloomberg US MBS Index Total Return Value Unhedged	1.71%	8.58%	3.14%
	Bloomberg Global Aggregate ex USD 10% Issuer Capped (Hedged)	-0.05%	9.91%	2.26%
	J.P. Morgan Emerging Market Bond Index Global Core	3.10%	13.90%	5.55%
	Bloomberg Capital 5-Year Municipal Bond	0.50%	5.03%	3.03%
	Inflation	US CPI Urban Consumers ex Food and Energy NSA***	0.14%	2.63%
Treasury Bill	US 3-Month Treasury Bill Index	1.03%	4.30%	1.76%

Source: Bloomberg Capital Markets

\* Includes dividends for equity indices

\*\* Annualized

\*\*\* CPI data for time periods is date ended 11/30/2025

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