Q4 2025 — Year-End Market Review & Outlook

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2025: A Strong Year After a Noisy Start

As we close the books on 2025, investors can look back on a year that ultimately delivered strong outcomes across most major asset classes, despite a volatile start. Early tariff headlines and renewed trade uncertainty created an abrupt risk-off moment, but markets stabilized as the year progressed. By year-end, U.S. equities, international equities, bonds, and gold all finished positive.

Ticker	Security/Index Name	Quarter	1 Year	3 Yr Ann	5 Yr Ann	7 Yr Ann	10 Yr Ann
^BBUSATR	Bloomberg US Aggregate	1.10%	7.30%	4.70%	-0.40%	2.00%	2.00%
JNK	State Street SPDR Bloomberg High Yield Bond ETF	1.40%	8.80%	9.60%	3.80%	5.40%	5.50%
^SPXTR	S&P 500 Total Return	2.70%	17.90%	23.00%	14.40%	17.30%	14.80%
^RUTTR	Russell 2000 Total Return	2.20%	12.80%	13.70%	6.10%	10.60%	9.60%
EFA	iShares MSCI EAFE ETF (international)	4.70%	31.60%	17.30%	9.00%	10.60%	8.20%

Return Information Provided by Y-Charts

Economic growth held up better than many expected. Inflation continued to moderate, though it remained above the Federal Reserve's long-term target. Interest rates spent much of the year range-bound, with the short end moving lower on Fed policy while longer-term rates remained stubbornly elevated.

2025 reinforced a familiar truth: strong markets rarely feel comfortable in real time. Volatility did its job early. Discipline did its job later. Wealth Done R.I.T.E.

At Members' Wealth, we anchor our work in a framework designed to help families make clear decisions through changing market and policy environments: Wealth Done R.I.T.E.™ R.I.T.E. stands for Risk, Investments, Tax, and Estate—four interconnected pillars that support long-term financial confidence. Rather than reacting to headlines or chasing what worked last quarter, we use this structure to focus on what matters most: managing risks, investing with purpose, improving after-tax outcomes, and aligning wealth with long-term legacy goals.

We begin, as always, with Risk.

R - Risk

One of the most useful disciplines in risk management is separating the quality of a decision from the outcome that follows. Markets routinely remind us that good decisions can lead to disappointing short-term results, while poor decisions can occasionally be rewarded, at least temporarily.

This concept is often described as “Thinking in Bets,” popularized by former professional poker player and decision-science author Annie Duke.(i) The idea is simple: uncertainty is unavoidable, so the goal is not to predict outcomes; it is to make well-reasoned decisions based on probabilities and to size risk appropriately.

At Members’ Wealth, this mindset shapes how we approach risk across every part of wealth management. We don’t ask whether something will happen. We ask: What could happen, how likely is it, and what is the impact if it does?

Heading into the new year, risk is less about a single obvious threat and more about a complex set of crosscurrents:

- Interest rates: short-term rates are easing, but the long-term remains firm
- Inflation: moderating, but not fully contained
- Policy transition: leadership change at the Fed and shifting fiscal priorities
- Credit and liquidity: public markets appear healthier, while private markets are absorbing more leverage
- Geopolitics: always capable of disrupting risk appetite quickly

Risk rarely disappears. It tends to shift or hide. Our job is to monitor where it is accumulating and ensure portfolios are not overly exposed to a narrow set of outcomes.

Risk Transfer: Insurance (Not Sales)

Insurance is one of the least loved, but most important, tools in wealth management. When insurance works as intended, nothing happens, which can make it feel unnecessary in hindsight. But viewed through a probabilistic lens, insurance is simply a way to transfer low-probability, high-impact risks off the family balance sheet.

At Members’ Wealth, we do not sell insurance, and we do not recommend it casually. When we do recommend it, it is because ignoring certain risks would represent a poor decision, not because we expect a claim, but because it is our responsibility to identify vulnerabilities and help families address them as part of a complete wealth plan.

It is not only our job to help clients identify risks, but to better assess the probabilities of payouts and costs of insuring those probabilities. For example, most families own term life insurance because it's inexpensive and familiar. Fewer own disability insurance, even though the odds of needing income replacement during working years are meaningfully higher than the odds of a premature death.(ii) On a probability-adjusted basis, disability insurance is often the more economically impactful risk to insure. The takeaway is not that one approach is "better," but that cash-flow disruption during working years is often more probable—and more damaging—than investors intuitively expect. Good planning accounts for probability, not just possibility, and not just for the absolute hard cost in the moment.

CEO *Note - Everyone is always insured. It is just a matter if they are "self-insured" or insured through an insurance company. In my opinion, offloading the insuring to an insurance company may have a hard cost today but can have the indirect benefit of allowing the same person to invest more dollars (and thus better investment returns over time) for they are not as concerned with building up savings through self-insuring.*

I - Investments

We approach investing with a consistent question:

Is the potential return sufficient to justify the risks we are assuming in today's environment?

2025 delivered strong results, but it also highlighted how quickly narratives can change. Markets began the year reacting to tariffs and policy uncertainty, then shifted toward growth resilience, moderating inflation, and expectations of easier monetary policy. Beneath the surface, several important themes emerged.

Interest Rates: Range-Bound… Until They Aren't

Interest rates spent much of 2025 in a relatively narrow band. The short end moved lower as the Fed eased, while longer-term rates remained firm. That divergence matters.

The next major question is whether rates break lower (growth slows) or higher (inflation/reflation re-accelerates, deficits pressure issuance, and bond investors demand higher compensation). In addition, with potential leadership change at the Fed, markets are trying to decide if a potential change in policy adds fuel to a still-resilient economy or stokes inflation and pushes long-term rates higher.

Our portfolio approach to bonds remains focused on construction, not prediction: bond ladders, selective duration, and income without reaching.

Credit: Public Quality Improved—So Where Did the Risk Go?

A constructive development over the last decade has been the improved quality of the public high-yield bond market. Many managers we work with agree: balance sheets are generally stronger, default fundamentals are better, and issuer quality has improved relative to past cycles.

But the more important question is: where did the risk go?

As public markets became more disciplined, leverage increasingly migrated into private credit markets, where transparency is lower, liquidity is limited, and pricing can be slow to adjust. These risks tend to become visible only when investors need access to capital the most.

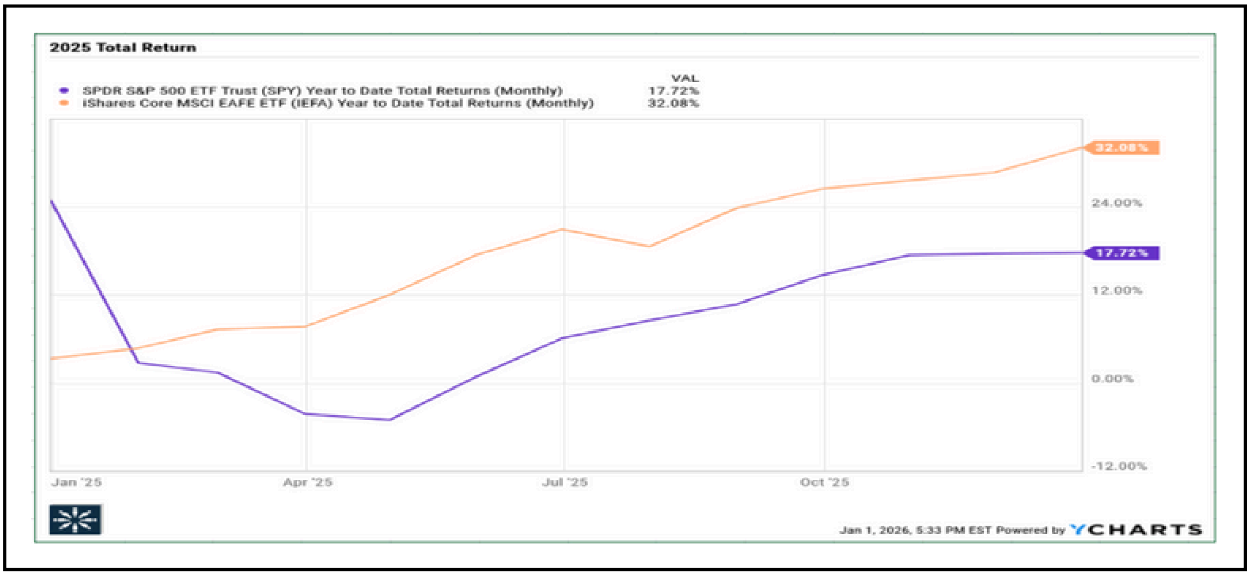
Our posture reflects that reality:

- Selective exposure to public credit
- Caution toward private credit structures and liquidity mismatch
- A preference for flexibility at this stage of the cycle

Equities: Three Strong Years, and a Shift Abroad

U.S. equities extended their run in 2025, marking a third consecutive year of double-digit returns. Valuations are elevated and leadership remains concentrated, which calls for discipline rather than complacency.

International equities delivered a significant milestone: their first sustained period of outperformance relative to U.S. equities since 2009. Dollar weakness played a major role, improving returns for U.S.-based investors holding foreign assets and helping multinational earnings.



While U.S. markets continued their upward trajectory, 2025 reinforced the importance of global diversification—particularly when valuation gaps are wide and currency trends shift.

Global Risk Watch: The Japanese Carry Trade

One global risk worth monitoring is the Japanese carry trade: borrowing in yen at low rates and investing in higher-yielding assets elsewhere. As Japanese rates rise and/or as volatility rises, these trades can unwind quickly, creating rapid stress across global markets. This appears contained for now, but history reminds us that leverage-driven trades can move fast when conditions change.

Alternatives: Private Equity and the Value of Liquidity

Private equity continues to face a more difficult exit environment. Continuation funds(iii) are more common, fund lives are extending, and valuation marks can lag reality when liquidity is scarce. While alternatives can play a role in diversified portfolios, our preference remains liquidity over lockups and selectivity over broad exposure, especially late in a cycle.

Gold and Digital Assets: A Divergence

Gold reasserted its role in 2025 as a portfolio hedge amid geopolitical risk, fiscal uncertainty, and shifting monetary expectations. Digital assets experienced a more volatile environment, including drawdowns tied to leverage and speculation. The key distinction remains: gold tends to behave as a risk hedge and did in 2025; digital assets often behave as a risk asset, especially when liquidity tightens.

Artificial Intelligence: Preparing, Not Predicting

AI remains a transformative theme. We expect continued volatility among infrastructure providers and capital-intensive platforms, alongside meaningful long-term opportunity for companies that use AI to improve productivity, create new services, and enhance operating efficiency. Enthusiasm can run ahead of fundamentals during technological transitions. Our focus remains balanced participation, valuation discipline, and risk control.

CEO Note – *Keep an eye out for those companies that will benefit the most from using AI rather than for those companies that are rolling out AI. And if inflation lingers or grows, be mindful of your longer-term bonds and what your actual net of tax and inflation real returns are.*

T - Tax

Tax planning is where good investing becomes great investing. It is also an area where small decisions compound meaningfully over time—especially in years when markets are volatile enough to create opportunity.

We continue to look for:

- Tax-loss harvesting opportunities (including in direct indexing portfolios)
- Asset location decisions that improve after-tax outcomes
- Charitable strategies that align values with efficiency
- Coordination with CPAs to avoid preventable errors and identify planning windows

Direct Indexing: Powerful, Not Magical

Direct indexing can be a valuable tool—particularly for tax-loss harvesting and managing concentrated exposures. It is also an area where product innovation can drift into complexity quickly.

I've worked with direct indexing and long/short strategies for more than two decades. In the early 2000s, approaches like 130/30 (see insert) strategies worked in an environment characterized by higher dispersion, lower correlations, and more persistent factor premiums. Those same strategies struggled during periods like 2008, when correlations rose sharply and leverage amplified losses rather than returns.

These strategies were never guarantees—they were bets on market structure, factor behavior, and investor psychology. The lesson is not that this tool or any tool is inherently good or bad. The lesson is that every strategy carries assumptions, and those assumptions must be revisited over time. Complexity and leverage can amplify risk as easily as they amplify return.

CEO Note – *I like to think of expenses as a tax and I think investors should as well. Now that being said, I am not one to promote low cost is the only way. But right cost for what you are getting in return. By being mindful of taxes and expenses, we typically can add to the investment return. Over 25 years with an initial principal of $1,000,000, a* ***6.5%*** *rate yields a future value of approximately* ***$4,937,422*** *(earning about $907,314 more in interest) compared to a* ***6% rate****, which results in approximately* ***$4,291,871.*** *(iv)*

130/30 Strategy: An equity investment approach that maintains full market exposure by investing approximately 130% of capital in higher-conviction stocks while shorting roughly 30% of lower-conviction stocks, using the short proceeds to enhance return potential without increasing overall market risk.

How it works:

- **130% long:** The manager invests 130% of portfolio value in stocks they believe will outperform.
- **30% short:** They short stocks they believe will underperform.
- **Net exposure = 100%:** 130% long – 30% short = 100% net market exposure.

The exact results depend on the compounding frequency (e.g., annually, monthly, or daily), but the difference between the two rates is substantial over a 25-year period.

So as the adage goes, it's not necessarily what you make but what you keep.

E - Estate

Estate planning may be the area of wealth management most defined by uncertainty and stands to benefit from "thinking in bets". Longevity, health, estate/tax law, family dynamics, and market conditions are all assumptions. Changes are always afoot.

Changes in estate planning this year include:

1. The increase in the federal estate tax exemption to $15M per person (indexed for inflation through 2029 when the next administration can make adjustments up or down) which is portable for married couples to effectively shield $30M at wealth transfer.

2. The Generation Skipping Trust (GST) exemption is $15M per person but is not portable.

3. The annual gift tax exclusion remains at $19,000 in 2026 with married couples gifting $38,000 per person without using any lifetime exemption.

With constant change and an unknown future, a strong estate plan does not assume one outcome—it prepares for many. Most importantly, estate planning is not a one-time transaction. As families grow, wealth accumulates, and laws change, the plan must be reviewed and adjusted. A well-designed estate plan is a living framework—one that integrates risk management, investment alignment, tax awareness, and execution to steward wealth across generations with clarity and resilience.

Closing Thoughts

2025 rewarded patience, diversification, and discipline. It also reminded us that risk does not announce itself loudly, it often builds quietly. Our role is to continuously assess where it is accumulating, build portfolios that do not depend on a single outcome, and coordinate planning decisions across the full R.I.T.E. framework.

If any part of this letter sparks a question—about portfolio positioning, insurance coverage, tax strategy, or estate planning—we encourage you to bring it to your next meeting. The best outcomes tend to come from good decisions made consistently over time.

Here is to a grand 2026 full of good decisions and strong outcomes.

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CEO & CIO | Members' Wealth

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[i] Duke, A. (2018). Thinking in Bets: Making smarter decisions when you don't have all the facts. New York, NY: Portfolio.
[ii] According to the U.S. Social Security Administration, roughly one in four 20-year-olds will experience a disability lasting long enough to qualify for benefits before reaching retirement age—making the risk of income loss during working years significantly higher than the risk of premature death. U.S. Social Security Administration, Disability Benefits, SSA Publication No. 05-10029
chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.ssa.gov/pubs/EN-05-10029.pdf
[iii] **Continuation funds** are private equity vehicles created by a sponsor to transfer one or more assets from an existing fund into a new fund, allowing current investors to either cash out or roll their investment forward while the sponsor retains control of the asset and extends the holding period.
[iv] This example is hypothetical and for illustrative purposes only

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Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Bloomberg US Aggregate Bond Index, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

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